

# POPULAR INCOME PLUS FUND, INC.

The Fund is a non-diversified, open-end Puerto Rico investment company, commonly referred to as a mutual fund, available exclusively to residents of Puerto Rico.

**An investment in the Fund is not a bank deposit or savings account, is not an obligation of or guaranteed by Banco Popular, any affiliate thereof or any other insured depository institution, is not insured by the FDIC or any other government agency or instrumentality and may lose all or part of its value.**

**The Fund is subject to risks which may result in a loss of all or part of your investment. Before investing in the Fund you should consider the risk factors and special considerations described under “Risk Factors” beginning on page 10 and “Risks and Special Considerations of Leverage” beginning on page 32 of this prospectus.**

**Only individuals who have their principal residence in Puerto Rico or entities whose principal office and place of business are located in Puerto Rico may purchase shares of the Fund; provided that if such person is a non-business trust, the trustee and all trust beneficiaries must be Puerto Rico residents.**

**An investment in the Fund is subject to taxation as described under “Tax Matters” beginning on page 49 of this prospectus.**

## **The Shares –**

- The Fund is continuously offering shares of its Class A (“Class A Shares”) and Class C common stock (the “Class C Shares”) to the public. The Fund also offers Advisor class common stock (“Advisor Class Shares” and collectively with Class A Shares and Class C Shares, the “Shares”). The Shares are subject to initial sales charges and rates of expenses as described in this prospectus and summarized in the table appearing on page 6.
- The value of the Shares depend on the value of the underlying investment held by the Fund, which will fluctuate with market factors and other factors that may be beyond the control of the Fund. The value of an investment in the Fund may be more or less than the original amount invested.
- The Shares may not be transferred or disposed of except through redemption. Purchases and redemptions of shares may be made on a daily basis as described herein.

## **Investment Objective –**

- To provide Puerto Rico residents with a high level of current income that is consistent with the tax advantages offered by Puerto Rico investment companies. No assurance can be given that the Fund will achieve its investment objective.

## **Dividends –**

- The Fund intends to declare and distribute monthly dividends to Shareholders of substantially all of its net investment income.
- Dividends distributed by the Fund are exempt from federal income taxes and taxed in Puerto Rico at a special 15% rate in the case of certain Qualifying Individuals (as defined herein). Please refer to the “Tax Matters” section of this prospectus for the applicable Puerto Rico income tax on dividends in the case of Qualifying Individuals subject to Puerto Rico’s alternative minimum tax.

## **Principal Investment Policies –**

- The Fund will normally invest at least 95% of its portfolio securities in fixed-income securities that are rated, at the time of purchase, within the four highest rating categories by one or more nationally recognized statistical rating organizations or are deemed of comparable quality by the Fund’s investment adviser.
- The Fund will invest at least 67% of its total assets in securities issued by Puerto Rico issuers as described herein.
- The Fund will enter into credit default swaps in order to obtain exposure to the United States corporate debt market. The aggregate market value of credit default swaps outstanding at any time shall not exceed 10% of the Fund’s total assets.
- The Fund intends to increase the amounts available for investment through the issuance of preferred stock or borrowings, which subject to certain exceptions shall not at any time exceed 50% of the Funds total assets.

## **Automatic Dividend Reinvestment Plan –**

- All dividend and capital gain distributions will be reinvested automatically in additional Shares unless a shareholder elects to receive cash.

## **Risk Factors –**

- The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is designed primarily for and is suitable for long-term investors.
- As a non-diversified investment company, the Fund may invest a greater portion of its assets in a single issuer than a diversified investment company, thereby exposing the Fund’s net asset value and yield to greater volatility. See “Risk Factors – Non-Diversified Status” on page 13 of this prospectus.
- The use of preferred stock or borrowings to leverage the Fund creates special risks, including higher volatility of the net asset value and the market value of the Shares and may adversely affect the Fund’s ability to pay dividends. See “Risks and Special Considerations of Leverage” on page 32.

*(continued on next page)*

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**THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION. THE FUND HAS NOT BEEN REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THE SECURITIES OF THE FUND ARE BEING OFFERED EXCLUSIVELY TO INDIVIDUALS HAVING THEIR PRINCIPAL RESIDENCE WITHIN THE COMMONWEALTH OF PUERTO RICO (“PUERTO RICO”) AND TO ENTITIES WHOSE PRINCIPAL OFFICE AND PLACE OF BUSINESS ARE LOCATED WITHIN PUERTO RICO.**

**Amended as of May 16, 2019  
Popular Securities  
(Distributor)**

**THE SECURITIES DESCRIBED HEREIN ARE OFFERED FOR SALE IN PUERTO RICO PURSUANT TO THE REGISTRATION OF THE FUND WITH THE OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS OF PUERTO RICO (THE “OFFICE OF THE COMMISSIONER”) AS AN INVESTMENT COMPANY UNDER THE PUERTO RICO INVESTMENT COMPANIES ACT, AS AMENDED (ACT 6 OF OCTOBER 19, 1954, AS AMENDED); SUCH REGISTRATION DOES NOT CONSTITUTE A FINDING THAT THIS PROSPECTUS IS TRUE, COMPLETE AND NOT MISLEADING, NOR HAS THE OFFICE OF THE COMMISSIONER PASSED IN ANY WAY UPON THE MERITS OF, RECOMMENDED, OR GIVEN APPROVAL TO SUCH SECURITIES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**THE FUND SHARES ARE NOT GUARANTEED OR INSURED BY THE FDIC OR ANY OTHER AGENCY OF THE U.S. GOVERNMENT. AS WITH ANY INVESTMENT IN COMMON STOCK, WHICH IS SUBJECT TO WIDE FLUCTUATIONS IN MARKET VALUE, AN INVESTOR MAY SUFFER A LOSS OF ALL OR PART OF ITS INVESTMENT IN THE FUND.**

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**Other Fund characteristics:**

- The Fund invests in securities the income on which is taxable for Puerto Rico income tax purposes. However, the Fund may invest a portion of its assets in tax-exempt securities to the extent the Fund’s investment adviser understands that the return on such securities when combined with the Fund’s taxable securities offer attractive after-tax returns to shareholders. See “Tax Matters” beginning on page 49 of this prospectus.
- Shareholders will bear certain costs, directly or indirectly, related to various matters, including sales load, investment advisory fees, administration fees, distribution fees, client service fees and other Fund operating expenses, as well as certain offering expenses. See “Fee Table and Estimated Fund Expenses” on page 6 of this prospectus.
- The Fund may enter into various types of transactions with affiliated parties as described in this prospectus. All transactions with affiliates will be subject to procedures adopted by the Board of Directors and, particularly, the independent directors of the Board of Directors, in an effort to address potential conflicts of interest. There is no assurance that the procedures will be effective.
- The value of the shares will depend on the value of the underlying investments held by the Fund which will fluctuate with market conditions.
- An investment in the Fund is not equivalent to an investment in the underlying securities held by the Fund.
- An investment in credit default swaps has certain risks and may be considered an aggressive investment technique. See “Risk Factors – Aggressive Investment Technique Risk” and “Risk Factors – Special Considerations Relating to Credit Default Swap” on pages 12 and 15 of this prospectus, respectively.
- Popular Asset Management, a unit of Banco Popular de Puerto Rico, is the investment adviser for the Fund. Popular Asset Management may retain one or more sub-advisers to manage a portion of the Fund’s assets. The principal office of the investment adviser is located at the Popular Center North Building, Second Level (Fine Arts), 209 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918, and its main telephone number is (787) 754-4488.

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*No person has been authorized to give any information or to make any representations in connection with the offering of the Shares other than those contained in this prospectus and, if given or made, such other information and representations must not be relied upon as having been authorized by the Fund or Popular Securities. This prospectus does not constitute an offer by the Fund, Popular Securities or any other person to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction other than the Commonwealth of Puerto Rico.*

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## PROSPECTUS SUMMARY

This summary provides an overview of selected information contained elsewhere in the prospectus and is qualified in its entirety by reference to the more detailed information included in this prospectus and to the certificate of incorporation and by-laws of the Fund, all other relevant documents referred to herein, and all applicable statutory and regulatory provisions. You should carefully read the more detailed information set out in this prospectus before making an investment decision and retain it for future reference. A copy of the certificate of incorporation and by-laws of the Fund may be examined at the office of Popular Asset Management located on the Popular Center North Building, Second Level (Fine Arts), 209 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918.

**The Fund** ..... Popular Income Plus Fund, Inc. is a non-diversified, open-end investment company registered under the Puerto Rico Investment Companies Act, as amended, Act 6 of October 19, 1954, as amended (the “Puerto Rico Investment Companies Act”) that commenced operations on June 27, 2007.

**The Offering**..... *Class A Shares.* The Fund’s Class A common stock (the “Class A Shares”) will be continuously offered to the public at their net asset value next determined after a purchase order is received and become effective plus an initial sales charge of up to 4.00%. The Class A Shares are subject to an annual investment advisory fee of 0.50%, an annual administrative fee of 0.15%, and a client service fee equal to 0.05% of the “average daily total assets” of the Fund (which includes the assets purchased with leverage but makes no deduction for the Fund’s liabilities, including indebtedness or preferred stock issued for leverage.) The Class A Shares are also subject to an annual distribution fee of 0.20% of the average daily net assets (after deducting all liabilities of the Fund, including indebtedness or preferred stock issued for leverage) of the Fund.

The initial sales charge on the Class A Shares may be waived for certain eligible purchasers, and the entire purchase price will be immediately invested in the Fund. Other purchases also may be eligible for a reduced initial sales charge. See “Purchase of Shares - Initial Sales Charge Waivers.”

*Class C Shares.* The Fund’s Class C common stock (the “Class C Shares”) are continuously offered to the public at their net asset value next determined after a purchase order is received and become effective without an initial sales charge. Class C Shares are subject to an annual investment advisory fee of 0.50%, an annual administrative fee of 0.15% and a client service fee equal to 0.05% of “average daily total assets” of the Fund (which includes the assets purchased with leverage but makes no deductions for the Fund’s liabilities, including indebtedness and preferred stock issued for leverage). The Class C Shares are also subject to an annual distribution fee of 1.00% of average daily net assets (after deducting all liabilities of the Fund, including indebtedness and preferred stock issued for leverage). Investors in Class C Shares will pay a contingent deferred sales charge equal to 1.00% on redemptions made within 12 months of purchase.

*Advisor Class Shares.* The Fund’s Advisor Class common stock (the “Advisor Class Shares” and together with the Class A Shares and the Class C Shares, the “Shares” or each, a “Class”) are offered to certain qualified investors at their net asset value next determined after a purchase order is received and becomes effective. Advisor Class Shares are subject to an annual investment advisory fee of 0.75% and an annual administrative fee of up to 0.15% of the average daily net asset value of all Advisor Class Shares. Advisor Class Shares are not subject to an annual distribution fee. The initial sales charge may be reduced or waived for certain purchasers.

See “Purchase of Shares - Initial Sales Charge Waivers.”

See “Purchase of Shares” and “Investment Advisory and Administrative Services - Distributor” for a complete description of sales charges, fees and expenses applicable to your investment.

**Risk Factors** .....

An investment in the Fund is subject to certain risks that may result in a loss of all or portion of your investment. Investors should consider the information set forth in “Risk Factors” before making an investment decision.

**Purchase of Shares**.....

During the continuous offering of the Shares to the public, Shares may be purchased on any business day (as defined below) through the Fund’s distributor, Popular Securities, LLC (“Popular Securities” or the “Distributor”), or other broker-dealers or financial institutions that enter into a selected dealers agreement with the Distributor. Investors may open an account by making an initial investment of at least \$3,000. Subsequent investments of at least \$100 may be made thereafter. See “Purchase of Shares.”

**Systematic Investment Plan** .....

The Fund offers shareholders a Systematic Investment Plan under which they may authorize the automatic placement of a purchase order each month for Shares in amounts of at least \$100 per purchase transaction. See “Purchase of Shares - Systematic Investment Plan.”

**Offering and Transfer Restrictions**.....

The Shares are being offered for sale exclusively to individuals who maintain their principal residence in Puerto Rico and to entities that have their principal office and principal place of business in Puerto Rico. Investors will be required to deliver the applicable form of letter of representation set forth in Appendix A to this prospectus. The Shares may be sold, pledged, hypothecated or otherwise transferred exclusively to residents of Puerto Rico. Shareholders who cease to be residents of Puerto Rico will no longer have available the tax benefits that make the Fund an attractive investment, and such shareholders have an obligation to immediately notify the Distributor or the broker-dealer through which they hold Shares of their change in residency, to liquidate their investment in the Shares as soon as it is practicable to do so and to agree not to purchase any more Shares, including through the Fund’s dividend reinvestment plan. If an investor does not comply with its obligation to liquidate the Shares owned by such investor, the Shares may be redeemed by the Fund.

**Investment Objective**.....

The Fund’s investment objective is to provide Puerto Rico residents with a high level of current income that is consistent with the tax advantages provided by Puerto Rico investment companies.

*There is no assurance that the Fund will achieve its investment objective.*

**Investment Policies** .....

The following are the principal investment policies of the Fund:

- At least 95% of the Fund’s securities portfolio will be invested in fixed-income securities that are rated, at the time of purchase, within the four highest rating categories, by a nationally recognized rating organization, or, if not rated, are considered by the investment adviser of the Fund to be of comparable credit quality. The Fund may invest up to 5% of its total assets in securities which may be rated below investment grade or be unrated.
- The Fund will invest at least 67% of its assets in fixed-income securities issued by Puerto Rico issuers, primarily consisting of

mortgage-backed and asset-backed securities and shares of non-convertible preferred stock as well as in fixed-income securities issued by the Commonwealth of Puerto Rico, its political subdivisions, agencies, public corporations or any of its instrumentalities.

- Up to 33% of the Fund's assets will be invested in fixed-income securities, including U.S. government and agency securities and mortgage-backed and asset-backed securities of U.S. governmental and private issuers.
- The Fund will enter into credit default swaps in order to obtain exposure to the United States corporate debt market. The aggregate market value of credit default swaps outstanding at any time shall not exceed 10% of the Fund's total assets. Any asset or liability reflected on the Fund's balance sheet related to credit default activities will be treated as a Non-Puerto Rico Asset (as defined below) for purposes of complying with the requirements of investing 67% of its assets in Puerto Rico securities.
- The Fund's assets will be invested in securities the interest on which is subject to taxation for Puerto Rico income tax purposes. The Fund, however, may invest a portion of its assets in tax-exempt securities of both Puerto Rico and non-Puerto Rico issuers to the extent that the Fund's investment adviser believes that the return on such securities when combined with the Fund's taxable securities offer attractive after-tax returns to shareholders. The Fund will provide shareholders information on an annual basis detailing what portion of the dividends paid by the Fund are taxable or tax-exempt.

**Redemption of Shares .....**

No market presently exists for the Shares and no secondary market is expected to develop. However, the Board of Directors of the Fund has adopted a policy whereby Shares may be redeemed on any business day. Redemptions will be made at a price per share equal to the net asset value per Share as of the close of trading on New York Stock Exchange, Inc. (the "NYSE") on the date of redemption. For purposes of the Fund, a "business day" is a day on which the NYSE is open for trading and the Federal Reserve Bank of New York ("Federal Reserve") and banks in San Juan, Puerto Rico are generally open for business. See "Purchase of Shares" and "Redemption of Shares."

The Fund may impose a 2.0% redemption fee on redemptions made within five business days after acquiring shares of the Fund.

**Valuation of Shares .....**

The net asset value per class of Share is determined on a daily basis by the Fund's Administrator (as defined under "Investment Advisory and Administrative Services") as of the close of trading on each business day. If any date on which the net asset value is to be determined is not a business day, the net asset value will be determined on the next succeeding business day. The net asset value per class of Share is available upon request from the Distributor. See "Valuation of Shares."

**Special Leverage Considerations .....**

The Fund intends to increase amounts available for investment through the issuance of preferred stock or debt securities, or engage in other forms of leverage, including entering into repurchase agreements. All such forms of leverage may represent in the aggregate up to 50% of the Fund's total assets immediately after such leverage.

*Potential Benefits of Leverage.* The use of leverage by the Fund creates the opportunity for increased net income for holders of the Shares and a

potentially higher return, but, at the same time, creates special risks.

*Risks of Leverage.* Use of leverage is a speculative investment technique and involves increased risk for shareholders to a greater extent than in a non-leveraged fund, including the possibility of higher volatility of the net asset value of the Shares. Since any decline in the value of the Fund's investments will affect only the common shareholders, in a declining market the use of leverage will cause the Fund's net asset value to decrease more than it would if the Fund were not leveraged. In addition, fluctuations in the amounts paid on the instruments used to obtain leverage, may reduce the amounts available for dividend distributions to common shareholders. See "Risks and Special Considerations of Leverage" herein.

**Management of the Fund .....**

Popular Asset Management, the asset management division of Banco Popular de Puerto Rico ("Banco Popular" and when acting in this capacity the "Investment Adviser"), is the Fund's investment adviser responsible for the management of the assets of the Fund, subject to the discretion of the Fund's Board of Directors.

Banco Popular will also act as administrator, transfer agent, and custodian of the Fund.

Banco Popular and Popular Securities are wholly-owned subsidiaries of Popular, Inc. and, therefore, are affiliated entities. All transactions between the Fund and its affiliates will be subject to procedures adopted by the Board of Directors in an effort to address potential conflicts of interest. There is no assurance that the procedures will be effective.

**Dividends and other Distributions.....**

The Fund intends to declare and distribute monthly dividends to shareholders of substantially all of its net investment income (which reflects any amounts paid as dividends on preferred stock and interest on outstanding debt securities or other forms of leverage). The net capital gains realized by the Fund, if any, may be retained by the Fund, as permitted by Puerto Rico law, unless the Board of Directors, in its sole discretion, determines that the net capital gains should be distributed to the shareholders of the Fund.

**Automatic Dividend Reinvestment Plan .....**

All dividends and capital gain distributions will be reinvested automatically in additional Shares at the current net asset value. Shares acquired by reinvestment of dividends will not be subject to any initial sales charge.

**Transactions Involving Affiliates.....**

The Fund may enter into various types of transactions with affiliated parties as described in this prospectus. All transactions with affiliates will be subject to procedures adopted by the Board of Directors and, particularly, the independent directors of the Board, in an effort to address potential conflicts of interest. There is no assurance that the procedures will be effective.

**Yield Considerations .....**

The yield on the Shares will vary from period to period depending on facts including, but not limited to, market conditions, the timing of the Fund's investment in portfolio securities and other investments, the investments comprising the Fund's portfolio, changes in interest rates including changes in the relationship between short-term rates and long-term rates, the effects of leverage on the Shares discussed above under "Special leverage considerations," the timing of the investment of proceeds of

leverage in portfolio securities, the Fund's net assets and its operating expenses. Consequently, the Fund cannot guarantee any particular yield on the Shares and the yield for any given period is not an indication or representation of future yields on the Shares. The Fund's ability to achieve any particular yield level after it commences operations depends on future interest rates and other factors mentioned above, and the initial yield and later yields may be lower.

**Tax Matters.....**

By purchasing the Shares, all investors will be agreeing irrevocably to be subject to a 15% Puerto Rico income tax withholding that will be withheld automatically at source by the Fund or its paying agent (including the Distributor or a selected dealer) on amounts distributed as Ordinary Dividends (see "Tax Matters").

Amounts distributed as Ordinary Dividends on the Fund's Shares will be subject to regular Puerto Rico income tax at a 15% preferential rate in the case of individuals, estates or trusts. Also, individual shareholders should take into consideration Ordinary Dividends for computing their net income subject to alternative minimum tax. In the case of Qualifying Corporations, Ordinary Dividends will be subject to regular income tax and alternative minimum tax on Ordinary Dividends and will qualify for an 85% dividends received deduction for Ordinary Dividends received.

Capital Gain Dividends (see "Tax Matters") are taxable as long-term capital gains to Qualifying Investors (see "Tax Matters") regardless of how long the Shares of the Fund have been held by the shareholder. Capital Gain Dividends will qualify for a special income tax rate on capital gains of 15%, in the case of Qualifying Individuals, and for an alternative 20% income tax rate, in the case of Qualifying Corporations. Special rules may apply to Capital Gain Dividends distributed by the Fund to estates and trusts.

The Shares will be exempt from Puerto Rico personal property taxes and will not be subject to U.S. federal and Puerto Rico estate taxes in the hands of certain investors who are residents of Puerto Rico.

The Fund will not be engaged in a U.S. trade or business and will not be subject to U.S. federal income tax on portfolio interest. The dividends paid by the Fund will constitute income from sources within Puerto Rico and as such will not be subject to U.S. federal income tax when received by (a) individuals who are bona fide residents of Puerto Rico during the entire taxable year of receipt, and who own, directly or indirectly, less than 10% of the total Shares of the Fund, (b) Puerto Rico corporations that are not engaged in a U.S. trade or business to which the dividends are effectively connected, or (c) Puerto Rico corporations that are engaged in a U.S. trade or business, but for which its investment in the Fund is not effectively connected to its U.S. trade or business.



## FEE TABLE AND ESTIMATED FUND EXPENSES

The following table describes the costs and expenses that you may incur if you buy and hold Shares of the Fund, based on the maximum sales charge and maximum contingent deferred sales charge that may be incurred and on the Fund's expected operating expenses for the year ending June 30, 2019.

The sales charge and contingent deferred sales charge in the table below is the maximum charge imposed on purchases or redemption of Shares and investors may actually pay lower or no charges, depending on the amount purchased and the length of time the Shares are held. See "Purchase of Shares."

Shareholder Fees	Class A	Class C	Advisor Class
<i>(Fees paid directly from your investment)</i>			
Maximum sales charge (Load) imposed on purchases <i>(as a percentage of offering price)</i> .....	4.00% <sup>(1)</sup>	None	None
Maximum Deferred Sales Charge (Load) on redemptions <i>(as a percentage of original purchase price or redemption proceeds, whichever is less)</i> .....	None	1.00%	None
<b>Annual Fund Operating Expenses</b>			
<i>(As a percentage of average daily total assets; these expenses are deducted from Fund assets)<sup>(2)</sup></i>			
Investment advisory fee .....	0.44%	0.45%	0.44%
Distribution (12b-1) fee <sup>(2) (3)</sup> .....	0.20%	1.00%	0.20%
Client service fee .....	0.04%	0.04%	0.04%
Administrative fee .....	0.13%	0.14%	0.13%
Other expenses <sup>(4)</sup> .....	<u>0.39%</u>	<u>0.39%</u>	<u>0.39%</u>
Total annual fund operating expenses <sup>(5)</sup> .....	1.20%	2.02%	1.20%

<sup>1</sup> Reduced for purchases of \$50,000 and over. See "Purchase of Shares" and "Redemption of Shares."

<sup>2</sup> Investment advisory fees, administrative fees and client service fees, which are indirectly paid entirely by shareholders, will be charged as a percentage of average daily total assets (which includes assets purchased with the proceeds of leverage and makes no deduction for liabilities of the Fund, including indebtedness or preferred stock incurred for leverage.) Distribution fees which are also indirectly paid by shareholders are equal, in the case of Class A Shares and Advisor Class Shares, to 0.20% and, in the case of Class C Shares, to 1.01% of average daily net assets of the Fund (which deducts from total assets all liabilities of the Fund, including the principal amount of indebtedness and liquidation preference of preferred stock issued for leverage). Accordingly, to the extent the Fund engages in leverage, the distribution fee will be, in the case of Class A Shares and Advisor Class Shares, less than the 0.20% and, in the case of Class C Shares, less than 1.00% of average total assets shown in the table above.

<sup>3</sup> The Fund has adopted a distribution plan that permits it to pay marketing and other fees to support the sale and distribution of shares and services provided to investors by the Distributor or other brokers or financial institutions. These fees are referred to as a distribution fee and client service fee. See "Investment Advisory and Administrative Services -Distributor" for additional information regarding these fees.

<sup>4</sup> Other Expenses are based on the Fund's audited operating expenses for the twelve month period ending June 30, 2019. Operating expenses include, among others, custodian and transfer agency fees; fees for certain shareholder services; legal, regulatory and accounting fees; and printing costs but excludes borrowing costs associated with leverage. These expenses are allocated to each class proportionate to the fair market value of the average outstanding shares for the period.

The Fund may borrow money through, among other things, the issuance of preferred stock and debt securities, and other forms of leverage. As a result of any such borrowings, the Fund will incur interest costs not reflected in the preceding table. Assuming the utilization of leverage by borrowings in the amount of approximately 50% of the Fund's total assets, and an annual interest rate (including dividends on preferred stock) of 0.25% payable on such leverage based on market rates as of the date of this prospectus, the annual portfolio yield on the assets that the Fund's portfolio must experience (net of expenses) in order to cover such interest payments would be 1.03%, in the case of the Class A Shares and Advisor Class Shares, and 1.45%, in the case of the Class C Shares. The actual cost of leverage (including dividends on preferred stock) will be based on market rates at the time the Fund undertakes a leveraging strategy, and such actual cost of leverage may be higher or lower than that assumed, as more fully described in the section entitled "Risks and Special Considerations of Leverage" in this prospectus.

<sup>5</sup> The various fees payable to the Investment Adviser and other service providers described in the above table may be voluntarily waived by such persons from time to time. The items included under "other expenses" will not be waived. The Fund cannot provide investors with any assurance that if any such waiver of fees is commenced, that it will continue.

**Example:**

The following expense summary is intended to assist you in understanding the estimated costs and expenses of investing in the different classes of Shares of the Fund and provides a means for comparison with the expense levels of other open-end management investment companies with different fee structures over varying investment periods. This example should not be considered a representation of future expenses of the Fund or annual rates of return. **Actual expenses or annual rates of return may be greater or less than those assumed for purposes of the example.**

The expense example assumes that:

- You invest \$10,000 in the Fund for the time period indicated;
- You pay 4.00% initial sales load at the time of purchase solely for Class A Shares;
- You redeem all of your shares at the end of the periods indicated;
- You earn a 4.50% return on your investment each year (assuming a 360-day year of twelve 30-day months);
- All dividends and other distributions are reinvested at net asset value;
- The Fund’s operating expenses (which are based on expected operating expenses for the twelve month period ending June 30, 2019) remain the same; and
- A cost of leverage of 0.25%.

Although your actual returns and costs may be higher or lower, based on these assumptions, your costs would be:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Class A Shares Assuming No Leverage .....	\$517.07	\$762.75	\$1,024.68	\$1,757.81
Class A Shares Assuming Leverage of 50% of the Fund’s total assets .....	\$601.13	\$1,024.33	\$1,477.05	\$2,751.89
Class C Shares Assuming No Leverage .....	\$204.47	\$628.31	\$1,072.83	\$2,281.31
Class C Shares Assuming Leverage of 50% of the Fund’s total assets .....	\$294.41	\$909.94	\$1,562.90	\$3,374.32
Advisor Class Shares Assuming No Leverage	\$121.94	\$377.86	\$650.71	\$1,414.38
Class C Shares Assuming Leverage of 50% of the Fund’s total assets	\$209.52	\$650.35	\$1,121.93	\$2,449.88

## FINANCIAL HIGHLIGHTS

Set forth below is per share operating data for a Share of common stock outstanding for the fiscal years ended June 30, 2014, 2015, 2016, 2017 and 2018 as well as total investment return, ratios to average net assets and other supplemental data for such periods.

The financial highlights table is intended to help you understand the Fund's financial performance. Certain information reflects financial results for a single class of share. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the Fund (assuming reinvestment of all dividends and distributions). This information has been derived from the Fund's audited financial statements. The information below should not be considered a representation of future performance. Actual performance may vary. Shareholders may review the Fund's most recent financial and performance information at the Fund's website at [www.popular.com](http://www.popular.com). No information on Popular's website is deemed to be part of, or incorporated by reference in, this prospectus.

### CLASS A

		For the year ended June 30, 2018	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015	For the year ended June 30, 2014
<i>Increase (Decrease) in Net Asset Value:</i>						
<b>Per Share Operating Performance:</b>	Net asset value, beginning of period	\$3.91	\$4.58	\$5.03	\$6.55	\$7.79
	Net investment income <sup>(a)</sup>	0.15	\$0.25	\$0.44	\$0.54	\$0.58
	Net realized gain and unrealized appreciation on investments and derivatives <sup>(a)</sup>	(0.47)	(0.58)	(0.32)	(1.45)	(1.21)
	Total income from investment operations	(\$0.32)	(\$0.33)	\$0.12	(0.91)	(0.63)
	Less: dividends from net investment income	(\$0.15)	(\$0.34)	(\$0.57)	(\$0.61)	(\$0.61)
	Net asset value, end of period	\$3.44	\$3.91	\$4.58	\$5.03	\$6.55
<b>Total Investment Return:</b> <sup>(b)(g)</sup>	Based on net asset value per share	(7.97)%	(7.54)%	3.06%	(14.83)%	(7.67)%
<b>Ratios:</b> <sup>(c)</sup>	Expenses to average net assets - net of waived fees <sup>(d)(e)</sup>	3.26%	2.60%	2.57%	2.22%	2.06%
	Operating expenses to average net assets - net of waived fees <sup>(d)(f)</sup>	1.78%	1.80%	1.96%	1.86%	1.79%
	Interest expense to average net assets	1.48%	0.80%	0.61%	0.36%	0.27%
	Net investment income to average net assets - net of waived fees <sup>(d)</sup>	4.38%	5.88%	9.54%	9.00%	8.57%
<b>Supplemental Data:</b>	Net assets, end of period (in thousands)	\$26,464	\$37,866	\$47,105	\$52,911	\$72,191
	Portfolio turnover	0.89%	7.42%	1.03%	0%	0%
	Portfolio turnover excluding the proceeds from calls and maturities of portfolio securities and the proceeds from mortgage-backed securities paydowns	0.89%	7.42%	1.03%	0%	0%

(a) Based on daily average outstanding shares of Class A Common Stock of 8,770,571, 10,138,246, 10,376,444, 10,801,147 and 12,069,619 for the fiscal years ended June 30, 2018, 2017, 2016, 2015 and 2014.

(b) Return calculations based on beginning of the period net asset values and end of period net asset value provided by Banco Popular de Puerto Rico (Fund administrator, custodian, transfer agent and investment adviser). Total return excludes the effect of initial and contingent deferred sales charges.

(c) Based on daily average net assets applicable to shareholders of Class A Common Stock of \$30,491,041; \$43,757,542; \$48,096,179; \$65,293,275; and \$81,466,665; for the fiscal years ended June 30, 2018, 2017, 2016, 2015 and 2014. Class-specific expenses are allocated to the relevant class.

(d) The effect of the expenses waived for the years ended June 30, 2018, 2017, 2016, 2015 and 2014 was to decrease the expense ratio, thus increasing the net investment income ratio to average net asset applicable to shareholders of Class A Common Stock by 0.01% 0.02%, 0.03%; 0.02%; and 0.02%.

(e) "Expenses" include both operating and interest and leverage related expenses.

(f) "Operating expenses" represent total expenses excluding interest and leverage related expenses.

(g) Dividends are assumed to be reinvested at the per share net asset value on the date dividends are paid.

**CLASS C**

		For the year ended June 30, 2018	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015	For the year ended June 30, 2014
<i>Increase (Decrease) in Net Asset Value:</i>						
<b>Per Share Operating Performance:</b>	Net asset value, beginning of period	\$4.02	\$4.71	\$5.15	\$6.65	\$7.86
	Net investment income <sup>(a)</sup>	0.13	0.23	0.42	0.50	0.53
	Net realized gain and unrealized appreciation on investments and derivatives <sup>(a)</sup>	(0.49)	(0.59)	(0.34)	(1.47)	(1.21)
	Total income from investment operations	(0.36)	(0.36)	0.08	(0.97)	(0.68)
	Less: dividends from net investment income	(0.14)	(0.33)	(0.52)	(0.53)	(0.53)
	Net asset value, end of period	\$3.52	\$4.02	\$4.71	\$5.15	\$6.65
<b>Total Investment Return:</b> <sup>(b)(g)</sup>	Based on net asset value per share	(8.79)%	(8.13)%	2.01%	(15.46)%	(8.38)%
<b>Ratios:</b> <sup>(c)</sup>	Expenses to average net assets - net of waived fees <sup>(d)(e)</sup>	4.06%	3.41%	3.38%	3.02%	2.86%
	Operating expenses to average net assets - net of waived fees <sup>(d)(f)</sup>	2.58%	2.61%	2.77%	2.66%	2.59%
	Interest expense to average net assets	1.48%	0.80%	0.61%	0.36%	0.27%
	Net investment income to average net assets - net of waived fees <sup>(d)</sup>	3.57%	5.08%	8.74%	8.19%	7.77%
<b>Supplemental Data:</b>	Net assets, end of period (in thousands)	\$24,630	\$33,616	\$41,134	\$47,941	\$67,545
	Portfolio turnover	0.89%	7.42%	1.03%	0.00%	0.00%
	Portfolio turnover excluding the proceeds from calls and maturities of portfolio securities and the proceeds from mortgage-backed securities paydowns	0.89%	7.42%	1.03%	0.00%	0.00%

(a) Based on daily average outstanding shares of Class C Common Stock of 7,725,923, 8,706,719, 8,961,206, 9,796,436 and 11,026,004 for the fiscal years ended June 30, 2018, 2017, 2016, 2015 and 2014.

(b) Return calculations based on beginning of the period net asset values and end of period net asset value provided by Banco Popular de Puerto Rico (Fund administrator, custodian, transfer agent and investment adviser). Total return excludes the effect of initial and contingent deferred sales charges.

(c) Based on daily average net assets applicable to shareholders of Class C Common Stock of \$27,558,004, \$38,658,811, \$42,646,828, \$60,329,702 and \$75,287,560, for the fiscal years ended June 30, 2018, 2017, 2016, 2015, and 2014. Class-specific expenses are allocated to the relevant class.

(d) The effect of the expenses waived for the years ended June 30, 2018, 2017, 2016, 2015, and 2014 was to decrease the expense ratio, thus increasing the net investment income ratio to average net assets applicable to Shareholders of Class C Common Stock by 0.2%, 0.2%, 0.2%, 0.3% and 0.2%.

(e) "Expenses" include both operating and interest and leverage related expenses.

(f) "Operating expenses" represent total expenses excluding interest and leverage related expenses.

(g) Dividends are assumed to be reinvested at the per share net asset value on the date dividends are paid.

## RISK FACTORS

*An investment in the Fund is subject to the following principal investment risks any of which could cause you to lose money on your investment in the Fund. You should carefully consider the following risks before you decide to invest in the Fund.*

*General.* Apart from the risks identified below, the Fund's investments may be negatively affected by the broad investment environment in the U.S., Puerto Rico and international securities markets, which may be influenced by, among other things, interest rates, inflation, politics, fiscal policy and current events. Therefore, as with any Fund that invests in securities, the Fund's net asset value will fluctuate. Considering that there can be no assurance that the Fund will achieve its investment objective, you may experience a decline in the value of your investment and could lose all or part of your money.

At present, there is no secondary market for the Fund's Shares and the Fund does not expect one to develop, although the Board of Directors of the Fund has adopted a policy whereby shares are redeemable on a daily basis. Notwithstanding the foregoing, the right to redeem shares on a daily basis may be suspended or the date of payment postponed for periods during which trading on the NYSE is restricted or the NYSE the Federal Reserve Bank and banks in San Juan, Puerto Rico are closed for regular business (other than for customary weekend and holiday closings) or for any period during which an emergency exists as a result of which disposal of portfolio securities or determination of net asset value per Share is not reasonably practicable. Accordingly, the liquidity of an investment in the Shares of the Fund may be limited and an investor may be unable to redeem or otherwise dispose of its Shares at a time when it may deem such redemption or disposition to be most convenient. See "Redemption of Shares."

*Conflicts of Interest.* The Fund is not registered under the U.S. Investment Company Act of 1940, as amended (the "1940 Act"), and therefore, is not subject to the restrictions regarding, among other things, transactions between the Fund and the Investment Adviser or its affiliates contained in the 1940 Act. It is anticipated that the Fund will engage in transactions, such as securities purchase and sale transactions and repurchase agreement transactions, directly with Banco Popular, Popular Securities, Popular Mortgage and possibly other affiliates of the Investment Adviser. For many Puerto Rico securities purchased by the Fund, one of those entities may be the only dealer, or one of only a few dealers, in the securities being purchased or sold by the Fund. In that event, independent sources for valuation or liquidity of a security may be limited or nonexistent. Subject to certain limitations, the Fund may also invest in securities issued by its affiliates, or make deposits with those affiliates. As a result of the above transactions and other dealings, the interests of the Investment Adviser and its affiliates may conflict with those of the Fund and its shareholders as to the price and other terms of transactions that they engage in. Portfolio transactions between the Fund and its affiliates will be executed pursuant to terms and conditions comparable to those with unrelated third parties in the ordinary course of its investment activities. In addition, the investment advisory fee payable to the Investment Adviser during periods in which the Fund is utilizing leverage will be higher than when it is not doing so because the fee is calculated as a percentage of average total assets, including assets purchased with leverage. Because the asset base used for calculating the investment advisory fee is not reduced by aggregate indebtedness incurred in leveraging the Fund, the Investment Adviser may have a conflict of interest in formulating a recommendation to the Fund as to whether and to what extent to use leverage.

The Investment Adviser and its affiliates may engage, at the present or in the future, in business transactions with or related to any one of the issuers of portfolio securities held by the Fund, or with competitors of such issuers, as well as provide them with investment banking, asset management, trust, or advisory services, including merger and acquisition advisory services. These activities may present a conflict between any such affiliated parties and the interest of the Fund. The Investment Adviser is not registered under the U.S. Investment Advisers Act of 1940, as amended, and therefore, is not subject to the restrictions imposed on investment advisers thereunder.

*Transactions Involving Affiliates.* It is anticipated that certain transactions (such as the repurchase agreements, futures contracts or other transactions) with Popular Securities, LLC ("Popular Securities" or the "Distributor") or its affiliates will take place in which Popular Securities or one of its affiliates may be the primary or only dealer in a particular portfolio security being purchased or sold by the Fund. In that event, independent sources for valuation or liquidity of such securities will be limited or nonexistent. Such portfolio transactions will

be subject to procedures adopted by the Board of Directors of the Fund and implemented by the Investment Adviser in an effort to address potential conflicts of interest that may arise from such transactions. There is no assurance that the procedures will be effective. The procedures also may be amended from time to time in the sole discretion of the Board of Directors. The Fund also may enter into repurchase agreements in which the underlying securities consist of securities that were offered in underwritings in which one or more of its affiliates (including Popular Securities) is a member of the underwriting or selling group. Such transactions also will be subject to procedures adopted by the Fund's Board of Directors and implemented by the Investment Adviser. The procedures adopted by the Board of Directors in connection with transactions involving any affiliate of the Fund ("Affiliated Transactions") include requirements for establishing the purchase price and repurchase price for the repurchase agreements and the Permissible Securities that may be acquired directly by the Fund in connection with such transactions. The overall cost to the Fund in connection with Affiliated Transactions must be at least as favorable for the Fund as that charged by other sources. There is no assurance, however, that the Fund will get the best rate or pricing available in Affiliated Transactions.

The Fund is an affiliate of Popular Securities and its affiliates, including the Distributor, the Investment Adviser, the Administrator and the Custodian (each as defined herein). Furthermore, certain directors and officers of the Fund are also employees, officers or directors of Popular Securities and/or its affiliates, including the Distributor, the Investment Adviser and the Administrator.

*Risk of Low Level of Capital.* If the Fund does not raise a sufficient amount of capital to establish economies of scale, or to the extent that redemptions of Shares cause the Fund's capital to reach a low level, the Fund's fixed expenses would increase when expressed as a percentage of the Fund's assets. The Adviser may, at its discretion, waive a portion of its investment advisory fees. The Adviser, however, reserves the right to discontinue any voluntary waiver of its fees to the Fund in the future.

*Manager Risk.* The Fund is subject to manager risk, which is the chance that poor security selection by the investment adviser will cause the Fund to underperform other funds with a similar investment objective.

*Fluctuations in Net Asset Value.* The net asset value of the Fund's Shares will fluctuate with interest rate changes as well as with price changes of the Fund's portfolio securities, and these fluctuations are likely to be greater in the case of a fund having a leveraged capital structure, as contemplated for the Fund.

*Aggressive Investment Technique Risk.* The Fund may use investment techniques that may be considered aggressive, including the use of swap agreements, CDSs, and similar instruments. Such techniques may expose the Fund to potentially dramatic changes (losses or gains) in the value of its portfolio holdings and imperfect correlation between the value of the instruments and the relevant security, index, or market. These techniques also may expose the Fund to risks different from or possibly greater than the risks associated with investing directly in high yield debt securities, including: (1) the risk that an instrument is temporarily mispriced; (2) creditor performance risk on the amount the Fund expects to receive from a counterparty; (3) the risk that security prices, interest rates, and currency markets will move adversely and the Fund will incur significant losses; (4) imperfect correlation between the price of financial instruments and movements in the prices of the underlying securities; and (5) the possible absence of a liquid secondary market for any particular instrument and possible exchange imposed price fluctuation limits, both of which may make it difficult or impossible to adjust the Fund's position in a particular instrument when desired.

*Geographical Risk.* The Fund intends to invest 67% of its portfolio in obligations of Puerto Rico governmental or private issuers or mortgage-backed or asset-backed securities backed by Puerto Rico assets. As of the date of this Offering Circular, the Fund has invested approximately 13.6% of its portfolio in obligations issued by or guaranteed by the Government of Puerto Rico and its instrumentalities ("PR Bonds"), of which 2.3% is guaranteed by third party insurance companies. The remaining assets invested in Puerto Rico assets are mortgage-backed securities guaranteed by GNMA/FNMA. As a result, the Fund has greater exposure to adverse economic, political or regulatory changes in Puerto Rico than a more geographically diversified fund, particularly with regards to municipal bonds issued by the Commonwealth and its related instrumentalities, which are currently experiencing significant price volatility and low liquidity. A default by the Commonwealth in its interest or principal payment obligations due under said bonds could have a material adverse effect upon the income generated by or the financial condition of the Fund.

Puerto Rico's economy entered a recession in the fourth quarter of fiscal year 2006, and the Puerto Rico's gross national product ("GNP") has contracted (in real terms) every fiscal year between 2007 and 2017, with the exception of fiscal year 2012. Puerto Rico's economic situation only worsened in the aftermath of hurricanes Irma and María, which hurricanes resulted in widespread devastation to Puerto Rico's infrastructure and electrical grid and brought Puerto Rico's economy to a standstill.

Pursuant to the latest Puerto Rico Planning Board (the "Planning Board") estimates, published in January 2018, Puerto Rico's real GNP for fiscal years 2016 and 2017 decreased by 1.3% and 2.4%, respectively. The Planning Board's GNP forecast for fiscal year 2018, which was released in April 2017 and has not been revised, projects a contraction of 1.5%. This analysis does not account for the impact of hurricanes Irma and María. The Revised Commonwealth Fiscal Plan (as hereinafter defined), which accounts for the impact of hurricanes Irma and María, estimates a 13.3% contraction in real GNP in fiscal year 2018, and projects relatively steady macroeconomic growth after fiscal year 2018.

On April 6, 2016, the Governor of Puerto Rico signed Act 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act ("Act 21"). Act 21 authorized the Governor of Puerto Rico to, among other things, declare a stay on certain litigation, suspend certain creditor remedies and impose a moratorium on debt-service payments of the Commonwealth and certain public corporations through January 31, 2017.

On April 8, 2016, the Governor of Puerto Rico signed an executive order declaring Government Development Bank for Puerto Rico ("GDB") to be in a state of emergency pursuant to Act 21 and implementing a framework governing GDB's operation, including suspending loan disbursements by GDB and restricting the disbursement of deposits. Further, on April 30, 2016, the Governor of Puerto Rico signed a second executive order under Act 21 declaring an emergency period with respect to PRIFA and declaring a moratorium on the payment of certain obligations of GDB.

On May 2, 2016, GDB made an interest payment of approximately \$23 million, but failed to make a principal payment of approximately \$367 million, in respect of its notes. GDB had previously reached an agreement with a group of local credit unions in order to extend the maturity date on approximately \$33 million due on May 2, 2016. In addition, GDB announced on May 1, 2016 that it had negotiated a framework for the restructuring of GDB bonds with holders of approximately \$900 million of GDB's outstanding notes. The agreement contemplates a two-step restructuring plan whereby the holders of GDB notes would exchange their notes for new GDB notes, to be followed by an exchange of such new notes as part of a future global restructuring of the Commonwealth's debt.

On June 30, 2016, the Governor of Puerto Rico, pursuant to the provisions of Act 21-2016, issued Executive Order No. OE-2016-30 and Executive Order No. OE-2016-31 (collectively, the "Executive Orders"). The Executive Orders, among other things, suspend the Commonwealth's obligation to make payments on its general obligation and guaranteed debt. The Executive Orders also suspended (i) certain Commonwealth public corporations' obligation to make payments on certain of their debts and (ii) the Commonwealth's obligation to transfer certain tax revenues pledged for the repayment of debt issued by certain public corporations. The Executive Orders are effective until January 31, 2017, unless further extended by the Governor until March 31, 2017.

Also on June 30, 2016, U.S. President Barack Obama signed H.R. 5278, known as the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), into law. PROMESA establishes an oversight board (the "Oversight Board") with broad authority to ensure that the Commonwealth implements and executes fiscal plans, balances the Commonwealth's budget and enacts reforms. PROMESA also seeks to promote a voluntary restructuring of the Commonwealth's debts and include a collective action clause whereby two-thirds of the Commonwealth's creditors could agree to a debt-restructuring plan. If voluntary negotiations stall, and the Commonwealth meets certain conditions, PROMESA allows Commonwealth entities to enter into a court-ordered restructuring. The seven members of the Oversight Board were named by President Barack Obama on August 31, 2017.

On May 3, 2017, the Oversight Board filed a petition in the United States District Court for the District of Puerto Rico for the restructuring of the Commonwealth's debts pursuant to Title III of PROMESA. The Oversight Board has subsequently filed analogous petitions with respect to the Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, the Puerto Rico Highways and Transportation Authority and the Puerto Rico Electric Power Authority. As of the date of this request, only COFINA has filed a plan of adjustment for its debts, which plan was approved on February 4,

2019. Based on the projection of funds available for debt service under the applicable fiscal plans, however, the restructuring is expected to result in significant discounts on creditor recoveries.

On July 12, 2017, the Oversight Board conditionally authorized GDB to pursue the modification of its financial obligations pursuant to Title VI of PROMESA.

As required by PROMESA, the government submitted a fiscal plan to the Oversight Board, which the Oversight Board certified, with certain amendments, in March 2017 (the “Original Fiscal Plan”). As a result of the aftermath of hurricanes Irma and María, on October 31, 2017, the Oversight Board announced a process to revise the Original Fiscal Plan.

As requested by the Oversight Board, the Commonwealth prepared and presented the Oversight Board with various drafts of a revised fiscal plan for the Commonwealth and certain of its instrumentalities. Notwithstanding the Commonwealth’s efforts, on June 29, 2018, the Oversight Board certified a new, revised fiscal plan for the Commonwealth (the “Revised Commonwealth Fiscal Plan”). Although the Revised Commonwealth Fiscal Plan borrows heavily from the draft fiscal plans presented by the Commonwealth, it differs in certain significant aspects from the Commonwealth’s proposals.

The Revised Commonwealth Fiscal Plan estimates a 13.3% contraction in real GNP in fiscal year 2018, and projects relatively steady macroeconomic growth after fiscal year 2018, assuming the successful implementation of the fiscal and structural reforms outlined in the Revised Commonwealth Fiscal Plan. This macroeconomic growth projection takes into account a projected population decline during the six-year period covered by the Revised Commonwealth Fiscal Plan of approximately 12%. Without the fiscal and structural measures included in the Revised Commonwealth Fiscal Plan, the six-year deficit is expected to total \$5.9 billion, before the payment of any debt service. After the application of the fiscal measures provided for under the Revised Commonwealth Fiscal Plan, and the fiscal impact of the structural reforms described therein, the Revised Commonwealth Fiscal Plan projects a surplus of approximately \$6.7 billion for the applicable six-year period, before the payment of any debt service. In addition, the Revised Commonwealth Fiscal Plan projects increased revenues buoyed by a positive macroeconomic trajectory resulting from significant disaster relief funding stimulus, as well as federal Medicaid funding. The Revised Commonwealth Fiscal Plan includes illustrative estimates of the implied debt capacity of the Commonwealth and the instrumentalities covered by the plan, based on a range of interest rates and assuming a 30-year term for such debt. These estimates confirm the need for significant debt restructuring and write-downs. The Revised Commonwealth Fiscal Plan, however, does not take any position as to the allocation of debt repayments to any particular class of creditors.

On October 23, 2018, the Oversight Board certified new Revised Commonwealth Fiscal Plan which, among other things, included fiscal year 2018 actuals, revised federal disaster estimates and corrected a forecasting error.

*Non-Diversified Status.* The Puerto Rico Investment Companies Act restricts a non-diversified investment company’s investments in any single issuer to a maximum of 25% of the value of such investment company’s total assets. The Fund has obtained a waiver from such provision whereby it may invest directly more than 25% of its assets in (i) securities of, or guaranteed by, the government of Puerto Rico or any instrumentality, political subdivision, agency or public corporation thereof, and (ii) securities (including, but not limited to, mortgage-backed securities, asset-backed securities, corporate obligations and commercial paper) of, or guaranteed by, the U. S., or any political subdivision, agency, public corporation or instrumentality thereof, or of any State of the U. S. or any political subdivisions of any such State. A relatively high percentage of the Fund’s assets will be invested in the obligations of a limited number of issuers, making the Fund more susceptible to any single economic, political or regulatory occurrence than a more widely diversified fund.

*Interest Rate Risk.* The Fund will invest in fixed-income securities that are subject to interest rate risks. Interest rate risk is the risk that prices of fixed-income securities generally decrease when interest rates increase. Prices of longer-term securities generally change more in response to interest rate changes than prices of shorter term securities.



The unique characteristics of certain types of securities purchased by the Fund may also make the Fund sensitive to changes in interest rates. For instance, falling interest rates typically will not lift the prices of mortgage-backed securities or securities subject to call risk as described below as much as prices of comparable fixed-income securities. This is because financial markets tend to discount prices of mortgage-backed securities and callable securities for prepayment risk when interest rates fall. In addition, collateralized mortgage obligations (“CMOs”) may be specifically structured in a manner that provides a wide variety of investment characteristics, such as yield, effective maturity and interest rate sensitivity. As market conditions change, and particularly during periods of rapid or unanticipated changes in market interest rates, the attractiveness of CMOs and the ability of their structure to provide the anticipated investment characteristics may be significantly reduced. These changes can result in volatility in the market value, yield of the security and, in some instances, reduced liquidity of particular CMOs.

*Credit Risk.* Credit risk is the risk that the issuer will be unable to pay the interest or principal on its obligations when due. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. The price of fixed-income securities will generally fall if the issuer defaults on its obligation to pay principal or interest, the rating agencies downgrade the issuer’s credit ratings or other news affects the market’s perception of the issuer’s credit risk.

*Special Considerations Relating to Credit Default Swaps.* The Fund will normally be a net “seller” of Credit Default Swaps (“CDS”). When the Fund is a seller of an unfunded CDS, upon the occurrence of a credit event, the Fund has an obligation to pay the par value of a defaulted reference obligation and take delivery from the counterparty of such obligation. Since CDSs are usually physically settled, the counterparty may first need to purchase the obligation in order to deliver it and obtain par value payment or an equivalent cash value. An active market may not exist for any of the CDSs in which the Fund invests or in the reference obligations subject to the CDS. As a result, the Fund’s ability to maximize returns or minimize losses on such CDSs may be impaired. Other risks of CDSs include the difficulties in valuing the CDS, pricing transparency and the risk that the CDSs utilized by the Fund perform in a manner that does not correlate to the high yield bond markets or performs in other ways that are not expected. The Fund’s positions in CDSs are also subject to counterparty risk, market risk and interest rate risk. Because certain CDSs involve many reference issuers and there are no limitations on the notional amount established for the CDS, the Fund may use a single counterparty or a small number of counterparties, in which case, counterparty risk would be amplified. Investing in CDSs may be considered an aggressive investment technique.

*Lending Securities.* The Fund may lend securities it holds to brokers, dealers and other financial organizations that are not affiliated with the Fund. The Fund’s loans of securities will be collateralized by cash, letters of credit or government securities that are maintained at all times in a segregated account with the Fund’s custodian in an amount at least equal to the current market value of the loaned securities. By lending its portfolio securities, the Fund will seek to generate income by continuing to receive interest on the loaned securities, by investing the cash collateral in short-term instruments or by obtaining yield in the form of interest paid by the borrower when government securities are used as collateral. The risks in lending portfolio securities, as with other extensions of secured credit, consist of possible delays in receiving additional collateral or in the recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. Loans will be made to firms deemed by the Investment Adviser to be of good standing and will not be made unless, in the judgment of the Investment Adviser, the consideration to be earned from such loans would justify the risk. See Appendix B - “Description of Certain Investment Techniques and Securities in which the Fund may Invest.”

*Call and Income Risk.* The Fund is also subject to “call risk,” which is the chance that during periods of falling interest rates, an issuer will “call” – or repay – a relatively high-yielding debt security before the security’s maturity date. Mortgage-backed securities, for example, will generally be paid off early due to homeowners refinancing their mortgages during periods of falling interest rates. If the Fund were forced to reinvest the unanticipated proceeds at lower interest rates, it would experience a decline in income and lose the opportunity for additional price appreciation associated with falling rates. Call risk is generally high for longer-term bonds. Income risk is the risk that falling interest rates will cause the Fund’s income to decline. Income risk is generally low for long-term bonds.

*Credit Ratings.* The Fund intends to invest at least 95% of its securities portfolio in fixed-income securities that, at the time of purchase, are rated in the four highest rating categories by one or more nationally recognized statistical rating organizations or that the Fund’s investment adviser believes are of comparable credit quality. The

credit ratings issued by the rating organizations may not reflect fully the true risks of an investment. For example, credit ratings typically evaluate the safety of principal and interest payments, not market risk of securities. Also, the rating organizations may fail to change timely a credit rating to reflect changes in economic or company conditions that may affect a security's market value. The Investment Adviser continually monitors the investments of the Fund and carefully evaluates whether to dispose of or retain securities whose credit ratings have changed. The Fund may also invest up to 5% of its assets in securities rated below investment grade or so-called "junk obligations." Obligations with ratings below investment grade are speculative with respect to the capacity of the issuer to pay interest and repay principal in accordance with the terms of the obligation and generally involve greater volatility of price than obligations in higher rating categories. The Fund's investment adviser is under no obligation to sell portfolio securities that are downgraded after these securities are purchased by the Fund. If a portfolio security is downgraded, the investment adviser will consider factors such as price, credit risk, market conditions, the financial condition of the issuer and prevailing and anticipated interest rates in determining whether to sell or hold the security as a portfolio investment. For a detailed description and explanation of the different ratings that, as of the date of this prospectus, may be applicable to the debt securities and municipal obligations that may be purchased by the Fund, please see Appendix C —"Ratings of Municipal Obligations and Debt Securities." You may obtain additional information from the websites maintained and updated from time to time by the rating agencies. Currently, the website for Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") is <http://www.standardandpoors.com>; for Moody's Investors Service ("Moody's"), <http://www.moodys.com>; and for Fitch, Inc. ("Fitch"), <http://www.fitchratings.com>. No information on S&P's, Moody's or Fitch's website is deemed to be part of or incorporated by reference in this prospectus.

*Possible Mandatory Redemption of Shares.* The Shares have not been registered under the 1933 Act, or the securities laws of any State, and the Fund has not been registered under the 1940 Act. The Shares are being offered and only may be sold, pledged, hypothecated or otherwise transferred to individuals whose principal residence is in Puerto Rico, or to corporations and other business organizations whose principal office and place of business are in Puerto Rico. Prior to the sale and any subsequent transfer of Shares, each offeree and transferee will be required to represent to the Fund and the Distributor, in writing, that the above conditions to transfer are satisfied. Appendix A to this prospectus contains the applicable form of representation letter which must be delivered by each purchaser of the Shares prior to the purchase and delivery of such Shares. Each time a shareholder purchases Shares pursuant to the Fund's dividend reinvestment plan or pursuant to a systematic investment plan the shareholder will be deemed to have reaffirmed the representations contained in the representation letter.

Shareholders of the Fund who cease to be residents of Puerto Rico have an obligation to redeem their Shares as soon as it becomes economically feasible to do so. Otherwise their Shares may be redeemed automatically by the Fund. See "Mandatory Redemption of Shares."

*Repurchase Agreement Risk.* In the event of default by a repurchase agreement counterparty under any repurchase agreement, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the securities underlying such repurchase agreements. In the event of a default, instead of the contractual fixed rate of return, the rate of return to the Fund shall be dependent upon intervening fluctuations of the market values of such underlying securities and the accrued interest on the underlying securities. In such event, the Fund would have rights against the respective counterparty for breach of contract with respect to any losses resulting from market fluctuations following the failure of such counterparty to perform.

*Risks of Hedging Strategies and Derivative Instruments.* The Fund may engage in certain swaps, options and futures transactions and invest in other derivatives to reduce its exposure to interest rate movements or to enhance portfolio returns. If the Fund incorrectly forecasts market values, interest rates or other factors, the Fund's performance could suffer. The Fund also may suffer a loss if the other party to the transaction fails to meet its obligations. The Fund is not required to use hedging and may choose not to do so. To the extent the Fund enters into future or options transactions other than for bona fide hedging purposes (as defined by the CFTC), the aggregate initial margin and premiums required to establish these positions will not exceed 5% of the liquidation value of the Fund's investment portfolio, after taking into account unrealized profits and unrealized losses on any such positions the Fund has entered into. This limitation does not limit the percentage of the Fund's assets at risk at 5%. See "Description of Certain Investment Techniques and Securities in which the Fund may Invest" in Appendix B to this prospectus.

Recent regulations under the Dodd-Frank Act may impose certain limitations on the Fund's ability to engage in certain swaps, options and futures transactions, and may require the Fund to comply with certain requirements set forth by the CFTC.

*Potential Government Regulation of Derivatives.* While the Fund is not a vehicle for trading or seeking exposure in the commodity futures, commodity options or swaps markets, it may, in accordance with its investment objective and policies, and subject to applicable regulations, invest in certain derivative instruments, including futures, options and swap agreements. It is possible that additional government regulation of various types of derivative instruments, including futures, options and swap agreements, may limit or prevent the Fund from using such instruments as a part of its investment strategy, and could ultimately prevent the Fund from being able to achieve its investment objective. It is impossible to predict fully the effects of past, present or future legislation and regulation in this area, but the effects could be substantial and adverse. It is possible that legislative and regulatory activity could limit or restrict the ability of the Fund to use certain instruments as a part of its investment strategy. Limits or restrictions applicable to the counter parties with which the Fund may engage in derivative transactions could also prevent the Fund from using certain instruments.

There is a possibility of future regulatory changes altering, perhaps to a material extent, the nature of an investment in the Fund or the ability of the Fund to continue to implement its investment strategies. The futures, options and swaps markets are subject to comprehensive statutes, regulations, and margin requirements. In addition, the SEC, CFTC and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the implementation or reduction of speculative position limits, the implementation of higher margin requirements, the establishment of daily price limits and the suspension of trading. The regulation of futures, options and swaps transactions in the United States is a rapidly changing area of law and is subject to modification by government and judicial action.

In particular, the Dodd-Frank Act, which was signed into law on July 21, 2010, changed the way in which the U.S. financial system is supervised and regulated. Title VII of the Dodd-Frank Act sets forth a new legislative framework for over-the-counter ("OTC") derivatives, including financial instruments, such as swaps, in which the Fund may invest. Title VII of the Dodd-Frank Act makes broad changes to the OTC derivatives market, grants significant new authority to the Securities and Exchange Commission ("SEC") and the CFTC to regulate OTC derivatives and market participants, and will require clearing and exchange trading of many OTC derivatives transactions.

Provisions in the Dodd-Frank Act include new capital and margin requirements and the mandatory use of clearing house mechanisms for many OTC derivative transactions. The CFTC, SEC and other federal regulators have been tasked with developing the rules and regulations enacting the provisions of the Dodd-Frank Act. Because there is a prescribed phase-in period during which most of the mandated rulemaking and regulations will be implemented, it is not possible at this time to gauge the exact nature and scope of the impact of the Dodd-Frank Act on the Fund. However, it is expected that swap dealers, major market participants and swap counterparties will experience new and/or additional regulations, requirements, compliance burdens and associated costs. Dodd-Frank Act and the rules promulgated thereunder may negatively impact the Fund's ability to meet its investment objective either through limits or requirements imposed on it or upon its counterparties. In particular, new position limits imposed on the Fund or its counterparties may impact the Fund's ability to invest in futures, options and swaps in a manner that efficiently meets its investment objective. New requirements, even if not applicable directly to the Fund, including capital requirements, changes to the CFTC speculative position limits regime and mandatory clearing, may increase the cost of the Fund's investments and cost of doing business, which could affect investors adversely.

*Counterparty Risk.* The Fund will engage in swap and other financial transactions directly with other counterparties. This subjects the Fund to the credit risk that a counterparty will default on an obligation to the Fund. Such a risk contrasts with transactions done through exchange markets, wherein credit risk is reduced through the collection of variation margin and through the interposition of a clearing organization as the guarantor of all transactions. Clearing organizations transform the credit risk of individual counterparties into the more remote risk of the failure of the clearing organization.

*Market Risk.* The Fund is subject to market risks that will affect the value of its shares, including general economic and market conditions, as well as developments that impact specific economic sectors, industries or companies. The market price of investments held by the Fund may go up or down, sometimes rapidly or unpredictably. The value of an investment may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally.

*Legislative or Regulatory Changes.* Legislation affecting Puerto Rico securities, Puerto Rico and U.S. investment companies, taxes and other matters related to the business of the Fund is constantly being considered by the Legislature of Puerto Rico and the U.S. Congress. In addition, the Office of the Commissioner of Financial Institutions of Puerto Rico has granted certain waivers and rulings to the Fund that do not constitute a precedent binding thereon. There can be no assurance that legislation enacted or regulations promulgated after the date of the initial issuance of the Shares of the Fund will not have an adverse effect on the operations of the Fund, the economic value of the Shares or the tax consequences of the acquisition or redemption of the Shares.

In particular, Act 93-2013, as amended also known as the Puerto Rico Investment Companies Act of 2013, was signed into law on July 30, 2013 and became effective on November 27, 2013. Act 93-2013 supersedes the Puerto Rico Investment Companies Act but allows existing investment companies, such as the Fund, to continue operating under the prior law. Notwithstanding the foregoing, certain provisions of Act 93-2013 may affect the Fund, particularly in the context of transactions with affiliates, tax matters and restrictions on acquisitions of certain securities. Act 93-2013 requires that the Office of the Commissioner promulgate certain regulations applicable to all investment companies. Such regulations were promulgated on May 6, 2014 and May 14, 2014 with effective dates of 30 days after each such promulgation.

In addition, in June 2018, President Donald Trump recently signed the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Consumer Protection Act”) into law. The Consumer Protection Act, among other things, amends the 1940 Act to eliminate the provision that exempted investment companies created under the laws of Puerto Rico, the U.S. Virgin Islands, or any other U.S. possession from compliance with the 1940 Act. This means that the Fund, which is an investment company created under the laws of the Commonwealth, will become subject to the provisions of the 1940 Act in the near future.

*Risks of Puerto Rico Obligations.* Investment by the Fund in Puerto Rico securities is subject to their availability in the open market. There is presently a limited number of participants in the market for certain Puerto Rico obligations. In addition, Puerto Rico fixed-income obligations may have periods of illiquidity. These factors may affect the Fund’s ability to acquire or dispose of such securities, as well as the price paid or received upon such purchase or sale by the Fund. All of the Puerto Rico municipal bonds currently held by the Fund were purchased when the securities were rated investment grade and thus, there is no obligation to sell them solely due to the downgrade.

*Special Considerations Relating to Mortgage-Backed Securities.* Mortgage-backed securities, in general, differ from investments in traditional debt securities in that, among other things, principal may be prepaid at any time due to prepayments by the obligors on the underlying obligations. Since a portion of the assets of the Fund is expected to be invested in mortgage-backed securities, the potential for increasing the Fund’s exposure to these and other risks related to such securities might cause the market value of the Fund’s investments to fluctuate more than otherwise would be the case.

The yield of the Fund will depend in part on the rate at which principal payments are made on such securities, which will in turn depend on the rate at which principal prepayments are made on the underlying mortgage loans. The yield to maturity on mortgage-backed securities offered at a discount from or a premium over their principal amount will depend on, among other things, the rate and timing of payments of principal (including prepayments) on the mortgage loans underlying the mortgage-backed securities. Such yield may be adversely affected by a higher or lower than anticipated rate of principal prepayments on the mortgage loans underlying the mortgage-backed securities. Therefore, since a substantial portion of the assets of the Fund is expected to be invested in mortgage-backed securities, the potential for increasing the Fund’s exposure to these and other risks related to such securities might cause the net income generated by the Fund to fluctuate more than otherwise would be the case.

Changes in the rate of prepayment of the underlying mortgage loans will have a direct impact upon the maturity structure of mortgage-backed securities. An increase in the rate of prepayment of the underlying mortgage loans will lead to an acceleration in the principal returns and a reduction in the average life of the mortgage-backed security. A reduction in the rate of prepayment, on the other hand, will lead to fewer principal returns and an extension of the average life of the mortgage-backed security. Rising interest rates tend to extend the duration of mortgage-backed securities, making them more sensitive to changes in interest rates and more likely to decline in value (this is known as extension risk). The Fund by investing in mortgage-backed securities at a discount (or premium) faces the risk that relatively late (or early) principal distributions following issuance of mortgage-backed securities could result in an actual yield that is lower than the yield anticipated by the Fund.

Prepayments are influenced by a variety of economic, geographic, demographic and other factors, including, among others, prevailing mortgage market interest rates, local and regional economic conditions and home owner mobility. Generally, however, prepayments will increase during periods of declining interest rates and decrease during periods of rising interest rates.

Because the mortgage loans underlying mortgage-backed securities may be prepaid at any time, it is not possible to predict the rate at which distributions of principal of such mortgage-backed securities will be received. Accordingly, prevailing interest rates may fluctuate and there can be no assurance that the Fund will be able to reinvest the distributions from mortgage-backed securities at yields equaling or exceeding the yields on such mortgage-backed securities. It is possible that yields on such reinvestments will be lower than the yields on such mortgage-backed securities.

Mortgage-related securities are interests in pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private organizations. The Fund also may invest in debt securities that are secured with collateral consisting of mortgage-related securities.

Interests in pools of mortgage-related securities differ from other forms of debt securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment that consists of both interest and principal payments. In effect, these payments are a “pass-through” of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs which may be incurred. Some mortgage-related securities (such as securities issued by GNMA) are described as “modified pass-through.” These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

The rate of pre-payments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. To the extent that unanticipated rates of pre-payment on underlying mortgages decrease the effective duration of a mortgage-related security, the volatility of such security can be expected to increase. The residential mortgage market in the United States recently has experienced difficulties that may adversely affect the performance and market value of certain of the Fund’s mortgage-related investments. Delinquencies and losses on residential mortgage loans (especially subprime and second-lien mortgage loans) generally have increased recently and may continue to increase, and a decline in or flattening of housing values (as has recently been experienced and may continue to be experienced in many housing markets) may exacerbate such delinquencies and losses. Borrowers with adjustable rate mortgage loans are more sensitive to changes in interest rates, which affect their monthly mortgage payments, and may be unable to secure replacement mortgages at comparably low interest rates. Also, a number of residential mortgage loan originators have recently experienced serious financial difficulties or bankruptcy. Owing largely to the foregoing, reduced investor demand for mortgage loans and mortgage-related securities and increased investor yield requirements have caused limited liquidity in the secondary market for certain mortgage-related securities, which can adversely affect the market value of mortgage-related securities. It is possible that such limited liquidity in such secondary markets could continue or worsen.

The principal governmental guarantor of mortgage-related securities is GNMA. GNMA is a wholly owned U.S. Government corporation within the Department of Housing and Urban Development. GNMA is authorized to guarantee, with the full faith and credit of the United States Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA (such as savings and loan institutions, commercial banks and mortgage bankers) and backed by pools of mortgages insured by the Federal Housing Administration (the "FHA"), or guaranteed by the Department of Veterans Affairs (the "VA").

Government-related guarantors (i.e., not backed by the full faith and credit of the U.S. Government) of mortgage-backed securities include Fannie Mae and Freddie Mac. Fannie Mae is a government-sponsored corporation the common stock of which is owned entirely by private stockholders. Fannie Mae purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by Fannie Mae are guaranteed as to timely payment of principal and interest by Fannie Mae, but are not backed by the full faith and credit of the U.S. Government. Freddie Mac was created by Congress in 1970 for the purpose of increasing the availability of mortgage credit for residential housing. It is a government-sponsored corporation formerly owned by the twelve Federal Home Loan Banks. Freddie Mac issues Participation Certificates ("PCs"), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. Freddie Mac guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

On September 6, 2008, the Federal Housing Finance Agency ("FHFA") placed Fannie Mae and Freddie Mac into conservatorship. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae and Freddie Mac and of any stockholder, officer or director of Fannie Mae and Freddie Mac with respect to Fannie Mae and Freddie Mac and the assets of Fannie Mae and Freddie Mac. FHFA selected a new chief executive officer and chairman of the board of directors for each of Fannie Mae and Freddie Mac.

In connection with the conservatorship, the U.S. Treasury entered into a Senior Preferred Stock Purchase Agreement with each of Fannie Mae and Freddie Mac pursuant to which the U.S. Treasury will purchase up to an aggregate of \$100 billion of each of Fannie Mae and Freddie Mac to maintain a positive net worth in each enterprise. This agreement contains various covenants that severely limit each enterprise's operations. In exchange for entering into these agreements, the U.S. Treasury received \$1 billion of each enterprise's senior preferred stock and warrants to purchase 79.9% of each enterprise's common stock. On February 18, 2009, the U.S. Treasury announced that it was doubling the size of its commitment to each enterprise under the Senior Preferred Stock Program to \$200 billion. The U.S. Treasury's obligations under the Senior Preferred Stock Program are for an indefinite period of time for a maximum amount of \$200 billion per enterprise.

Fannie Mae and Freddie Mac are continuing to operate as going concerns while in conservatorship, and each remains liable for all of its obligations, including its guaranty obligations, associated with its mortgage-backed securities. The Senior Preferred Stock Purchase Agreement is intended to enhance each of Fannie Mae's and Freddie Mac's ability to meet its obligations. FHFA has indicated that the conservatorship of each enterprise will end when the director of FHFA determines that FHFA's plan to restore the enterprise to a safe and solvent condition has been completed.

Under the Federal Housing Finance Regulatory Reform Act of 2008 (the "Reform Act"), which was included as part of the Housing and Economic Recovery Act of 2008, FHFA, as conservator or receiver, has the power to repudiate any contract entered into by Fannie Mae or Freddie Mac prior to FHFA's appointment as conservator or receiver, as applicable, if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that repudiation of the contract promotes the orderly administration of Fannie Mae's or Freddie Mac's affairs. The Reform Act requires FHFA to exercise its right to repudiate any contract within a reasonable period of time after its appointment as conservator or receiver.

FHFA, in its capacity as conservator, has indicated that it has no intention to repudiate the guaranty obligations of Fannie Mae or Freddie Mac because FHFA views repudiation as incompatible with the goals of the conservatorship. However, in the event that FHFA, as conservator or if it is later appointed as receiver for Fannie Mae or Freddie Mac, were to repudiate any such guaranty obligation, the conservatorship or receivership estate, as

applicable, would be liable for actual direct compensatory damages in accordance with the provisions of the Reform Act. Any such liability could be satisfied only to the extent of Fannie Mae's or Freddie Mac's assets available therefor.

In the event of repudiation, the payments of interest to holders of Fannie Mae or Freddie Mac mortgage-backed securities would be reduced if payments on the mortgage loans represented in the mortgage loan groups related to such mortgage-backed securities are not made by the borrowers or advanced by the servicer. Any actual direct compensatory damages for repudiating these guaranty obligations may not be sufficient to offset any shortfalls experienced by such mortgage-backed security holders.

Further, in its capacity as conservator or receiver, FHFA has the right to transfer or sell any asset or liability of Fannie Mae or Freddie Mac without any approval, assignment or consent. Although FHFA has stated that it has no present intention to do so, if FHFA, as conservator or receiver, were to transfer any such guaranty obligation to another party, holders of Fannie Mae or Freddie Mac mortgage-backed securities would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party.

In addition, certain rights provided to holders of mortgage-backed securities issued by Fannie Mae and Freddie Mac under the operative documents related to such securities may not be enforced against FHFA, or enforcement of such rights may be delayed, during the conservatorship or any future receivership. The operative documents for Fannie Mae and Freddie Mac mortgage-backed securities may provide (or, with respect to securities issued prior to the date of the appointment of the conservator, may have provided) that, upon the occurrence of an event of default on the part of Fannie Mae or Freddie Mac, in its capacity as guarantor, which includes the appointment of a conservator or receiver, holders of such mortgage-backed securities have the right to replace Fannie Mae or Freddie Mac as trustee if the requisite percentage of mortgage-backed securities holders consent. The Reform Act prevents mortgage-backed security holders from enforcing such rights if the event of default arises solely because a conservator or receiver has been appointed. The Reform Act also provides that no person may exercise any right or power to terminate, accelerate or declare an event of default under certain contracts to which Fannie Mae or Freddie Mac is a party, or obtain possession of or exercise control over any property of Fannie Mae or Freddie Mac, or affect any contractual rights of Fannie Mae or Freddie Mac, without the approval of FHFA, as conservator or receiver, for a period of 45 or 90 days following the appointment of FHFA as conservator or receiver, respectively.

Moreover, in a February 2011 report to Congress from the Treasury Department and the Department of Housing and Urban Development, the Obama Administration provided a plan to reform America's housing finance market. The plan would reduce the role of Fannie Mae and Freddie Mac, and eventually eliminate these entities. Notably, the plan does not propose similar significant changes to GNMA, which guarantees payments on mortgage-related securities backed by federally insured or guaranteed loans such as those issued by the Federal Housing Association or guaranteed by the Department of Veterans Affairs. The report also identified three proposals for Congress and the Obama Administration to consider for the long-term structure of the housing finance markets after the elimination of Fannie Mae and Freddie Mac, including the implementation of: (i) a privatized system of housing finance that limits government insurance to very limited groups of creditworthy low- and moderate-income borrowers; (ii) a privatized system with a government backstop mechanism that would allow the government to insure a larger share of the housing finance market during a future housing crisis; and (iii) a privatized system where the government would offer reinsurance to holders of certain highly rated mortgage-related securities insured by private insurers and would pay out under the reinsurance arrangements only if the private mortgage insurers were insolvent.

On August 17, 2012, the U.S. Treasury Department issued a press release announcing further steps to expedite the wind-down of Fannie Mae and Freddie Mac. The press release contained information about a modification to the previously described Senior Preferred Stock Purchase Agreement, whereby the U.S. Treasury Department would now require Fannie Mae and Freddie Mac to accelerate the reduction of their respective investment portfolios by 15% per year, an increase from the currently required 10% annual investment portfolio reduction. In addition, Fannie Mae and Freddie Mac will be relieved of the requirement to make any dividend payments on the preferred stock owned by the U.S. Treasury under the Senior Preferred Stock Purchase Agreement, but now will be required to pay the U.S. Treasury 100% of any profits generated by either Fannie Mae or Freddie Mac. However, as of the date of this Prospectus, the U.S. Congress has been unable to pass a bill to complete the

wind-down of FNMA and FHLMC. This despite remarks in 2018 by the Secretary of the Treasury, Steven Mnuchin, stating that it is the commitment of the administration of Donald J. Trump to complete the wind-down of the government's control of FNMA and FHLMC.

Commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary-market issuers also create pass-through pools of conventional residential mortgage loans. Such issuers may be the originators and/or servicers of the underlying mortgage loans as well as the guarantors of the mortgage-related securities. Pools created by such non-governmental issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or agency guarantees of payments in the former pools. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit, which may be issued by governmental entities or private insurers. Such insurance and guarantees and the creditworthiness of the issuers thereof will be considered in determining whether a mortgage-related security meets the Fund's investment quality standards. There can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. The Fund may buy mortgage-related securities without insurance or guarantees if, through an examination of the loan experience and practices of the originators/servicers and poolers, the Investment Adviser determines that the securities meet the Fund's quality standards. Securities issued by certain private organizations may not be readily marketable.

PAC Bonds are a particular type of mortgage-backed security designed to provide relatively predictable payments of principal provided that, among other things, the actual prepayment experience on the underlying mortgage loans falls within a contemplated range. If the actual prepayment experience on the underlying mortgage loans is at a rate faster or slower than the contemplated range, or if deviations from other assumptions occur, principal payments on a PAC Bond may be greater or smaller than predicted. The magnitude of the contemplated range varies from one PAC Bond to another; a narrower range increases the risk that prepayments will be greater or smaller than contemplated.

*Tax Considerations.* The Fund intends to operate in a manner that will cause it to be exempt from Puerto Rico income taxes. As a corporation not engaged in a trade or business in the United States, the Fund will be subject to U.S. federal income tax of 10% on U.S. source dividends and 30% on certain other items of income derived from sources within the United States. If the Fund operates in such a manner that it is found to be engaged in a trade or business in the United States, it will be subject to full U.S. federal income tax on its net income connected to such U.S. trade or business. See "Tax Matters."

The Shares of the Fund are intended to be issued to individuals who are bona fide residents of Puerto Rico. If any individual has not been a bona fide resident of Puerto Rico during the entire taxable year in which such individual held the Shares of the Fund, such individual may be subject to (i) U.S. federal income tax on all or a portion of the dividends received from the Fund, and (ii) the deferred tax rules applicable to Passive Foreign Investment Companies discussed herein. Also, an individual who owns, directly or indirectly, more than 10% of the total Shares of the Fund may be subject to United States income taxation on dividends received from the Fund. See "Tax Matters."

*Market Disruption and Geopolitical Risk.* The aftermath of the wars in Iraq and Afghanistan, instability in the Middle East and terrorist attacks around the world may have a substantial impact on the U.S. and world economies and securities markets. In the past, terrorist attacks have closed some of the U.S. securities markets and similar events cannot be ruled out in the future. The wars and occupations, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. These risks may affect adversely individual issuers and securities markets, interest rates, secondary trading, investor psychology, inflation and other factors relating to the Shares.

The financial crisis in the U.S. and global economies over the past several years, including the European sovereign-debt crisis, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign. Liquidity in some markets has decreased and credit has become scarcer worldwide. Regulatory changes, including the Dodd-Frank Act and the introduction of new international capital and liquidity requirements under Basel III, may cause lending activity within the financial services sector to



be constrained for several years as Basel III rules phase in and rules and regulations are promulgated and interpreted under the Dodd-Frank Act. These market conditions may continue or deteriorate further and may add significantly to the risk of short-term volatility in the Fund. In response to the crisis, the U.S. and other governments and the Federal Reserve and certain foreign central banks have taken steps to support financial markets. Withdrawal of this support, failure of efforts in response to the crisis, or investor perception that such efforts are not succeeding, could adversely impact the value and liquidity of certain securities. Because the situation is widespread and largely unprecedented, it may be unusually difficult to identify both risks and opportunities using past models of the interplay of market forces, or to predict the duration of these market conditions. The severity or duration of these conditions also may be affected by policy changes made by governments or quasi-governmental organizations. Changes in market conditions will not have the same impact on all types of securities.

In addition, since 2010, the risks of investing in certain foreign government debt have increased dramatically as a result of the ongoing European debt crisis, which commenced in Greece and has begun to spread throughout various other European countries. The Greek debt crisis has since deepened as Greece effectively entered into default in June 2015 by not making a \$1.8 billion debt payment to the International Monetary Fund. Greece has received a series of loans, the last of which was disbursed in August 2018, from the European Union as part of a bailout program intended to solve the Greek debt crisis. In addition, in a referendum held on June 23, 2016, the electorate of the United Kingdom resolved to leave the European Union which has resulted in political instability, economic uncertainty and volatility in the financial markets of the United Kingdom and across Europe. The longer term process to implement the political, economic and legal framework between the UK and the EU is likely to lead to continuing uncertainty and periods of exacerbated volatility in both the UK and in wider European markets. In particular, the decision made in the British referendum may lead to a call for similar referendums in other European jurisdictions which may also cause increased economic volatility in wider European and global markets. While it is impossible to predict the effects of these or similar events in the future on the Fund, it is possible that these or similar events could have a significant adverse impact on the value and risk profile of the Fund.

In the United States, on August 5, 2011, S&P lowered its long-term sovereign credit rating on the U.S. federal government debt to “AA+” from “AAA.” In addition, each of Moody’s and Fitch currently have the long-term sovereign credit rating on the U.S. federal government debt on negative watch from its respective “Aaa” and “AAA” ratings. Fitch revised its negative watch on the long-term sovereign credit rating of the U.S. to “stable” on March 21, 2014. The downgrade by S&P, and potential future downgrades by Moody’s and Fitch, could increase volatility in both stock and bond markets, result in higher interest rates and higher Treasury yields and increase the costs of all kinds of debt. In addition, global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region.

*Certain Risk Factors and Special Considerations Associated with the Foreign Account Tax Compliance Act.* On March 18, 2010, the U.S. Congress adopted the Foreign Account Tax Compliance Act (commonly known as “FATCA”) to amend the U.S. Code to, among other things, impose a 30% withholding tax at the source upon most payments of U.S. source income and gross proceeds from the disposition of property that can produce U.S. source dividends or interest made to certain “foreign financial institutions” (“FFI”) or “non-financial foreign entities” (“NFFE”), unless certain certification and reporting requirements are satisfied by such entities, including providing information with respect to its respective investors. In the case of most payments of U.S. source income, the 30% withholding will apply to payments made after June 30, 2014, and in the case of gross proceeds from the disposition of property that can produce U.S. source dividends or interest, to payments made after December 31, 2016. Pursuant to the final regulations issued by the U.S. Treasury and the IRS relating to FATCA, the Fund will be treated as a NFFE. Accordingly, the Fund will be required to provide to the payors of such U.S. source income (except with respect to certain grandfathered obligations) certain information with respect to its investors, and the payors, in turn, would be required to disclose such information to the IRS. If the Fund were to be unable to provide such investor information to its payors or otherwise fail or be unable to comply with the legal and regulatory requirements of the U.S. Code with respect to FATCA, the Fund’s U.S. source income may be reduced, inasmuch as it would be subject to such 30% withholding tax at the source. This reduction may negatively affect the Fund’s ability to fulfill its obligations. See “Tax Matters – United States Taxation of the Fund” beginning on page 52 of this prospectus.

*Valuation of Fund Assets; Illiquid Securities.* The Fund's administrator may, from time to time, find it difficult to determine accurately the value of certain assets of the Fund. There may be no dealers (other than Popular Securities) making a market in the Puerto Rico securities owned by the Fund, and dealers (other than Popular Securities) making a market in these securities may not be willing to provide quotations on a regular basis for those securities to the administrator. Therefore, it may be particularly difficult to value Puerto Rico securities for which there is a limited number of dealers making a market. There is no limitation on the Fund's ability to invest in illiquid securities. The Fund also may continue to hold without limitation securities that become illiquid subsequent to the Fund's investment in them. Illiquid Puerto Rico securities may include securities specifically structured by affiliates of the Fund or others as an investment for the Fund. The Fund may not be able to dispose readily of illiquid securities at an amount that approximates that at which the Fund has valued them, and might have to sell other investments if necessary to raise cash to meet its obligations. Moreover, depending on the level of the Fund's investments in illiquid securities, the Fund may be unable to meet those obligations, which could have additional adverse consequences to the Fund and its shareholders. The Fund does not intend to invest in illiquid securities other than Puerto Rico securities.

## **THE FUND**

### **General**

The Fund is a non-diversified, open-end investment company. The Fund was incorporated under the laws of Puerto Rico on May 21, 2007 and commenced operations on June 27, 2007. The Fund is registered under the Puerto Rico Investment Companies Act, as amended (the "Puerto Rico Investment Companies Act"). The Fund's principal office is located at the Fourth Floor, North Building, 208 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918, and its telephone number is (787) 754-4488. The Fund provides investors with a high level of current income consistent with the tax advantages provided by Puerto Rico investment companies. Additional information regarding the Fund is on file with the Office of the Commissioner of Financial Institutions of Puerto Rico (the "Commissioner").

The initial authorized capital of the Fund is 5,000,000,020 shares of capital stock, of which 4,000,000,020 shares shall be shares of common stock with par value of one cent (\$0.01) per share, and 1,000,000,000 shares shall be shares of preferred stock with a par value of one cent (\$0.01) per share. The shares of common stock are divided into four classes, Class A which has 2,000,000,000 authorized shares, Class C which has 1,800,000,000 authorized shares, Advisor Class Shares which has 200,000,000 authorized shares, those three classes are the only class of common stock being offered to the public, and Class Q non-redeemable shares (20 shares authorized) which are sold exclusively to directors of the Fund that are residents of Puerto Rico and will only be entitled to vote if the Fund does not have any Class A Shares, Class C Shares or Advisor Class Shares outstanding. It is expected that the number of authorized shares of the Fund will increase as needed to satisfy demand therefore. Any such increase will require the prior approval of the shareholders of the Fund.

The Fund is intended to be a long-term investment vehicle. It is not designed to provide investors with a means of speculating on short-term fluctuations in financial markets.

To the extent required by Puerto Rico law, the Fund will hold annual shareholder meetings. Directors of the Fund may be removed only with cause and upon the vote of not less than 75% of the issued and outstanding shares of common stock of the Fund cast in person or by proxy at any annual meeting of the shareholders or at any special meeting called by the President or a majority of the Board of Directors of the Fund as required by the Fund's By-laws.

Claims by shareholders against the Fund, its directors or officers will be subject to the jurisdiction of the courts of the Commonwealth of Puerto Rico and the United States, as applicable, and therefore arbitration proceedings will not be the sole forum to resolve claims or disputes.

## LIMITATION ON OFFERING AND TRANSFER OF SHARES

The Shares of the Fund offered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the “1933 Act”), or the securities laws of any State, and the Fund has not been registered under the U.S. Investment Company Act of 1940, as amended (“1940 Act”). The Shares are being offered and only may be sold, pledged, hypothecated or otherwise transferred to individuals whose principal residence is in Puerto Rico, or to corporations and other business organizations whose principal office and place of business are in Puerto Rico. Prior to the initial sale of Shares, each offeree and transferee will be required to represent to the Fund and the Distributor, or any other agent, participating in the distribution of the Shares, in writing, that the above conditions are satisfied. Shareholders will be required to execute the applicable form of representation letter or such other representation letter or document as may be acceptable to the Fund and the Distributor that currently must be executed by shareholders. Shareholders of the Fund that cease to be residents of Puerto Rico have an obligation to immediately notify the Distributor or other agent through which they hold the shares of the change in their residency and to liquidate their investment in the Shares as soon as practicable, and to refrain from purchasing any additional Shares, including through the Fund’s dividend reinvestment plan. The Fund may redeem Shares of any shareholder that ceases to meet the above residency requirements and does not comply with his obligation to redeem his Shares. The Fund and the Distributor reserve the right to change the form of representation letter or the procedures required to ensure the availability of the exemptions from the federal securities laws. See “Mandatory Redemption of Shares.”

## INVESTMENT OBJECTIVE AND POLICIES

### Investment Objective

The Fund’s investment objective is to provide shareholders with a high level of current income, consistent with the tax advantages provided by Puerto Rico investment companies. The Fund will pursue its objective by investing at least 67% of the Fund’s total assets in Puerto Rico Assets (as defined below) (the “67% investment requirement”). The Fund will also invest up to 33% of its total assets in U.S. debt and other fixed-income obligations (as defined below). The Fund intends to enter into credit default swaps (“CDS”) in order to obtain exposure to the United States corporate debt market. The aggregate market value of CDSs outstanding at any time may not exceed 10% of the Fund’s total assets.

The Fund’s investment objective and fundamental policies may not be changed without the vote of a majority of the Fund’s outstanding shares of common stock and the consent of the Commissioner. All other investment policies and limitations, however, subject to applicable Puerto Rico law, may be changed by the Board of Directors of the Fund without the approval of either the Fund’s shareholders or the Commissioner.

### Payment of Dividends

As a fundamental policy, the Fund will distribute substantially all of its net investment income to common stockholders in the form of monthly dividends, after the payment of interest on debt securities or dividends on preferred stock. See “Dividends and Automatic Reinvestment.”

### Principal Investment Strategies

The Fund seeks to achieve its investment objectives by investing in a non-diversified portfolio consisting of two general asset classes:

*Obligations of Puerto Rico issuers (“Puerto Rico Assets”), consisting of the following securities:*

- Debt securities issued or guaranteed by the Commonwealth of Puerto Rico and its political subdivisions, agencies, public corporations or instrumentalities (the “Puerto Rico Government Obligations”);

- Mortgage-backed securities backed by mortgage loans on real property located in Puerto Rico, such as GNMA, FNMA and FHLMC mortgage-backed securities, and CMOs secured by Puerto Rico mortgages;
- Debt securities, including corporate bonds and notes, issued or guaranteed by corporations, partnerships or other entities organized under the laws of Puerto Rico, which are actively engaged in business in Puerto Rico or, if organized under the laws of another jurisdiction, derive at least 80% of their gross income from Puerto Rico sources (“Puerto Rico Entities”);
- Asset-backed securities backed by assets located in Puerto Rico;
- Non-convertible preferred stock issued by Puerto Rico Entities;
- Repurchase agreements with Puerto Rico Entities;
- Equity and debt securities of other Puerto Rico investment companies, subject to the limits described below;
- Debt securities issued or guaranteed by the Commonwealth of Puerto Rico and its political subdivisions, agencies, public corporations or instrumentalities (“Puerto Rico Government Obligations”);
- Deposit accounts with Puerto Rico banking institutions; and
- Any other taxable or tax-exempt security issued by Puerto Rico Entities as exist now or may exist in the future, consistent with the Fund’s investment objective and policies and which constitute Puerto Rico assets for purposes of the Puerto Rico Investment Companies Act.

*Obligations of issuers located in the United States and its territories and possessions (“Non-Puerto Rico Assets”), consisting principally of the following securities:*

- Debt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities as well as entities sponsored by governmental entities, including the Federal Home Loan Bank, Farm Credit Bank, FNMA and FHLMC (“US Government Obligations”) or by any state, territory or possession of the United States of America or any political subdivision of such state;
- Mortgage-backed securities backed by mortgage loans on real property located in any state, territory or possession of the United States such as GNMA, FNMA, and FHLMC mortgage-backed securities, and CMOs;
- Debt securities issued or guaranteed by U.S. private entities, including corporate bonds and notes;
- Non-convertible preferred stock issued by U.S. entities; and
- Any other taxable or tax-exempt securities issued by U.S. issuers as exist now or may exist in the future, consistent with the Fund’s investment objectives and policies.

The Fund intends to invest at least 95% of its securities portfolio in fixed-income securities that, at the time of purchase, are rated within the four highest rating categories of Standard & Poor’s Rating Services, a Division of The McGraw Hill Companies, Inc., Moody’s Investors Service, Inc., Fitch, Inc. or any other nationally recognized statistical rating agency, or, if unrated, which are considered to be of comparable credit quality by the investment adviser. The Fund’s investment adviser is under no obligation to sell portfolio securities that are downgraded after the securities are purchased by the Fund. If a portfolio security is downgraded, the investment adviser will consider

factors such as price, credit, risk, market conditions, the financial condition of the issuer and prevailing and anticipated interest rates in determining whether to sell or hold the security as a portfolio investment.

The Fund may invest up to 5% of its securities portfolio in securities which are rated below investment grade or unrated. Obligations rated below investment grade are speculative with respect to the capacity of the issuer to pay interest and repay principal in accordance with the terms of the obligation and generally involve greater volatility of price than obligations in higher rating categories. See Appendix C - "Ratings of Municipal Obligations and Debt Securities."

The Fund may invest in securities having a wide range of maturities. The average maturity of the Fund's portfolio securities will vary based upon the investment adviser's assessment of economic and market conditions. The net asset value of the shares of common stock of an investment company, such as the Fund, which invests primarily in fixed-income securities, changes as the general levels of interest rates fluctuate. When interest rates decline, the value of a fixed-income portfolio can be expected to rise. Conversely, when interest rates rise, the value of a fixed-income portfolio can be expected to decline. Prices of longer-term securities generally fluctuate more in response to interest rate changes than do short-term or medium-term securities. These changes in net asset value per Share are likely to be greater in the case of a fund having a leveraged capital structure, as proposed for the Fund. See "Risk Factors - Interest Rate Risk" and "Risks and Special Considerations of Leverage."

*Credit Default Swaps.* The Fund intends to enter into CDSs as long as the aggregate market value of the CDSs does not exceed 10% of the Fund's total assets. CDSs are an efficient way to provide Puerto Rico investors with exposure to the United States corporate debt market. A CDS is an agreement between two parties to exchange the credit risk of an issuer. A buyer of a CDS is said to buy protection by paying periodic fees in return for a contingent payment from the seller if the issuer has a credit event, such as bankruptcy, a failure to pay outstanding obligations or deteriorating credit, while the swap is outstanding. A seller of a CDS is said to sell protection and thus collects the periodic fees and profits if the credit of the issuer remains stable or improves while the swap is outstanding. The seller in a CDS contract, however, would be required to pay an agreed-upon amount, which approximates the notional amount of the swap, to the buyer in the event of an adverse credit event of the issuer. The Fund will act as a net seller of credit default risks and receive the periodic fees in exchange for taking the contingent credit risk. Although the Fund may act sometimes as a buyer of credit default risk for hedging or risk management purposes, the Fund's aggregate exposure to the credit default market will be as a seller of credit default risk.

In accordance with United States generally accepted accounting principles, as currently in effect from time to time, the Fund will accrue the periodic fees on CDSs on a daily basis with the net amount accrued recorded within unrealized appreciation/depreciation of swap contracts. Upon cash settlement of the periodic fees, the net amount will be recorded as realized gain/loss on CDSs on its Statement of Operations. Net unrealized gains will be recorded as an asset and net unrealized losses will be reported as a liability on the Statement of Assets and Liabilities. The change in value of the swaps is accrued daily and reported as unrealized gains or losses on the Statement of Operations. However, for purposes of dividend distributions the Fund's periodic swap payments are included in net investment income. The International Swap and Derivatives Association ("ISDA") has produced standardized documentation for these transactions under the umbrella of the ISDA Master Agreement.

CDSs may involve additional risks than if the Fund invested in the debt obligations of an issuer directly. CDS are subject to liquidity and counterparty risk in addition to credit risk of the underlying issuer. If there is a default by the counterparty to the CDS, the Fund will have contractual remedies pursuant to the agreement related to the transaction. The Fund intends to implement strict procedures to control counterparty risks by entering into CDSs only with counterparties that meet certain standards of creditworthiness.

The Fund will generally seek to invest in CDSs involving an index or a basket of a broad number of issuers. Although the Fund may enter into any of the aforementioned CDSs, initially, the Fund intends to enter into CDSs based on the Dow Jones CDX Index for North America, known as the Dow Jones CDX.NA.IG Index (the "IG Index"), which has varying maturities ranging from one year to ten years. The IG Index is composed of 125 investment grade entities domiciled in North America, distributed among five sub-sectors. Each IG Index series will begin on September 20 (or the next business day in the event that September 20 is not a business day) and March 20 (or the next business day in the event that March 20 is not a business day) of each calendar year (each such date a "Roll Date"); provided that if a majority of index participants vote to change the Roll Date, the Roll Date shall be

the day designated by such majority. The removal of names from a current IG Index and the determination of the IG Index will be administered by the administrator of the index based upon the rules and procedures of the index.

The Fund may also enter into CDSs based on subsets or tranches of an index or a basket of a broad number of issuers. A CDS tranche provides exposure to the risk of a particular amount of loss on a portfolio of companies. In the IG Index, there are currently six tranches. The 0-3% tranche, known as the equity tranche, absorbs the first 3% of losses on the index due to credit events. The 3-7% tranche, known as a mezzanine tranche, incurs the following 4% of losses on the index. Further losses are absorbed by the 7-10%, 10-15%, 15-30% and 30-100% tranches. In addition to selling credit protection by investing in CDSs of indices, basket of companies or tranches, the Fund may buy credit protection on single name Credit Default Swaps as a means to manage risk.

The liquidity risks associated with CDSs are reduced by entering into contracts involving a well-known index such as the IG Index. There is a very large and liquid market for CDSs based on indices with most major brokerage houses trading this or similar instruments.

*Tax Strategy.* The Fund intends to invest its assets primarily in securities the income on which is subject to taxation for Puerto Rico income tax purposes. As a result, shareholders should be aware that dividends to common shareholders will generally be taxable. However, the Fund may invest a portion of its assets in tax-exempt securities to the extent the Fund's investment adviser determines that the return on such investments when combined with the return on the other investments of the Fund will result in attractive after-tax returns to shareholders. Accordingly, a portion of the dividends and distributions of the Fund may be tax-exempt to common shareholders. The Fund will provide shareholders with information on an annual basis detailing what portion of the dividends or other distribution paid by the Fund are taxable and tax-exempt.

*Leverage.* As a fundamental policy, the Fund may not issue debt securities or borrow money from banks or other financial institutions (including borrowings through dollar rolls and reverse repurchase agreements) or issue shares of preferred stock, in excess of 50% of the Fund's total assets (including the amount of borrowings and debt securities and preferred stock issued, but reduced by any liabilities and indebtedness not constituting borrowings or debt securities), except that the Fund may borrow up to an additional 5% of its total assets (after giving effect to the amount borrowed) from banks or other financial institutions in order to meet redemption requests that might otherwise require the untimely disposition of portfolio securities, for other cash management purposes, to repay or redeem debt securities or preferred stock issued by the Fund and for other temporary, emergency or defensive purposes.

*Hedging Strategies and Derivative Instruments.* At times the Fund may seek to hedge its portfolio, reduce its borrowing costs, or enhance portfolio returns or otherwise protect itself from interest rate risk through the use of hedging strategies and derivative instruments such as futures transactions, swaps and options. In the past, the Fund has used hedging strategies and derivatives instruments to protect itself from interest rate risk. The use by the Fund of hedging strategies and derivatives instruments entails certain specific risks that are more fully described under "Risk Factors – Risks of Hedging Strategies and Derivative Instruments." For example, if the Fund incorrectly forecasts market values, interest rates or other factors in connection with the use of hedging strategies or derivative instruments, the Fund's performance could suffer. The Fund also may suffer a loss in connection with the use of hedging strategies or derivative instruments if the other party to the transaction fails to meet its obligations. The types of derivative instruments in which the Fund may invest are described in more detail in Appendix B to the Fund's prospectus.

## **Regulatory Investment Requirements**

The determination of the value of the Fund's total assets, for purposes of determining whether the Fund is complying with the 67% investment requirement, will be based on the valuation of the Fund's assets to be made daily by the Fund's administrator, Banco Popular or any duly appointed sub-administrator, with the assistance of the Investment Adviser. For this purpose, the market value of the Fund's total assets will be determined as follows: (i) in the case of assets traded on a national exchange, the market value established by the particular exchange; (ii) in the case of U.S. fixed-income obligations, based on the market value reported by any nationally recognized pricing service company or on the value provided by a broker-dealer that makes a market for such security; and (iii) in the case of U.S. fixed-income obligations whose value cannot be determined pursuant to (ii) and in the case of all other

assets, as determined by the Fund's administrator with the assistance of the investment adviser based on publicly available information, quotes from market makers, or as otherwise determined by the Board of Directors of the Fund.

The Fund will not be required to comply with the 67% investment requirement (i) during a period of up to 30 days, but not more than twice in a year, if the Fund has defensive or strategic reasons for not complying with this investment requirement, such as strategies designed to protect the Fund's assets from fluctuations in interest rates or market conditions that could adversely affect the Fund's net asset value per Share, (ii) during one period of a maximum of 30 days in a year, upon a proven scarcity of Puerto Rico fixed-income securities or of a market disruption, or (iii) otherwise, for such longer periods as approved by the Commissioner. For these purposes, the term "proven scarcity" means the unavailability of Puerto Rico fixed-income securities or their availability at a price unreasonably above their fair market value or at maturities or interest rates inconsistent with the Fund's investment objective, as determined by the investment adviser of the Fund.

The appreciation in value of one type of asset held by the Fund such as Non-Puerto Rico Assets may be greater than that of another type of asset such as Puerto Rico Assets. Accordingly, from time to time, the composition of the Fund's assets based on current market values, may not reflect the initial allocation of the assets in compliance with the investment requirements of the Puerto Rico Investment Companies Act. The Office of the Commissioner has issued an administrative determination to the Fund and the Investment Adviser to the effect that if the market value of the Fund's Puerto Rico Assets were to constitute less than 67% of the market value of the Fund's total assets, the Fund will not be required to liquidate or sell portfolio securities to meet the 67% investment requirement of the Puerto Rico Investment Companies Act. Instead, the Fund may comply with this requirement by investing the proceeds from the sale of new shares in Puerto Rico Assets until the 67% investment requirement is met.

#### **Other Investment Restrictions**

The Fund has adopted the following investment restrictions for the protection of its shareholders. Such restrictions are not considered fundamental investment policies and may be changed by the Fund's Board of Directors at any time, subject to any applicable requirements or limitations under the Puerto Rico Investment Companies Act, the rules, regulations and orders promulgated thereunder and the rulings issued to the Fund by the Commissioner. In accordance with these restrictions, the Fund will not:

- make investments for the purpose of exercising control or management over any entity;
- invest more than 25% of its assets (taken at market value at the time of each investment), in the securities of any particular issuer provided this restriction shall not apply to: (1) US Government Obligations, (2) mortgage-backed securities (whether or not issued or guaranteed by any agency or instrumentality of the U.S. Government), or (3) municipal securities, including securities issued by any state, commonwealth or territory of the United States of America or any political subdivision thereof, that are not considered to be part of any industry, except those backed only by the assets or revenues of a non-government entity;
- purchase or sell real estate, except that, to the extent permitted by applicable law, the Fund may invest in securities directly or indirectly secured by real estate or interests therein (including Puerto Rico GNMA's) or issued by companies which invest in real estate or interests therein, including real estate investment trusts, shall not be "U.S. real property interests" within the meaning of Section 897 of the U.S. Internal Revenue Code of 1986, as amended;
- make loans to other persons, provided that this restriction shall not be deemed to apply to the purchase of debt securities in which the Fund may otherwise invest, to repurchase agreements or to loans of its portfolio securities, entered into in accordance with applicable law and guidelines set forth in the Fund's prospectus, as it may be amended from time to time;
- underwrite securities of other issuers, except insofar as the Fund technically may be deemed an underwriter under the 1933 Act or the Puerto Rico Uniform Securities Act in disposing of its portfolio securities;

- purchase any securities issued by the Investment Adviser or its affiliates, including Popular, Inc., Banco Popular, Popular Securities, Popular Mortgage or their affiliates, or any successor thereto; provided that the Fund may purchase securities of such affiliated entities in accordance with the conflict of interest provisions adopted by the Fund's Board of Directors in an amount not to exceed 5% of the market value of the Fund's total assets (after giving effect to such purchase) and provided further that deposit accounts or shares in a money market fund that is sponsored or administered by Banco Popular or any affiliate thereof and mortgage-backed securities for which Popular Mortgage or any other affiliate acts as seller or servicer will not be deemed securities of an affiliate for purposes of these restrictions;
- purchase or sell commodities or contracts on commodities, except to the extent the Fund may do so in accordance with applicable law and the Fund's prospectus, as it may be amended from time to time, and without registering as a commodity pool operator under the U.S. Commodity Exchange Act;
- make short sales of securities or maintain a short position except to the extent permitted by applicable law (the Fund currently does not intend to engage in short sales, except short sales "against the box"); and
- purchase the securities of any one issuer if after such purchase it would own more than 75% of the voting securities of the issuer.

If any percentage restriction described above is complied with at the time of the investment, a later increase or decrease in percentage resulting from a change in value of assets will not constitute a violation of such restriction.

Act 93-2013, as amended provides that the Puerto Investment Companies Act, as defined herein, shall continue to apply to such investment companies (like the Fund) registered under such Act; provided that, any such investment companies (including the Fund) shall be subject to certain provisions of Act 93-2013. Some of these provisions prohibit an investment company to (i) knowingly purchase, during the period of any sales or guaranty syndicate, any security (other than a security issued by such investment company) whose underwriter is an officer, director, member of its advisory board, investment adviser or employee of such investment company or an affiliate of any such persons, unless the investment company is underwriting such security or such transactions are made in compliance with related party transactions policies and procedures adopted by the Board and filed with the Office of the Commissioner; and (ii) purchase securities offered as part of an initial public offering if the investment adviser of the investment company is a related party of an entity that the issuer has contracted to offer financial advisory services in connection with such offering of securities, provided that, an underwriter contracted by an issuer shall not be deemed to be offering financial advisory services solely based on the fact that it is providing underwriting services to the issuer.

### **Other Investment Policies and Practices**

The Fund has adopted certain other investment policies and practices described below. If the Fund issues commercial paper or other debt securities or if the Fund issues shares of preferred stock and seeks to obtain a rating on such securities, any nationally recognized securities rating organization issuing such rating, as a condition thereof, may impose asset coverage or other requirements, which may restrict the Fund's ability to engage in certain of the following investment practices.

*Borrowings.* As a form of leverage, the Fund is authorized to borrow money from individual investors, banks or other financial institutions in an aggregate amount (with all other forms of leverage) of up to 50% of the value of its total assets at the time of such borrowings; provided, further, that the Fund is authorized to borrow additional money from banks or other financial institutions in an amount of up to 5% of the value of its total assets (after giving effect to the amount borrowed) in order to redeem shares, for other cash management purposes, to repay or redeem commercial paper, debt securities and/or shares of preferred stock or for other temporary, extraordinary or emergency purposes. Borrowing by the Fund creates an opportunity for greater total return since the Fund will not be required to sell portfolio securities to meet redemption requests but, at the same time, increases exposure to capital risk. In addition, borrowed funds are subject to interest costs that may offset or exceed the return earned on the borrowed funds. The Board of Directors of the Fund may modify (subject to the approval of the Commissioner, if required) the Fund's policies with respect to borrowings, including the percentage limitations, the



purpose of the borrowings and the length of time that portfolio securities purchased with borrowed money may be held by the Fund. Management of the Fund has no current intention of requesting any such modifications. See “Risks and Special Considerations of Leverage.”

*When-Issued Securities and Delayed Delivery Transactions.* The Fund may purchase or sell securities on a delayed delivery basis or on a when-issued basis at fixed purchase or sale terms. These transactions arise when securities are purchased or sold by the Fund with payment and delivery taking place in the future. The purchase will be recorded on the date the Fund enters into the commitment, and the value of the obligation thereafter will be reflected in the calculation of the Fund’s net asset value per Share. The value of the obligation on the delivery day may be more or less than its purchase price. A segregated account of the Fund will be established with the custodian consisting of cash, cash equivalents or high grade liquid debt securities having a market value at all times at least equal to the amount of the commitment.

*Reverse Repurchase Agreements and Dollar Rolls.* The Fund may enter into reverse repurchase agreements as a way of borrowing money for leverage or other permitted purposes. Under a reverse repurchase agreement, the Fund sells securities and agrees to repurchase them at a mutually agreed upon date and price. Reverse repurchase agreements involve the risk that the market value of the securities purchased by the Fund with the proceeds of reverse repurchase agreements may decline below the price of the securities the Fund has sold but is obligated to repurchase. The market value of securities sold under reverse repurchase agreements typically is greater than the proceeds of the sale, and accordingly, the market value of the securities sold is likely to be greater than the value of the securities in which the Fund invests those proceeds. Thus, reverse repurchase agreements involve the risk that the buyer of the securities sold by the Fund might be unable to deliver them when the Fund seeks to repurchase. In the event that the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Fund’s obligation to repurchase the securities. Also, the Fund would bear the risk of loss to the extent that the proceeds of the reverse repurchase agreement are less than the value of the securities subject to such agreement.

The Fund may also enter into dollar rolls. A dollar roll is a transaction in which the Fund sells mortgage-backed or other securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. During the roll period, the Fund forgoes principal and interest paid on the mortgage-backed securities. The Fund is compensated by the difference between the current sales price and the lower forward price for the future purchase (often referred to as the “drop”), as well as by the interest earned on the cash proceeds of the initial sale.

Dollar rolls and reverse repurchase agreements generally will be considered to be leverage and, accordingly, will be subject to the Fund’s limitations on leverage, which will restrict the aggregate of such transactions, together with the Fund’s issuance of commercial paper or other debt securities, its borrowing of money from banks or other financial institutions and/or the Fund’s issuance of shares of preferred stock to 50% of the Fund’s total assets. See “Risks and Special Considerations of Leverage.” However, dollar rolls and reverse repurchase agreements will not be subject to such limitation if at the time the Fund enters into a dollar roll or a reverse repurchase agreement the Investment Adviser certifies that such agreement has been entered into to finance the redemption of Shares or for other cash management or emergency purposes.

It is anticipated that the Fund may enter into dollar rolls or reverse repurchase agreements with Banco Popular or one of its affiliates, including Popular Securities or Popular Mortgage. Such transactions will be subject to procedures adopted by the Board of Directors of the Fund and particularly, by the independent Directors, in an effort to address potential conflicts of interest that may arise from such transactions. See “Portfolio Transactions—Transactions Involving Affiliates.”

*Call Rights.* The Fund may purchase a fixed-income obligation issuer’s right to call all or a portion of such security for mandatory tender for purchase (a “call right”). A holder of a call right may exercise such right to require a mandatory tender for the purchase of related fixed-income securities, subject to certain conditions. A call right that is not exercised prior to the maturity of the related security will expire without value. The economic effect of holding both a call right and the related security is identical to holding a security as a non-callable security.

*Repurchase Agreements.* The Fund may invest in securities pursuant to repurchase agreements which, for purposes of this prospectus, are transactions in which the Fund purchases securities from a bank or other financial institution or a recognized securities dealer (the “counterparty”), and simultaneously commits to resell the securities to the counterparty at an agreed-upon date and price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased securities, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period. The prices at which the trades are conducted do not reflect the accrued interest on the underlying obligations. As a purchaser, the Fund will require the seller to provide additional securities if the market value of the purchased securities falls below the repurchase price at any time during the term of the repurchase agreement. Repurchase agreements may be entered into only with a member bank of the U.S. Federal Reserve System, any bank holding company registered under the Bank Holding Company Act of 1956, or a primary dealer in U.S. Government obligations, or an affiliate thereof. In addition, each repurchase agreement must be collateralized at least at 102% with U.S. Government or other appropriate liquid high grade securities, held at a third-party custodian, and marked-to-market daily.

In the event of default by the seller under a repurchase agreement, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the purchased securities. In the event of a default, instead of the contractual fixed rate of return, the rate of return to the Fund shall be dependent upon intervening fluctuations of the market values of such securities and the accrued interest on the securities. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses resulting from market fluctuations following the failure of the seller to perform.

It is anticipated that the Fund may enter into repurchase agreements with Banco Popular or one of its affiliates, including Popular Securities, and with other mutual funds that are managed by Banco Popular. Such transactions will be subject to procedures adopted by the Board of Directors of the Fund and, particularly, by the independent Directors, in an effort to address potential conflicts of interest that may arise from such transactions.

*Swaps, Options and Futures Transactions.* The Fund is authorized to engage in various portfolio strategies to hedge its portfolio against adverse movements in the financial markets, reduce its borrowing costs or enhance portfolio returns. These transactions which may include interest rate swap agreements and writing (i.e. selling) covered put and call options on its portfolio securities, purchasing put and call options on securities and engaging in transactions in financial futures and related options on such futures are considered to be investments in derivatives. The Fund will not enter into financial futures contracts or options thereon unless it qualifies for an exclusion, exemption or comparable relief from applicable registration requirements contained in regulations issued by the U.S. Commodities Futures Trading Commission.

Each of these portfolio strategies is described in more detail in Appendix B to this prospectus. While the Fund’s use of hedging strategies is intended to reduce the volatility of the net asset value of its shares and to protect its expected income from portfolio investments from sharp increases in borrowing costs, the net asset value of Fund shares as well as its income stream will fluctuate.

There can be no assurance that the Fund’s hedging transactions will be effective. Suitable hedging instruments may not be available with respect to certain securities in which the Fund invests on a timely basis and on acceptable terms. Furthermore, the Fund may only engage in hedging activities from time to time and may not necessarily engage in hedging transactions when movements in the debt markets occur.

## **RISKS AND SPECIAL CONSIDERATIONS OF LEVERAGE**

### **Effects of Leverage**

The Fund intends to leverage the Shares by borrowing money from individual investors, banks or other financial institutions in Puerto Rico, entering into reverse repurchase agreement and/or dollar rolls, offering commercial paper, medium-term notes or other debt securities and/or issuing shares of preferred stock. Such methods of leverage, taken together, may represent in the aggregate up to 50% of the Fund’s total assets immediately after the issuance of such securities. There can be no assurance, however, that leverage representing such percentage of the Fund’s capital actually will be used. If the Fund is unable to sell commercial paper or issue debt securities or preferred stock or enter into other leverage transactions, the Fund will not have the additional

proceeds to invest in order to provide holders of common stock with a potentially higher yield. Issuance and ongoing expenses of leverage will be borne by the Fund and will reduce the net asset value of the common stock. Because, under normal market conditions, obligations with longer maturities produce higher yields than short-term and medium-term obligations, the Investment Adviser believes that the spread inherent in the difference between the short-term and medium-term rates paid by the Fund in the course of leveraging and the longer-term rates received by the Fund from securities purchased with the proceeds of such leveraging will provide holders of common stock with a potentially higher yield.

Utilization of leverage involves certain risks to the holders of the Shares. For example, the use of leverage may result in higher volatility of the net asset value of the Shares. So long as the Fund, taking into account the costs associated with leverage and the Fund's operating expenses, is able to realize a higher net return on its investment portfolio than the then current interest or dividend rate it pays as a result of leveraging, the effect of leverage will be to make available more funds that can be distributed as dividends to common shareholders. Similarly, since a pro-rata portion of the Fund's net realized capital gains on its investment assets may be paid to holders of common stock, if net capital gains are realized by the Fund, the effect of leverage will be to increase the amount of such gains distributed to holders of Shares. However, short-term, medium-term and long-term interest rates change from time to time as does their relationship to each other (i.e., the slope of the yield curve) depending upon such factors as supply and demand forces, monetary and tax policies and investor expectations. Changes in such factors could cause the relationship between short-term, medium-term and long-term rates to change (i.e., to flatten or to invert the slope of the yield curve) so that short-term and medium-term rates may substantially increase relative to the long-term obligations in which the Fund may be invested. To the extent that the current interest or dividend rate paid by the Fund as a result of leveraging approaches the net yield on the Fund's investment portfolio, the benefit of leverage to holders of Shares will be reduced, and if the current interest or dividend rate paid as a result of leveraging were to exceed the net yield on the Fund's portfolio, the Fund's leveraged capital structure would result in there being less funds available for dividend distributions to holders of Shares. Similarly, since both the costs associated with the use of leverage and any decline in the value of the Fund's investments (including investments purchased with the proceeds from any leveraging transaction) will be borne entirely by holders of Shares, the effect of leverage in a declining market would result in a greater decrease in net asset value per Share to holders of Shares than if the Fund were not leveraged.

In an extreme case, a decline in net asset value per Share or an increase in borrowing costs associated with leverage could affect the Fund's ability to pay dividends on the common stock. See "Dividends and Automatic Reinvestment." The Fund intends, however, to take all measures necessary to continue to make common stock dividend payments. If the Fund's current investment income were not sufficient to meet dividend requirements on the Shares or, if issued, the preferred stock, it could be necessary for the Fund to liquidate a portion of its investments. In addition, the Fund will have the authority to repay borrowings, reverse repurchase agreements and dollar rolls, call the commercial paper, medium-term notes or other debt securities or redeem the preferred stock for any reason and may repay all or part of any borrowings, reverse repurchase agreements and dollar rolls, call all or part of the commercial paper, medium-term notes or other debt securities or redeem all or part of the preferred stock if:

- it anticipates that the Fund's leveraged capital structure will result in a lower rate of return for any significant amount of time to holders of Shares than that obtainable if the Shares were unleveraged;
- the aggregate asset coverage for the borrowings, reverse repurchase agreements and dollar rolls, commercial paper, medium-term notes or other debt securities and the preferred stock, if issued, declines below 200% (or the Fund anticipates that it may decline below 200%), either as a result of a decline in the value of the Fund's portfolio investments or as a result of the repurchase of Shares; or
- in order to maintain the asset coverage guidelines established by banks or other financial institutions in connection with borrowings or a nationally recognized statistical rating organization in connection with the rating of commercial paper, medium-term notes or other debt securities or the preferred stock of the Fund.

Repayment of borrowings, reverse repurchase agreements and dollar rolls, calling of the commercial paper, the medium-term notes or other debt securities, redemption of the preferred stock or insufficient investment income

to make interest or dividend payments may reduce the net asset value per Share and require the Fund to liquidate a portion of its investments at a time when it may be disadvantageous, in the absence of such extraordinary circumstances, to do so.

Assuming the utilization of leverage by borrowings or issuance of commercial paper, medium-term notes or other debt securities and/or the issuance of shares of preferred stock in the amount of 50% of the Fund's total assets, and an annual interest/dividend rate of 0.25% payable on such leverage based on market rates as of the date of this prospectus, the annual portfolio yield that the Fund's portfolio must experience (net of expenses) in order to cover such interest/dividend payments would be 0.97% in the case of the Class A Shares, and 1.38% in the case of the Class C Shares.

The following table is designed to illustrate the effect on the return to a holder of Shares of the leverage obtained by borrowing or the issuance of commercial paper, medium-term notes or other debt securities and/or the issuance of shares of preferred stock, assuming hypothetical annual returns on the Fund's portfolio of minus 10% to plus 10% and a cost of leverage of 0.25%. As the table shows, leverage generally increases the return to stockholders when portfolio return is positive and decreases the return when the portfolio return is negative. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

Assumed Portfolio Yield (net of operating expenses) .....	(10)%	(5)%	0%	5%	10%
Corresponding Common Stock Return .....	(20.25)%	(10.25)%	(0.25)%	9.75%	19.75%

In the event that the Fund determines to issue commercial paper, medium-term notes or other debt securities and/or shares of preferred stock, the Fund may apply for ratings of such securities from one or more nationally recognized statistical rating organizations. In order to obtain these ratings, the Fund may be required to maintain portfolio holdings meeting specified guidelines of such rating organizations. These guidelines may impose asset coverage requirements. For example, these guidelines would prohibit the Fund from issuing commercial paper, medium-term notes or other debt securities or shares of preferred stock unless immediately after such issuance the total net assets of the Fund's portfolio is at least 200% of the principal amount of the outstanding commercial paper, medium-term notes or other debt securities and/or the liquidation value of the shares of preferred stock (expected to equal the original purchase price of the outstanding shares of preferred stock but not including any accumulated and unpaid dividends or other distributions thereon). In addition, the Fund would be prohibited from declaring any cash dividend or other distribution on its common stock unless, at the time of such declaration, the total net assets of the Fund's portfolio (determined after deducting the amount of such dividend or distribution) is at least 200% of such principal amount and/or liquidation value. It is not anticipated that these guidelines will impede the investment adviser from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies. However, to the extent necessary, the Fund intends to purchase or redeem commercial paper, medium-term notes or other debt securities or shares of preferred stock in order to maintain asset coverage at the required 200% level. In such circumstances, the Fund may have to liquidate portfolio securities in order to meet redemption requirements. Any such sale of portfolio securities could have the effect of reducing the Fund's future net income. Such liquidations would cause the Fund to incur related transaction costs. In addition, such liquidations might require the Fund to realize capital gains or losses at a time that it would not otherwise do so and might limit the ability of the Fund to dispose of other securities that it might wish to sell in the ordinary course of portfolio management, and thus might adversely affect the Fund's yield. Such redemptions could also require the Fund to pay redemption premiums, which would adversely affect the Fund's Shareholders.

The nationally recognized statistical rating organization requirements are also expected to impose certain minimum issue size, diversification and other requirements for determining portfolio assets that are eligible for computing compliance with their asset coverage requirements. The ability of the Fund to comply with such asset coverage maintenance ratios may be subject to circumstances which are beyond the control of the Fund, such as market conditions for its portfolio securities. The terms of any commercial paper, medium-term notes or other debt securities and/or any shares of preferred stock might prohibit the payment of dividends or distributions on the shares of common stock of the Fund in the event the Fund fails to meet such asset coverage maintenance ratios and, in such circumstances, also might provide for mandatory redemption of the commercial paper, medium-term notes or other debt securities or shares of preferred stock, with the potential adverse effects discussed above.

Certain of the Fund's borrowings may be subject to certain covenants set forth in the governing credit agreements relating to asset coverage requirements and portfolio composition. The Fund does not expect that observance of such covenants would materially adversely affect the ability of the Fund to achieve its investment objective. However, a breach of any such covenant not cured within the specified cure period may result in acceleration of outstanding indebtedness and require the Fund to dispose of portfolio investments at a time when it may be disadvantageous to do so. The Fund also may be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit. Either of these requirements would increase the cost of borrowing over a stated interest rate.

## VALUATION OF SHARES

The price of the Shares is based on the value of the Fund's portfolio securities and other investments. Net asset value per Share is determined daily by the Administrator after the close of trading on the NYSE on each business day. For purposes of determining the net asset value of a Share, the value of the securities held by the Fund plus any cash or other assets (including interest accrued but not yet received) minus all liabilities of the Fund (including borrowings and accrued interest thereon and other accrued expenses) is divided by the total number of Shares outstanding at such time. Expenses, including the fees payable to the Investment Adviser, the Distributor and the Administrator, are accrued daily and paid monthly.

The Fund's assets will be valued by the Administrator, with the assistance of the Investment Adviser, in good faith and under the supervision of the Fund's Board of Directors. Securities that are listed or traded on a securities exchange are valued at the last available sale price on the principal exchange on which they are listed, and securities traded on the NASDAQ System are valued at the last sale price reported as of the close of trading on the NYSE on such business day. Portfolio securities traded in other over-the-counter markets are valued at the last available bid price in the over-the-counter market prior to the time of valuation. When market quotations for securities held by the Fund are not readily available, they will be valued at fair value by or under the direction of the Board of Directors utilizing quotations and other information concerning similar securities derived from recognized dealers in those securities or, in the case of fixed-income securities, information regarding the trading spreads quoted by recognized dealers between such securities and U.S. Treasury securities whose characteristics are determined to most closely match the characteristics of the Fund's securities. Dealers providing pricing information may include the Distributor, and in the case of certain securities held by the Fund, the Distributor might be the sole or best source of pricing information.

In determining net asset value, the Fund also may utilize the valuations of portfolio securities and other investments furnished by a pricing service approved by the Board of Directors. The pricing service typically values portfolio securities at the bid price or the yield equivalent when quotations are readily available. Portfolio securities for which quotations are not readily available are valued at fair market value on a consistent basis as determined by the pricing service using a matrix system to determine valuations. The procedures of the pricing service and its valuations will be reviewed by the officers of the Fund under the general supervision of the Board of Directors. Prior to using a pricing service, the Board of Directors will determine in good faith that the use of a pricing service is a fair method of determining the valuation of portfolio securities.

Notwithstanding the above, fixed-income securities for which market quotations are not readily available with maturities of 60 days or less, generally will be valued at amortized cost if their original term to maturity was 60 days or less, or by amortizing the difference between their fair value as of the 61<sup>st</sup> day prior to maturity and their maturity value if their original term to maturity exceeded 60 days, unless in either case the Board of Directors or an authorized committee thereof determines that this valuation method does not represent fair value. All other securities and derivatives held by the Fund for which quotations are not readily available from any source, will be valued by or under the direction of the Investment Adviser at fair value utilizing (x) quotations and other information concerning similar securities obtained from recognized dealers in those securities or from recognized pricing services or (y) information regarding the trading spreads between such securities and United States Treasury securities whose characteristics are determined by the Investment Adviser to most closely match the characteristics of the Fund's securities for which market quotations are not readily available from recognized dealers or pricing services. These trading spreads are required to be confirmed not less frequently than monthly in writing to the Administrator by independent market makers. Not more than 5% of the Fund's investment portfolio

may consist of investments whose pricing cannot be verified by a recognized independent source at least weekly. The price assigned to these securities will be verified periodically by the Board of Directors of the Fund.

When the Fund writes a call option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based upon the last sale price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the last asked price. Options purchased by the Fund are valued at their last sale price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the last bid price. Positions in futures contracts and options on futures are valued at settlement prices for such contracts established by the exchange on which they are traded, or if market quotations are not readily available, are valued at fair value on a consistent basis using methods determined in good faith by the Board of Directors.

## **DIVIDENDS AND AUTOMATIC REINVESTMENT**

The Fund intends to declare and pay monthly dividends and to distribute substantially all of its net investment income (after the payment of interest on debt securities or dividends on the preferred stock), to the holders of common stock of the Fund. From and after the issuance by the Fund of debt securities or shares of preferred stock for leverage purposes, monthly distributions to holders of common stock normally will consist of substantially all net investment income remaining after the payment of interest on the debt securities or dividends on the preferred stock. The Fund does not expect to make distributions of net realized capital gains, although the Fund's Board of Directors reserves the right to do so in its sole discretion.

While any commercial paper or other debt securities or borrowings and/or shares of preferred stock are outstanding, the Fund may not declare any cash dividend or other distribution on its common stock, unless at the time of such declaration, (1) all accrued and due interest and/or accumulated and due preferred stock dividends (in each case, that are due and payable) have been paid, and (2) the net asset value per Share of the Fund's portfolio (determined after deducting the amount of such dividend or other distribution), is at least 200% of the sum of (x) the principal amount of the outstanding indebtedness plus accrued interest and (y) the liquidation value of the outstanding preferred stock (expected to equal the original purchase price of the outstanding shares of preferred stock but not including any accumulated and unpaid dividends or other distributions thereon).

Unless a shareholder has elected to receive distributions of income in cash, dividends will be reinvested automatically in additional Shares at net asset value per Share, subject to no initial sales charge.

Dividends that are reinvested are credited to shareholders' accounts in additional Shares at the net asset value per Share as of the close of business on the dividend payment date or, if for any reason such date is not a business day, the next business day on which Share purchases can be made. A shareholder may change the option at any time before the relevant record date by notifying his or her broker.

By purchasing shares of the Fund an investor will be irrevocably agreeing that all Ordinary Dividends (as defined below under "Tax Matters") distributed to shareholders will be subject to a 15% Puerto Rico income tax withholding, which will be automatically withheld at source by the Fund or its paying and transfer agent.

## **PURCHASE OF SHARES**

### **Classes of Shares**

*Class A Shares.* Class A Shares are continuously offered to the public at their net asset value next determined after a purchase order is received and becomes effective plus an initial sales charge of up to 4.00%. The Class A Shares are subject to an annual investment advisory fee of 0.50%, an annual administrative fee of 0.15% and a client service fee equal to 0.05% of the "average daily total assets" of the Fund and an annual distribution fee of 0.20% of the average daily net assets of the Fund. The initial sales charge may be reduced or waived for certain purchasers. See "Purchase of Shares Initial Sales Charge Waivers."

*Class C Shares.* Class C Shares are continuously offered to the public at their net asset value next determined after a purchase order is received and becomes effective without an initial sales charge. The Class C Shares are subject to an annual investment advisory fee of 0.50%, an annual administrative fee of 0.15% and a client service fee of 0.05% of “average daily total assets” of the Fund. The Class C Shares are also subject to an annual distribution fee of 1.0% of average daily net assets of the Fund. Investors in Class C Shares will pay a contingent deferred sales charge equal to 1.00% on redemptions made within 12 months of purchase.

*Advisor Class Shares.* The Fund offers Advisor Class Shares to certain qualified investors. The following investors or investments qualify to buy Advisor Class Shares of the Fund:

- *Advisory Fee Programs.* Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the “Sponsor”) in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares.
- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the U.S. Code when purchasing direct from the Fund. Minimum initial investment: \$1 million in Advisor Class Shares.

### **Continuous Offering**

*Continuous Offering.* The Shares are continuously offered at their net asset value next determined after a purchase order is received and becomes effective. Purchase of Shares may be made only through a brokerage account maintained with the Distributor, or with the Puerto Rico branch of any other broker-dealer or financial institution that has entered into a selected dealer agreement with the Distributor. The Distributor and other broker-dealers or financial institutions may charge their clients an annual account maintenance fee in connection with a securities account through which an investor purchases or holds shares. Investors in Shares may open an account by making an initial investment of at least \$3,000. Subsequent investments of at least \$100 may be made thereafter. For the Fund’s Systematic Investment Plan, the minimum initial investment requirement is \$3,000 and the subsequent investment requirement is \$100 per purchase transaction.

The Fund reserves the right to waive or change minimums, to decline any order to purchase its shares and to suspend the offering of Shares from time to time. Shares purchased through the Distributor or other broker-dealer that enters into a selected dealer agreement with the Distributor, will be held by the Distributor or such other broker-dealer, as applicable, as nominee for each shareholder. Shares purchased will be registered in the name of the nominee by the Fund’s transfer agent, Banco Popular de Puerto Rico. Share certificates are issued only upon a shareholder’s written request to the Fund. Shareholders should be aware that it will not be possible to transfer shares from their account with the Distributor or other broker-dealers that enter into a dealer agreement with the Distributor to a broker-dealer or other financial institution that does not have a selected dealer agreement with the Distributor. In any such case, an investment account in the transferring shareholder’s name will be opened, without charge, at the Fund’s transfer agent. Shareholders interested in transferring their brokerage accounts who do not wish to have an account maintained for their shares at the transfer agent must offer the shares for redemption as described below under “Redemption of Shares” so that the cash proceeds can be transferred to the account of the new firm.

Purchase orders received by the Fund or the Distributor prior to the close of regular trading on the NYSE on any business day are priced according to the net asset value determined on that day (the “trade date”). For purposes of the Fund, each day on which the NYSE is open for trading and the Federal Reserve and banks in San Juan, Puerto Rico are generally open for business is considered a business day.

Orders received by broker-dealers or financial institutions that have entered into a selected dealer agreement with the Distributor prior to the close of regular trading on the NYSE on any business day are priced according to the net asset value determined on that day, provided the order is received by the Fund or the Distributor prior to the close of regular trading on the NYSE on such day. Payment for Fund Shares purchased through the

Distributor or brokers-dealers purchasing Shares through the Distributor is due on the third business day after the trade date. In all other cases, payment must be made concurrently with the purchase order. The Fund or the Distributor may suspend the continuous offering of the Fund's Shares at any time in response to conditions in the securities markets to permit the Fund to invest the proceeds of such offering in an orderly manner or otherwise and thereafter may resume such offering from time to time.

### Systematic Investment Plan

Shareholders may make additions to their accounts at any time by purchasing Shares at the applicable net asset value per Share, plus any applicable sales charge, through a service known as the Systematic Investment Plan. Under the Systematic Investment Plan, the Distributor is authorized through preauthorized transfers of \$100 or more to charge the regular bank account or other financial institution indicated by the shareholder on a monthly basis to provide systematic additions to the shareholder's Fund account. A shareholder who has insufficient funds to complete the transfer will be charged a fee of up to \$25 by the Distributor. The Systematic Investment Plan also authorizes the Distributor to apply cash held in the shareholder's brokerage account with the Distributor to make additions to the account. Additional information is available from the Fund or the Distributor.

### Initial Sales Charge Alternatives

The initial sales charges applicable to purchases of Class A Shares are as follows:

<b>Initial Sales Charges</b>			
<b>Amount of Investment</b>	<b>% of Offering Price</b>	<b>% of Amount Invested</b>	<b>Dealer's Reallowance as % of Offering Price<sup>(1)</sup></b>
Less than \$50,000	4.00%	4.17%	3.50%
\$50,000 - \$99,999	3.75	3.90	3.25
\$100,000 - \$249,999	3.50	3.63	3.00
\$250,000 - \$499,999	3.25	3.36	2.75
\$500,000 - \$999,999	2.50	2.56	2.00
\$1,000,000 - and over	1.25	1.27	1.00

<sup>(1)</sup> At the discretion of the Distributor, the Dealer's Reallowance, from time to time, may be equal to the entire sales charge set forth in the first column of the above table under "% of Offering Price."

Except as provided below under "Right of Accumulation" and "Letters of Intent," the reduced sales charges shown above apply to the aggregate of purchases of Shares of the Fund made at one time by "any Puerto Rico person," which includes an individual, his or her spouse and children sharing the same household whose principal residence is within Puerto Rico purchasing shares for his or her own account, or a trustee or other fiduciary of a single trust, estate or single fiduciary account which is deemed to be a resident of Puerto Rico. Investors may meet the minimum investment amounts required to qualify for reduced sales charges by adding their purchases of Class A Shares in the Fund to the net asset value of all shares with a sales charge (but not a contingent deferred sales charge) held in the Popular Total Return Fund, Inc., the Popular Core Equity Fund, Inc., the Popular High Grade Fixed-Income Fund, Inc., and any other fund organized by Banco Popular de Puerto Rico other than the Popular Money Market Fund, Inc. The Fund, the Popular Total Return Fund, Inc., the Popular Core Equity Fund, Inc., the Popular High Grade Fixed-Income Fund, Inc., the Popular Money Market Fund, Inc. and any other fund organized by Banco Popular de Puerto Rico are sometimes referred to herein as the "Popular Family of Funds."

### Initial Sales Charge Waivers

Purchases of Class A Shares may be made at net asset value without a sales charge in the following circumstances: (a) sales of Class A Shares to directors or officers of the Fund and employees of the Investment Adviser or the Distributor and their respective subsidiaries and affiliates, or to the spouse and children of such persons, or sales to any trust, pension, profit-sharing or other benefit plan for such persons provided such sales are made upon the assurance of the purchaser that the plan is not subject to the provisions of ERISA and that the purchase is made for investment purposes and that the securities will not be resold except through redemption or repurchase; (b) offers of Class A Shares to any other investment company in connection with the combination of



such company with the Fund by merger, acquisition of assets or otherwise; (c) purchases of Class A Shares by any client of a newly employed financial consultant of Popular Securities (for a period up to 90 days from the commencement of the financial consultant’s employment with the Distributor), on the condition (A) that the purchase of Class A Shares is made with the proceeds of the redemption of shares of another mutual fund which (i) was sold to the client by the financial consultant and (ii) was subject to a sales charge and (B) that the purchaser provides sufficient information at the time of purchase to permit verification that the purchases will qualify for elimination of the sales charge; (d) insurance company separate accounts; (e) wrap accounts for the benefit of clients of investment professionals or other financial intermediaries adhering to standards established by the Fund’s Distributor; (f) employer-sponsored retirement plans with at least \$500,000 in plan assets; (g) officers, partners, employees or registered representatives of broker-dealers that have entered into selected dealers agreements with the Distributor, and (h) purchases by other funds or accounts for which the Investment Adviser or any affiliate of Banco Popular de Puerto Rico acts as investment adviser or manager. In order to obtain such discounts, the purchaser must provide sufficient information at the time of purchase to permit verification that the purchase would qualify for the elimination of the sales charge and must comply with the residency requirements described above under “Limitations of Offering and Transfer of Shares.”

The availability of certain sales charge waivers and discounts will depend on whether you purchase your Shares directly from the Fund or through a financial intermediary. Intermediaries may have different policies and procedures regarding the availability of front-end sales load waivers or contingent deferred (back-end) sales load (“CDSC”) waivers, which are discussed below. In all instances, it is the investor’s responsibility to notify the Fund or the investor’s financial intermediary at the time of purchase of any relationship or other facts qualifying the purchaser for sales charge waivers or discounts. **For waivers and discounts not available through a particular intermediary, shareholders of the Fund will have to purchase Shares directly from the Fund or through another intermediary to receive these waivers or discounts.**

Effective April 10, 2017, shareholders purchasing Fund shares through a Merrill Lynch platform or account will be eligible only for the following load waivers (front-end sales charge waivers and contingent deferred, or back-end, sales charge waivers) and discounts, which may differ from those disclosed elsewhere in this prospectus:

<b>Front-end Sales Load Waivers on Class A Shares available at Merrill Lynch</b>
Employer-sponsored retirement, deferred compensation and employee benefit plans (including health savings accounts) and trusts used to fund those plans, provided that the shares are not held in a commission-based brokerage account and shares are held for the benefit of the plan
Shares purchased by or through a 529 Plan
Shares purchased through a Merrill Lynch affiliated investment advisory program
Shares purchased by third party investment advisors on behalf of their advisory clients through Merrill Lynch’s platform
Shares of funds purchased through the Merrill Edge Self-Directed platform (if applicable)
Shares purchased through reinvestment of capital gains distributions and dividend reinvestment when purchasing shares of the same fund (but not any other fund within the fund family)
Shares exchanged from Class C ( <i>i.e.</i> level-load) shares of the same fund in the month of or following the 10-year anniversary of the purchase date
Employees and registered representatives of Merrill Lynch or its affiliates and their family members
Directors or Trustees of the Fund, and employees of the Fund’s investment adviser or any of its affiliates, as described in the this prospectus
Shares purchased from the proceeds of redemptions within the same fund family, provided (1) the repurchase occurs within 90 days following the redemption, (2) the redemption and purchase occur in the same account, and (3) redeemed shares were subject to a front-end or deferred sales load (known as Rights of Reinstatement)

<b>CDSC Waivers on A and C Shares available at Merrill Lynch</b>
Death or disability of the Shareholder
Shares sold as part of a systematic withdrawal plan as described in this prospectus
Return of excess contributions from an IRA Account

Shares sold as part of a required minimum distribution for IRA and retirement accounts due to the shareholder reaching age 70½
Shares sold to pay Merrill Lynch fees but only if the transaction is initiated by Merrill Lynch
Shares acquired through a right of reinstatement
Shares held in retirement brokerage accounts, that are exchanged for a lower cost share class due to transfer to a certain fee based account or platform

<b>Front-end load Discounts Available at Merrill Lynch: Breakpoints, Rights of Accumulation &amp; Letters of Intent</b>
Breakpoints as described in this prospectus.
Rights of Accumulation (ROA) which entitle shareholders to breakpoint discounts will be automatically calculated based on the aggregated holding of fund family assets held by accounts within the purchaser’s household at Merrill Lynch. Eligible fund family assets not held at Merrill Lynch may be included in the ROA calculation only if the shareholder notifies his or her financial advisor about such assets

### **Right of Accumulation**

Class A Shares of the Fund may be purchased by any qualifying Puerto Rico resident at a reduced sales charge or at net asset value determined by aggregating the dollar amount of the new purchase and the total net asset value of all Shares of the Fund and shares with a sales charge (but not a contingent deferred sales charge) of the Popular Family of Funds (or any other investment company designated by the Fund’s Board of Directors) other than the Popular Money Market Fund, Inc. then held by such person and applying the sales charge applicable to such aggregate. In order to obtain such discount, the purchaser must provide sufficient information at the time of purchase to permit verification that the purchase qualifies for the reduced sales charge. The right of accumulation is subject to modification or discontinuance at any time after written notice to the shareholders with respect to all shares purchased thereafter.

### **Letters of Intent**

A Letter of Intent for amounts of \$50,000 or more provides an opportunity for an investor to obtain a reduced sales charge by aggregating investments over a 13 month period, provided that the investor refers to such Letter of Intent when placing orders. For purposes of a Letter of Intent, the “Amount of Investment” as referred to in the preceding sales charge table includes purchases of all Class A Shares of the Fund with a sales charge over the 13 month period based on the total amount of intended purchases plus the value of all Class A Shares previously purchased and still owned. An alternative is to compute the 13 month period starting up to 90 days before the date of execution of a Letter of Intent. Each investment made during the period receives the reduced sales charge applicable to the total amount of the investment goal. If the goal is not achieved within the period, the investor must pay the difference between the sales charges applicable to the purchases made and the charges previously paid, or an appropriate number of escrowed shares will be automatically redeemed for such payment. Investors may meet the minimum investment amounts for Letters of Intent by adding the value of all shares with a sales charge (but not a contingent deferred sales charge) of the Popular Family of Funds other than the Popular Money Market Fund, Inc. and other funds managed or co-managed by the Investment Adviser, purchased during the applicable period. Investors should consult the Distributor to obtain a Letter of Intent application.

### **Contingent Deferred Sales Charge Alternatives**

Class C Shares are sold at the net asset value next determined without an initial sales charge, so that a larger portion of the investor’s purchase may be invested immediately in the Fund than would be invested if the investor purchased Class A Shares. A contingent deferred sales charge equal to 1.00% is imposed on the redemption of Class C Shares within 12 months of purchase. Any applicable contingent deferred sales charge on Class C Shares will be assessed on an amount equal to the lesser of the cost of the shares being redeemed or their net asset value at the time of redemption. In addition, Class C Shares that are exchanged for shares of certain funds of the Popular Family of Funds will not be subject to a contingent deferred sales charge. See “Purchase of Shares -

Exchange Privileges.” Class C Shares that are redeemed will not be subject to a contingent deferred sales charge, to the extent that the value of such shares represents: (1) capital appreciation of Fund assets; or (2) reinvestment of dividends or capital gain distributions.

In determining the applicability of any contingent deferred sales charge, it will be assumed that a redemption is made first of shares representing capital appreciation, next of shares representing the reinvestment of dividends and any capital gain distributions and finally of other shares held by the shareholder for the longest period of time. Any contingent deferred sales charge will be paid to the Distributor.

### **Waivers of Contingent Deferred Sales Charges**

The contingent deferred sales charge will be waived on: (a) redemptions of shares following the death or disability of the shareholder; (b) involuntary redemptions; and (c) redemptions of shares in connection with a combination of the Fund with any investment company by merger, acquisition of assets or otherwise.

### **Exchange Privileges**

As of the date of the Fund’s prospectus, your shares of the Fund may be exchanged for shares of the same class of any other fund that (i) is registered under the Puerto Rico Investment Companies Act, and (ii) is part of the Popular Family of Funds other than the Popular Money Market Fund, Inc. If the fund into which you exchange has a higher initial sales charge, the new class of shares you will receive will be subject to a sales charge equal to the difference between the original sales charge and the sales charge of the fund into which you exchange. If the fund into which you exchange has a lower initial sales charge, the exchange will not be subject to an initial sales charge. Furthermore, the contingent deferred sales charge (if any) on Class C Shares of the Fund will continue to be measured from the date of original purchase of said Class C Shares. If the fund into which you exchange has a higher contingent deferred sales charge, the new Class C Shares that you receive will be subject to that charge. If you exchange at any time into a fund with a lower contingent deferred sales charge, the sales charge will not be reduced. Notwithstanding the foregoing, exchanges between the Fund and the Popular High-Grade Fixed Income Fund, Inc. will not be subject to any additional initial sales charges. Shares of the Fund may only be exchanged for shares of another fund in the Popular Family of Funds other than the Popular Money Market Fund, Inc. up to five times per fiscal year of the Fund.

Not all Popular funds offer all classes of shares. Exchanges of shares are subject to the minimum investment requirements of the fund into which exchanges are made. The Fund reserves the right to modify, suspend and/or reinstate any or all exchange privileges at any time. Moreover, the Fund may suspend or terminate your exchange privilege if you engage in an excessive pattern of exchanges. Be sure to read the prospectus of the fund in the Popular Family of Funds into which you are exchanging.

An exchange is a taxable transaction. Shareholders of the Fund considering an exchange are urged to consult their own tax advisers with specific reference to their own tax situations before engaging in an exchange.

## **REDEMPTION OF SHARES**

The Fund’s Certificate of Incorporation provides that shareholders may redeem their Shares at periodic intervals, as determined by the Board of Directors of the Fund, but no less frequently than once each year. In this regard, the Board of Directors of the Fund has adopted a policy whereby shareholders may redeem for cash all full and fractional shares of common stock of the Fund upon receipt of a request in proper form on any business day at a price per share equal to the net asset value per Share of the applicable class at the close of business on the date of redemption. A business day is a day on which the NYSE is open for trading and the Federal Reserve and banks in San Juan, Puerto Rico are generally open for business. In order for shares to be redeemed on a particular redemption date, the redemption order in proper form must be received by the Fund by the close of trading on the NYSE (generally, 4:00 P.M., New York time) on the redemption date from the Distributor or other broker-dealers with which the Distributor has executed a selected dealer’s agreement. Redemption orders received by the Fund are irrevocable, except at the discretion of the Fund. The redemption price will be the net asset value per class of share as of the close of trading on the NYSE on the date of redemption, minus any applicable contingent deferred sales

charge. The value of Shares at the time of redemption may be more or less than the shareholder's cost, depending on the market value of the securities held by the Fund at such time.

At present, there is no secondary market for the Shares and the Fund expects that, ordinarily, there will be no secondary market for the Shares and that daily redemptions will be the only source of liquidity for Fund shareholders. Nevertheless, if a secondary market develops for any class of shares, the market price of the shares may vary from time to time from the net asset value per share of such class. Such variance may be affected by, among other factors, relative demand and supply of shares and the performance of the Fund, especially as it affects the yield on and net asset value of the Shares. Daily redemptions of Shares at the applicable net asset value per share of such class are expected to reduce any spread between net asset value per share of any class and market price per share of any class that otherwise may develop. However, there can be no assurance that such action would result in any class of shares trading at a price which equals or approximates its net asset value per share.

In order to satisfy redemption requests, the Fund may be required to liquidate portfolio securities, and realize gains or losses, at a time when the Investment Adviser would otherwise consider it disadvantageous to do so. This may adversely affect the Fund's total return.

Redemption of Shares by the Fund is a taxable event. See "Tax Matters."

The right to redeem Shares on a daily basis may be suspended or the date of payment postponed (a) for periods during which trading on the NYSE is restricted or the NYSE is closed or during which the U.S. bond markets are closed (other than for customary weekend and holiday closings) or (b) for any period during which an emergency exists as a result of which disposal of portfolio securities or determination of the net asset value per Share of a class is not reasonably practicable.

*Procedure:* A shareholder wishing to redeem Shares may do so by telephone through a registered representative of the Distributor or a broker-dealer or other financial institution that has entered into a selected dealers agreement with the Distributor or by submitting a written request for redemption to the Distributor or such broker-dealer. The Distributor reserves the right to require that any redemption request be made in writing. A written redemption request must (a) state the number or dollar amount of Shares to be redeemed, (b) identify the shareholder's account number, and (c) be signed by the account holder exactly as the account is registered. The redemption proceeds will be remitted on or before the third business day following receipt of a proper tender.

In the event of a redemption of Shares with an aggregate net asset value in excess of \$10,000 or in the event of more than one redemption request in any ten-day period, the Fund reserves the right to require that the signature(s) on the redemption request be guaranteed by an "eligible guarantor institution" (including, for example, certain financial institutions) as such is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the Distributor through the use of industry publications. Unless otherwise directed, payment will be made in accordance with the existing instructions in the account held with the Distributor or financial institution through which the investor holds his or her Shares, which may include mailing a check to the investor's address of record within three business days of receipt of a proper notice of redemption as set forth above. Redemption proceeds for Shares purchased by check, other than a certified or official bank check, will be remitted upon clearance of the check, which may take up to ten days or more.

The Distributor or any other broker-dealer participating in the distribution of Shares may require additional supporting documents for redemptions made by corporations, executors, administrators, trustees or guardians. A redemption request will not be deemed properly received until the Distributor or a broker-dealer or other financial institution involved in the distribution of Shares receives all required documents in a timely manner and in proper form.

*Special Redemption Fees on Short Term Trading:* The Fund may impose a 2.0% redemption fee on redemptions made within five business days after acquiring Fund Shares.

*Right to Reject or Restrict Purchase Orders:* Purchases of Fund Shares should be made primarily for investment purposes. The Fund reserves the right to restrict, reject or cancel, without any prior notice, any purchase

order, including transactions representing excessive trading, including transactions accepted by any shareholder's broker, dealer or financial representative.

*Automatic Cash Withdrawal Plan:* The Fund offers shareholders an automatic cash withdrawal plan, under which shareholders may elect to receive cash payments of at least \$100 per transaction. Automatic cash withdrawals will be permitted once a month on a date selected by the investor. To the extent withdrawals exceed dividends, distributions and appreciation of the shareholder's investment in the Fund, there will be a reduction in the value of the shareholder's investment and continued withdrawal payments will reduce the shareholder's investment and may ultimately exhaust it. Withdrawal payments should not be considered as income from investment in the Fund. For further information regarding the automatic cash withdrawal plan, shareholders should contact the Distributor.

## **MANDATORY REDEMPTION OF SHARES**

The Fund reserves the right to redeem automatically any Shares owned by a shareholder if the shareholder ceases at any time to maintain his or her principal residence in Puerto Rico, in the case of individuals, or its principal office and place of business in Puerto Rico, in the case of entities, and that do not comply with their obligation to liquidate their investment in the Fund as described under "Limitation on Offering and Transfer of Shares." The Fund also reserves the right to redeem the Shares of any shareholder if the aggregate net asset value of the Shares held in the account is less than \$500. If a shareholder has more than one account in the Fund, each account must satisfy the minimum account size.

## **DIRECTORS AND EXECUTIVE OFFICERS**

Overall responsibility for management and supervision of the Fund rests with the Fund's Board of Directors. The directors approve the terms and conditions of all significant agreements between the Fund and the companies that furnish services to the Fund, including agreements with the Investment Adviser, the Administrator, the Custodian and the Transfer Agent (each as defined herein). The day-to-day operations of the Fund are delegated to the Fund's Administrator.

The directors and executive officers of the Fund and their principal occupation for the last five years are set forth below.

**Juan O. Guerrero.**<sup>(1)(2)</sup>

*Chairman of the Board, President and Director of the Fund.* Executive Vice President of Banco Popular in charge of the Financial and Insurance Services Group, a position which he has occupied since April 2004, and a director of the Popular Family of Funds since 2001. He has been employed as an officer of Banco Popular for the last 32 years. Director of various wholly-owned subsidiaries of Popular, Inc. Former President of the Securities Industry Association. Director of SER de Puerto Rico since December 2010 and Puerto Rico Baseball Academy and High School until December 2016. Mr. Guerrero is the beneficial owner of between \$100,001 and \$150,000 in equity securities of the Popular Family of Funds.

**Carlos A. Pérez, M.D.**<sup>(2)</sup>

*Director of the Fund.* Mr. Pérez has been the President of the Caribbean and Latin American Region of Pediatrix Medical Group since 2002. From 1997 to 2002 he was the Vice President of this unit. From 2013 to 2017 he was director of the University of Puerto Rico's Hospital of Carolina. He also served as a director of the "Administración de Servicios de Salud de Puerto Rico" from 2001 until 2009. He was a member of the "Junta de Gobierno UPR" from 2013 until 2017 and was also President of "Junta de Gobierno UPR" from May 2016 to May 2017. Mr. Pérez is the beneficial owner of between \$200,001 and \$215,000 in equity securities of the Popular Family of Funds.

**Jorge I. Vallejo<sup>(2)</sup>**

*Director of the Fund.* Mr. Vallejo has been Managing Partner of Vallejo & Vallejo, since April 1992, a real estate appraisal and consulting firm in San Juan, Puerto Rico. Mr. Vallejo holds the highest professional designations in the commercial appraisal, counseling and investment fields, having obtained the MAI (1992), the CRE (1995) and the CCIM (1999) designations. Mr. Vallejo is also partner of various special partnerships involved in real estate development. He is also a director of the Popular Family of Funds and the Puerto Rico Investors Tax Free Family of Funds, which are mutual funds managed and co-managed, respectively, by Banco Popular. Mr. Vallejo is the beneficial owner of between \$20,001 and \$25,000 in equity securities of the Popular Family of Funds.

**Enrique Vila del Corral<sup>(2)</sup>**

*Director of the Fund.* Private investor since 2001; Managing Partner and Chief Executive Partner, from 1977 to 2001 of Vila del Corral & Company, a public accounting firm organized and operating in Puerto Rico and the Dominican Republic. Mr. Vila del Corral is also managing partner of various special partnerships involved in real estate development and leasing of commercial office space. He is director and audit committee chairman of the Popular Family of Funds and the chairman of the board and the audit committee of the Puerto Rico Investors Tax Free Family of Funds, which are mutual funds managed and co-managed by Banco Popular. He is also a director and audit committee chairman of V. Suárez Group of Companies. Mr. Vila is the beneficial owner of between \$125,001 and \$175,000 in equity securities of the Popular Family of Funds.

**Javier D. Ferrer, Esq.<sup>(1)(2)</sup>**

*Secretary of the Fund.* Mr. Ferrer is Executive Vice President in charge of the General Counsel and Corporate Matters Group and has been Popular, Inc.'s Chief Legal Officer and Secretary of the Board of Directors, since October 2014. Prior to joining Popular, Inc., Mr. Ferrer was a partner of Pietrantonio Méndez & Alvarez LLC, from September 1992 to December 2012 and from August 2013 to September 2014; President of the Government Development Bank for Puerto Rico and Vice Chairman of its Board of Directors from January to July 2013; and Chairman of the Economic Development Bank for Puerto Rico from January to July 2013.

**Jose González<sup>(1)(2)</sup>**

*Treasurer of the Fund.* Mr. González has been in charge of Banco Popular's Mutual Funds' Administration Division since 2014 and of Popular's Fiduciary Services Operations since 2019. Mr. González has also been a Vice President of Banco Popular since 2014. Prior to joining Banco Popular, Mr. González was a Vice President, Treasurer and Fund Administration and Operations Manager for Santander Asset Management's First Puerto Rico Family of Funds. He also served as Vice President, Operations Manager and Trust Officer of Banco Santander from 2004 to 2008.

**Illich Omar Colón, Esq.<sup>(1)(2)</sup>**

*Assistant Secretary of the Fund.* Mr. Colón has been an attorney in Banco Popular's Legal Division since 2005. From 2003 to 2004, Mr. Colón acted as Director of New Business Development in the Continental Promotions Office of the Puerto Rico Industrial Development Company (PRIDCO). From 2000 to 2003, Mr. Colón worked as an attorney with the law firm O'Neill & Borges.

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<sup>(1)</sup> Affiliated person of the Investment Adviser.

<sup>(2)</sup> Such director or officer is a director or officer of one or more Puerto Rico investment companies for which the Investment Adviser acts as investment adviser or co-investment adviser.

All transactions and agreements between the Fund and its affiliates are subject to the approval of the independent directors of the Board.

No officer, director or employee of the Investment Adviser or of any affiliate thereof receives any compensation from the Fund for serving as an officer or director of the Fund. The Fund will pay each director who is not an officer, director or employee of the Investment Adviser or an affiliate thereof a fee of \$1,000 per meeting attended, together with such director's actual travel and out-of-pocket expenses relating to attendance at meetings.

The following tables set forth the compensation paid by the Fund to its non-affiliated directors from January 1, 2017 to December 31, 2017 and from January 1, 2018 to December 31, 2018, and the aggregate compensation expected to be paid to such persons by all investment companies advised or co-advised by the Investment Adviser during such periods. The Fund does not accrue any retirement benefits for its directors as part of its expenses.

**Compensation from January 1, 2017 to December 31, 2017**

Name of Non-Affiliated Director	Aggregate Compensation from Fund	Aggregate Compensation from all Funds Advised or Co-Advised by Investment Adviser
Carlos A. Pérez, MD	\$5,000.00	\$25,000.00
Jorge I. Vallejo	\$5,200.00	\$63,440.00
Enrique Vila del Corral	\$5,200.00	\$72,800.00

**Compensation from January 1, 2018 to December 31, 2018**

Name of Non-Affiliated Director	Aggregate Compensation from Fund	Aggregate Compensation from all Funds Advised or Co-Advised by Investment Adviser
Carlos A. Pérez, MD	\$5,000.00	\$25,000.00
Jorge I. Vallejo	\$5,200.00	\$59,280.00
Enrique Vila del Corral	\$5,200.00	\$67,600.00

**Indemnification of Directors**

The Fund has obtained directors and officers' liability insurance for its directors and officers. The Fund's Certificate of Incorporation contains a provision that exempts directors from personal liability for monetary damages to the Fund or its shareholders for violations of the duty of care, to the fullest extent permitted by the Puerto Rico General Corporation Law. The Fund has also agreed to indemnify its directors and officers for certain liabilities to the fullest extent permitted by Puerto Rico law.

**INVESTMENT ADVISORY AND ADMINISTRATIVE SERVICES**

**Investment Adviser**

Popular Asset Management, the investment management division of Banco Popular de Puerto Rico ("Banco Popular" and, in such capacity, the "Investment Adviser"), acts as the investment adviser of the Fund pursuant to an investment advisory agreement with the Fund. Subject to the direction of the Fund's Board of Directors, the Investment Adviser is responsible for all investment decisions regarding the Fund's assets. The Investment Adviser currently acts as investment adviser or co-investment adviser to twelve other Puerto Rico investment companies and as of December 31, 2018, managed or co-managed approximately \$1.3 billion in assets.

A team of investment professionals led by Javier Rubio, CFA and Joaquin Perez, CFA is primarily responsible for the day to day management of the Fund's assets. Mr. Rubio has worked in the asset management division of the Investment Adviser since September 1996 acting as its Chief Investment Officer where he oversees more than \$2.7 billion in financial assets. Mr. Rubio has a BBA from the University of Puerto Rico, an MBA from the University of Michigan and holds the Chartered Financial Analyst designation. He has sixteen years of experience in investment management. Mr. Rubio also serves as portfolio manager for various Puerto Rico investment companies advised or co-advised by the Investment Adviser. Mr. Perez has a Bachelor's degree from Yale University and holds the Chartered Financial Analyst designation. Mr. Perez has worked as equity portfolio manager in the asset management division of the Investment Adviser since 1998. From 1994 to 1998, Mr. Perez worked in various actuarial capacities with AIG.

Unless earlier terminated as described below, the investment advisory agreement between the Fund and the Investment Adviser will continue in effect for a period of two years from the date of execution and will remain in effect from year to year thereafter if approved annually (1) by the Board of Directors of the Fund or by a majority of the outstanding shares of the Fund and (2) by a majority of the directors who are not parties to such contract or affiliated with any such party. Such contract is not assignable except under limited circumstances to an affiliated entity of the Investment Adviser and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by the vote of the shareholders of the Fund.

Banco Popular is Puerto Rico's largest commercial bank with consolidated total assets of approximately \$37.9 billion as of December 31, 2018. Banco Popular is a wholly-owned subsidiary of Popular, Inc., a bank holding company headquartered in San Juan, Puerto Rico that produces and markets a broad range of financial services including commercial banking, consumer finance, asset management, credit cards, insurance, securities brokerage and investment banking in Puerto Rico and throughout the United States.

The Investment Adviser will be compensated monthly by the Fund at the annual rate of 0.50% of the value of the Fund's average daily total assets. "Average daily total assets" means the average daily value of the total assets of the Fund, including those assets purchased with the proceeds of leverage, and without any deduction for liabilities of the Fund, including any indebtedness or preferred stock incurred for leverage purposes. The principal executive offices of the Investment Adviser are located at the Fourth Floor, North Building, 208 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918.

### **Administrator**

Banco Popular (in its capacity as administrator of the Fund, the "Administrator") manages the day to day operations of the Fund pursuant to an Administration Agreement.

Pursuant to the Administration Agreement, the Administrator furnishes the Fund with bookkeeping, accounting and administrative services. It provides a variety of administrative and shareholder services directly or through agents. These administrative services include, among other things, providing facilities and personnel to the Fund in the performance of certain services, including the determination of the market value of the Fund's assets, as applicable, and of the net asset value per Share of the Fund, maintaining and preserving the books and records of the Fund, assisting in the preparation and filing of the Fund's income tax returns, payment of the Fund's expenses, assisting in the preparation and coordinating the printing and dissemination of reports and other communications to shareholders and providing local regulatory compliance services. The Administrator is also charged with providing the Fund with information as reasonably requested thereby to prepare any reports and filings required under applicable Federal law.

The Fund's Administration Agreement provides for an administrative fee accrued daily and paid monthly at an annual rate of 0.15% of the Fund's "average daily total assets" as defined above under "Investment Adviser."

### **Transfer Agent and Dividend Disbursing Agent**

Pursuant to the terms of a Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement (the "Transfer Agent Agreement"), Banco Popular, in its capacity as transfer agent for the Fund



(the “Transfer Agent”), is responsible for maintaining a register of the Shares of the Fund for shareholders of record, the opening and maintenance of shareholder accounts and the processing of dividend and distribution payments from the Fund. Share certificates are not issued, unless specifically requested by shareholders. The Transfer Agent will maintain a share account for each master account and any other shareholder of record. Confirmations of each purchase or redemption and of reinvested dividend payments are sent to master account holders and any other shareholders of record each month. The Transfer Agent is authorized under the Transfer Agent Agreement to appoint sub-transfer agents or other agents and to delegate to any of such agents its obligations under the Transfer Agent Agreement. The Transfer Agent has engaged BNY Mellon Investment Services, Inc. to act as sub-transfer agent, registrar, dividend disbursing agent and shareholder servicing agent. The sub-transfer agent will perform certain functions including shareholder record keeping and accounting services. The Transfer Agent does not receive a separate fee or additional compensation for acting as transfer agent of the Fund, but is reimbursed for out-of-pocket expenses it incurs in providing transfer agency services to the Fund.

### **Custodian**

The Fund’s securities and cash will be held under a Custody Agreement with Banco Popular, (when acting in such capacity, the “Custodian”). It is a condition to each investment transaction of the Fund that the transfer of eligible securities to the Fund be effected by delivery or other transfer of such securities to the Custodian, or to any entity acting on behalf of the Custodian, for credit to the Fund’s custodial account with such Custodian. The Custodian is authorized under the Custody Agreement to appoint sub-custodians or other agents and to delegate to such sub-custodians or other agents any of its obligations under the Custody Agreement. The Custodian will not receive a separate fee or additional compensation for acting as custodian of the Fund, but will be reimbursed for the out-of-pocket expenses it incurs in providing custodial services to the Fund.

### **Distributor**

Popular Securities, LLC, San Juan, Puerto Rico, serves as principal distributor of the shares of common stock of the Fund and conducts a continuous offering pursuant to a “best efforts” arrangement requiring it to take and pay for only such securities as may be sold to the public.

The Fund has agreed to pay a distribution fee and a client service fee to the Distributor pursuant to a Distribution Plan adopted by the Fund. Under the Distribution Plan, the Fund pays the Distributor a distribution fee (accrued daily and paid monthly) at the annual rate of 0.20% and 1.00% for the Class A and Class C Shares, respectively, of the “average daily net assets” of the Fund in order to compensate the Distributor (and selected broker-dealers or financial institutions that enter into selected dealer agreements with the Distributor) for distributing or providing other related services in connection with the Shares. Dealers will become eligible to receive the distribution fee only with respect to Shares sold through them commencing in the thirteenth month following purchase. The Fund also pays the Distributor a client service fee accrued daily and paid monthly at the annual rate of 0.05% of the “average daily total assets” of the Fund (computed as described above under Investment Adviser) in order to compensate the Distributor for providing certain client service activities. The Distributor, or its clearing broker, intends to open a single master account with the Administrator on behalf of its customers who invest in the Fund and provide, directly or through a subcontractor, sub-accounting services for each customer’s account.

The Fund has no obligation to reimburse the Distributor for its client services related expenses in excess of the foregoing fees and the Fund is not obligated to approve the Distribution Plan with the Distributor from year to year. The Distributor is a wholly owned subsidiary of Popular, Inc., the parent company of the Investment Adviser, and therefore is an affiliated entity of the Adviser. The Distributor has communicated that it will continue to seek annual confirmation of such Distribution Plan. See “Portfolio Transactions - Transactions Involving Affiliates.”

## **PORTFOLIO TRANSACTIONS**

Subject to policies established by the Board of Directors of the Fund, the Investment Adviser is primarily responsible for the execution of the Fund’s portfolio transactions. In executing such transactions, the Investment

Adviser seeks to obtain the best results for the Fund, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm involved and the firm's risk in positioning a block of securities. While the Investment Adviser generally seeks reasonably competitive commission rates, the Fund does not necessarily pay the lowest commission or spread available.

The Fund has no obligation to deal with any broker or dealer in the execution of transactions in portfolio securities. The Investment Adviser intends to execute portfolio transactions in (i) Puerto Rico fixed-income obligations, including mortgage-backed obligations, through brokers, dealers or banks in or outside Puerto Rico, and (ii) U.S. Government fixed-income obligations, municipal obligations and short-term investments through brokers or dealers either in or outside Puerto Rico, in either case including Popular Securities, Banco Popular or any of their respective affiliates as discussed below. Subject to obtaining the best price and execution, securities firms which provide supplemental investment research to the investment adviser, including Popular Securities, may receive orders for transactions by the Fund. Information so received will be in addition to and not in lieu of the services required to be performed by the Investment Adviser under the investment advisory agreement, and the expenses of the investment adviser will not necessarily be reduced as a result of the receipt of such supplemental information.

The securities in which the Fund primarily will invest are traded in the over-the-counter markets, and the Fund intends to deal directly with the dealers, including Popular Securities or one of its affiliates as discussed below, who make markets in the securities involved, except in those circumstances where better prices and execution are available elsewhere.

The Fund also may purchase tax-exempt securities in individually negotiated transactions with issuers. Because an active trading market may not exist for such securities, the prices that the Fund may pay for these securities or receive on their resale may be lower than those for similar securities with a more liquid market.

### **Portfolio Turnover**

Generally, the Fund does not purchase securities for short-term trading profits. However, the Fund may dispose of securities without regard to the time they have been held when such action, for defensive or other reasons, appears advisable to the Investment Adviser. While it is not possible to predict turnover rates with any certainty, at present it is anticipated that the Fund's annual portfolio turnover rate, under normal circumstances after the Fund's portfolio is invested in accordance with its investment objective, should be less than 100%. The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the particular fiscal year by the daily average of the value of the portfolio securities owned by the Fund during the particular fiscal year. For purposes of determining this rate, all securities whose maturities at the time of acquisition are one year or less are excluded. Early redemptions or prepayments on securities held by the Fund are also excluded from the calculation of the portfolio turnover rate.

### **Transactions Involving Affiliates**

The Fund is not registered under the 1940 Act and therefore, is not subject to the restrictions regarding, among other things, transactions between the Fund and Banco Popular, Popular Securities and their respective affiliates (each such person an "Affiliated Party," and each such transaction an "Affiliated Transaction") contained therein.

It is anticipated that the Fund will engage in Affiliated Transactions, such as securities purchase and sale transactions and repurchase agreement transactions, directly with Banco Popular, Popular Securities and possibly other of the Investment Adviser's affiliates. The Fund may also purchase securities that are offered in underwritings in which one or more Affiliated Parties acts as the lead manager or senior manager of the offering or as a member of the underwriting or selling group. For most securities purchased by the Fund, one of those entities may be the only dealer, or one of only a few dealers, in the securities being purchased or sold by the Fund. In that event, independent sources for valuation or liquidity of a security may be limited or nonexistent. The Fund is expected to invest a substantial portion of its assets in those securities. The Fund may also invest up to 5% of its total assets (excluding for these purposes, time deposits, shares of money market Funds and mortgage-backed securities) in securities issued by, or make deposits with, an Affiliated Party. As a result of such Affiliated Transactions and other

dealings, the interests of an Affiliated Party may conflict with those of the Fund as to the price and other terms of transactions that they engage with each other. Portfolio transactions between the Fund and an Affiliated Party will be executed on terms and conditions comparable to those with unrelated third parties in the ordinary course of the Fund's investment activities and pursuant to procedures adopted by the Fund's Board of Directors.

An Affiliated Party may also act as agent in connection with the placement of the Fund's preferred stock, debt securities, and other forms of leverage. Such activities will be carried out in accordance with procedures as established by the Board of Directors in an effort to address potential conflicts of interest including, among other things, the potential conflicts of interest in setting interest or dividend rates. There is no assurance that the procedures will be effective. In addition, the investment advisory fee payable to the Investment Adviser during periods in which the Fund is utilizing leverage will be higher than when it is not doing so because the fee is calculated as a percentage of average daily total assets, including assets purchased with leverage. Because the asset base used for calculating the investment advisory fee is not reduced by aggregate indebtedness incurred in leveraging the Fund, the Investment Adviser may have a conflict of interest in formulating a recommendation to the Fund as to whether and to what extent to use leverage. Affiliated Parties may also directly provide some or all of such leverage.

Affiliated Parties may also engage, at the present or in the future, in business transactions with or related to any one of the issuers of the Fund's investment assets, or with competitors of such issuers, as well as provide them with investment banking, asset management, trust, or advisory services, including merger and acquisition advisory services. These activities may present a conflict between an Affiliated Party and the interest of the Fund. Affiliated Parties may also publish or may have published research reports on one or more of such issuers and may have expressed opinions or provided recommendations inconsistent with the purchasing or holding of the securities of such issuers. Any of these activities may affect the market value of the securities issued by them and therefore, will affect the value of the Shares.

Other conflicts of interest may arise in the future, which will be addressed by the Board of Directors at such time.

## **TAX MATTERS**

*As with any investment, your investment in the Fund could have tax consequences for you. This section is not to be construed as a substitute for careful tax planning. Prospective investors are urged to consult their own tax advisers with specific reference to their own tax situations, including the application and effect of other tax laws and any possible changes in the tax law after the date of this prospectus.*

In the opinion of Pietrantonio Méndez & Alvarez LLC, counsel to the Fund, the following discussion summarizes the material Puerto Rico and United States federal tax considerations that may be relevant to prospective investors in the Fund. The discussion of Puerto Rico tax matters is based on the current provisions of the Puerto Rico Internal Revenue Code of 2011, as amended (the "Puerto Rico Code") and the regulations promulgated or applicable thereunder (the "Puerto Rico Code Regulations"), the administrative pronouncements issued by the Puerto Rico Treasury Department ("PRTD"), the Puerto Rico Municipal Property Tax Act of 1991, as amended (the "MPTA"), and the regulations promulgated thereunder, the Puerto Rico Municipal License Tax Act of 1974, as amended (the "MLTA"), and the regulations promulgated thereunder, the Puerto Rico Investment Companies Act (Act 6 of October 19, 1954), as amended ("PRICA"), and the Federal Relations Act, Public Law 97-258, 96 Stat. 945 (31 U.S.C. § 3124(a)). The discussion of U.S. federal income, estate and gift taxes is based on the current provisions of the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Code") and the regulations promulgated and administrative pronouncements issued thereunder. No attempt has been made, however, to discuss all Puerto Rico and United States income or other tax matters that may affect the Fund or the investors.

This discussion assumes that the shareholders will be individuals who are *bona fide* residents of Puerto Rico for the entire taxable year within the meaning of Sections 933 and 937 of the U.S. Code ("Qualifying Individuals") or corporations or other business organizations whose principal office and place of business are in Puerto Rico ("Qualifying Corporations") or trusts organized under the laws of Puerto Rico ("Qualifying Trusts"), including trusts funding employee retirement plans described in Section 1081.01 of the Puerto Rico Code ("Qualifying Retirement Trusts," and together with Qualifying Individuals, Qualifying Corporations and Qualifying

Trusts, the “Qualifying Investors”). This summary does not attempt to discuss all tax consequences to investors that may be subject to special tax treatment under the Puerto Rico Code, the MLTA or MPTA (such as partnerships, special partnerships, corporation of individuals and tax-exempt organizations) or under the U.S. Code (such as “controlled foreign corporations,” “passive foreign investment companies,” or “personal holding companies”).

The statements that follow are based on the existing provisions of such statutes and regulations, and judicial decisions and administrative pronouncements, all of which are subject to change (even with retroactive effect). A prospective shareholder should be aware that an opinion of counsel represents only such counsel’s best legal judgment and that it is not binding on the PRTD, any municipality or agency of Puerto Rico, the United States Internal Revenue Service (the “IRS”) or the courts. Accordingly, there can be no assurance that the opinions set forth herein, if challenged, would be sustained.

### **Puerto Rico Taxation of the Fund**

*Income Taxes.* As a registered investment company under PRICA, the Fund will be exempt from Puerto Rico income tax for a taxable year if it distributes to its shareholders at least 90% of its net income for the taxable year within the time period provided by the Puerto Rico Code (the “90% Distribution Requirement”). In determining its net income for purposes of the 90% Distribution Requirement, the Fund shall not take into account capital gains and losses and certain items of income (including interest) that are exempt from taxation under the Puerto Rico Code. The Fund intends to meet the 90% Distribution Requirement to be exempt from Puerto Rico income tax.

*Property Taxes.* Under the provisions of the MPTA, the Fund will be subject to property taxes. However, property of the Fund that consists of repurchase agreements, obligations of the Government of Puerto Rico or the U.S. Government and stocks of domestic or foreign corporations are exempt from property taxes imposed by the MPTA.

*Municipal License Taxes.* Pursuant to PRICA, the Fund will not be subject to municipal license taxes authorized to be imposed by the MLTA, regardless of whether such income is distributed or not to the shareholders of the Fund.

### **Puerto Rico Taxation of Fund Shareholders**

*Income Taxes on Dividend Distributions.* Dividend distributions by the Fund are classified as “Exempt Dividends,” “Capital Gain Dividends” or “Ordinary Dividends” as discussed below.

A dividend attributable to the Fund’s tax-exempt income under the Puerto Rico Code (“Exempt Dividend”) will not be taxable under the Puerto Rico Code to a Qualifying Investor if (i) such dividend is designated as an “Exempt Dividend” by the Fund in a written notice submitted to its shareholders no later than 59 days after the close of the Fund’s taxable year, and (ii) such dividend does not exceed the earnings and profits of the Fund attributable to income exempt from Puerto Rico income tax under Section 1031.02 of the Puerto Rico Code, or pursuant to any other Puerto Rico or United States law.

Dividends paid by the Fund from its earnings and profits derived from the sale or exchange of property (“Capital Gain Dividends”) are taxable as long-term capital gains to Qualifying Investors regardless of how long the Shares have been held by the shareholder. Capital Gain Dividends will qualify for the special income tax on capital gains of 15% in the case of Qualifying Individuals, and for the alternative 20% income tax rate in the case of Qualifying Corporations.

Special rules may apply to Exempt Dividends and Capital Gain Dividends distributed by the Fund to estates and trusts.

A dividend distributed by the Fund that is not an Exempt Dividend or a Capital Gain Dividend is considered an Ordinary Dividend (“Ordinary Dividend”).

Ordinary Dividends and Capital Gain Dividends received by Qualifying Individuals and Qualifying Corporations are included in income and subject to Puerto Rico income tax (as ordinary gross income or capital gain, as the case may be) regardless of whether they are reinvested in additional Shares pursuant to the Fund's dividend reinvestment plan. Distributions that exceed the earnings and profits of the Fund will be treated as a tax-free return of capital to a shareholder to the extent of the shareholder's basis in the Shares, and any excess will be treated as a gain from the sale or exchange of such shares.

Ordinary Dividends and Capital Gains Dividends derived by Qualifying Individuals that have a decree issued pursuant to Act 22-2012 are subject to taxation in accordance with the rules provided therein.

By purchasing the Shares, Qualifying Investors that are not Qualifying Retirement Trusts will be irrevocably agreeing that all Ordinary Dividends distributed to them will be subject to a 15% Puerto Rico income tax withholding, which will be automatically withheld at source by the Fund or its paying agent.

Ordinary Dividends received by Qualifying Individuals, estates and trusts will be subject to a 15% preferential tax to be withheld at source rather than to the regular tax on ordinary income.

Upon filing a Puerto Rico income tax return, a Qualifying Individual, estate or trust may elect not to be subject to the 15% preferential tax on the Ordinary Dividends and to be subject to the regular income tax rates provided by the Puerto Rico Code on ordinary income and the 15% tax withheld at source may be claimed as a credit against the Puerto Rico income tax imposed on the Ordinary Dividends.

An Ordinary Dividend paid to a Qualifying Corporation will be subject to regular and alternative minimum tax. An Ordinary Dividend received by a Qualifying Corporation will qualify for an 85% dividends received deduction. Qualifying Corporations will not be eligible for the 15% preferential tax applicable in the case of Qualifying Individuals, estates and trusts. However, dividends paid to Qualifying Corporations will be subject to the 15% income tax withholding which amount may be claimed as a credit against Puerto Rico Income taxes due by the Qualifying Corporation.

Qualifying Retirement Trusts will not be subject to income taxation on Ordinary Dividends, Capital Gain Dividends and gains recognized from the sale, exchange or other disposition of shares of the Fund.

*Income Taxes on Capital Gains.* Gain recognized by a shareholder from the sale, exchange or other disposition (including a redemption that is not essentially equivalent to a dividend) of Shares will be treated as a capital gain for shareholders who hold the Shares as a capital asset and as a long-term capital gain if the Shares have been held by the shareholder for more than one (1) year prior to such sale or exchange. Long-term capital gains recognized by Qualifying Individuals on the sale, exchange or other disposition of the Shares will be subject to the special 15% income tax rate. Alternatively, the Qualifying Individual may elect to include such long-term capital gain as ordinary income and be subject to the regular income tax rates imposed under the Puerto Rico Code. Long-term capital gains recognized by a Qualifying Corporation on the sale, exchange or other disposition of the Shares will be subject to 20% income tax rate. Losses from the sale, exchange or other disposition of the Shares that constitute capital assets in the hands of Qualifying Investors, except for Qualifying Corporations, are deductible only to the extent of gains recognized by such shareholders from the sale, exchange or other disposition of capital assets. Such Qualifying Investors, except for Qualifying Corporations, may also deduct up to \$1,000 of such capital losses against ordinary income. Capital losses from the sale, exchange or other disposition of the Shares that constitute capital assets in the hands of Qualifying Corporations are deductible in the year if the loss only to the extent of gains recognized by such Shareholders from the sale, exchange or other disposition of capital assets in such year, the deduction for losses carried over to subsequent taxable years is limited to 80% of the amount of capital gains, provided that for taxable years beginning after December 31, 2018, the deduction is limited to 90% of the amount of capital gains.

Capital gains derived by Qualifying Individuals that have a decree pursuant to Act 22-2012 are subject to taxation in accordance with the rules provided therein.

For purposes of the Puerto Rico Code, an investment in Shares by a “financial institution” may be treated as an investment in an “exempt obligation” for purposes of the interest expense allocation rules for financial institutions of the Puerto Rico Code.

*Alternative Minimum Tax.* Puerto Rico resident individuals are subject to alternative minimum tax if their regular tax liability is less than the alternative minimum tax liability. The alternative minimum tax rates range from 10% to 24% depending on the alternative minimum tax net income. The alternative minimum tax net income is determined by adjusting the individual’s net income subject to regular income tax rates by, among other items, adding: (i) certain income exempt from the regular income tax and (ii) income subject to special tax rates as provided in the Puerto Rico Code such as: Ordinary Dividends, Capital Gain Dividends and long-term capital gains recognized by Qualifying Individuals on the sale, exchange or other taxable disposition of the Shares. It should be noted that exempt dividends disbursed by the Fund are not subject to the alternative minimum tax.

*Estate and Gift Taxes.* Estate and gifts taxes imposed by the Puerto Rico Code have been repealed with respect to transfers by inheritance or gifts occurring after December 31, 2017, respectively.

*Municipal License Taxes.* Under the MLTA, all dividends distributed by the Fund to Qualifying Corporations will form part of their “volume of business” and, therefore, may be subject to a municipal license tax of up to 1.5%, in the case of such shareholders that are engaged in a financial business, or of up to 0.5%, in the case of such shareholders engaged in a non-financial business. Qualifying Individuals will not be subject to a municipal license tax on the Fund’s distributions.

*Property Taxes.* Under the provisions of the MPTA, the Shares are exempt from Puerto Rico personal property taxes in the hands of the Fund’s shareholders.

The discussion contained in this Section is a general and abbreviated summary of certain Puerto Rico tax considerations affecting the Fund and the Qualifying Investors, and is not intended as tax advice or to address a shareholder’s particular circumstances. Investors are urged to consult their tax advisers regarding the tax consequences of investing in the Fund.

## **United States Taxation of the Fund**

*Income Taxes.* In the opinion of Pietrantonio Méndez & Alvarez LLC based on certain representations made by the Fund, under current U.S. federal income tax law the Fund will not be engaged in a U.S. trade or business and will not be required to file a U.S. federal income tax return. Such opinion is based on certain representations made by the Fund to the effect that it will not be engaged in a U.S. trade or business. An opinion of counsel is not binding on the IRS, however, and it is possible that the IRS or a court could disagree with counsel’s conclusion. Interest received by the Fund from U.S. sources on certain registered obligations (“Portfolio Interest”) and gains derived by the Fund from the sale or exchange of personal property (other than a “United States Real Property Interest”) are not subject to United States federal income taxation. It is the intent of the Fund’s management to derive only U.S. source interest income considered to be Portfolio Interest with respect to its investments in U.S. fixed income securities. Moreover, as a foreign corporation not engaged in trade or business in the United States, the Fund will only be subject to United States federal income taxation if it realizes certain items of income of a fixed or determinable annual or periodic nature, in which case the Fund will be subject to a withholding of United States federal income tax at a 10% gross rate on U.S. source dividends and at a 30% gross rate on such other U.S. source income.

If the Fund ultimately is found to be engaged in a U.S. trade or business, it would be subject to U.S. corporate income tax at the regular rates applicable to corporations on that part of its net income that is effectively connected with such business and, in addition, to a branch profits tax (which generally is imposed on a foreign corporation upon the repatriation outside of the United States of earnings and profits attributable to a U.S. trade or business) at a 30% rate on its earnings and profits attributable to such effectively connected income, subject to a number of statutory adjustments.

The U.S. Code imposes a 30% withholding tax (known as the “FACTA Tax”) upon most payments of U.S. source income and gross proceeds from the disposition of property that can produce U.S. source dividends or interest made to certain “foreign financial institutions” or “non-financial foreign entities” (including “non-financial foreign territory entities”) unless certain certification and reporting requirements are satisfied. In the case of most payments of U.S. source income, the 30% withholding currently is expected to apply to payments made after June 30, 2014, and, in the case of gross proceeds from the disposition of property that can produce U.S. source dividends or interest, payments made after December 31, 2018. Regulations issued by the U.S. Department of the Treasury and the IRS on January 17, 2013 and temporary regulation published on March 6, 2014 (the “FATCA Regulations”) treat the Fund as a “territory non-financial foreign entity.” Under this classification, the Fund could be required to provide to the payors of such income (except with respect to certain grandfathered obligations) certain information with respect to its investors. The payors, in turn, would be required to disclose such information to the IRS.

Under the FATCA Regulations, the Fund would not have to provide the required information only if it is wholly owned directly or indirectly by investors who are individual bona fide residents of Puerto Rico for purposes of Section 933 of the U.S. Code, otherwise it will have to provide the information with respect to direct and indirect substantial U.S. owners of the Fund. If the Fund is unable to obtain such information from any such investor or otherwise fails or is unable to comply with the requirements of the U.S. Code, the FATCA Regulations or any other implementing rules, certain payments to the Fund may be subject to a 30% withholding tax. By making an investment in the Fund, each investor agrees to provide all information and certifications necessary to enable the Fund to comply with these requirements.

A withholding agent is not required to make the 30% withholding if the withholding agent can treat the payment as made to a payee that is a direct reporting non-financial foreign entity (“NFFE”) and certain requirements are met. In this case, the Fund has elected to register as a direct reporting NFFE with the IRS. As a direct reporting NFFE, the Fund would have to report on IRS Form 8966, FATCA Report, directly to the IRS certain information about its direct or indirect substantial U.S. owners, in lieu of providing such information to the withholding agent.

Prospective investors should consult with their own tax advisers regarding these matters and similar disclosure requirements as they apply to them.

### **United States Taxation of Qualifying Investors**

*Income Taxes.* The Fund will be treated as a foreign corporation under the U.S. Code and dividends paid by the Fund will be Puerto Rico source rather than U.S. source income. Qualifying Corporations (other than U.S. Corporations) that are not engaged in a U.S. trade or business will not be subject to U.S. taxation on dividends received from the Fund and on gains from the sale or exchange of Shares. Qualifying Corporations (other than U.S. Corporations) that invest in the Fund will be subject to United States federal income tax on gain from a disposition of Shares only if the gain is effectively connected with a U.S. trade or business carried on by such corporation.

Under U.S. Code Sections 933 and 937, and based upon certain administrative guidance of the IRS, Qualifying Individuals who own, directly or indirectly, less than 10% of the total Shares of the Fund will not be subject to United States income taxation on dividends received from the Fund. Also, Qualifying Individuals will not be subject to United States income taxation on gains from the sale or exchange of Shares. However, these shareholders will not generally be allowed a tax deduction for any amount allocable to or chargeable against amounts so excluded from the Qualifying Individual’s gross income.

In the case of Qualifying Individuals who own, directly or indirectly, at least 10% of the total Shares, only the Puerto Rico source ratio of any dividend paid or accrued by the Fund shall be treated as income from sources within Puerto Rico. For these shareholders, the Puerto Rico source ratio of any dividend from the Fund shall be a fraction, the numerator of which equals the gross income of the Fund from sources within Puerto Rico during the testing period and the denominator of which equals the total gross income of the Fund for the testing period. The term “testing period” as used herein means the 3-year period ending with the close of the taxable year of the payment of the dividend (or such part of such period as the Fund has been in existence, if less than 3 years). In the case of these shareholders, the part of the dividend determined to be from sources other than Puerto Rico (after applying the rules described in this paragraph) will be subject to United States income taxation.

Individual shareholders of the Fund should consult their tax advisers to determine if under the provisions of Section 937 of the U.S. Code and the regulations promulgated thereunder, they meet the direct or indirect 10% ownership requirement described above since certain attribution rules apply for purposes of determining such 10% ownership requirement. If after consulting his or her tax adviser, an individual shareholder determines that he or she is a 10% shareholder of the Fund, such individual must contact the investment adviser to get the necessary information to determine which part of the dividend received by him or her is from sources other than Puerto Rico.

Regulations under Section 937(b) of the U.S. Code include an exception to the general source of income rules otherwise applicable to dividends paid by Puerto Rico corporations (such as the Fund) in the case of dividends paid by such Puerto Rico corporations pursuant to certain conduit plans or arrangements (“conduit arrangements”). Under the regulations, income received pursuant to a conduit arrangement from United States sources would retain its character as US source income notwithstanding the fact the general sourcing rules would otherwise treat such income as being from Puerto Rico sources. In general, the regulations describe a conduit arrangement as one in which pursuant to a plan or arrangement income is received by a person in exchange for consideration provided to another person and such other person provides the same consideration (or consideration of a similar kind) to a third person in exchange for one or more payments constituting income from sources within the United States. The Fund, however, understands that the conduit regulations were not intended to apply to an actively managed investment company such as the Fund that is subject to regulation by state authorities and therefore, would not change the conclusion that dividends paid by the Fund will be considered from Puerto Rico sources as described in the preceding paragraph.

Under current United States federal income tax law, the Fund will be treated as a passive foreign investment company (“PFIC”). Under the PFIC rules, a Fund shareholder that is a U.S. person, i.e., a citizen or resident of the United States, a U.S. domestic corporation or partnership, or an estate or trust that is taxed as a resident of the United States (such a shareholder is referred to in this section as a “U.S. shareholder”) and that disposes of its PFIC stock at a gain is treated as receiving an excess distribution equal to such gain. In addition, if a U.S. shareholder receives a distribution from a PFIC in excess of 125% of the average amount of distributions such shareholder has received from the PFIC during the three preceding taxable years (or shorter period if the U.S. shareholder has not held the stock for three years), the U.S. shareholder is treated as receiving an excess distribution equal to such excess. In general, under the PFIC rules, (i) the excess distribution or gain would be allocated ratably over the U.S. Shareholder’s holding period for the Shares, (ii) the amount allocated to the current taxable year would be taxed as ordinary income, and (iii) the amount allocated to each of the other taxable years would, with certain exceptions, be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed on the resulting tax attributable to each such year. As an alternative to these rules, U.S. Shareholders may, in certain circumstances, elect a mark-to-market treatment with respect to these Shares.

Qualifying Corporations (other than U.S. Corporations) are not U.S. shareholders for purposes of the PFIC provisions. Qualifying Individuals who are citizens of the United States are U.S. shareholders for purposes of the PFIC provisions. However, under a proposed regulation under the U.S. Code, citizens of the United States who are Qualifying Individuals would be subject to the rule described in (ii) and (iii) above only to the extent that any excess distribution or gain is considered to be from sources other than Puerto Rico or is allocated to a taxable year during which the Qualifying Individual held the Shares and was not a bona fide resident of Puerto Rico during the entire taxable year, or in certain cases, a portion thereof, within the meaning of Sections 933 and 937 of the U.S. Code. The portion of the excess distribution or gain considered to be Puerto Rico source income that is allocated to the current taxable year of the Qualifying Individual will not be subject to U.S. income taxation pursuant to U.S. Code Section 933.

The U.S. Code also provides that certain shareholders of PFICs, such as the Fund, who are, among others, United States citizens, must file an annual report containing such information as the Secretary of the Treasury may require. Subject to various exceptions, a shareholder of the Fund will not have to file the required annual return (Form 8621) with respect to the Fund for a taxable year if : (i) (a) on the last day of the taxable year of the shareholder, the aggregate value of all PFIC stock owned directly or indirectly by the shareholder does not exceed \$25,000 (\$50,000 for joint filers), or if the stock of the Fund is held indirectly, the value of the stock does not exceed \$5,000; (b) the shareholder has not made a “Qualified Electing Fund” election with respect to the Fund, and (c) the shareholder is not treated as having received an “excess distribution” by reason of a distribution or disposition of the



stock of the Fund, (ii) the shareholder is a tax exempt entity (as defined in the regulations issued under Section 1298 of the US Code); or (iii) is a shareholder whose passive foreign investment company information reporting pertains to a taxable year ending before December 31, 2013. If the shareholder of PFIC is required to file Form 8621 with respect to more than one passive foreign investment company, such person must file a separate Form 8621 for each PFIC.

Qualifying Investors that are estates or trusts should consult their tax advisers regarding the U.S. federal tax consequences of an investment in the Fund.

*Estate and Gift Taxes.* The transfer of Shares by death or gift by a Qualifying Individual will not be subject to estate and gift taxes imposed by the U.S. Code if such Qualifying Individual (i) is a U.S. citizen who acquired such citizenship solely by reason of birth or residence in Puerto Rico and (ii) is a resident of Puerto Rico for purposes of the U.S. Code as of the time of the death or gift.

The discussion contained in this section is a general and abbreviated summary of certain federal tax considerations affecting the Fund and the Qualifying Investors, and is not intended as tax advice or to address a shareholder's particular circumstances.

*Investors are urged to consult their tax advisers regarding specific questions as to U.S. federal or Puerto Rico taxes or as to the consequences of investing in the Fund.*

## **DESCRIPTION OF CAPITAL STOCK**

The Fund has the authority to issue, upon resolution approved by the Board of Directors from time to time, 5,000,000,020 shares of capital stock, of which 4,000,000,020 shares shall be shares of common stock with a par value of one cent (\$0.01) per share, and 1,000,000,000 shares shall be shares of preferred stock with a par value of one cent (\$0.01) per share. The shares of common stock are divided into four classes: (i) 2,000,000,000 Class A Shares with a par value of one cent (\$0.01) per share, (ii) 1,800,000,000 Class C Shares with a par value of one cent (\$0.01) per share, (iii) 200,000,000 Advisor Class Shares with a par value of one cent (\$0.01) per share and (iv) 20 Class Q Shares with a par value of one cent (\$0.01) per share which are sold exclusively to directors of the Fund that are residents of Puerto Rico and will only be entitled to vote if the Fund doesn't have any shares of Class A or Class C common stock outstanding. The Board of Directors is authorized, to the extent permitted by law, to classify or reclassify any unissued shares of common stock or preferred stock.

*Common Stock.* Although the Fund has three classes of common stock, the Fund is only offering its Class A Shares and Class C Shares to the public. Shares of common stock, when issued and outstanding, will be fully paid and non-assessable. Stockholders are entitled to share pro-rata in the net assets of the Fund available for distribution to holders of common stock upon the liquidation of the Fund. Except as set forth above with respect to the voting rights of Class Q Shares, holders of shares of common stock are entitled to one vote for each share held. All voting rights for the election of directors are non-cumulative, which means that the holders of more than 50% of the shares of common stock of the Fund can elect 100% of the directors then nominated for election if they choose to do so, and, in such event, the holders of the remaining shares will be unable to elect any directors. The Puerto Rico Investment Companies Act provides that not more than 50% of the shares may be controlled by less than six shareholders.

So long as any debt securities and/or shares of preferred stock are outstanding, holders of common stock will not be entitled to receive any net income or other distributions from the Fund unless all interest due and payable on the debt securities and/or accumulated and unpaid dividends on the shares of preferred stock have been paid.

*Preferred Stock.* The Fund may issue shares of preferred stock in one or more series, with rights as determined by the Board of Directors, by action of the Board of Directors without the approval of the holders of the common stock.

Upon any voluntary or involuntary liquidation, dissolution, or winding-up of the Fund, as the case may be, the then holders of record of the shares of preferred stock will be entitled to receive out of the assets of the Fund available for distribution to all holders of the shares of common and preferred stock of the Fund, before any distribution is made to holders of common stock, distributions upon liquidation in an amount equal to the liquidation preference of each share of preferred stock, without premium or penalty.

If upon any voluntary or involuntary liquidation, dissolution or winding-up of the Fund, as the case may be, the amounts payable with respect to the shares of preferred stock are not paid in full, the holders of such shares will share ratably in any such distribution of assets of the Fund in proportion to the full liquidation preferences to which each is entitled. After payment of the full amount of the liquidation preference to which they are entitled, the holders of such shares will not be entitled to any further participation in any distribution of assets of the Fund.

The Fund may not issue shares ranking, as to participation in profits or the assets of the Fund, senior or in priority to the preferred stock, unless approved by the preferred stockholders in accordance with the resolutions of the Board of Directors of the Fund providing for their creation.

The specific terms and conditions of any preferred stock issued by the Fund will be set forth in a supplement to this prospectus. Moreover, in accordance with the Puerto Rico Investment Companies Act, the Commissioner must also approve the issuance of such preferred stock.

## **LEGAL MATTERS AND AUDITORS**

Certain legal matters in connection with the issuance of the Shares offered hereby will be passed upon by Pietrantoni Méndez & Alvarez LLC, San Juan, Puerto Rico, as counsel to the Fund.

PricewaterhouseCoopers LLP, San Juan, Puerto Rico, have been selected as the independent auditors of the Fund. The independent auditors are responsible for auditing the financial statements of the Fund.

## **PRIVACY POLICY**

Attached as Appendix D is a copy of the Privacy Policy as to the information the Fund compiles and maintains on its investors.

## **GENERAL INFORMATION**

### **Reports to Shareholders**

The fiscal year of the Fund ends on June 30 of each year. An annual report which includes listings of the investment securities held by the Fund at the end of the covered period, and containing financial statements audited by the Fund's independent auditors, will be sent to shareholders each year. The Fund plans to consolidate the mailing of its annual report by household in an effort to reduce the Fund's printing and mailing costs. A household having multiple accounts with identical address of record will receive a single copy of each report. Shareholders who do not want this consolidation to apply to their accounts must contact their broker. A copy of the Fund's annual report may be obtained from the Fund's Distributor free of charge upon request by calling (787) 758-7400. After the end of each calendar year, shareholders will receive Puerto Rico income tax information regarding dividends and capital gains distributions.

### **Performance Information**

From time to time, the Fund may include its yield and/or total return on its common stock in advertisements and other types of sales literature. The Fund may also include comparative performance information in advertising or marketing of its shares. Such performance information may include data from independent financial publications. Yield or total return figures will be based on the Fund's historical performance and are not intended to indicate future performance.

**Additional Information**

Additional information regarding the Fund is on file with the Commissioner.

**LICENSE AGREEMENT**

Under the terms of a license agreement with Popular, Inc. (the “License Agreement”), the Fund has been granted a license to use certain trade names and trademarks of Popular, Inc. The License Agreement may be amended by the parties thereto without the consent of any of the shareholders of the Fund.

None of the Fund, the Adviser, the Distributor, the Administrator or any shareholder of the Fund is entitled to any rights whatsoever under the foregoing licensing arrangements or to use the trademark “Popular” except as specifically described herein or as may be specified in the License Agreement.

231088.21

**APPENDIX A**

**PUERTO RICO RESIDENCY REPRESENTATION LETTER (INDIVIDUAL)**

To: Popular Securities, LLC  
San Juan, Puerto Rico

Re: Puerto Rico Residency Status

To Whom It May Concern:

I provide the following information and representations in connection with opening and maintaining my account with Popular Securities, LLC. In my account I may hold or purchase certain investments, including, but not limited to, closed-end and open-end mutual funds (collectively, "Mutual Funds"), preferred stock, and debt securities, that are not registered under the U.S. Securities Act of 1933 or the U.S. Investment Company Act of 1940 ("Puerto Rico Investments") and are exempt from registration under the U.S. Securities Act of 1933 and/or the U.S. Investment Company Act of 1940, based, in part, on the requirement that they be offered or sold only to individuals who have their principal residence in Puerto Rico ("Puerto Rico Residents"), all as disclosed in their respective prospectuses or offering materials.

Accordingly, I hereby represent to you that:

1. I have acquired or propose to acquire Puerto Rico Investments for my own account and will be the sole beneficial owner thereof.
2. As of the date of this letter, I am an individual whose principal residence is in Puerto Rico.
3. If I cease to be a Puerto Rico Resident, I will (i) notify you within (30) days of ceasing to be a Puerto Rico Resident, (ii) liquidate my holdings in any Puerto Rico Investment when such liquidation becomes economically feasible, and (iii) not acquire additional Puerto Rico Investments.
4. I hereby acknowledge that if at the time of purchase of Puerto Rico Investments I am not a Puerto Rico Resident, Popular Securities, LLC may declare any such purchase to be null and void.
5. I acknowledge that any purchases of Puerto Rico Investments will not be made on behalf of a retirement plan subject to ERISA.
6. I acknowledge that Mutual Funds may enter into purchase and sale transactions and other transactions with affiliated entities as described in the prospectus of each Mutual Fund and I hereby consent to such transactions as described in the applicable prospectus.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name

\_\_\_\_\_  
Account Number

**PUERTO RICO RESIDENCY REPRESENTATION LETTER  
(FOR BUSINESS ORGANIZATIONS)**

To: Popular Securities, LLC  
San Juan, Puerto Rico

Re: Puerto Rico Residency Status

To Whom It May Concern:

We provide the following information and representations in connection with opening and maintaining our account with Popular Securities, LLC. In our account we may hold or purchase certain investments, including, but not limited to, closed-end and open-end mutual funds (collectively, "Mutual Funds"), preferred stock, and debt securities, that are not registered under the U.S. Securities Act of 1933 or the U.S. Investment Company Act of 1940 ("Puerto Rico Investments") and are exempt from registration under the U.S. Securities Act of 1933 and/or the U.S. Investment Company Act of 1940, based, in part, on the requirement that they be offered or sold only to individuals who have their principal residence in Puerto Rico or to corporations or other business organizations that have their principal office and principal place of business within Puerto Rico ("Puerto Rico Residents"), all as disclosed in their respective prospectuses or offering materials.

Accordingly, I hereby represent to you that:

1. I have acquired or propose to acquire Puerto Rico Investments for our own account and will be the sole beneficial owner thereof.
2. As of the date of this letter, we are a corporation, partnership or other form of business organization that has its principal office and principal place of business within Puerto Rico that has not been organized for the purpose of acquiring Puerto Rico Investments and, if organized as a trust, the trustee and all beneficiaries of the trust are residents of Puerto Rico.
3. If, as of the date of this letter, we are organized as a non-business trust, the trust has its principal office and principal place of business within Puerto Rico and the trustee and all beneficiaries of the trust are Puerto Rico Residents.
4. If we cease to be a Puerto Rico Resident, we will (i) notify you within 30 days of ceasing to be a Puerto Rico Resident, (ii) liquidate our holdings in any Puerto Rico Investment when such liquidation becomes economically feasible, and (iii) not acquire additional Puerto Rico Investments.
5. We acknowledge that any purchases of Puerto Rico Investments will not be made on behalf of a retirement plan subject to ERISA.
6. We acknowledge that Mutual Funds may enter into purchase and sale transactions and other transactions with affiliated entities as described in the prospectus of each Mutual Fund and we hereby consent to such transactions as described in the applicable prospectus.

We hereby acknowledge that if the time of purchase of Puerto Rico Investments we are not Puerto Rico Residents, Popular Securities, LLC may declare any such purchase to be null and void.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name

\_\_\_\_\_  
Account Number

\_\_\_\_\_  
Business Organization

**DESCRIPTION OF CERTAIN INVESTMENT TECHNIQUES  
AND SECURITIES IN WHICH THE FUND MAY INVEST**

The Fund may utilize investment techniques and invest in the types of fixed-income securities described below to the extent permitted under the Puerto Rico Investment Companies Act and the ruling granted to the Fund under the Act. The Fund may also utilize such other types of investment techniques and invest in such other fixed-income securities that become available on the market from time to time. Not all of the described investment techniques and fixed-income securities may currently be permissible to the Fund under the Puerto Rico Investment Companies Act and the ruling granted to the Fund under the Act.

**Description of Certain Fixed-Income Securities**

**Certificates of Deposit, Time Deposits and Bankers' Acceptances.** The Fund also will invest in certificates of deposit, time deposits and bankers' acceptances issued by U.S. or Puerto Rico banks and in dollar-denominated certificates of deposit, time deposits and bankers' acceptances issued by U.S. branches of foreign banks. Certificates of deposit ("CDs") are certificates representing the obligation of a bank to repay funds deposited with it for a specified period of time and normally can be traded in the secondary market prior to maturity. The Federal Deposit Insurance Corporation is an agency of the U.S. Government that insures the deposits of certain banks and savings and loan associations up to \$250,000 per deposit. The interest on such deposits may not be insured if these limits are exceeded. Time deposits are non-negotiable receipts issued by a bank in exchange for the deposit of funds. Like a CD, it earns a specified rate of interest over a definite period of time. Time deposits which may be held by the Fund will not benefit from Federal Deposit Insurance Corporation insurance. Generally, a banker's acceptance is a time draft drawn on a bank by an exporter or an importer to obtain a stated amount of funds to pay for specific merchandise. The draft is then "accepted" by a bank that, in effect, unconditionally guarantees to pay the face value of the instrument on its maturity date. The acceptance may then be held by the accepting bank as an asset, or it may be sold in the secondary market at the going rate of interest for a specified maturity. Although maturities for acceptances can be as long as 270 days, most acceptances have maturities of six months or less.

**Commercial Paper.** The Fund may invest in commercial paper that is limited to obligations rated Prime-1 or Prime-2 by Moody's, or A-1 or A-2 by S&P, or F-1 or F-2 by Fitch. Commercial paper includes notes, drafts or similar instruments payable on demand or having a maturity at the time of issuance not exceeding nine months, exclusive of days of grace or any renewal thereof.

**Debt Securities.** The Fund may invest in debt securities with maturities exceeding 270 days. The market value of debt securities is influenced primarily by changes in the level of interest rates. Generally, as interest rates rise, the market value of debt securities decreases. Conversely, as interest rates fall, the market value of debt securities increases. Factors that could result in a rise in interest rates, and a decrease in the market value of debt securities, include an increase in inflation or inflation expectations, an increase in the rate of Puerto Rico or U.S. economic growth, an increase in the Federal budget deficit or an increase in the price of commodities such as oil.

**Floating and Variable Rate Obligations.** The Fund may also purchase certain types of floating and variable rate securities. The Fund treats variable rate demand instruments as short-term securities even though their maturity may extend beyond 397 days because within 397 days, their variable interest rate adjusts in response to changes in market rates and the repayment of their principal amount can be demanded. The interest payable on a variable rate obligation is adjusted at predesignated periodic intervals and, on floating rate obligations, whenever there is a change in the market rate of interest on which the interest rate payable is based. There is a risk that the current interest rate on such obligations may not accurately reflect existing market interest rates. These obligations frequently permit the holder to demand payment of principal at any time, or at specified intervals, and permit the issuer to prepay, at its discretion, principal plus accrued interest, in each case after a specified notice period. The issuer's obligations under the demand feature of such notes and bonds generally are secured by bank letters of credit or other credit support arrangements. There frequently will be no secondary market for variable and floating rate obligations held by the Fund, although the Fund may be able to obtain payment of principal at face value by exercising the demand feature of the obligation. The investment adviser will consider on an ongoing basis the creditworthiness of the issuers of the floating and variable rate securities held by the Fund.

**Forward Commitments.** The Fund may make contracts to purchase securities for a fixed price at a future date beyond customary settlement time (“forward commitments”), if the Fund either (1) holds, and maintains until the settlement date in a segregated account, cash or high grade debt obligations in an amount sufficient to meet the purchase price or (2) enters into an offsetting contract for the forward sale of securities of equal value that it owns. Forward commitments may be considered securities in themselves. They involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in value of the Fund’s other assets. The Fund may dispose of a commitment prior to settlement and may realize short-term profits or losses upon such disposition.

**Illiquid Securities.** There is no limitation in the Fund’s ability to purchase or otherwise acquire illiquid securities that is, securities that are illiquid by virtue of the absence of a readily available market or legal or contractual restrictions on resale. However, the Fund does not intend to invest in illiquid securities other than Puerto Rico illiquid securities.

Over-the-counter (“OTC”) options and their underlying collateral are currently considered to be illiquid investments. The Fund may sell OTC options and, in connection therewith, segregate assets or cover its obligations with respect to OTC options written. The assets used as cover for OTC options written will be considered illiquid unless OTC options are sold to qualified dealers who agree that the Fund may repurchase any OTC option it writes at a maximum price to be calculated by a formula set forth in the option agreement. The cover for an OTC option written subject to this procedure would be considered illiquid only to the extent that the maximum repurchase price under the formula exceeds the intrinsic value of the option.

**Mortgage-backed Securities.** New types of mortgage-backed securities are developed and marketed from time to time and, consistent with its investment limitations, the Fund expects to invest in those new types of mortgage-backed securities that the investment adviser believes may assist the Fund in achieving its investment objective. Only mortgage-backed securities issued by financial institutions operating in Puerto Rico, which securities represent pools of mortgages executed on properties located in Puerto Rico will constitute Puerto Rico Assets. Such mortgage-backed securities may be issued or guaranteed by one of the agencies described below, or may have the features discussed below. Not all of the types of securities described below are available in Puerto Rico.

Mortgage-backed securities are instruments that entitle the holder to a share of all interest and principal payments underlying the security. The mortgages backing these securities include conventional thirty-year fixed-rate mortgages, graduated payment mortgages, and adjustable rate mortgages. During periods of declining interest rates, prepayment of mortgages underlying mortgage-backed securities can be expected to accelerate. Prepayment of mortgages which underlie securities purchased at a premium often results in capital losses, while prepayment of mortgages purchased at a discount often results in capital gains. Because of these unpredictable prepayment characteristics, it is often not possible to predict accurately the average life or realized yield of a particular issue.

*Specified Mortgage-Backed Securities.* The Fund may invest in mortgage-backed securities constituting derivative instruments such as interest-only obligations (“IOs”), principal-only obligations (“POs” and, together with IOs, other than IOs and POs that are planned amortization class bonds, “PAC Bonds”), or inverse floating rate obligations or other types of Puerto Rico mortgage-backed securities that may be developed in the future and that are determined by the Investment Adviser to present types and levels of risk that are comparable to such IOs, POs and inverse floating rate obligations (collectively, “Specified Mortgage-Backed Securities”). The Fund will invest in Specified Mortgage-Backed Securities only when the Investment Adviser believes that such securities, when combined with the Fund’s other investments, would enable the Fund to achieve its investment objective and policies.

Stripped mortgage-backed securities (“SMBSs”) are classes of mortgage-backed securities that receive different proportions of the interest and principal distributions from the underlying pool of mortgage assets. SMBSs may be issued by agencies or instrumentalities of the U.S. Government or by private mortgage lenders. A common type of SMBS will have one class that receives some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal.



An IO is an SMBS that is entitled to receive all or a portion of the interest, but none of the principal payments, on the underlying mortgage assets; a PO is an SMBS that is entitled to receive all or a portion of the principal payments, but none of the interest payments, on the underlying mortgage assets. The Investment Adviser believes that investments in POs may facilitate its ability to manage the price sensitivity of the Fund to interest rate changes. Generally, the yields to maturity on both IO and PO classes are extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets. If the underlying mortgage assets of an IO class of mortgage-backed security held by the Fund experience greater than anticipated prepayments of principal, the Fund may fail to recoup fully its initial investment in such securities even though the securities are rated in the highest rating category. The Investment Adviser believes that, since principal amortization on PAC Bonds is designed to occur at a predictable rate, IOs and POs that are PAC Bonds generally are not as sensitive to principal prepayments as other IOs and POs.

Mortgage-backed securities that constitute inverse floating rate obligations are mortgage-backed securities on which the interest rates adjust or vary inversely to changes in market interest rates. Typically, an inverse floating rate mortgage-backed security is one of two components created from a pool of fixed rate mortgage loans. The other component is a variable rate mortgage-backed security, on which the amount of interest payable is adjusted directly in accordance with market interest rates. The inverse floating rate obligation receives the portion of the interest on the underlying fixed-rate mortgages that is allocable to the two components and that remains after subtracting the amount of interest payable on the variable rate component. The market value of an inverse floating rate obligation will be more volatile than that of a fixed-rate obligation and like most debt obligations, will vary inversely with changes in interest rates. Certain of such inverse floating rate obligations have coupon rates that adjust to changes in market interest rates to a greater degree than the change in the market rate and accordingly have investment characteristics similar to investment leverage. As a result, the market value of such inverse floating rate obligations are subject to greater risk of fluctuation than other mortgage-backed securities, and such fluctuations could adversely affect the ability of the Fund to achieve its investment objective and policies.

The yields on Specified Mortgage-Backed Securities may be more sensitive to changes in interest rates than Puerto Rico GNMA, Fannie Mae or Freddie Mac Mortgage-Backed Securities. While the Investment Advisers will seek to limit the impact of these factors on the Fund, no assurance can be given that they will achieve this result.

*Government Pass-Through Securities.* These are securities that are issued or guaranteed by a U.S. Government agency representing an interest in a pool of mortgage loans. The primary issuers or guarantors of these mortgage-backed securities are the Government National Mortgage Association (“GNMA”), the Federal National Mortgage Association (“FNMA”) and the Federal Home Loan Mortgage Corporation (“FHLMC”). FNMA and FHLMC obligations are not backed by the full faith and credit of the U.S. Government as GNMA certificates are, but FNMA and FHLMC securities are supported by the instrumentalities’ right to borrow from the U.S. Treasury. GNMA, FNMA and FHLMC each guarantees timely distributions of interest to certificate holders. GNMA and FNMA also each guarantees timely distributions of scheduled principal. FHLMC has in the past guaranteed only the ultimate collection of principal of the underlying mortgage loan; however, FHLMC now issues mortgage-backed securities (FHLMC Gold PCS) which also guarantee timely payment of monthly principal reductions. Government and private guarantees do not extend to the securities’ value, which is likely to vary inversely with fluctuations in interest rates.

*Private Pass-Through Securities.* These are mortgage-backed securities issued by a nongovernmental entity, such as a trust. These securities include collateralized mortgage obligations (“CMOs”) and real estate mortgage investment conduits (“REMICs”) that are rated in one of the top two rating categories. While they are generally structured with one or more types of credit enhancement, private pass-through securities typically lack a guarantee by an entity having the credit status of a governmental agency or instrumentality.

*Collateralized Mortgage Obligations.* CMOs are debt obligations or multiclass pass-through certificates issued by agencies or instrumentalities of the U.S. Government or by private originators or investors in mortgage loans. In a CMO, series of bonds or certificates are usually issued in multiple classes. Principal and interest paid on the underlying mortgage assets may be allocated among the several classes of a series of a CMO in a variety of ways. Each class of a CMO, often referred to as a “tranche,” is issued with a specific fixed or floating coupon rate and has a stated maturity or final distribution date. Principal payments of the underlying mortgage assets may cause

CMOs to be retired substantially earlier than their stated maturities of final distribution dates, resulting in a loss of all or part of any premium paid.

*REMICs.* A REMIC is a CMO that qualifies for special tax treatment under the U.S. Internal Revenue Code and invests in certain mortgages principally secured by interests in real property. REMICs are not available in Puerto Rico and do not qualify as Puerto Rico Securities. Investors may purchase beneficial interests in REMICs, which are known as “regular” interests or “residual” interests. Guaranteed REMIC pass-through certificates (“REMIC Certificates”) issued by FNMA or FHLMC represent beneficial ownership interests in a REMIC trust consisting principally of mortgage loans or FNMA, FHLMC or GNMA-guaranteed mortgage pass-through certificates. For FHLMC REMIC Certificates, FHLMC guarantees the timely payment of interest, and also guarantees the payment of principal as payments are required to be made on the underlying mortgage participation certificates. FNMA REMIC Certificates are issued and guaranteed as to timely distribution of principal and interest by FNMA.

*Risk Factors.* Due to the possibility of prepayment of the underlying mortgage instruments, mortgage-backed securities generally do not have a known maturity. In the absence of a known maturity, market participants generally refer to an estimated average life. An average life estimate is a function of an assumption regarding anticipated prepayment patterns, based upon current interest rates, current conditions in the relevant housing markets and other factors. The assumption is necessarily subjective, and thus different market participants can produce different average life estimates with regard to the same security. There can be no assurance that estimated average life will be a security’s actual average life.

**Municipal Bonds, Industrial Development Bonds and Private Activity Bonds.** Municipal bonds are debt obligations issued to obtain Funds for various public purposes. The two principal classifications of municipal bonds are “general obligation” bonds and “revenue” bonds. General obligation bonds are secured by the issuer’s pledge of its full faith, credit and taxing power for the repayment of principal and the payment of interest. Revenue bonds are payable only from the revenues derived from a particular source, such as the user of the facility being financed. Certain municipal bonds are “moral obligation” issues, which normally are issued by special purpose public corporations. In the case of such issues, an express or implied “moral obligation” of a related government unit is pledged to the payment of the debt service but is usually subject to annual budget appropriations.

The Fund may invest in industrial development bonds (“IDBs”) and private activity bonds (“PABs”), which are municipal bonds issued by or on behalf of public corporations to finance various privately operated facilities, such as airports or pollution control facilities. IDBs and PABs are generally revenue bonds and thus are not payable from the unrestricted revenue of the issuer. The credit quality of IDBs and PABs is usually directly related to the credit standing of the user of the facilities being financed.

The Fund does not presently intend to concentrate its investments, e.g., invest a relatively high percentage of its assets in Puerto Rico Government Obligations (such as revenue bonds) issued by entities which may pay their debt service obligations from the revenues derived from similar projects such as hospitals, multi-family housing, nursing homes, continuing care facilities, commercial facilities (including hotels), electric utility systems or industrial companies. That limitation may in the future be changed by the Fund’s Board of Directors. Any future determination to allow concentration of the Fund’s investments may make the Fund more susceptible to similar economic, political, or regulatory occurrences.

**Municipal Lease Obligations.** Municipal lease obligations are government securities that may take the form of leases, installment purchase contracts or conditional sales contracts, or certificates of participation with respect to such contracts or leases. Municipal lease obligations are issued by municipalities and public corporations to purchase land or various types of equipment and facilities. Although municipal lease obligations do not constitute general obligations of the municipality for which the municipality’s taxing power is pledged, they ordinarily are backed by the municipality’s covenant to budget for, appropriate and make the payments due under the lease obligation.

The liquidity of municipal lease obligations varies. Certain municipal lease obligations contain non-appropriation clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Some municipal lease

obligations of this type are insured as to timely repayment of principal and payment of interest, even in the event of a failure by the municipality to appropriate sufficient Funds to make payments under the lease. However, in the case of an uninsured municipal lease obligation, the Fund's ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition of the property in the event of foreclosure might prove difficult.

**Participation Interests.** The Fund may invest in participation interests in fixed and variable rate securities. A participation interest gives the Fund an undivided interest in a security or asset owned by a bank. The Fund has the right to sell the instrument back to the bank. Such right is generally backed by the bank's irrevocable letter of credit or guarantee and permits the Fund to draw on the letter of credit on demand, after specified notice, for all or any part of the principal amount of the Fund's participation interest plus accrued interest. Generally, the Fund intends to exercise the demand under the letters of credit or other guarantees only upon a default under the terms of the underlying security or asset, or to maintain the Fund's portfolio in accordance with its investment objective and policies. The ability of a bank to fulfill its obligations under a letter of credit or guarantee might be affected by possible financial difficulties of its borrowers, adverse interest rate or economic conditions, regulatory limitations or other factors. The investment adviser will monitor the pricing, quality and liquidity of the participation interests held by the Fund, and the credit standing of banks issuing letters of credit or guarantees supporting such participation interests on the basis of published financial information reports of rating services and bank analytical services.

**Preferred Stock.** The Fund may invest in preferred stock. A preferred stock is a blend of the characteristics of a bond and common stock. It can offer the higher yield of a bond and has priority over common stock in equity ownership, but does not have the seniority of a bond and its participation in the issuer's growth in value may be limited. Preferred stock has preference over common stock in the receipt of dividends and in any residual assets after payment to creditors should the issuer be dissolved. Although the dividend is set at a fixed annual rate, in some circumstances it can be changed or omitted by the issuer. The Fund will not invest in preferred stock convertible into shares of common stock.

**Puerto Rico Government Obligations.** The Fund may invest in securities issued or guaranteed by the Commonwealth of Puerto Rico or its agencies and instrumentalities. Such securities include Puerto Rico government securities, such as bills, notes, bonds and certificates of indebtedness, which differ in their interest rates, maturities and times of issuance, and issues of Puerto Rico agencies and instrumentalities established under the authority of an act of the Puerto Rico Legislature. These securities may bear fixed, floating or variable rates of interest, subject to the limitations established in the investment guidelines for the Fund. See "Floating and Variable Rate Obligations" herein. While the Commonwealth of Puerto Rico may provide financial support to some Puerto Rico agencies or instrumentalities, no assurance can be given that it will always do so, since it is not always so obligated by law. The Fund will invest in such securities only when such securities meet the rating requirements established under the guidelines adopted by the Fund's Board of Directors and when the Investment Adviser deems such investment to be consistent with the Fund's investment objective and policies.

**Repurchase Agreements.** The Fund may invest in repurchase agreements. A repurchase agreement is a transaction in which the Fund purchases securities and simultaneously commits to resell the securities to the original seller (a member bank of the Federal Reserve System or a securities dealer who is a member of a national securities exchange or is a market maker in U.S. Government securities) at an agreed upon date and price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased securities. Repurchase agreements carry certain risks not associated with direct investments in securities, including possible decline in the market value of the underlying securities and costs to the Fund if the other party to the repurchase agreement becomes bankrupt, so that the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities.

**U.S. Government Securities.** The Fund may invest in U.S. Government securities, including a variety of securities that are issued or guaranteed by the U.S. Government, its agencies or instrumentalities and repurchase agreements secured thereby. These securities include securities issued and guaranteed by the U.S. Government, such as Treasury bills, Treasury notes, and Treasury bonds; obligations supported by the right of the issuer to borrow from the U.S. Treasury, such as those of the Federal Home Loan Banks; and obligations supported only by the credit of the issuer, such as those of the Federal Intermediate Credit Banks.

**When-Issued and Delayed Delivery Transactions.** The Fund may enter into agreements with banks or broker-dealers for the purchase or sale of securities at an agreed-upon price on a specified future date. Such agreements might be entered into, for example, when the investment adviser anticipates a decline in interest rates and is able to obtain a more advantageous yield by committing currently to purchase securities to be issued later. When the Fund purchases securities on a when-issued or delayed delivery basis, it is required either (1) to create a segregated account with the Fund's custodian and to maintain in that account cash, U.S. Government securities or other high grade debt obligations in an amount equal on a weekly basis to the amount of the Fund's when-issued or delayed delivery commitments or (2) to enter into an offsetting forward sale of securities it owns equal in value to those purchased. The Fund will only make commitments to purchase securities on a when-issued or delayed-delivery basis with the intention of actually acquiring the securities. However, the Fund may sell these securities before the settlement date if it is deemed advisable as a matter of investment strategy. When the time comes to pay for when-issued or delayed-delivery securities, the Fund will meet its obligations from then available cash flow or the sale of securities, or, although it would not normally expect to do so, from the sale of the when-issued or delayed delivery securities themselves (which may have a value greater or less than the Fund's payment obligation).

### **Futures, Forwards and Hedging Transactions**

**General Description.** The Fund may use a variety of financial instruments ("Derivative Instruments"), including options on securities, financial futures contracts (sometimes referred to as "futures" or "futures contracts"), options on futures contracts and other interest rate protection transactions such as swap agreements, to attempt to hedge the Fund's investment portfolio. In addition to hedging, the Fund may also invest in Derivative Instruments for income enhancement purposes, including enhancing portfolio returns and reducing borrowings costs. The investment in Derivative Instruments for income enhancement purposes subjects the Fund to substantial risk of losses that may not be off set by gains on other portfolio assets.

**Cover for Hedging Strategies.** Some Hedging Instruments expose the Fund to an obligation to another party. The Fund will not enter into any such transactions unless it owns either (1) an offsetting ("covered") position in securities, options, futures contracts or swap agreements or (2) cash and other liquid assets with a value sufficient at all times to cover its potential obligations to the extent not covered as provided in (1) above. The Fund will comply with applicable regulatory guidelines regarding cover for instruments and will, if the guidelines so require, set aside cash or other liquid assets in a segregated account with the Fund's custodian, in the prescribed amount.

Assets used as cover or otherwise set aside cannot be sold while the position in the corresponding Hedging Instrument is open, unless they are replaced with other appropriate assets. As a result, the commitment of a large portion of a Fund's assets to cover in segregated accounts could impede its ability to meet redemption requests or other current obligations.

**Options and Futures Trading.** The Fund may engage in certain options (including options on securities, equity and debt indices, and futures strategies) in order to hedge its investments as well as for income enhancement purposes. There is no limit on the amount of these transactions that may be entered into for bona fide hedging purposes. For non-hedging purposes, the Fund may enter into such transactions if, immediately after the transactions, the sum of the initial margin deposits on the Fund's existing futures positions and option premiums entered into for non-hedging purposes does not exceed 5% of the liquidation value of the Fund's portfolio, after taking into account unrealized profits and unrealized losses on such transactions. Certain special characteristics of and risks with these strategies are discussed below.

**Characteristics and Risks of Options Trading.** The Fund effectively may terminate its right or obligation under an option by entering into a closing transaction. If the Fund wished to terminate its obligation to purchase or sell securities under a put or call option it has written, it may purchase a put or call option of the same-series (i.e., an option identical in its terms to the option previously written); this is known as a closing purchase transaction. Conversely, in order to terminate its right to purchase or sell under a call or put option it has purchased, the Fund may write a call or put option of the same series. This is known as a closing sale transaction. Closing transactions essentially permit the Fund to realize profits or limit losses on its options positions prior to the exercise or expiration of the option. Whether a profit or loss is realized from a closing transaction depends on the price movement of the underlying security, index or futures contract and the market value of the option.

In considering the use of options to hedge, particular note should be taken of the following:

(1) The value of an option position will reflect, among other things, the current market price of the underlying security, index or futures contract, the time remaining until expiration, the relationship of the exercise price to the market price, the historical price volatility of the underlying instrument and general market conditions. For this reason, the successful use of options as a hedging strategy depends upon the ability of the Fund's investment adviser to forecast the direction of price fluctuations in the underlying instrument.

(2) At any given time, the exercise price of an option may be below, equal to or above the current market value of the underlying instrument. Purchased options that expire unexercised have no value. Unless an option purchased by the Fund is exercised or unless a closing transaction is effected with respect to that position, a loss will be realized in the amount of the premium paid.

(3) A position in an exchange-listed option may be closed out only on an exchange that provides a secondary market for identical options. Most exchange-listed options relate to futures contracts and stocks. The ability to establish and close out positions on the exchanges is subject to the maintenance of a liquid secondary market. Closing transactions may be effected with respect to options traded in the OTC markets (currently the primary markets of options on debt securities) only by negotiating directly with the other party to the option contract, or in a secondary market for the option if such market exists. Although the Fund intends to purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market will exist for any particular option at any specific time. In such event, it may not be possible to effect closing transactions with respect to certain options, with the result that the Fund would have to exercise those options that it has purchased in order to realize any profit. With respect to options written by the Fund, the inability to enter into a closing transaction may result in material losses to it. For example, because the Fund may maintain a covered position with respect to any call option it writes on a security, it may not sell the underlying security during the period it is obligated under such option. This requirement may impair the Fund's ability to sell a portfolio security or make an investment at a time when such a sale or investment might be advantageous.

(4) Activities in the options market may result in a higher portfolio turnover rate and additional brokerage costs; however, the Fund also may save on commissions by using options as a hedge rather than buying or selling individual securities in anticipation of market movements.

**Guidelines, Characteristics and Risks of Futures Trading.** Although futures contracts by their terms call for actual delivery or acceptance of financial instruments, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. Closing out a futures contract sale is effected by purchasing a futures contract for the same aggregate amount of the specific type of financial instrument and the same delivery date. If the price of the initial sale of the futures contract exceeds the price of the offsetting purchase, the seller is paid the difference and realizes a gain. Conversely, if the price of the offsetting purchase exceeds the price of the initial sale, the seller realizes a loss. Similarly, the closing out of a futures contract purchase is effected by the purchaser entering into a futures contract sale. If the offsetting sale price exceeds the purchase price, the purchaser realizes a gain, and if the purchase price exceeds the offsetting sale price, he realizes a loss.

The Fund is required to maintain margin deposits with brokerage firms through which it buys and sells futures contracts. Initial margin deposits vary from contract to contract and are subject to change. Margin balances will be adjusted weekly to reflect unrealized gains and losses on open contracts. If the price of an open futures position declines so that the Fund has market exposure on such contract, the broker will require the Fund to deposit variation margin. If the value of an open futures position increases so that the Fund no longer has market exposure on such contract, the broker will pay any excess variation margin to the Fund.

Most of the exchanges on which futures contracts are traded limit the amount of fluctuation permitted in futures prices during a single trading day. The daily price limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily price limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily price limit governs only price movement during a particular trading day and therefore does not limit potential losses because the limit may prevent the liquidation of unfavorable positions. Futures contract prices occasionally have moved to the daily limit for several consecutive trading days with little or

no trading, thereby preventing prompt liquidation of futures positions and subjecting some traders to substantial losses.

Another risk in employing futures contracts as a hedge is the prospect that prices will correlate imperfectly with the behavior of cash prices for the following reasons. First, rather than meeting additional margin deposit requirements, investors may close contracts through offsetting transactions. Second, the liquidity of the futures market depends on participants entering into offsetting transactions rather than making or taking delivery. To the extent that participants decide to make or take delivery, liquidity in the futures market could be reduced, thus producing distortion. Third, from the point of view of speculators, the deposit requirement in the futures market is less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market may cause temporary price distortions. Due to the possibility of distortion, a correct forecast of general interest rate or security price trends by the investment adviser may still not result in a successful transaction.

**Writing Covered Options.** The Fund is authorized to write (i.e., sell) covered call options on the securities in which it may invest and to enter into closing purchase transactions with respect to certain of such options. A covered call option is an option where the Fund in return for a premium gives another party a right to buy specified securities owned by the Fund at a specified future date and price set at the time of the contract. The principal reason for writing call options is to attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, the Fund gives up the opportunity, while the option is in effect, to profit from any price increase in the underlying security above the option exercise price. In addition, the Fund's ability to sell the underlying security will be limited while the option is in effect unless the Fund effects a closing purchase transaction. A closing purchase transaction cancels out the Fund's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a partial hedge against the price of the underlying security declining.

The Fund also may write put options which give the holder of the option the right to sell the underlying security to the Fund at the stated exercise price. By writing a put, the Fund may be obligated to purchase the underlying security at a price that may be higher than the market value of that security at the time of exercise for as long as the option is outstanding. The Fund may engage in closing transactions in order to terminate put options that it has written.

**Purchasing Options.** The Fund is authorized to purchase put options to hedge against a decline in the market value of its securities. By buying a put option, the Fund has a right to sell the underlying security at the exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put option expires. The amount of any profit on the sale in the value of the underlying security will be partially offset by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of any offsetting sale of an identical option prior to the expiration of the option it has purchased.

In certain circumstances, the Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it intends to purchase.

**Options.** The Fund is authorized to engage in transactions in options. The Fund may purchase or write put and call options on bond indices to hedge against the risk of market wide bond price movements in the securities in which the Fund invests. Options on indices are similar to options on securities except that on exercise or assignment, the parties to the contract pay or receive an amount of cash equal to the difference between the closing value of the index and the exercise price of the option times a specified multiple. The Fund may invest in bond index options based on a broad market index or based on a narrow index representing an industry or market segment.

The Fund also has authority to purchase and write call and put options on bond indices. Generally, these strategies are utilized under the same market and market sector conditions (i.e., conditions relating to specific types of investment) in which the Fund enters into futures transactions. Similarly, the Fund may purchase call options to hedge against the increased cost resulting from an increase in the market value of securities which the Fund intends to purchase.

**Swaps and Interest Rate Protection Transactions.** The Fund may enter into interest rate and other swaps, including interest rate protection transactions, interest rate caps, collars and floors. Swap transactions involve an agreement between two parties to exchange payments that are based, respectively, on indices or specific securities or other assets, such as variable and fixed rates of interest that are calculated on the basis of a specified amount of principal (the “notional principal amount”) for a specified period of time. Interest rate cap and floor transactions involve an agreement between two parties in which the first party agrees to make payments to the counterparty when a designated market interest rate goes above (in the case of a cap) or below (in the case of a floor) a designated level on predetermined dates or during a specified time period. Interest rate collar transactions involve an agreement between two parties in which the first party makes payments to the counterparty when a designated market interest rate goes above a designated level of predetermined dates or during a specified time period, and the counterparty makes payments to the first party when a designated market interest rate goes below a designated level on predetermined dates or during a specified time period.

The Fund will engage in swap transactions directly with other counterparties. This subjects the Fund to the credit risk that a counterparty will default on an obligation to the Fund. Such a risk contrasts with transactions done through exchange markets, wherein credit risk is reduced through the collection of variation margin and through the interposition of a clearing organization as the guarantor of all transactions. Clearing organizations transform the credit risk of individual counterparties into the more remote risk of the failure of the clearing organization. Additionally, the financial integrity of swap transactions is generally unsupported by other regulatory or self-regulatory protections such as margin requirements, capital requirements, or financial compliance programs. Therefore, there are much greater risks of defaults with respect to swap transactions than with respect to exchange-traded futures or securities transactions.

The Fund expects to enter into interest rate protection transactions to preserve a return or spread on a particular investment or portion of its portfolios to protect against any increase in the price of securities the Fund anticipates purchasing at a later date or to effectively manage the rate of interest that it pays on one or more borrowings or series of borrowings. The Fund intends to use these transactions as a hedge and not as a speculative investment.

The Fund may enter into swaps, caps, collars and floors on either an asset-based or liability-based basis, depending on whether it is hedging its assets or its liabilities, and will usually enter into interest rate swaps on a net basis, i.e., the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. Inasmuch as these transactions are entered into for good faith hedging purposes, the investment adviser and the Fund believe such obligations do not constitute debt securities and, accordingly, will not treat them as being subject to its borrowing restrictions.

The Fund will enter into such transactions only with banks and recognized securities dealers believed by the investment adviser to present minimal credit risks in accordance with guidelines established by the Fund’s Board of Directors. If there is a default by the other party to such a transaction, the Fund will have to rely on its contractual remedies (which may be limited by bankruptcy, insolvency or similar laws) pursuant to the agreements related to the transaction.

The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. Caps, collars and floors are more recent innovations for which documentation is less standardized, and accordingly, they are less liquid than swaps.

**Combined Transactions.** The Fund may enter into multiple futures transactions, instead of a single transaction, as part of a single or combined strategy when, in the opinion of its investment adviser, it is in the best interests of the Fund to do so. A combined transaction usually will contain elements of risk that are present in each of its component transactions. Although combined transactions normally are entered into based on the judgment of the investment adviser that the combined strategies will reduce risk or otherwise more effectively achieve the desired portfolio management goal, it is possible that the combination instead will increase such risks or hinder achievement of the portfolio management objective.

## **Lending of Portfolio Securities**

The Fund has the ability to lend securities from its portfolio to brokers, investment dealers and other financial organizations that are not affiliates of the Fund. Such loans, if and when made, may not exceed 33 1/3% of the Fund's total assets taken at value. Loans of portfolio securities by the Fund will be collateralized by cash, letters of credit or U.S. government securities that are maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities.

In lending its portfolio securities, the Fund can increase its income by continuing to receive interest on the loaned securities as well as by either investing the cash collateral in short-term instruments or obtaining yield in the form of interest paid by the borrower when U.S. government securities are used as collateral. The risks in lending portfolio securities, as with other extensions of secured credit, consist of possible delay in receiving additional collateral or in the recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. Loans will be made to firms deemed by the Investment Adviser to be of good standing and will not be made unless, in the judgment of the Investment Adviser, the consideration to be earned from such loans would justify the risk. From time to time, the Fund may return a part of the interest earned from the investment of collateral received for securities loaned to: (a) the borrower and/or (b) a third party, which is unaffiliated with the Fund or the Investment Adviser.



## RATINGS OF MUNICIPAL OBLIGATIONS AND DEBT SECURITIES

### General

#### Description of Municipal and Corporate Debt Ratings of Moody's Investors Service, Inc. ("Moody's")

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default.

Moody's municipal ratings are opinions of the investment quality of issuers and issues in the U.S. municipal market. As such, these ratings incorporate Moody's assessment of the default probability and loss severity of these issuers and issues. The default and loss content for Moody's municipal long term rating scale differs from Moody's general long-term rating scale. Historical default and loss rates for obligations rated on the US Municipal Scale are significantly lower than for similarly rated corporate obligations. It is important that users of Moody's ratings understand these differences when making rating comparisons between the Municipal and Global Scales.

Moody's ratings are opinions, not recommendations to buy or sell, and their accuracy is not guaranteed. A rating should be weighed solely as one factor in an investment decision, and one should make one's own study and evaluation of any issuer whose securities or debt obligations one is considering buying or selling.

Aaa — Obligations rated "Aaa" are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa — Obligations rated "Aa" are judged to be of high quality and are subject to very low credit risk.

A — Obligations rated "A" are judged to be upper-medium grade and are subject to low credit risk.

Baa — Obligations rated "Baa" are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Ba — Obligations rated "Ba" are judged to be speculative and are subject to substantial credit risk.

B — Obligations rated "B" are considered speculative and are subject to high credit risk.

Caa — Obligations rated "Caa" are judged to be of poor standing and are subject to very high credit risk.

Ca — Obligations rated "Ca" are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C — Obligations rated "C" are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical codifiers "1", "2" and "3" to each generic rating category from "Aa" through "Caa". The modifier "1" indicates that the issuer or obligation ranks in the higher end of its generic rating category; the modifier "2" indicates a mid-range ranking; and the modifier "3" indicates a ranking in the lower end of that generic rating category.

#### Description of Moody's Investors Service — Short-Term Notes and Variable Rate Demand Obligations ("VRDOs")

In municipal debt issuance, there are three rating categories for short-term obligations that are considered investment grade. These ratings are designated as Municipal Investment Grade ("MIG") and are divided into three

levels — “MIG 1” through “MIG 3”. In addition, those short-term obligations that are of speculative quality are designated SG, or speculative grade. MIG ratings expire at the maturity of the obligation.

In the case of variable-rate demand obligations (“VRDOs”), a two-component rating is assigned, a long or short-term debt rating and a demand obligation rating. The first element represents Moody’s evaluation of the degree of risk associated with scheduled principal and interest payments. The second element represents Moody’s evaluation of the degree of risk associated with the ability to receive purchase price upon demand (“demand feature”), using a variation of the MIG rating scale, the Variable Municipal Investment Grade or VMIG rating. When either the long- or short-term aspect of a VRDO is not rated, that piece is designated “NR” (for example, “Aaa/NR” or “NR/VMIG 1”). VMIG rating expirations are a function of each issue’s specific structural or credit features.

**MIG 1.** This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.

**MIG 2.** This designation denotes strong credit quality. Margins of protection are ample, although not so large as in the preceding group.

**MIG 3.** This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well established.

**SG.** This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

**VMIG1.** This designation denotes superior credit quality. Excellent protection is afforded by the superior short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

**VMIG2.** This designation denotes strong credit quality. Good protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

**VMIG3.** This designation denotes acceptable credit quality. Adequate protection is afforded by the satisfactory short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

**SG.** This designation denotes speculative-grade credit quality. Demand features rated in this category may be supported by a liquidity provider that does not have an investment grade short-term rating or may lack the structural and/or legal protections necessary to ensure the timely payment of purchase price upon demand.

### **Description of Moody’s Short-Term Ratings**

Moody’s short-term ratings are opinions of the ability of issuers to honor short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted. Moody’s employs the following designations to indicate the relative repayment ability of rated issuers:

**P-1.** Issuers (or supporting institutions) rated “Prime-1” have a superior ability to repay short-term debt obligations.

**P-2.** Issuers (or supporting institutions) rated “Prime-2” have a strong ability to repay short-term debt obligations.

**P-3.** Issuers (or supporting institutions) rated “Prime-3” have an acceptable ability to repay short-term obligations.

**NP.** Issuers (or supporting institutions) rated “Not Prime” or “NP”, do not fall within any of the Prime rating categories.

### **Description of Municipal and Corporate Debt Ratings of Standard and Poor’s Ratings Group (“S&P”)**

An S&P issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion reflects S&P’s view of the obligor’s capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

Issue credit ratings can be either long-term or short-term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days—including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. Medium-term notes are assigned long-term ratings.

Issue credit ratings are based, in varying degrees, on S&P’s analysis of the following considerations:

- I. Likelihood of payment capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- II. Nature of and provisions of the obligation; and
- III. Protection afforded by, and relative position of, the obligation in the event of a bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors’ rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.).

**AAA** — An obligation rated “AAA” has the highest rating assigned by S&P. The obligor’s capacity to meet its financial commitment on the obligation is extremely strong.

**AA** — An obligation rated “AA” differs from the highest-rated issues only to a small degree. The obligor’s capacity to meet its financial commitment on the obligation is very strong.

**A** — An obligation rated “A” is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

**BBB** — An obligation rated “BBB” exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

**BB, B, CCC, CC, C** — Obligations rated in these categories are regarded as having significant speculative characteristics. “BB” indicates the least degree of speculation and “C” the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

**BB** — An obligation rated “BB” is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet its financial commitment on the obligation.

**B** — An obligation rated “B” is more vulnerable to nonpayment than obligations rated “BB,” but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor’s capacity or willingness to meet its financial commitment on the obligation.

**CCC** — An obligation rated “CCC” is currently vulnerable to nonpayment, and is dependent upon favorable business, financial and economic conditions to meet its financial commitment on the obligation. In the event of adverse business, financial or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

**CC** — An obligation rated “CC” is currently highly vulnerable to nonpayment

**C** — A 'C' rating is assigned to obligations that are currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

**D** — An obligation rated 'D' is in payment default. The 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days, irrespective of any grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to 'D' upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

**Plus (+) or Minus (-):** The ratings from “AA” to “CCC” may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

**NR** Indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that S & P does not rate a particular obligation as a matter of policy.

### **Description of S&P’s Short-Term Issue Credit Ratings**

Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the United States, for example, that means obligations with an original maturity of no more than 365 days, including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. The result is a dual rating, in which the short-term rating addresses the put feature, in addition to the usual long-term rating. Medium-term notes are assigned long-term ratings. S&P short-term issue credit ratings are graded into the following categories:

**A-1** — A short-term obligation rated “A-1” is rated in the highest category by S&P. The obligor’s capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor’s capacity to meet its financial commitment on these obligations is extremely strong.

**A-2** — A short-term obligation rated “A-2” is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor’s capacity to meet its financial commitment on the obligation is satisfactory.

A-3 — A short-term obligation rated “A-3” exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

B — A short-term obligation rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.

C — A short-term obligation rated ‘C’ is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

D — A short-term obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.

A short-term issue credit rating is not a recommendation to purchase or sell a security inasmuch as it does not comment as to market price or suitability for a particular investor. The ratings are based on current information furnished to S&P by the issuer or obtained from other sources it considers reliable. S&P does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information.

### **Description of S&P's Municipal Ratings Definitions**

A S&P U.S. municipal note rating reflects S&P's opinion about the liquidity factors and market access risks unique to the notes. Notes due in three years or less will likely receive a note rating. Notes with an original maturity of more than three years will most likely receive a long-term debt rating. In determining which type of rating, if any, to assign, S&P's analysis will review the following considerations:

- Amortization schedule—the larger the final maturity relative to other maturities, the more likely it will be treated as a note; and
- Source of Payment—the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note.

Note rating symbols are as follows:

SP-1 A strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service will be given a “+” designation.

SP-2 A satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

SP-3 A speculative capacity to pay principal and interest.

### **Description of Credit Ratings of Fitch Ratings (“Fitch”)**

Ratings assigned by Fitch are opinions based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Users should refer to the definition of each individual rating for guidance on the dimensions of risk covered by such rating.

Fitch's opinions are forward looking and include analysts' views of future performance. In many cases, these views on future performance may include forecasts, which may in turn (i) be informed by non-disclosable management projections, (ii) be based on a trend (sector or wider economic cycle) at a certain stage in the cycle, or (iii) be based on historical performance. As a result, while ratings may include cyclical considerations and typically attempt to assess the likelihood of repayment at "ultimate/final maturity," material changes in economic conditions and expectations (for a particular issuer) may result in a rating change.

Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments, although such considerations may affect Fitch's view on credit risk, such as access to capital or likelihood of refinancing.

Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default, notwithstanding the agency's published default histories that may be measured against ratings at the time of default. Credit ratings are opinions on relative credit quality and not a predictive measure of specific default probability.

Ratings are opinions based on all information known to Fitch, including publicly available information and/or non-public documents and information provided to the agency by an issuer and other parties. Publication and maintenance of all ratings are subject to there being sufficient information, consistent with the relevant criteria and methodology, to form a rating opinion.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its rating methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information.

If a rating does not benefit from the participation of the issuer/originator, but Fitch is satisfied that "minimum threshold" information for the given criteria is available from public information and other sources available to Fitch, then the non-participatory issuer, as with all issuers, will be afforded the opportunity to comment on the rating opinion and supporting research prior to it being published.

Ratings do not constitute recommendations to buy, sell, or hold any security, nor do they comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of any payments of any security. Fitch Ratings does not have a fiduciary relationship with any issuer, subscriber or any other individual. Nothing is intended to or should be construed as creating a fiduciary relationship between Fitch Ratings and any issuer or between the agency and any user of its ratings. Fitch Ratings does not provide to any party any financial advice, or legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

Ratings may be changed, qualified, placed on Rating Watch or withdrawn as a result of changes in, additions to, accuracy of, unavailability of or inadequacy of information or for any reason Fitch Ratings deems sufficient.

The assignment of a rating by Fitch Ratings shall not constitute consent by the agency to use its name as an expert in connection with any registration statement, offering document or other filings under any relevant securities laws.

### ***Credit Rating Scales***

Fitch Ratings' credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested. The agency's credit ratings cover the global spectrum of corporate, sovereign (including supranational and sub-national), financial, bank, insurance, municipal and other public finance entities and the securities or other obligations they issue, as well as structured finance securities backed by receivables or other financial assets.

The terms "investment grade" and "speculative grade" have established themselves over time as shorthand to describe the categories "AAA" to "BBB" (investment grade) and "BB" to "D" (speculative grade). The terms "investment grade" and "speculative grade" are market conventions, and do not imply any recommendation or endorsement of a specific security for investment purposes. "Investment grade" categories indicate relatively low to moderate credit risk, while ratings in the "speculative" categories either signal a higher level of credit risk or that a default has already occurred.

A designation of "Not Rated" or "NR" is used to denote securities not rated by Fitch where Fitch has rated some, but not all, securities comprising an issuance capital structure.

Credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.

Fitch Ratings' credit ratings do not directly address any risk other than credit risk. In particular, ratings do not deal with the risk of a market value loss on a rated security due to changes in interest rates, liquidity and other market considerations. However, in terms of payment obligation on the rated liability, market risk may be considered to the extent that it influences the ability of an issuer to pay upon a commitment. Ratings nonetheless do not reflect market risk to the extent that they influence the size or other conditionality of the obligation to pay upon a commitment (for example, in the case of index-linked bonds).

In the default components of ratings assigned to individual obligations or instruments, the agency typically rates to the likelihood of non-payment or default in accordance with the terms of that instrument's documentation. In limited cases, Fitch Ratings may include additional considerations (i.e., rate to a higher or lower standard than that implied in the obligation's documentation). In such cases, the agency will make clear the assumptions underlying the agency's opinion in the accompanying rating commentary.

### **Description of Fitch's Long-Term Rating Scales**

Ratings of individual securities or financial obligations of a corporate issuer address relative vulnerability to default on an ordinal scale. In addition, for financial obligations in corporate finance, a measure of recovery

given default on that liability is also included in the rating assessment. This notably applies to covered bonds ratings, which incorporate both an indication of the probability of default and of the recovery given a default of this debt instrument.

The relationship between issuer scale and obligation scale assumes a historical average recovery of between 30%–50% on the senior, unsecured obligations of an issuer. As a result, individual obligations of entities, such as corporations, are assigned ratings higher, lower, or the same as that entity's issuer rating or IDR. At the lower end of the ratings scale, Fitch Ratings now additionally publishes explicit Recovery Ratings in many cases to complement issuer and obligation ratings.

AAA — Bonds are considered of the highest credit quality. “AAA” ratings denote the lowest expectation of default risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA — Bonds are considered of very high credit quality. “AA” ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A — Bonds are considered of high credit quality. “A” ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB — Bonds are considered of good credit quality. “BBB” ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

BB — Bonds are considered speculative. “BB” ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial alternatives may be available to allow financial commitments to be met.

B — Bonds are considered highly speculative. “B” ratings indicate that material credit risk is present.

CCC — Ratings “CCC” indicate substantial credit risk and that default is a real possibility.

CC — Ratings “CC” indicate very high levels of credit risk. Default of some kind appears probable.

C — Ratings “C” indicate exceptionally high levels of credit risk. Default is imminent or inevitable, or the issuer is in standstill.

RD — Ratings “RD” indicate an issuer that in Fitch Ratings’ opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.

D — Ratings “D” indicate an issuer that in Fitch Ratings’ opinion has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Default ratings are not assigned prospectively to entities or their obligations; within this context, non-payment on an instrument that contains a deferral feature or grace period will generally not be considered a default until after the expiration of the deferral or grace period, unless a default is otherwise driven by bankruptcy or other similar circumstance, or by a distressed debt exchange.

“Imminent” default typically refers to the occasion where a payment default has been intimated by the issuer, and is all but inevitable. This may, for example, be where an issuer has missed a scheduled payment, but (as is typical) has a grace period during which it may cure the payment default. Another alternative would be where an issuer has



formally announced a distressed debt exchange, but the date of the exchange still lies several days or weeks in the immediate future.

The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the “AAA” obligation rating category, or to corporate finance obligation ratings in the categories below “B.”

The subscript 'emr' is appended to a rating to denote embedded market risk which is beyond the scope of the rating. The designation is intended to make clear that the rating solely addresses the counterparty risk of the issuing bank. It is not meant to indicate any limitation in the analysis of the counterparty risk, which in all other respects follows published Fitch criteria for analyzing the issuing financial institution. Fitch does not rate these instruments where the principal is to any degree subject to market risk.

**WD:** Indicates that the rating has been withdrawn and the issue or issuer is no longer rated by Fitch Ratings.

**Rating Watch:** Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as “Positive,” indicating a potential upgrade, “Negative,” for a potential downgrade, or “Evolving,” if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

A Rating Watch is typically event-driven and, as such, it is generally resolved over a relatively short period. The event driving the Watch may be either anticipated or have already occurred, but in both cases, the exact rating implications remain undetermined. The Watch period is typically used to gather further information and/or subject the information to further analysis. Additionally, a Watch may be used where the rating implications are already clear, but where a triggering event (e.g., shareholder or regulatory approval) exists. The Watch will typically extend to cover the period until the triggering event is resolved or its outcome is predictable with a high enough degree of certainty to permit resolution of the Watch.

Rating Watches can be employed by all analytical groups and are applied to the ratings of individual entities and/or individual instruments. At the lowest categories of speculative grade (‘CCC’, ‘CC’ and ‘C’) the high volatility of credit profiles may imply that almost all ratings should carry a Watch. Watches are nonetheless only applied selectively in these categories, where a committee decides that particular events or threats are best communicated by the addition of the Watch designation.

**Rating Outlook:** Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one- to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.

Outlooks are currently applied on the long-term scale to issuer ratings in corporate finance (including sovereigns, industrials, utilities, financial institutions and insurance companies) and public finance outside the U.S.; to issue ratings in public finance in the U.S.; to certain issues in project finance; to Insurer Financial Strength Ratings; to issuer and/or issue ratings in a number of National Rating scales; and to the ratings of structured finance transactions. Outlooks are not applied to ratings assigned on the short-term scale and are applied selectively to ratings in the “CCC,” “CC” and “C” categories. Defaulted ratings typically do not carry an Outlook.

### **Description of Fitch’s Investment Grade Short-Term Ratings**

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream and relates to the capacity to meet financial obligations in accordance with the

documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as “short term” based on market convention. Typically, this means up to 13 months for corporate, sovereign, and structured obligations, and up to 36 months for obligations in U.S. public finance markets. Fitch short-term ratings are as follows:

F-1 Highest Short-Term Credit Quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added “+” to denote any exceptionally strong credit feature.

F-2 Good Short-Term Credit Quality. Good intrinsic capacity for timely payment of financial commitments.

F-3 Fair Short-Term Credit Quality. The intrinsic capacity for timely payment of financial commitments is adequate.

B Speculative Short-Term Credit Quality. Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.

C High Short-Term Default Risk. Default is a real possibility.

RD Restricted default. Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only.

D Default. Indicates a broad-based default event for an entity, or the default of a specific short-term obligation.

Plus “+” or Minus “-”: Plus or minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in short-term ratings other than “F-1”.<sup>1</sup>

**PRIVACY POLICY**

Popular Income Plus Fund, Inc. (the “Fund”) is committed to protecting the personal information that it collects about individuals who are prospective, former or current investors. The Fund collects personal information for business purposes to process requests and transactions and to provide customer service. Personal information is obtained from the following sources:

*Investor applications and other forms*, which may include your name(s), address, social security number, or tax identification number;

*Written and electronic correspondence*, including telephone contacts; and

*Account history*, including information about Fund transactions and balances in your accounts with Popular Securities or our affiliates, other fund holdings managed by Banco Popular de Puerto Rico, and any affiliation with Popular Inc. and its affiliates and subsidiaries.

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

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

Investors should contact the broker-dealer through which they hold Shares in the Fund for a copy of their privacy policy.