

# Edward Jones Managed Account Program<sup>®</sup> Brochure as of July 30, 2014

Sponsored by:

Edward Jones  
12555 Manchester Road  
Saint Louis, Missouri 63131  
(800) 803-3333  
[www.edwardjones.com](http://www.edwardjones.com)

## Item 1: Cover Page

**This wrap fee program brochure provides information about the qualifications and business practices of Edward Jones. If you have any questions about the contents of this brochure, please contact us at (800) 803-3333. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

**Additional information about Edward Jones is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2: Material Changes**

There have been no material updates to the brochure since the last update on March 28, 2014.

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**This brochure provides you with information about Edward Jones, the Edward Jones Managed Account Program® (the Program or Managed Account Program), fees that we charge for our services, and our business practices. You should read this brochure carefully before you invest in the Program.**

Edward Jones also offers other advisory programs, which are not described in this brochure. These programs have different services, fees and minimum investment requirements. If you are interested in learning more about other advisory programs, please ask your financial advisor for a brochure.

**Overview.** Edward Jones is the primary business of The Jones Financial Companies, L.L.L.P., a holding company registered as a partnership with the State of Missouri. Edward Jones registered as a broker-dealer in 1941 and as an investment adviser in 1993.

As a dually registered broker-dealer and investment adviser, Edward Jones offers a variety of financial services. You can purchase many of the same or similar investments as those available in an advisory program for a lower fee through Edward Jones as a broker-dealer, although you will not receive the additional advisory services. It is important for you to consider the additional costs associated with an advisory program before investing.

As of December 31, 2013, we managed \$107,046,239,460 in discretionary assets and \$7,924,304,739 in non-discretionary assets in our advisory programs.

**Edward Jones Managed Account Program®.** The Managed Account Program is an advisory program that provides clients with a customized asset allocation that is implemented by one or more independent professional money managers (Portfolio Managers) who are most capable of meeting the client's objectives, with the Edward Jones financial advisor acting as the client's key

relationship contact. Each Portfolio Manager will implement an investment strategy that may include individual stocks, bonds and closed-end funds, and exchange-traded funds (ETFs). The Portfolio Managers will buy and sell the securities in the strategy they are managing for you; you may have relationships with several Portfolio Managers within your Program accounts. You will have a separate Edward Jones account for each Portfolio Manager strategy. Edward Jones will have no investment discretion over your assets in the Program. Please note that Edward Jones may, at its discretion, restrict Portfolio Managers from purchasing certain securities. Conversely, Edward Jones may allow Portfolio Managers to make purchases in Program accounts that it may not allow in a traditional brokerage account.

Before investing in the Program, you should decide if you are comfortable with not being involved in the day-to-day management of your account. People who decide to invest in the Managed Account Program typically share the following characteristics:

- Want to own individual stocks and bonds in their portfolio
- Need advice and guidance when making investment decisions
- Want to be involved in the overall design of their portfolio but are at ease with a professional money manager making their day-to-day investment decisions
- Are willing to follow a disciplined investment strategy
- Prefer to pay asset-based (percentage) fees for investments and advice rather than individual commissions or sales charges
- Desire active trading to passive holding
- May benefit from tax management strategies

The decision to invest in the Program is yours. Before making that decision, you should discuss with your financial advisor whether other programs or investments may be more appropriate for your investment goals and needs.

Once you have decided to invest in the Managed Account Program, you will complete an “Investment Policy Questionnaire” (IPQ). As applicable, your answers on the IPQ help determine what level of risk you are willing to take (risk tolerance), and, when combined with your life stage and investment goals, allows us to create a personalized written strategy that sets out the asset allocation (Asset Allocation) for your portfolio. We will then recommend Portfolio Managers with strategies that we believe will work well together in your portfolio and help you achieve your long-term investment goals.

#### **Item 4: Services, Fees and Compensation**

##### **Services:**

The Managed Account Program offers our clients the opportunity to hold individually owned securities in their Edward Jones accounts which can provide several benefits, including: portfolio transparency (you own shares of individual securities so you know exactly what you own); enhanced performance reporting; the ability to customize your portfolio through the restriction of certain stocks or investment sectors (you may wish to avoid investing in companies or sectors of the economy that you may consider objectionable for ethical reasons or to avoid overconcentration in a specific security); and a greater ability to make tax-conscious choices related to your investments (you may have the ability to harvest tax losses on individual positions).

The Portfolio Managers and strategies available in the Program are selected by our Mutual Fund Research department. Your financial advisor will recommend one or more Portfolio Managers and strategies to you after reviewing your responses to the IPQ. We will typically recommend Portfolio Managers in different strategies in order to provide you with diversification and lower overall account volatility, but you have the ultimate discretion to select the strategies for your accounts. Once you select the Portfolio

Manager(s) for your accounts, they will have complete control to decide which individual investments to hold in your accounts. If your investment objectives change, your portfolio can be easily adjusted. Portfolio Managers can be added or replaced in your accounts to address your needs at no additional cost.

The recommended Portfolio Manager’s strategies are grouped into different asset classes by Edward Jones, including:

**Income:** Income investments include corporate, governmental and municipal bonds. This type of strategy is designed to generate more consistent but likely lower returns year to year, with a primary focus on providing you with current income. This strategy is for investors who are seeking a low level of price volatility and risk of loss.

**Growth and Income:** Growth and income investments offer the potential for growth through earnings and income from dividends. This is the type of strategy that seeks to balance your growth objectives with your income needs. This strategy is for investors who can tolerate modest amounts of price volatility and risk of loss over time.

**Growth:** Growth investments have the potential to outperform income or growth and income strategies, but they are typically associated with a higher degree of price volatility and risk of loss. In exchange for tolerating a higher level of risk, investors have the potential to achieve higher average returns over time.

**Aggressive:** Aggressive investments offer investors the potential for higher returns but also carry higher levels of risk and price volatility. These investments often trade with high valuations, typically do not pay dividends and may rely on major improvements in the market to generate higher returns.

A key part of the Managed Account Program is the firm's ongoing monitoring and review of Portfolio Managers. The Portfolio Managers publicly report their overall performance results and these are compared to the actual results in our clients' accounts. Mutual Fund Research also reviews any change in the professional staff or investment strategy of a Portfolio Manager to make sure our clients' objectives are still being met. Finally, we compare the long-term investment results of Portfolio Managers in the Program to other managers with similar investment styles to evaluate their performance.

### **Fees:**

#### ***Client Fee Schedule***

Depending on which Portfolio Manager(s) and strategy you select, you will be placed on one or more of the following standard fee schedules. Each strategy type (i.e., Equity, Fixed Income and Balanced) has its own tiered fee schedule based on your total assets under management in the Managed Account Program. As the value of your accounts either increases or decreases, you will be charged the percentage rates for the tiers that correspond with the value of your Program accounts. The fees assessed by Edward Jones and any internal expenses of money market funds and ETFs held in the account will reduce the account's overall return and performance. You and/or certain household members may have more than one account participating in the Managed Account Program, and Edward Jones may, in its sole discretion, combine the value of the separate Program accounts in order to lower your overall Program Fee.

#### **Equity Strategy Schedule**

	<b><u>Total</u></b>	<b><u>Program</u></b>	<b><u>Portion to</u></b>
	<b><u>Program Assets</u></b>	<b><u>Fee</u></b>	<b><u>Edward Jones</u></b>
First	\$500,000	2.50%	2.05%
Next	\$500,000	2.25%	1.80%
Next	\$1,000,000	2.00%	1.55%
Over	\$2,000,000	1.50%	1.05%

#### **Fixed Income Strategy Schedule**

	<b><u>Total</u></b>	<b><u>Program</u></b>	<b><u>Portion to</u></b>
	<b><u>Program Assets</u></b>	<b><u>Fee</u></b>	<b><u>Edward Jones</u></b>
First	\$500,000	1.50%	1.15%
Next	\$500,000	1.25%	0.90%
Next	\$1,000,000	1.00%	0.65%
Over	\$2,000,000	0.85%	0.50%

#### **Balanced Strategy Schedule**

	<b><u>Total</u></b>	<b><u>Program</u></b>	<b><u>Portion to</u></b>
	<b><u>Program Assets</u></b>	<b><u>Fee</u></b>	<b><u>Edward Jones</u></b>
First	\$500,000	2.10%	1.70%
Next	\$500,000	1.85%	1.45%
Next	\$1,000,000	1.60%	1.20%
Over	\$2,000,000	1.24%	0.84%

#### ***Who Receives the Program Fee?***

When you invest in the Managed Account Program, you pay one all-inclusive fee to Edward Jones (Program Fee). The fee schedules above determine your Program Fee. The Program Fee ranges from 0.85% to 2.50% of the value of your accounts and varies based on the investment strategies in your accounts. The Program Fee can be negotiated in some circumstances, but any discount to the Program Fee is at the sole discretion of Edward Jones.

The Program Fee includes trade execution, performance reporting, ongoing monitoring and evaluation of Portfolio Managers, investment management fees and general administrative services associated with your accounts.

The Program Fee is used to pay two parties: the Portfolio Managers and Edward Jones (including your financial advisor). The Portfolio Managers' fees range from 0.35% to 0.45% of your accounts' assets. These fees may be negotiated in some circumstances, but any discount to the Portfolio Managers' fees is at the discretion of Edward Jones. Portfolio Managers' fees vary depending on the type of strategy they are managing; these strategies are: equity (stocks),

fixed income (bonds) and balanced (combination of stocks and bonds in one account).

### ***How is the Program Fee calculated?***

The total Program Fee is a summation of the fees calculated for each of your Managed Account Program accounts (Equity, Fixed Income, and/or Balanced).

Deposits, including interest and dividends, received into your account but that have not been invested into the Managed Account Program, may earn interest that will be retained by Edward Jones. Edward Jones may also earn and retain interest on distributions requested from your account until the time the check is cashed or other payment method is completed. The average overnight interest rate on these deposits may fluctuate daily, and is tied to changes in widely referenced interbank lending rates, such as Fed Funds Effective Rate ("FFER"), Fed Funds Target Rate ("FFTR"), and LIBOR rates. Under these arrangements, banks may pay interest based on a spread to one of these rates, or may pay a fixed interest rate. These rates in recent times generally have varied from 0% to FFTR + 0.15%.

The Program Fee is calculated and billed monthly in arrears and is based on the average daily market value of the assets in your Program accounts. The Program Fee is directly deducted from your accounts. When you first open your accounts, the Program Fee is calculated from the day your accounts are opened until the end of the month in which you opened your accounts. Edward Jones has the right to change this billing period without giving advance notice to you.

The Program Fee does not cover exchange or similar fees (such as for ADRs) charged by third parties, including issuers, foreign taxes and fees required by the SEC.

### ***Program Fee Example:***

***This example is an approximation and shows the application of our highest Program Fee. It is for illustrative purposes only.***

### **Equity Strategy Schedule**

A \$1,000,000 All Equity Allocation Strategy has a \$23,800 (or 2.38%) annual Program Fee. Edward Jones would receive 1.93% of the Program Fee and the Equity Portfolio Manager would receive .45% of the Program Fee. This is how the Program Fee would break down:

First \$500,000 x 2.50% = \$12,500

Next \$500,000 x 2.25% = \$11,250

#### **Total Annual Fee**

**Paid by Client = \$23,750 (2.38%)**

– Portfolio Manager

Portion (0.45%) = \$4,500

Portion of Annual Fee

paid to Edward Jones = \$19,250 (1.93%)

### **Services:**

Edward Jones maintains custody of your Program assets and is therefore responsible for the safekeeping of your assets, collecting dividends, interest and proceeds for any sales in your accounts, and disbursing funds from your accounts. Each month, Edward Jones will send you an account statement showing all activity in your accounts. You can elect to receive your trade confirmation and account statements via e-delivery. **Please review your account statements carefully and notify us immediately if you detect an error or a discrepancy.**

Edward Jones also provides certain additional administrative services to you, including: generating trade confirmations showing all of your purchases and sales; processing deposits and withdrawals from your accounts; preparing account statements listing all current security holdings and portfolio transactions; and providing the appropriate tax forms related to your accounts.

You will also receive a quarterly performance report after every quarter. Your performance report will show:

- Your accounts' diversification among equities, fixed income and cash equivalents, as applicable
- Your portfolio performance composite
- Your portfolio growth, gains and losses, and additions and withdrawals
- An investment analysis of the returns, risk statistics and asset allocation for each account managed by a Portfolio Manager
- A comparison of your actual asset allocation versus the target allocation for your strategies
- Your accounts' performance compared to various financial benchmarks

In the Managed Account Program, Edward Jones may execute trades at the direction of the Portfolio Managers. In these cases, Edward Jones will be acting solely as a broker, not as an investment adviser. When we act as executing broker, there may be times when we engage in "principal transactions." This means that we may fill your purchase orders from our own inventory of securities. We will not charge you a markup or markdown on these principal transactions. Edward Jones will only engage in principal transactions where permitted under applicable law.

Edward Jones may also engage in "cross transactions" in the Program. This means that we may act as a broker-dealer for advisory clients on both the sell side and the buy side of the same transaction. When this occurs, the Portfolio Manager will direct all trades and will instruct either Edward Jones or another broker-dealer to execute those trades. Portfolio Managers are required to seek best execution of all trades, which means the Portfolio Manager will use whichever broker-dealer can obtain the best execution of your order.

You are a shareholder of the securities in your accounts and have the right and obligation to vote

on important issues that affect the securities you own.

Edward Jones will not vote proxies on your behalf. The Portfolio Manager(s) you have chosen will handle proxy voting for your accounts unless you retain that right by directly communicating with the Portfolio Managers. The Portfolio Managers will provide you with a copy of their proxy voting policy at your request. Edward Jones will not provide recommendations or advice on how to vote on these issues.

#### **Additional Fees and Considerations:**

If, instead of participating in the Managed Account Program, you separately purchased securities and services similar to those offered in the Program, you could pay several individual fees. These fees might include: brokerage commissions; custodial fees; and/or portfolio management fees. As a result, participating in the Program may cost you more or less over time than purchasing the securities or services separately.

There are several factors which could affect the benefits you would receive if you purchase the same services separately or participate in the Program. An important factor to consider is the amount of trading activity you have in your accounts and the corresponding brokerage commissions that would be charged if you bought and sold individual securities in a brokerage account. You could also be responsible for additional fees for trading and custodial services and individual advisory fees charged by the Portfolio Manager.

The Portfolio Managers who participate in the Managed Account Program have the ability to execute trades through brokers or dealers other than Edward Jones. This can happen if the Portfolio Manager reasonably believes another broker or dealer can obtain a better price on the trade than Edward Jones, and these are called "step-out" trades. If this happens, you will incur



the execution charges paid to the third-party dealers associated with these transactions. These step-out trades usually include additional costs, which include markups, markdowns, or “spreads” paid to market makers.

Edward Jones does not engage in soft-dollar arrangements; however, Portfolio Managers participating in the Managed Account Program may direct transactions to brokers in return for brokerage or research services. In certain instances, clients whose Portfolio Managers are engaged in soft-dollar arrangements may pay a broker higher commissions than another broker adequately qualified to effect such transactions would have charged where the Portfolio Manager determines in good faith that the commission is reasonable in relation to the value of the soft-dollar benefits received. Soft-dollar arrangements may be considered as a factor in best execution determinations, but will not replace the duty of the Portfolio Manager to seek best execution for trades in your accounts.

Some Portfolio Managers may use exchange-traded funds (ETFs). ETFs are typically registered investment companies whose shares track an index, a commodity or a basket of assets like an index fund, but trade like stocks on an exchange. ETFs experience price changes throughout the day as they are bought and sold. ETFs have internal fees and expenses which are not included in the Program Fee. You will be responsible for these fees if you select a strategy that incorporates ETFs. You can learn more information about these costs in the individual prospectuses and other disclosure documents of these funds. The use of ETFs for tax harvesting purposes may cause you to have short-term capital gains or losses. Edward Jones does not provide tax or legal advice, so we strongly recommend that you consult with a qualified tax professional regarding these issues.

You or Edward Jones may terminate your participation in the Program at any time without any advisory termination fee. Edward Jones or

your Portfolio Manager(s) may require you to provide written notice in order to close your accounts. Your accounts will be charged through the date of termination. When you terminate your accounts, we will deliver the securities held in your accounts in whatever manner you request, unless you request that the accounts be liquidated.

If you request to have your accounts liquidated, the Portfolio Manager(s) may take up to two trading days following the date after Edward Jones receives your liquidation request to fully liquidate your securities. This period may be even longer if the Portfolio Manager(s) believes it is in your best interest to have a longer liquidation period. Usually, the cash from the liquidation will be available to you on the second business day following settlement of the liquidated securities. Because bond markets may be less liquid than stock markets, these investments may be more difficult to liquidate, especially during periods of extreme market volatility. Therefore, it's possible you may experience delays or adverse price fluctuations when you attempt to liquidate bonds.

In unusual circumstances, a trade error may occur in your accounts. If the trade error is caused by Edward Jones or one of your Portfolio Manager(s) and the trade error results in a loss in your accounts, we will cancel the trade from your account for the amount of the loss as though the trade error never occurred. If the trade error results in an erroneous gain in your accounts, we will take the gain from your account as though the trade error never occurred, resulting in a financial benefit to Edward Jones.

### **Compensation:**

Part of Edward Jones' portion of the Program Fee is paid to your financial advisor. The amount of your financial advisor's compensation may be more or less than what he/she would receive if you participated in another advisory program, or if you paid separately for investment advice,



brokerage services and administrative services. As a result, your financial advisor may have a financial incentive to recommend this Program to you instead of other programs or services. Also, the compensation paid to Edward Jones may vary depending on our relationship with each Portfolio Manager and also on the type of strategy used by the Portfolio Managers. Consequently, both Edward Jones and your financial advisor may benefit from recommending one Portfolio Manager or strategy over another.

### **Item 5: Account Requirements and Types of Clients**

#### ***How do I get started?***

Edward Jones generally requires a minimum investment of \$500,000 to enter the Program. Your minimum investment can be in the form of cash or in investments that you currently own. In addition to our minimum investment requirement, each Portfolio Manager has minimum investment requirements, ranging from \$100,000 to \$500,000.

The Managed Account Program is available to residents and entities of the United States who are:

- Individuals
- Traditional and Roth Individual Retirement Accounts (IRAs)
- Pension and profit-sharing plans
- Trusts
- Estates
- Charitable organizations
- Family partnerships
- Limited liability companies
- Corporate accounts

Edward Jones can prohibit anyone from entering the Managed Account Program for any reason, including if we do not believe it is an appropriate investment strategy for that person.

### **Account Requirements:**

When you participate in the Managed Account Program, you will sign a Client Agreement with Edward Jones. You will also sign a Portfolio Management Agreement with each of the Portfolio Managers you select. By signing the Portfolio Management Agreement, you are appointing the Portfolio Manager to manage your accounts and giving sole investment discretion and trading authority over your accounts to the Portfolio Manager. Both the Portfolio Manager and Edward Jones have the right to decline your accounts for any reason. If this should happen, we will notify you promptly.

The Portfolio Management Agreement authorizes the Portfolio Manager(s) to instruct Edward Jones in every respect regarding your accounts. The Portfolio Manager(s) will have your authority to act in all manners for you, including the right to:

- Make purchases or conduct sales
- Vote proxies or administer tenders associated with the securities in your accounts
- Conduct exchanges or redemptions of securities
- Other similar actions regarding your securities in the accounts

When your accounts are accepted, the Portfolio Manager(s) will be notified that the accounts are funded and begin managing the funds for you. Edward Jones cannot guarantee how quickly your Portfolio Manager(s) will invest the cash you deposit in the accounts or sell the securities you deposit to fund the accounts. If you are seeking fixed-income strategies, you should be aware that these portfolios can take several weeks or longer to become fully invested. Edward Jones is not responsible for market fluctuations during the time between when you fund your accounts and the Portfolio Manager(s) begin investing your accounts.

## **Item 6: Portfolio Manager Selection and Evaluation**

In the Managed Account Program, we offer you access to Portfolio Managers who will provide you with personalized investment advisory services. These Portfolio Managers have undergone a rigorous due diligence process by our Mutual Fund Research department and meet our objective and subjective criteria to be included in the Program. Our evaluation criteria include:

- A minimum of \$500 million in assets under management
- Established history of investment performance
- Assessment of the risk taken to achieve returns
- Assessment of the organizational strength and stability
- Understanding and acceptance of Edward Jones' investment philosophy and mission

Before we include a Portfolio Manager in the Program, we review several aspects of their business. We study their investment philosophies, their history and performance and maintain up-to-date information on their investment performance results. Edward Jones tracks Portfolio Managers' returns on a quarterly basis. Additionally, Portfolio Managers provide us with their complete and updated records on their background, performance results and investment practices.

Some of the Portfolio Managers in the Program calculate their performance results in accordance with Global Investment Performance Standards (GIPS). These standards provide a standardized format for calculating and presenting their performance results, and are widely used throughout the investment industry. However, Portfolio Managers are not required to use GIPS to calculate their performance. Edward Jones does not use an independent party to verify our

Portfolio Managers' statements about their performance. We rely upon our Portfolio Managers to provide us with accurate performance information.

At any time, you may change the Portfolio Manager(s) associated with your Program accounts. To do so, you must give Edward Jones written notice and complete a new Portfolio Management Agreement. Occasionally, we may remove a Portfolio Manager from the Program or recommend that you change a Portfolio Manager. Examples of circumstances where this may occur include:

- Changes in key personnel at the Portfolio Manager
- The Portfolio Manager deviates from its investment philosophy
- Legal or regulatory concerns with the Portfolio Manager
- Poor performance by a Portfolio Manager when compared to other Portfolio Managers during a market cycle
- The Portfolio Manager is no longer appropriate for your investment goals and objectives

If we remove a Portfolio Manager or their strategy from the Program, when possible we will give you at least 30 days' notice and will recommend a replacement Portfolio Manager and/or strategy.

## **Item 7: Client Information Provided to Portfolio Managers**

After we determine your risk tolerance and asset allocation, we will recommend one or more Portfolio Managers to you whose investment strategies match your needs. Once you choose the Portfolio Managers for your accounts, we will provide your overall portfolio objective information to them. In addition, after you enter the Managed Account Program, you will complete a Portfolio Management Agreement with each Portfolio Manager. Based upon the

information you provide, we will provide the following information to your Portfolio Manager(s):

- Name and address
- Account number
- Country of residence and citizenship
- Net worth
- Annual income
- Date of birth
- Social Security Number
- Financial objectives
- Time horizons
- Income needs
- Asset allocation
- Liquidity parameters
- Risk tolerance
- Account Authorizations
- Specific investment guidelines or restrictions
- Systematic withdrawals you wish to set up
- Assets which fund your accounts

Over time, your financial goals and objectives may change. Consequently, it is your responsibility to inform Edward Jones of any material changes to your investment objectives. Edward Jones will provide updated information to your Portfolio Manager(s) to ensure that your assets remain properly invested.

#### **Item 8: Client Contact with Portfolio Managers**

In the Managed Account Program, you not only enter into a relationship with Edward Jones, but you also establish a contractual relationship with each of the Portfolio Managers you select to manage your accounts. As mentioned above, when you sign the Portfolio Management Agreement, you are authorizing the selected Portfolio Manager(s) to act as your agent on your behalf. The Portfolio Manager will be reasonably available to you to consult with you regarding the management of your accounts. Your Edward Jones financial advisor will be your key point of contact for questions about your accounts.

#### **Item 9: Additional Information**

##### **A. Disciplinary Information and Other Financial Industry Activities and Affiliations**

##### **Disciplinary Information:**

Edward Jones is a registered broker-dealer and investment adviser. This section contains information about certain legal and regulatory matters that Edward Jones believes are material to a client's evaluation of its advisory business or the integrity of its management. Edward Jones has also been subject to various legal and regulatory proceedings relating to its brokerage business that are disclosed in Part 1 of its Form ADV.

State of California – Revenue Sharing. In the early 1990s, Edward Jones negotiated revenue sharing plans with seven fund families, which had been designated as “preferred funds.” On December 20, 2004, the State of California alleged that Edward Jones violated Corporations Code Section 25401 by failing to adequately disclose its revenue sharing arrangements with these certain designated preferred funds; and Section 25216(a) by omitting to disclose a material fact or facts with respect to its revenue sharing arrangements with these certain designated preferred funds, which may have been misleading. On September 2, 2008, Edward Jones reached an agreement with the California Attorney General in which the case was dismissed with prejudice. Without admitting or denying the allegations, Edward Jones agreed to pay \$2.7 million to the Attorney General as fees and costs and \$4.8 million to the State of California as civil penalties.

United States Securities and Exchange Commission ("SEC") – Revenue Sharing. On December 15, 2003, the SEC alleged that Edward Jones did not disclose its financial incentives to sell mutual funds from the preferred fund families on its website or on any other written document or orally to clients and that Edward Jones failed to disclose on its website or on any

other written document any incentives to sell 529 plans. The SEC also alleged that Edward Jones: (i) willfully violated Section 17(a)(2) of the Securities Act; (ii) willfully violated Rule 10b-10 under the Exchange Act; (iii) willfully violated Section 15b(c)(1) of the Exchange Act; and (iv) contravened the dictates of Municipal Securities Rulemaking Board ("MSRB") Rule G-15. Simultaneously with this proceeding, the National Association of Securities Dealers ("NASD") and the New York Stock Exchange ("NYSE") instituted proceedings against Edward Jones.

Without admitting or denying the allegations, Edward Jones consented to certain findings. In view of such findings, on December 22, 2004, by unanimous vote, the hearing panel imposed the penalty consented to by Edward Jones as follows: the imposition by NYSE, SEC and NASD to: (i) be censured; (ii) cease and desist from committing or causing any violations and future violations of Section 17(a)(2) of the Securities Act, Section 15b(c)(1) of the Exchange Act and Rule 10b-10 and MSRB Rule G-15; (iii) pay disgorgement plus prejudgment interest in the total amount of \$37.5 million ("Disgorgement") and a civil monetary penalty in the amount of \$37.5 million ("Penalties"), for a total of \$75 million; and (iv) establish a fair fund pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 for the funds described above. Pursuant to an escrow agreement, Edward Jones paid the Disgorgement and Penalties into an escrow account along with all costs associated with the escrow agreement and the fair fund distribution. In addition, Edward Jones was ordered to, among other things, make certain disclosures regarding its preferred mutual fund family program; develop policies and procedures with the assistance of an independent consultant in connection with Edward Jones' revenue sharing; and develop a distribution plan. Edward Jones agreed to not assert any reimbursement or indemnification from any source including insurance companies or claim, assert or apply for

a tax deduction or tax credit for any penalty amounts that it paid.

State of Missouri – Revenue Sharing. On December 23, 2004, the Missouri Securities Division ("Missouri Division") alleged that Edward Jones failed to adequately disclose to investors information about its revenue sharing arrangements involving certain mutual fund companies. On August 5, 2005, Edward Jones was ordered to: (i) make available, upon request by the Missouri Division, all information and reports submitted to the self-regulatory and law enforcement authorities pertaining to its policies and procedures regarding revenue sharing; (ii) make available, upon request by the Missouri Division, information regarding the implementation of its mutual fund research program; and (iii) pay a civil penalty of \$650,000, a sum of \$850,000 to education funds and its own costs and attorneys' fees.

State of Maine – Revenue Sharing. On October 1, 2004, the State of Maine Office of Securities alleged that Edward Jones violated the revised Maine Securities Act when it failed to disclose to its Maine clients that it received revenue sharing payments from the sale of preferred mutual funds. Without admitting or denying the findings, on February 28, 2006, Edward Jones entered into a Consent Agreement for the sole purpose of resolving the matter.

NASD – Net Asset Value ("NAV") Transfer Programs. The NASD alleged that Edward Jones failed to provide all investors the opportunity to purchase Class A shares of certain mutual funds at NAV (i.e., without any deduction for a sales load) pursuant to the terms of its NAV transfer programs. The NASD further alleged that Edward Jones failed to exercise reasonable due diligence to identify the essential terms and conditions of all NAV transfer programs offered by the mutual funds that it sold and failed to establish, maintain and enforce a system and procedures to ensure that all of its clients received NAV pricing when appropriate. On

December 11, 2006, pursuant to NASD Rule 9216, Edward Jones entered into a letter of acceptance, waiver and consent whereby it agreed, without admitting or denying the findings of the NASD, to the entry of certain findings and sanctions in connection with its handling of NAV transfer programs offered by certain mutual funds during the period January 1, 2002, through December 31, 2004. Edward Jones was censured and fined \$250,000, and agreed to provide remediation payments to investors estimated to be approximately \$25 million.

NASD – Revenue Sharing. The NASD alleged Edward Jones did not adequately disclose its incentives to sell mutual funds from the seven preferred families by relying on language pertaining to revenue sharing found in the prospectuses and statements of additional information (SAIs) provided at the point of sale. The NASD further alleged that during the relevant period, procedures were not in place by Edward Jones to ensure that the prospectuses and SAIs adequately disclosed revenue sharing, directed brokerage payments or other incentives offered to Edward Jones. The NASD also alleged that since 2000, Edward Jones sold 529 college savings plans to its clients, and although it has selling agreements with 14 mutual fund companies, Edward Jones promotes only the 529 plans from certain preferred families. On December 22, 2004, based on the conduct described above, the NASD found that Edward Jones willfully violated Section 17(a)(2) of the Securities Act, NASD Rule 2110, Rule 10b-10 under the Exchange Act, Section 15b(c)(1) of the Exchange Act and NASD Rules 2210 and 2110. With regard to 529 savings plans, the NASD determined Edward Jones contravened the dictates of MSRB Rule G-15 and Section 15b(c)(1) of the Exchange Act. The NASD further alleged that Edward Jones: (i) improperly favored the sale of mutual funds on the basis of brokerage commissions in violation of NASD Rules 2830(k) and 2110; (ii) used unlawful sales conduct in holding sales trip incentive programs and allowed financial advisors to “win” vacations

in violation of NASD Rules 2830(l), 2820(g) and 2110; (iii) failed to preserve and retain emails in a readily accessible place for two years, violating Section 17(a) of the Exchange Act and Rule 17a-4 and NASD Rules 3110 and 2110; (iv) failed to supervise late trading, violating NASD Rules 3010 and 2110; and (v) failed to supervise, establish, maintain and enforce adequate written supervisory procedures and systems related to sales of preferred family mutual funds and 529 savings plans, violating NASD Rules 3010 and 2110. Simultaneously with this proceeding, the SEC and the NYSE instituted proceedings against Edward Jones. Edward Jones paid the Disgorgement and Penalties as outlined in the *SEC – Revenue Sharing* disclosure provided above to resolve this matter.

New York Stock Exchange ("NYSE") – Revenue Sharing. On December 22, 2004, without admitting or denying the findings, Edward Jones consented to a finding by the hearing panel that it: (i) violated Section 17(a)(2) of the Securities Act; (ii) violated Section 10b-10 of the Exchange Act; (iii) engaged in conduct inconsistent with principles of trade in violation of Exchange Rule 476(a)(6) in that Edward Jones (a) encouraged financial advisors to sell mutual fund shares based in part on revenue Edward Jones received from certain mutual fund companies, (b) failed to adequately disclose the source and amount of remuneration to be received in connection with the sales of 529 college savings plans, and (c) failed to give written confirmations to clients that disclosed the source and amount of remuneration received in violation of the MSRB Rule G-15; (iv) violated Exchange Rule 401 in failing to use the principles of good business practice in the conduct of its business affairs in that Edward Jones (a) encouraged financial advisors to sell mutual fund shares based in part on the amount of revenue received from certain mutual fund companies, and (b) failed to adequately disclose the source and amount of remuneration with the sales of 529 plans; (v) violated Exchange Rule 342 by failing to (a) review prospectuses and SAIs offered by certain mutual fund families to



determine if adequate disclosures of revenue sharing, directed brokerage payments or other incentives were made, and (b) reasonably supervise its business activities, and establish and maintain appropriate procedures for supervision with respect to late trading of mutual funds; (vi) violated Section 17(a) of the Exchange Act and SEC Rule 17a-4 and Exchange Rule 440 by failing to preserve for three years and/or preserve in an easily accessible place for two years records of electronic communication. Simultaneously with this proceeding, the NASD and the SEC instituted proceedings against Edward Jones. Edward Jones paid the Disgorgement and Penalties as outlined in the *SEC – Revenue Sharing* disclosure provided above to resolve this matter.

NASD – Reporting Procedures. On November 30, 2004 and pursuant to Article V, Sections 2(c) and 3(b) of the NASD's By-Laws, and NASD Rules 2110 and 3010, the NASD alleged that Edward Jones filed at least 280 late amendments to forms U-4 and U-5, which represented approximately 27% of the required amendments relating to reportable client complaints, terminations, regulatory actions, and criminal disclosures. During the relevant period, Edward Jones' supervisory system and procedures were not reasonably designed to achieve compliance with its Article V reporting obligations. On November 30, 2004 and without admitting or denying the allegations, Edward Jones consented to the described sanctions and to the entry of findings, and censured and fined \$300,000. In addition Edward Jones complied with the following undertakings: (i) Edward Jones' internal audit department or personnel not directly responsible for Edward Jones' Article V reporting obligations and their immediate supervisors conducted an audit to assess the effectiveness of its system and procedures for ensuring timely filing of Form U-4 and U-5 amendments summarizing the findings and recommendations and conducted a similar audit and prepared a similar written audit report for four calendar quarters; (ii) an officer of Edward

Jones certified to the NASD that an audit was conducted and reviewed the current audit report; (iii) an officer of Edward Jones certified to the NASD that Edward Jones implemented the recommendations; (iv), an officer of Edward Jones certified in writing to the NASD that an audit was conducted, the audit report was reviewed, and recommendations implemented; and (v) an officer of Edward Jones certified in writing to the NASD that Edward Jones reviewed its system and procedures for complying with its Article V reporting obligations and established a system and procedures reasonably designed to achieve compliance with reporting requirements.

FINRA – Official Statements Delivery. On November 2, 2006, FINRA alleged Edward Jones violated MSRB Rule G-32 by failing to timely deliver official statements to certain clients in various transactions when Edward Jones was not an underwriter or member of the syndicate and violated MSRB Rules G-8, G-27, and G-17 regarding certain record keeping requirements. Without admitting or denying the findings, on April 9, 2009, Edward Jones consented to the described sanctions and entry of findings and was censured and fined \$900,000. Edward Jones adopted and implemented systems and procedures reasonably designed to ensure compliance with MSRB Rules G-32 and G-8.

FINRA – Exchange Traded Funds (ETFs). In violation of FINRA Rule 2010 and NASD Rules 2110, 2310 and 3010, FINRA alleged that Edward Jones (1) failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with applicable NASD or FINRA rules in connection with the sale of non-traditional ETFs; (2) failed to establish and maintain an adequate supervisory system to monitor transactions in non-traditional ETFs involving retail clients; (3) did not exercise due diligence in investigating non-traditional ETFs; (4) did not ensure that its registered representatives obtained adequate information and instruction regarding traditional ETFs before



recommending those products to clients; and (5) did not provide such information directly to registered representatives or require that they obtain it from other sources. FINRA also alleged that Edward Jones' supervisory system was inadequate with respect to its oversight of non-traditional ETF transactions and until the time when FINRA issued Regulatory Notice 09-31, relied on its general supervisory procedures to oversee transactions in non-traditional ETFs. FINRA alleged that those procedures did not address the products' unique features and risks, e.g., Edward Jones' sales exception reports and other supervisory tools did not differentiate between exchange-traded equity securities, traditional ETFs and non-traditional ETFs. FINRA alleged that Edward Jones' general supervisory procedures did not require it to monitor either the length of time clients held open positions in non-traditional ETFs or the effect of long holding periods on those positions. On January 9, 2014, without admitting or denying the findings, Edward Jones entered into a letter of acceptance, waiver and consent in which Edward Jones was censured, fined \$200,000, and ordered to pay \$51,581.25 in restitution to clients.

State of New Hampshire – Solicitation Calls. In April 2013, the State of New Hampshire brought an action against Edward Jones, in which the allegations included solicitations calls being made in violation of applicable telephone solicitation rules, failure to properly train and supervise registered representatives in the area of telephone solicitation, and failure to establish a system and procedures reasonably designed to ensure compliance with applicable telephone solicitation rules. On February 25, 2014, Edward Jones and the State of New Hampshire entered into a Consent Agreement in which Edward Jones agreed to pay the State \$175,000 in costs, \$175,000 in contribution to New Hampshire investor education, and \$400,000 in an administrative fine, without any admission of fault or wrongdoing.

### **Other Financial Industry Activities and Affiliations:**

You should be aware that Edward Jones, its affiliates and financial advisors may perform other services for you outside of the Managed Account Program, including execution of brokerage transactions, providing insurance products, investment banking, research, principal transactions, retail distribution of mutual funds and other investment advisory services. We may receive compensation, including investment banking fees and commissions associated with these transactions. Edward Jones and its financial advisors may also receive compensation for services and recommendations that may differ from advice given to you participating in the Managed Account Program.

In its capacity as a broker dealer, Edward Jones' Equity Research department may perform research and distribute recommendations to buy, sell or hold the equity securities of asset management companies or financial institutions with asset management affiliates that participate in the Program. In order to preserve the independence of the Mutual Fund Research process and to address any conflicts of interest, Edward Jones has adopted a policy under which the Mutual Fund Research department does not consider the opinion of Equity Research in selecting the Portfolio Managers who participate in the Program.

The following summarizes our material relationships or arrangements with other financial industry entities.

Edward Jones is the primary subsidiary of The Jones Financial Companies, L.L.L.P., and is dually registered as an investment adviser with the SEC and a broker-dealer with the Financial Industry Regulatory Authority, Inc. (FINRA).

Olive Street Investment Advisers, LLC, a subsidiary of the Jones Financial Companies, L.L.L.P. will serve as an affiliated investment

adviser to affiliated mutual funds which are not Program Investments for the Edward Jones Managed Account Program®. Certain current or former associates of Edward Jones may serve as officers or directors of the affiliated investment adviser and/or the affiliated mutual funds.

Our Canadian subsidiary, an Ontario, Canada, limited partnership (Edward Jones in Canada), is a registered broker-dealer with the Investment Industry Regulatory Organization of Canada.

Edward Jones Trust Company, a wholly owned subsidiary of The Jones Financial Companies, L.L.L.P., is a federally chartered savings association that offers fiduciary services to clients and exercises discretion over investment assets. Edward Jones Trust Company acts as trustee under trust agreements, wills and similar arrangements.

We also, directly or indirectly, own 100% of three insurance agencies that conduct general insurance producing activities in the U.S.: Edward Jones Insurance Agency of New Mexico, L.L.C., a New Mexico limited liability company; Edward Jones Insurance Agency of Massachusetts, L.L.C., a limited liability company; and Edward Jones Insurance Agency of California, L.L.C., a California limited liability company.

We also indirectly own 100% of two insurance agencies that conduct general insurance producing activities in Canada: Edward Jones Insurance Agency Inc., a Canadian corporation; and Edward Jones Insurance Agency, an Ontario limited partnership.

Edward Jones owns 7% of Customer Account Protection Company Holdings, Inc. (CAPCO), a captive insurance group.

Edward Jones also owns, as a limited partner, 49.5% of Passport Research Ltd., a Pennsylvania limited partnership that acts as an investment adviser to Edward Jones' two money market

mutual funds. Appendix A contains a detailed discussion of our affiliation with the Edward Jones Money Market Fund.

## **B. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading; Review of Accounts; Client Referrals and Other Compensation; and Financial Information**

### **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading:**

Edward Jones has adopted a Code of Ethics established to ensure that our associates:

- (1) Act with integrity and in an ethical manner with you and all of our clients
- (2) Place you and all of our clients' interests first
- (3) Ensure that our associates' personal trading comply with our Code of Ethics, avoid potential conflicts of interest and make sure that our associates do not abuse the faith and trust you have placed in them
- (4) Comply with all applicable rules, regulations and laws
- (5) Do not use any material nonpublic information our associates may receive as a result of their employment with Edward Jones

Under our Code of Ethics, our associates: (1) are prohibited from buying securities during an initial public offering; (2) are prohibited from buying securities in a private placement unless they have prior approval from Edward Jones; and (3) may be restricted from making trades in securities either immediately before or after trades in the same securities are made for advisory clients.

Some Edward Jones associates are deemed "access persons" under our Code of Ethics because they may have access to nonpublic information either regarding the securities in a client's accounts or regarding the changes to the Program Funds, including asset allocations. Access persons are required to submit to the chief

compliance officer (CCO), or his or her delegate, a list of any securities they own and securities transactions they made for any account the access person controls, either at Edward Jones or another financial institution. You may request a copy of the Edward Jones Code of Ethics from your financial advisor.

As a broker-dealer, there may be times where Edward Jones will buy, sell or recommend that our brokerage clients, who are not participating in the Managed Account Program, buy securities which are also available in the Program. These brokerage activities are done in the regular course of our business as a broker-dealer and are separate from our investment advisory services. There are times when we act as principal, which means that we participate in client transactions by buying securities for our own inventory and selling those securities to our clients.

You should know that financial advisors, Edward Jones associates (including those directly involved with the Managed Account Program), and/or their family members are permitted to and do invest in the Program. This practice could create a conflict of interest if associates placing trades for their own accounts were to place a trade before our clients and receive a better price on a security. To address this potential conflict, trades for financial advisors, Edward Jones associates (including those directly involved with the Managed Account Program), and/or their family members are aggregated along with other trades, which may include trades for your accounts, and will be executed simultaneously with all other Managed Account Program accounts.

We have a financial interest in our clients' transactions and the recommendations we make to clients to buy or sell securities or investment products. We may receive revenue sharing from certain mutual funds families from whom clients buy securities (for more information regarding revenue sharing, please go to [www.edwardjones.com](http://www.edwardjones.com) or request a revenue

sharing disclosure document from your Edward Jones financial advisor). Edward Jones does not receive revenue sharing on assets held in accounts in the Managed Account Program. Edward Jones and its financial advisors may also receive compensation for services and recommendations that may differ from advice given to you participating in the Managed Account Program.

The firm has internal supervisory reviews and procedures to review accounts held by our associates and certain family members and their personal trading practices. The reviews look for improper trading activities, including trading that may be in conflict with the best interests of a client. In addition to the Code of Ethics and the supervisory reviews, the firm prohibits financial advisors from placing trades for their personal accounts before trades for their clients in the same security. In the event a financial advisor's personal order fills at a better price than a client's order placed close in time, the firm will adjust the trade so the client receives the better price.

#### **Review of Accounts:**

When you open your Program accounts, your accounts are reviewed by a Field Supervision Director with the Investment Advisory Supervision (IAS) team of Edward Jones. IAS reviews your net worth, investment goals, time horizon, risk tolerance, investment objectives, and the investments sold or transferred in kind when funding the accounts. When appropriate, associates in IAS may call you directly to discuss your understanding of the Program, including the fees and expenses you will be paying.

While you are invested in the Program, your accounts will be monitored by Edward Jones to ensure that the accounts' asset allocation and accounts' performance are appropriate based on the information you provided. If during the course of the year your financial situation or risk tolerance changes, you should contact your financial advisor to discuss. We will provide any

updated information to your Portfolio Managers to ensure that your assets are properly invested based on the updated information.

At least annually, you and your financial advisor should discuss any changes to your financial situation, investment objectives and/or risk tolerance, and whether you would like to impose any reasonable investment restrictions on your Program accounts. The review will help determine if your investment allocation and/or Portfolio Manager selections need to be modified. If you decide to pursue a different investment allocation or engage a different Portfolio Manager, you will need to complete a new IPQ and sign a new Client Agreement and potentially a new Portfolio Management Agreement.

**Client Referrals and Other Compensation:**

Edward Jones does not enter into arrangements with unaffiliated third-parties to refer clients or solicit clients to any advisory program offered by Edward Jones. However, Portfolio Managers participating in the Managed Account Program may engage solicitors.

Occasionally, Portfolio Managers will participate in conferences or other marketing activities with Edward Jones (including the Diversification Program described below). They will be asked to share in the cost of those activities as well. Some Portfolio Managers may be required to sign a Code of Conduct which specifically addresses their participation in marketing events and their limitations on financially contributing to these events. Our financial advisors are not allowed to consider a Portfolio Manager's sponsorship of a marketing activity when choosing which Portfolio Manager(s) to recommend to you.

Edward Jones has contracted with Broadridge Investor Communications Solutions, Inc., an unaffiliated third-party vendor, to distribute proxies, periodic reports and voting instruction information to our clients. Pursuant to the agreement between Edward Jones and Broadridge and in accordance with regulations, Broadridge charges the issuing company on behalf of Edward Jones for these services. Edward Jones may receive a portion of the fees paid by the issuing company from Broadridge.

The Program Fees and Administrative Fees (if applicable) generated in Advisory Solutions, as well as assets under care, may impact your financial advisor's eligibility for a bonus.

Financial advisors are eligible to participate in the Edward Jones Diversification Travel Awards Program (Diversification Program), which includes domestic and international travel, or a cash award in lieu of a trip. To qualify, financial advisors must provide investments and services in a variety of categories. Program Fees received by a financial advisor are counted toward qualifying for the Diversification Program.

**Financial Information:**

This section does not apply to Edward Jones.

**Item 10: Requirements for State-Registered Advisers**

This section does not apply to Edward Jones.

## **APPENDIX A**

### **Disclosures Regarding Proprietary/Affiliated Money Market Funds**

Edward Jones Managed Account Program may from time to time be invested in shares of the Edward Jones Money Market Fund (the "Fund"), which is advised by Passport Research, Ltd. (the "Adviser"), a partnership in which Edward Jones has a 49.5% limited partnership interest. As such, this fund is advised by affiliates of Edward Jones or by persons in which Edward Jones has an interest.

Due to its limited partnership interest in the Adviser, Edward Jones receives a share of the Adviser's net income and revenue, which are derived from advisory fees, as is more fully described in the prospectus of the Fund. In addition, the Adviser or persons related to the Adviser, including Edward Jones, may provide any other services to the Fund that are permitted by law and be compensated for them, including without limitation, custody, fund accounting, transfer agency and distribution. In addition, Edward Jones or its affiliates may serve as counterparties in transactions with the Fund where permitted by law or regulation, and may receive compensation in that capacity.

Edward Jones has provided you with a current prospectus for the Fund. The prospectus describes the investment characteristics of the Fund, the schedule of fees paid to the Adviser or its affiliates by the Fund, and the schedule of fees paid to the Adviser or its affiliates for any additional services provided by them to the Fund. The prospectus also describes certain revenue received by Edward Jones in connection with the Fund.