

# Merrill Lynch Institutional Investment Consulting Program

## BROCHURE

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This brochure provides information about the qualifications and business practices of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") relating to the Consulting Services. If you have any questions about the contents of this brochure, please contact us at 800-MERRILL (800-637-7455). 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. Investment adviser registration does not imply a certain level of skill or training.

The advisory services described in this brochure are not insured or otherwise protected by the Federal Deposit Insurance Corporation or any other government agency; are not an obligation of any bank or any affiliate of Merrill Lynch; are not endorsed or guaranteed by Bank of America, N.A., Merrill Lynch, or any bank or any affiliate of Merrill Lynch; and involve investment risk, including possible loss of principal.

Additional information about Merrill Lynch also is available on the SEC's website at [http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx).

**March 26, 2018**

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Investment products offered through MLPF&S:

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**Merrill Lynch**  
**Wealth Management**

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## SUMMARY OF MATERIAL CHANGES

On June 30, 2017, Merrill Lynch filed its initial Merrill Lynch Institutional Investment Consulting brochure. Set forth below is a summary of the material changes to this brochure since that date. The summary of material changes is designed to make clients aware of information that has changed since the initial filing of the brochure and that may be important to them. The material changes summarized below were also incorporated within this Brochure.

All capitalized terms are defined in the body of this Brochure and/or in the Glossary, which can be found at the end of this Brochure.

We added or updated disclosures regarding *Advisory Business–Institutional Investment Consulting*:

- Enhanced description of services in the section *Summary Description of Services*.
- Enhanced description of the investment advisory agreement in the section *Investment Advisory Agreement*.
- Updated disclosure in the subsection *Detailed Description of Services–Asset Allocation–Strategic Allocation Modeling Service* to reflect strategic allocation modeling services only and enhanced description of the services.
- Added new subsection *Detailed Description of Services–Asset Allocation–Asset Liability Modeling Service* to reflect asset liability modeling services only and enhanced description of the services.
- Changed subsection heading from *Detailed Description of Services–Asset Allocation–Monitoring* to *Detailed Description of Services–Asset Allocation–Ongoing Asset Allocation Advice* and enhanced description of the services.
- Enhanced description of services in the subsection *Detailed Description of Services–Investment Policy Statement Creation*.
- Enhanced description of services in the subsection *Detailed Description of Services–Manager Searches and Recommendations* to reflect that (i) Merrill Lynch will not provide a recommendation of an investment manager or strategy for certain asset categories which are designated as Excluded Assets; and (ii) you are responsible to enter into a separate agreement with each of your selected investment managers and these investment managers will each charge you a separate investment management fee for services.
- Updated and enhanced disclosure in the section *Limitation of Services* to reflect that (i) certain assets in your investment portfolio that are defined as “Excluded Assets” are subject to the Client Agreement except for the manager identification services; (ii) if your investment portfolio is subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), your plan assets, including your investment portfolio under the Client Agreement, must be held at a custodian other than Merrill Lynch and may not be held in a brokerage account or enrolled in any investment advisory program offered by Merrill Lynch or its Affiliates; and (iii) if your investment portfolio is not subject to ERISA, we may terminate your participation in the Program if you hold any investment portfolio assets under the Program in, or implement Program recommendations through, a brokerage account at Merrill Lynch or its Affiliates.
- Updated disclosure in the section *Other Investment Advisory Programs* to reflect that if your investment portfolio is not subject to ERISA, you may implement program recommendations through another Merrill Lynch investment advisory program and such other program will require you to sign a separate agreement and pay a separate fee.

We added or updated disclosures regarding *Fees and Compensation*:

- Added and updated disclosure in section *Program Fees* to reflect that the portfolio assets subject to the Program Fee was changed to include certain assets in your investment portfolio that are defined as “Excluded Assets” but exclude any portfolio assets under the Program that are held in other Merrill Lynch investment advisory programs or Merrill Lynch brokerage accounts, effective March 26, 2018 for new clients and effective upon amendment of the Program agreement for existing clients.



- Added and updated disclosure in section *Calculation of Program Fees* to reflect the change to the portfolio assets subject to the Program Fee.
- Changed section heading from *Invoices* to *Payment of Program Fees* and added description of methods of payment for Program Fees.
- Changed section heading from *Compensation for the Sale of Securities* to *Compensation for the Sale of Securities or Other Investment Products* and added disclosure to reflect that we and your Designated Advisor will receive additional compensation if you choose to use a Merrill Lynch investment advisory program to implement any Program recommendations and the fees for that investment advisory program are higher than the fees under the Program. And, this practice creates a conflict of interest that may give us and our Financial Advisors an incentive to recommend advisory services based on compensation received.
- Added disclosure in section *Types of Clients* to reflect (i) the type of client eligible for Asset Liability Modeling Service; and (ii) the addition of the disclosure from section *Requirements for Opening a Client Account* as this section was removed.

We added or updated disclosures regarding *Methods of Analysis, Investment Strategies and Risk of Loss*:

- Added disclosure in new section called *Asset Allocation* with two new subsections called *Strategic Allocation Modeling Service* and *Asset Liability Modeling Service* to further explain the analysis, including assumptions and risks, for Merrill Lynch's asset allocation services.
- Added disclosure in a new section called *Investment Policy Statement Creation* to further explain the analysis, including assumptions and risks, for Merrill Lynch's investment policy statement services.
- Added disclosure in a new section called *Manager Searches and Recommendations* to explain the analysis, including assumptions and risks, for the manager identification report in addition to the IIC Eligible Strategies disclosure.
- Added disclosure in a new subsection called *IIC Eligible Strategies – Portfolio Evaluation, Review, and Reporting* to further explain the review and evaluation process for your investment managers and strategies in your portfolio along with information and assumptions about the content of your investment performance report.
- Added disclosure in a new section called *Pricing of Securities* to explain the process to value securities and returns in your investment performance report and the associated risks.

We added and updated disclosures regarding *Important Client Responsibilities* to further explain client responsibilities with respect to the services.

We updated disclosures regarding *Disciplinary Information*.

We added and updated disclosures regarding *Other Financial Industry Activities and Affiliations* to disclose that (i) MLPF&S' businesses will be separating into two distinct legal entities and, at this time, it is contemplated that Program clients will continue to be serviced by MLPF&S; and (ii) Managed Account Advisors LLC, an Affiliate of MLPF&S, also engages in investment advisory services.

We added or updated disclosures regarding *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*:

- Added and updated disclosure in section *Participation or Interest in Client Transactions* to reflect (i) if your investment portfolio is subject to ERISA, your plan assets, including your investment portfolio under the Client Agreement, must be held at a custodian other than Merrill Lynch and may not be held in a brokerage account or enrolled in any investment advisory program offered by Merrill Lynch or its Affiliates; (ii) if your investment portfolio is not subject to ERISA, we may terminate your participation in the Program if you hold any investment portfolio assets under the Program in, or implement Program recommendations through, a



brokerage account at Merrill Lynch or its Affiliates; and (iii) if your investment portfolio is not subject to ERISA, you may implement Program recommendations through an investment advisory program offered by Merrill Lynch or its Affiliates. However, if we and your Designated Advisor receive higher compensation for the other investment advisory program, then we and your Designated Advisor would have a financial incentive to recommend investment advisors and strategies under the Program that you can implement at Merrill Lynch or its Affiliates.



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This Merrill Lynch program brochure relating to the Merrill Lynch Institutional Investment Consulting Program (the “Brochure”), as amended or updated from time to time Brochure relates to the Merrill Lynch Institutional Investment Consulting Program (the “Program” or “IIC”) offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated (referred to in this Brochure as “Merrill Lynch,” “MLPF&S,” “we,” “us,” or “our”). For purposes of this Brochure, “client,” “you,” or “your” refers to the client enumerated in the Institutional Investment Consulting Client Agreement (the “Client Agreement”).

All capitalized terms are defined in the body of this Brochure and/or in the Glossary, which can be found at the end of this Brochure.

## **ADVISORY BUSINESS**

### **A. ABOUT MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED**

Merrill Lynch, an indirect wholly-owned subsidiary of Bank of America Corporation (“Bank of America” or “BAC”), is a global investment banking and financial services firm. Merrill Lynch offers a broad range of brokerage, investment advisory, retail and other services and is registered with the U.S. Securities and Exchange Commission (“SEC”) as a broker-dealer and an investment adviser.

### **B. INSTITUTIONAL INVESTMENT CONSULTING**

Merrill Lynch agrees in the Client Agreement to provide non-discretionary investment advice as an investment adviser under the Investment Advisers Act of 1940, as amended (“Advisers Act”) to you under the Program. If your investment portfolio is subject to ERISA, Merrill Lynch also agrees in the Client Agreement to provide non-discretionary investment advice as a fiduciary under section 3(21)(A)(ii) of ERISA to you under the Program.

#### **1. Summary Description of Services**

Under the Program, a client receives for an investment portfolio certain asset allocation services, investment policy statement services, and investment manager and strategy review and recommendation services along with periodic investment reporting. If a client’s investment portfolio is for a defined benefit plan, a client also receives an asset liability modeling service provided the investment portfolio meets certain requirements and the client requests such services. Merrill Lynch provides the Program services through a select group of Merrill Lynch Financial Advisors who are designated to provide Program services (“Designated Advisor”).

Before you select the Program, we want to highlight the following to you:

- You enter into a Client Agreement with Merrill Lynch for the Program services you receive;
- As described in detail in this Brochure, you agree to pay Merrill Lynch a fee which will be an annual fixed dollar amount or an annual amount resulting from an annual asset-based fee rate applied to your investment portfolio as defined in your Client Agreement;
- The Program fee is based on the totality of the services and is negotiable depending on a number of factors;





- You will need to enter into a separate agreement with each of your selected investment managers and these investment managers will each charge you a separate investment management fee for services;
- As long as you are a client in this Program and your investment portfolio is subject to ERISA, Merrill Lynch and its Affiliates may not accept you as a client in other investment advisory programs or brokerage accounts.
- We are not responsible for the management of your investment portfolio assets through the Program. The investment manager you select and retain is exclusively responsible for the management of the assets in your investment portfolio that you assign to such investment manager.
- If your investment portfolio is not subject to ERISA, you may elect to implement Program recommendations through another investment advisory program offered by Merrill Lynch and its Affiliates:
  - You will sign a separate investment advisory agreement for the services provided through that program.
  - You will be charged a separate fee through other investment advisory programs and the fee calculation and billing methodology will differ from that of this Program.
  - The profiling process, program guidelines and requirements of other investment advisory programs will differ from that of this Program.
  - Advice and/or recommendations and investment solutions available in other investment advisory programs are not limited by the investment policy statement created through this Program, and may not align to IIC Eligible Strategies. (see *Methods of Analysis-Manager Searches and Recommendations*)
  - If implementation in other investment advisory program results in a misalignment with the Program guidelines, we may, at our discretion and with notice to you, terminate you as a Program client.

This Program is available to charitable organizations, pension, welfare benefit and profit sharing plans, corporations, high net worth individuals, trusts, and estates. A more detailed description of the Program is provided elsewhere in this Brochure, along with other material information about Merrill Lynch. Before selecting this Program, please review this Brochure carefully and speak with your Designated Advisor if you have any questions.

## **2. Investment Advisory Agreement**

With respect to the Program, the scope of any investment advisory relationship we have with you is defined in the Client Agreement that you sign. Under the Program, we act as your investment adviser only for the investment portfolio specifically identified by you. We will not act as an investment advisor for you for any other assets or accounts, including any other employee benefit plans, unless otherwise separately agreed to by Merrill Lynch and you in writing. Our advisory relationship begins when we enter into the Client Agreement with you, which occurs when we accept your signed Client Agreement. Preliminary discussions or recommendations, including any Request for Proposal or Request for Information responses, before we enter into the Client Agreement with you are not intended as investment advice and should not be relied upon as such. By participating in the Program, you acknowledge that the services we are providing in the Program are non-discretionary and that you have retained, and will exercise, final decision-making authority and responsibility for all matters concerning the investment portfolio as well as for the selection of an investment



manager and implementation of any investment strategy resulting from the services provided under the Client Agreement.

If your investment portfolio is subject to ERISA, Merrill Lynch agrees that it will be an ERISA fiduciary to the extent that we render investment advice within the meaning of section 3(21)(A)(ii) of ERISA to you regarding your investment portfolio, including but not limited to the recommendation of IIC Eligible Strategies as defined below.

You may make decisions with respect to your investment portfolio that are contrary to our recommendations, or make your own decisions without the benefit of our advice, including retaining an investment manager or strategy we do not review or recommend. However, if you disregard our advice, we may, at our discretion and with notice to you, terminate you as a Program client.

### **3. Detailed Description of Services**

What follows is a detailed description of the services included in the Program:

#### **ASSET ALLOCATION**

##### ***Strategic Allocation Modeling Service***

Merrill Lynch will assist you in identifying an appropriate long-term strategic asset allocation for your portfolio's specific investment goals and objectives. The recommendation of a strategic asset allocation will be provided by your Designated Advisor to you in a report. Please note that alternative asset allocations based on different assumptions, such as different risk tolerances, may be presented for comparison purposes in your report. However, these alternative asset allocations are not intended to be our recommendation.

Under this service, sophisticated computer models are used to construct asset allocations and to project potential ranges of returns and market values over various time periods and using various cash flows. The modeling uses our forward-looking capital market assumptions of risk, return, and correlations for the different asset mixes. This service is intended to help you test a variety of Monte Carlo simulations to better understand the impact of different asset allocations on your portfolio. (see *Methods of Analysis, Investment Strategies and Risk of Loss-Strategic Allocation Modeling Service* for further information)

Your Designated Advisor will collect certain information from you, such as your portfolio's investment objectives, risk tolerance, and projected cash flows, through a questionnaire in order to provide this service. However, you are responsible for providing all necessary information, particularly any limitations imposed by law or otherwise. We rely upon information provided by you to provide the report as well as the other Program services described in this Brochure. You should provide prompt written notice to Merrill Lynch of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information, which could materially change the information previously provided by you and used by us to create the report or provide other Program services described in this Brochure.

It is your responsibility to select the final strategic asset allocation and to determine whether to implement any asset allocation strategy. After you select a strategic asset allocation, it is important that you periodically review your portfolio's actual asset allocation to verify that it remains in line with your investment guidelines. (see *Important Client Responsibilities* for further information)



### *Asset Liability Modeling Service*

If you are or are acting on behalf of a single-employer sponsored defined benefit plan with an investment portfolio under the Program of at least \$50 million, we will provide the Asset Liability Modeling Service to you upon your request. Merrill Lynch will assist you in identifying an appropriate strategic asset allocation for your portfolio's specific investment goals and objectives in meeting future defined benefit plan payment obligations. The recommendation of a strategic asset allocation will be provided by your Designated Advisor to you in a report. Please note that alternative asset allocations based on different assumptions, such as different risk tolerances, may be presented for comparison purposes in your report. However, these alternative asset allocations are not intended to be our recommendation.

Under this service, we provide a report with a comprehensive stochastic modeling of plan assets and liabilities using Monte Carlo simulations to forecast pension metrics – annual contributions (according to the plan sponsor's funding policy), profit and loss expense, funded status on an ERISA basis, and balance sheet funded status – for various efficient strategic asset allocations and plan constraints. The modeling uses our forward-looking capital market assumptions of risk, return, and correlations for the different asset mixes and liability calculations during the forecast period.

The report also includes a liability driven investment glide path, if applicable, with clearly defined trigger points that correspond with dynamic asset allocation changes which seek to limit swings in the plan's funded status, changes in contribution requirements, and balance sheet volatility.

Merrill Lynch will utilize its affiliate, Bank of America, NA ("BANA"), under a servicing arrangement between Merrill Lynch and BANA to assist Merrill Lynch in providing the Asset Liability Modeling Service. The servicing agreement details the roles and responsibilities of each party in connection with the report.

Your Designated Advisor will collect certain information from you, such as your portfolio's investment objectives, risk tolerance, and projected cash flows, through a questionnaire in order to provide this service. Your Designated Advisor will also request that you provide certain actuarial reports in order to provide the service. However, it is your responsibility to provide all necessary information and actuarial reports, particularly any limitations imposed by law or otherwise. We rely upon information provided by you to provide the report as well as the other Program services described in this Brochure. You should provide prompt written notice to Merrill Lynch of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information, which could materially change the information previously provided by you and used by us to create the report or provide other Program services described in this Brochure.

It is your responsibility to select the final strategic asset allocation and to determine whether to implement any asset allocation strategy. After you select a strategic asset allocation, it is important that you periodically review your portfolio's actual asset allocation to verify that it remains in line with your investment guidelines. (see *Important Client Responsibilities* for further information)

### *Ongoing Asset Allocation Advice*

We will also periodically report to you, in writing, the actual asset allocation of your portfolio relative to the strategic asset allocation you selected for your portfolio. Your portfolio's actual asset allocation may deviate from the strategic asset allocation you selected for many reasons, such as market movements, additions and withdrawals of assets from your portfolio, changes in investment managers and strategies, and the purchase and sale of certain securities within those investment strategies. Your Designated Advisor will review your portfolio's actual asset allocation with you on a periodic basis and may make a recommendation to realign your actual asset allocation with the strategic asset allocation you selected. As noted above, you should notify Merrill Lynch of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information as such change may change our strategic asset allocation recommendation to you.



Should you disregard our recommendations, we may, at our discretion and with notice to you, terminate you as a Program client. (see *Important Client Responsibilities* for further information)

#### **INVESTMENT POLICY STATEMENT (“IPS”) CREATION**

Merrill Lynch will assist you in creating a written IPS which will describe the investment goals and objectives of your portfolio, and certain policies governing the investment of assets. As with the Strategic Allocation Modeling Service and the Asset Liability Modeling Service, your Designated Advisor will use the information collected from you through a questionnaire to assist you in creating an IPS for your portfolio. Your Designated Advisor will also discuss with you minimum and maximum ranges for each asset class which will be used for realigning your portfolio to your selected strategic asset allocation based on investment goals and objectives. Your Designated Advisor will provide a draft IPS for your investment portfolio to you for review that will include your selected strategic asset allocation, as well as a recommendation for the minimum and maximum ranges for realigning your portfolio to your selected strategic asset allocation.

Merrill Lynch will not have discretion or any authority over implementation of your strategic asset allocation or IPS, under this Program. (See *Other Investment Advisory Programs and Participation or Interest in Client Transactions*) The acceptance and adoption of the IPS created for you through this Program, as well as ensuring your portfolio's adherence to the IPS, is your responsibility. You are also responsible for ensuring that investment managers and strategies that you select can accommodate any investment restrictions reflected in your IPS and are properly captured through any Merrill Lynch investment advisory program or any other program you select for implementation.

Should the circumstances that lead to the creation of your IPS change, it is your responsibility to inform your Designated Advisor of those changes so we may work with you to create an updated IPS. Notification typically can occur during the portfolio reviews with your Designated Advisor. However, if you consider the changes to be significant, it is your responsibility to notify your Designated Advisor prior to the portfolio review. We strongly encourage that you utilize your other professional advisers, such as attorneys and/or accountants prior to your acceptance of the IPS. (see *Important Client Responsibilities* for further information)

#### **MANAGER SEARCHES AND RECOMMENDATIONS**

Merrill Lynch and your Designated Advisor will assist you in your evaluation, review, and selection of investment managers and strategies for your portfolio, specifically IIC Eligible Strategies as described below. We will not provide investment manager and strategy recommendations for certain asset categories which are designated as Excluded Assets. (See *Limitation of Services*)

IIC Eligible Strategies will include those strategies that meet Merrill Lynch's due diligence standards. As a general matter, we select IIC Eligible Strategies based on a variety of factors, including investment styles available in the marketplace, client demand, and the outcome of due diligence reviews. The initial and periodic reviews of IIC Eligible Strategies are performed through an investment review conducted by or under the auspices of personnel of the Merrill Lynch Global Wealth and Investment Management Chief Investment Office (“GWIM CIO”) (see *Methods of Analysis, Investment Strategies and Risk of Loss* for further information). The GWIM CIO is a Merrill Lynch division providing investment solutions, portfolio construction advice and wealth management guidance. GWIM CIO is a separate division from the Merrill Lynch business group that administers the Program.

Your Designated Advisor and Merrill Lynch will use information gathered from you through a questionnaire as well as your IPS to recommend a list of IIC Eligible Strategies by asset class except for Excluded Assets. (See



**Limitation of Services)** This list will be provided in the Manager Identification Report (“MID”). Upon specific written request of a client, and for comparison purposes only, we may include an investment manager or strategy that is not an IIC Eligible Strategy in the MID. Merrill Lynch expresses no opinion about the investment manager or strategy and the inclusion of the investment manager or strategy in the MID is not an endorsement or recommendation of the investment manager or strategy. Merrill Lynch will not assume any liability for any loss, claim, damage or expense attributable to your selection of an investment manager or strategy not included in the IIC Eligible Strategy universe.

It is your responsibility to negotiate directly with independent third party investment managers (not retained through any Merrill Lynch investment advisory program) the terms of any investment manager agreement and applicable fees. You may select an investment manager or strategy (or continue the use of an investment manager or strategy) without receiving a recommendation from Merrill Lynch.

Merrill Lynch and its Affiliates offer other managed products or wrap programs. Recommendations provided to accounts in these programs may be different from or even conflict with the advice and guidance provided in connection with the Program, including advice related to the recommendation of certain investment managers and strategies. This is due to, among other things, the differing nature of the other investment advisory services and differing processes and criteria upon which determinations are made. (see *Related Persons*)

Your Institutional Performance Report, as described below, will highlight any investment managers or strategies that are not IIC Eligible Strategies. Replacement recommendations of IIC Eligible Strategies will be provided by your Designated Advisor for any investment managers and strategies in a portfolio that are not IIC Eligible Strategies. (See *Advisory Business - Investment Performance Reporting* and see *Methods of Analysis, Investment Strategies and Risk of Loss - Status Change of IIC Eligible Strategies*).

You may make investment-related decisions contrary to our recommendations. However, if you disregard our advice, we may, at our discretion and with notice to you, terminate you as a Program client. (see *Important Client Responsibilities* for further information)

#### **INVESTMENT PERFORMANCE REPORTING**

Merrill Lynch will provide a periodic portfolio-level report called the Institutional Performance Report (“IPR”) to assist you in reviewing your actual asset allocation versus your selected strategic asset allocation, and the performance of your investment portfolio. The investment returns in your portfolio will be compared to the returns of the benchmarks recommended by us.

We will rely upon the data supplied by your custodian or third-party investment manager in preparing the IPR. Merrill Lynch will not be held responsible for the accuracy of the data provided by your custodian, if other than Merrill Lynch, or third party investment manager. We also use outside information sources including computer and data analysis firms. This information is obtained from sources believed to be reliable.

When making performance comparisons, you should note that:

- Differences in transaction costs among accounts will affect account comparisons; and
- The benchmarks shown in the IPR do not include transaction costs. If available, an actual investment in these benchmarks, or in the securities comprising the benchmarks, would require an investor to incur transaction costs. Performance would be reduced by such costs and their compounded effect.



Performance information from third-party sources or performance reports provided by Merrill Lynch for accounts enrolled in other Merrill Lynch investment advisory programs may differ from that shown in the IPR. These differences may be due to different methods of analysis, different pricing sources, treatment of accrued income or different accounting procedures. For example, infrequently traded fixed-income securities may be priced according to yields calculated on a matrix system, which may vary among pricing sources. As another example, if sufficient data is available and the IPRs are prepared on a trade date basis, their performance information may differ from reports prepared on a settlement date or other basis.

You should use the report to evaluate your investments and progress towards your investment goals. Your Designated Advisor will be available to assist you in understanding the format and content of the report, which includes graphic and tabular presentations of performance, and will assist you in reviewing and evaluating the reports. The IPR will not include any performance information for assets held in a Merrill Lynch brokerage account.

You shall have the responsibility to review such information, reports or statements provided on a periodic basis in the normal course of the delivery of services by Merrill Lynch through web access. You are responsible for accessing the provided information through web delivery means, including the establishment of user ID's and passwords. (see *Important Client Responsibilities* for further information)

#### **4. Limitation of Services**

Universe of Investment Managers and Strategies – Investment managers or strategies recommended for your portfolio are limited to the IIC Eligible Strategies. Our recommendations therefore will not include every investment option available in the industry, including investment strategies offered through other Merrill Lynch investment advisory programs.

Under the Program, Bank of America and Merrill Lynch and its Affiliates do not and will not act in a fiduciary capacity under the Adviser's Act, ERISA, or otherwise with respect to your decision to purchase, sell or hold any Bank of America or Merrill Lynch affiliated products or services. Without limiting the generality of the immediately foregoing, Merrill Lynch may provide periodic investment performance reporting for any such affiliated investments or service providers, which you agree is not a fiduciary act of Merrill Lynch.

Excluded Assets ("Excluded Assets") – Merrill Lynch will not assist the client in the evaluation, review and selection of investment managers and strategies under the Program with respect to Excluded Assets. Excluded Assets are private equity funds, hedge funds, limited partnerships, or other illiquid assets held by the client as a part of the investment portfolio under the Program.

U.S. Trust Discretionary Investment Management Services – U.S. Trust furnishes investment management services to personal trusts, estates, private foundations, philanthropic institutions and other non-profit organizations. The Investment management services are provided on a fully discretionary basis and U.S. Trust acts as a co-trustee or co-fiduciary. Clients receiving discretionary investment management for a portfolio through U.S. Trust are not eligible for participation in the Program for the same portfolio.

Other Investment Advisory Programs and Brokerage Accounts - Merrill Lynch offers a wide variety of advisory services (See *Advisory Business – Other Investment Advisory Programs*) If your investment portfolio is subject to ERISA, your plan assets, including your investment portfolio under the Client Agreement, must be held at a custodian other than Merrill Lynch and may not be held in a brokerage account or enrolled in any investment advisory program offered by Merrill Lynch or its Affiliates. If your investment portfolio is not subject to ERISA, we may terminate your participation in the Program if you hold any investment portfolio assets under the



Program in, or implement Program recommendations through, a brokerage account at Merrill Lynch or its Affiliates.

## **5. Termination**

The Client Agreement may be terminated at any time by you or Merrill Lynch by giving notice as described in the Client Agreement.

## **6. Qualifications of Designated Advisors**

Designated Advisors are registered as broker-dealer and investment adviser representatives. To become designated to provide Program services, Designated Advisors are generally required to demonstrate specialized experience and meet certain qualification requirements. These requirements include the Certified Investment Management Analyst® (CIMA) certification through the Investment Management Consultants Association® or the Chartered Financial Analyst® credential through the CFA Institute. In addition, Designated Advisors must complete training administered by Merrill Lynch. Those Designated Advisors who meet Merrill Lynch's criteria are designated to provide Program services.

## **7. Other Investment Advisory Programs**

In addition to this Program, Merrill Lynch offers a wide variety of advisory services. These include, but are not limited to, the following: Merrill Lynch Investment Advisory Program, Merrill Lynch Defined Contribution Investment Consulting Services, Merrill Lynch Fiduciary Advisory Services, Merrill Lynch Advice Access, Merrill Edge Guided Investing, Merrill Edge Advisory Account, and Merrill Lynch Strategic Portfolio Advisor® Service. We also offer general information not directed to and not tailored to the specific needs of any individual or individual clients in the form of publications or research. In addition, we offer financial planning services, including (but not limited to) Wealth Management Analysis Report.

More information about these programs and services is contained in the applicable Merrill Lynch Brochure (or Merrill Lynch Form ADV, Part 2A) and is available upon request or through the SEC's website at [http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx). Special arrangements with certain clients to provide particular or unique services for clients of a specific Financial Advisor or branch office may also be established.

If your investment portfolio is not subject to ERISA, you may elect to engage an investment manager or strategy recommended by us through another Merrill Lynch investment advisory program. If you enroll in another investment advisory program, you will sign a separate investment advisory agreement for the services provided through that program. In addition, you will be charged a separate fee through another Merrill Lynch investment advisory program and the profiling process, program guidelines, fee calculation and billing methodology will differ from that of this Program. Advice and/or recommendations provided to accounts in these programs will be different from or even conflict with the advice and guidance provided in connection with this Program, including advice related to the recommendation of certain investment managers and strategies. For more information about those programs, please review the applicable brochure as described above. You may make investment-related decisions contrary to our recommendations. However, if you disregard our advice, we may, at our discretion and with notice to you, terminate you as a Program client. (see *Important Client Responsibilities* for further information)



## **ASSETS UNDER MANAGEMENT**

As of December 29, 2017, Merrill Lynch had assets under management of \$819.82 billion, of which \$259.14 billion was managed on a discretionary basis and \$560.68 billion was managed on a non-discretionary basis.

Merrill Lynch financial planning services, are not included in this data.

## **FEES AND COMPENSATION**

### **A. PROGRAM FEES**

For services provided in the Program, clients will pay a fee ("Program Fee"). The Program Fee will equal an annual fixed dollar amount or an annual amount resulting from an annual asset-based fee rate applied to certain portfolio assets. The Program Fee is subject to a Program minimum and maximum annual fee amount. The Program minimum annual fee amount is \$1,500. The Program maximum annual fee amount is an amount resulting from an annual asset-based fee rate of 0.45% of your portfolio assets under the Program, which includes Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excludes any portfolio assets under the Program that are held in other Merrill Lynch advisory programs or Merrill Lynch brokerage accounts.

The Program Fee may be negotiated with your Designated Advisor depending on a number of factors. The extent to which we may negotiate the Program Fee is solely within our discretion. All fees are payable quarterly, in arrears.

If a client has chosen to enter into another Merrill Lynch investment advisory agreement, the fees for the services provided under that agreement will be separate and distinct from those for the Program. For a more detailed discussion of the methodology used to calculate the fees charged for any other Merrill Lynch investment advisory program, please see the applicable brochure.

### **B. CALCULATION OF PROGRAM FEES**

The following describes the calculation of the Program Fee.

#### **Asset-Based Fee Rate**

Asset-based fees are calculated and payable quarterly, in arrears, based upon the market value of the portfolio assets on the last business day of each calendar quarter as displayed in the IPR, including any Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excluding any portfolio assets held in another Merrill Lynch investment advisory program or a Merrill Lynch brokerage account. The fee rate applied will be one quarter of the annual asset-based fee rate.

#### **Fixed Dollar Fee**

Fixed dollar payments equal to one quarter of the agreed upon annual fee are due quarterly, in arrears.





## **1. Initial Billing of Program Fees**

For all clients, for the first quarter in which the client is enrolled in the Program, the fees charged will be calculated on a pro-rata basis, based on the number of calendar days enrolled during the quarter. For asset-based fee arrangements, the market value of the last business day of the quarter displayed in the first IPR will be used to calculate the fee, including any Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excluding any portfolio assets held in other Merrill Lynch investment advisory programs or Merrill Lynch brokerage accounts.

## **2. Billing Upon Termination of Service**

For all clients, in the event of termination, the Program Fees payable hereunder shall be prorated based upon the effective date of termination. For asset-based fee arrangements, the market value as of the last business day of the quarter displayed in the final IPR will be used to calculate the final fee, including any Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excluding portfolio assets held in other Merrill Lynch investment advisory programs or Merrill Lynch brokerage accounts.

For additional information, see *Advisory Business-Institutional Investment Consulting-Termination* section.

## **C. PAYMENT OF PROGRAM FEES**

Program Fees are calculated and invoiced quarterly in arrears based upon the market value of your assets including any Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excluding any portfolio assets held in other Merrill Lynch investment advisory programs or Merrill Lynch brokerage accounts. The following methods are acceptable for paying your Program Fees:

- U.S. Mail
- Wire Transfer

Merrill Lynch will provide you with mailing and wire instructions on your quarterly invoice.

## **D. OTHER FEES AND EXPENSES**

The Program Fee only covers the Program services described in this Brochure.

For further information, see *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - Conflicts of Interest and Information Walls* below.

## **E. COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS**

We and our employees, including your Designated Advisor, benefit from the compensation paid to us, and may directly or indirectly receive a portion of the fees and other compensation paid by Program clients for other services.

Clients may also use other products or services available from or through us and in such case pay additional fees. Designated Advisors offering these other services or programs will receive compensation from Merrill Lynch. In particular, your Designated Advisor will receive additional compensation if you choose to use a Merrill Lynch investment advisory program to implement any Program recommendations and the fees for that investment advisory program are higher than the fees under the Program. This practice creates a potential conflict of interest that may give us and our Financial Advisors an incentive to recommend advisory services based on the compensation received. Fees and commissions may also be higher for some products



or services, and the remuneration and profitability to us and our Financial Advisors resulting from transactions on behalf of our management of certain accounts may be greater than the remuneration and profitability resulting from other advisory accounts, products or services.

Our Designated Advisors are required to recommend investment advisory programs, investment products and securities that are suitable for you based upon your investment goals, risk tolerance and financial situation and needs. In addition, we have adopted policies and procedures to address the suitability of advisory products offered to our clients.

#### **F. SOURCES OF REVENUE**

As a broker-dealer, Merrill Lynch offers a wide variety of products and services. Our principal sources of income, which include commissions and other compensation for the sale of investment products, are derived from our business as a broker-dealer. Less than 1% of our gross revenues are expected to be generated from the Program on an annual basis.

#### **G. CONDUCTING BUSINESS THROUGH MERRILL LYNCH**

You should discuss the investment advisory services we make available with your Designated Advisor to determine which may be most appropriate for you. Program fees may be higher or lower than the fees charged by other firms for comparable services, assuming such services are available. Your Designated Advisor can provide you with a *Summary of Services* document which outlines the differences between IIC and other Merrill Lynch investment advisory programs.

#### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Neither we nor our Designated Advisors receive performance-based fees for the Program. The investment recommendations provided in connection with the Program do not raise the conflicts associated with the side-by-side management of accounts.

#### **TYPES OF CLIENTS**

This Program is available to charitable organizations, pension, welfare benefit and profit sharing plans, corporations, high net worth individuals, trusts, and estates.

The Program is typically available for clients with \$20 million or more in assets. The minimum can be waived, at our sole discretion. The Program's Asset Liability Modeling Service is available if you are or are acting on behalf of a single-employer sponsored defined benefit plan with an investment portfolio under the Program of at least \$50 million.



## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### A. ASSET ALLOCATION

#### 1. Strategic Allocation Modeling Service

Merrill Lynch will assist you in identifying an appropriate long-term asset allocation for your portfolio based upon your risk tolerance, investment goals and objectives, liquidity needs, tax status, time horizon, portfolio initial investment value, and investment constraints. These inputs are used in conjunction with our forward-looking capital market assumptions and a probabilistic modeling approach known as Monte Carlo simulation to recommend a strategic asset allocation to you. Monte Carlo simulation is a statistical modeling technique in which a set of future outcomes are forecasted based on the variability or randomness associated with historical occurrences. We use Monte Carlo simulation when producing a range of simulated asset allocations for comparison with your current strategic asset allocation. Each asset allocation (current and simulated) is accompanied by the range of expected returns, volatility estimates, potential portfolio values, and yield projections over various investment horizons. The recommended strategic asset allocation for your portfolio will be presented to you in a report by your Designated Advisor.

##### a. Monte Carlo Simulation

Monte Carlo simulations are the result of running a large number of random scenarios in an attempt to determine the most probable performance results of a given portfolio. These simulations may be based not only on past performance information, which is not indicative of future results, but they may also be based on hypothetical performance for certain periods and for certain underlying funds or accounts. Note that this does not imply that these results are actually the best and worst cases that one will actually experience. Monte Carlo simulations do not purport to represent the actual performance of any portfolio, but attempt to indicate the most repeated hypothetical performance results of a large number of different hypothetical portfolios. No actual portfolio has performed in the manner indicated in the Monte Carlo simulations, and the hypothetical scenarios used in the simulation may omit entire categories of relevant scenarios. There can be no assurance that any given portfolio will in fact perform in a manner materially consistent with the probabilities indicated by the simulation. No representation is or could be made that the probabilities indicated by these simulations are based on any fundamental economic or market characteristics, and in the absence of such characteristics, there is no reason that these probabilities will be representative of any actual portfolio. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any portfolio will or is likely to achieve profits or losses similar to those shown.

##### b. Merrill Lynch's Capital Market Assumptions Framework

Merrill Lynch's capital market assumptions framework generates expectations of asset class returns, risk, and correlations for the upcoming 25 years. This time horizon, strategic in nature, is meant to capture at least one full business cycle and can potentially contain periods of economic expansion, contraction, market peaks, and market troughs, all with varying degrees of volatility. By looking beyond these short-term fluctuations in the market, however, we focus instead on the more stable, long-term financial relationships that provide a strong foundation from which to construct optimally blended portfolios. History has demonstrated that inter-asset class relationships are dynamic and traditional relationships that have held in the past, may not in the future. As a result, we take secular shifts into account in our modeling and incorporate new trends as they develop. Generating forecasts for returns, standard deviations, and



correlations is the first step in developing the strategic asset allocation that helps meet each of our clients' unique needs and situations.

**c. Expected-Return Methodology**

There are many different methodologies for developing expected-return forecasts. Models can range in sophistication from the more basic, which rely exclusively on historical data (often producing misleading results) to the more complex, which seek to merge historical analysis with forward-looking views. Further, care must be taken when selecting suitable methodologies, as models built in the same manner for disparate asset classes can lead to unrealistic return expectations. As such, a wide array of techniques has been employed to more precisely estimate the return potential for each asset class. Merrill Lynch asset class expected return forecasts are guided by economic theories and based on the principle that asset returns provide compensation for exposure to systematic risk factors. To develop capital market assumptions, Merrill Lynch uses a proprietary approach that reflects the dynamic interrelationships between asset class returns and a set of risk factors. Those risk factors have been found in academic research to represent systematic sources of risk and exhibit risk premium that are expected to persist in the future. More specifically, Merrill Lynch first generates forward looking forecasts for those selected key risk factors guided by financial theories, academic and practitioner research, and using data that gauge current market conditions. We then estimate relationships between the asset classes and the risk factors by applying regression analysis to historical data. Asset class expected returns are then developed based on asset class exposure to those systematic risk factors and our forecasts for those risk factors.

**d. Standard Deviation and Correlation Coefficient Methodology**

As in the case with Merrill Lynch's expected return modeling, Merrill Lynch applies a factor based approach to generate forward-looking volatility and correlation assumptions. We first generate forward looking scenarios for a set of risk factors guided by financial theories and empirical evidences. We then use historical data to estimate the empirical relationship between each asset class and relevant risk factors. Next, we simulate asset class future return scenarios based on their relationship with relevant risk factors. Finally, asset class expected volatilities and correlations coefficients are derived from simulated future return scenarios.

**e. Projected Annualized Returns**

Projections within the report we provide to you for the current portfolio or alternate portfolio mixes studied do not take into account capital gains taxes incurred by re-allocating from your current asset allocation. Annual rebalancing of portfolios consistent with the asset allocation used in the analysis is assumed. Dividends and income are reinvested to the extent not used to fund annual spending. Neither the historical performance of the indexes nor the adjusted performance data guarantee future results. The returns of the market indexes and the strategic asset allocation alternatives included in the report we provide to you do not reflect actual account performance or the deduction of transaction costs or advisory fees. The deduction of such costs and fees would reduce performance. Certain assumptions are made in the analyses included in the report we provide to you. For example, the allocations shown for each alternative remain consistent over all periods of time. This practice would seldom be followed in actual investing; and performance returns of the alternatives assume reinvestment of income. Assumptions concerning inflation and tax rates in the report we provide to you are for illustrative purposes only and are not intended to predict or guarantee economic performance.

**f. Market Risks**

Diversification does not guarantee a profit or protect against loss in declining markets. Since the goals-based asset allocation contained in the report we provide to you involves continual investment in securities regardless of fluctuating price levels, you must consider your willingness to continue purchasing during periods of high or low price levels. You should also carefully consider the results of your modeling study and



make an independent judgment that this material accurately reflects your situation, investment philosophy and risk tolerance. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Foreign currency exchange rates may adversely affect the value, price or income of any security or related investment mentioned in the report we provide to you. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

#### **g. Risks in Alternative Investments**

Most alternative investment products are sold on a private placement basis and eligible clients must typically be Qualified Purchasers (\$5 million net investments). No assurance can be given that any alternative investment's investment objectives will be achieved. In addition to certain general risks, each product will be subject to its own specific risks, including strategy and market risk.

You should bear in the mind the following risks of alternative investments:

- Alternative Investments are speculative and involve a high degree of risk.
- Alternative investments may trade on a leveraged basis which increases the risk of loss.
- Performance can be volatile.
- An investor could lose all or a substantial amount of his or her investment.
- The use of one or a small number of fund managers applying one set of allocation procedures could mean lack of diversification and, consequently, higher risk.
- There is no secondary market for investor's interest in alternative investments and none is expected to develop.
- There may be restrictions on transferring interests in the alternative investments.
- High fees and expenses, including performance fees payable to the manager, may offset trading profits.
- Fund managers have broad authority to suspend redemptions, defer payment of redemption proceeds and establish illiquid side pockets to segregate illiquid investments.
- A substantial portion of the trades executed by the underlying managers may take place on non-US exchanges.
- Alternative investments may require tax reports on Schedule K-1 to be prepared. As a result, investors may be required to obtain extensions for filing federal, state, and local income tax returns each year.
- In addition to the foregoing risks, each alternative investment fund is subject to its own strategy-specific or other risks. You must carefully review the offering memorandum for any particular fund and consider your ability to bear these risks before any decision to invest.
- Past performance is not indicative of future results.
- Hedge Funds and Private Equity may be included in the recommended strategic asset allocation but Merrill Lynch will not provide any investment manager and strategy recommendations with respect to such assets.

#### **h. Risks in Private Equity**

In addition to the foregoing, private equity fund investments are subject to the following risks:



- Private equity investments involve significant risks, are typically illiquid on a long-term basis and may require a holding period of at least 8 to 12 years. Underlying private investments may be difficult to value. Investors may lose their entire investment.
- Private equity managers typically take several years to invest a fund's capital. Investors will not realize the benefits of their investment in the near term and there will likely be little or no near-term cash flow distributed by the fund during the commitment period. Interests may not be transferred, assigned or otherwise disposed of without the prior written consent of the manager.
- Private equity funds may make a limited number of investments, and such investments generally will involve a high degree of risk, such as start-up ventures with little or no operating histories. In addition, funds may make minority equity investments where the fund may not be able to protect its investment or control or influence the business of such entities. The performance of a fund may be materially impacted by a single investment.
- A private equity fund may obtain rights to participate in, or to influence, the management of certain portfolio companies, including the ability to designate directors. This or other measures could expose the assets of the fund to claims by a portfolio company, its security holders, creditors and others.
- Private equity fund investors are subject to periodic capital calls. Failure to make required capital contributions when due will cause severe consequences to the investor, including possible forfeiture of all investments in the fund made to date.

#### **I. Past performance is no guarantee of future results**

Once you have reviewed the report we provide to you, it is your responsibility to decide if, and how, the suggestions made in conjunction with this report should be implemented. You should carefully consider all relevant factors in making these decisions and are encouraged to consult with any of your outside professional advisors. In particular, neither Merrill Lynch nor its Financial Advisors provide legal or tax advice. We recommend that you consult with your lawyer, accountant or other advisor about questions affecting your individual circumstances. It is important to review your financial situation regularly. If your financial goals or circumstances change, you should carefully consider how these changes might affect any course of action you have previously selected.

Your Designated Advisor will collect certain information from you, such as your portfolio's investment objectives, risk tolerance, and projected cash flows, through a questionnaire in order to provide this service. However, you are responsible to provide all necessary information, particularly any limitations imposed by law or otherwise. We rely upon information provided by you to provide the report as well as the other Program services described below. You should provide prompt written notice to Merrill Lynch of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information, which could materially change the information previously provided by you and used by us to create the report or provide other Program services described below.

It is your responsibility to select the final strategic asset allocation and to determine whether to implement any asset allocation strategy. After you select a strategic asset allocation, it is important that you periodically review your portfolio's actual asset allocation to verify that it remains in line with your investment guidelines.

## **2. Asset Liability Modeling Service**

If you are or are acting on behalf of a single-employer sponsored defined benefit plan with an investment portfolio under the Program of at least \$50 million, we will provide the Asset Liability Modeling Service to you upon your request. Merrill Lynch will assist you in identifying an appropriate strategic asset allocation for your



portfolio's specific investment goals and objectives in meeting future defined benefit plan payment obligations. Under the service, we provide a report that includes a comprehensive stochastic modeling of plan assets and liabilities using Monte Carlo simulations to forecast the following pension metrics:

- Annual contributions (according to the plan sponsor's funding policy)
- Profit and loss expense
- Funded status on an ERISA basis
- Balance sheet funded status

The modeling uses our forward-looking capital market assumptions of risk, return, and correlations for the different asset mixes and for liability calculations during the forecast period. For further information on our capital market assumptions and Monte Carlo simulation. (see above *Methods of Analysis, Investment Strategies and Risk of Loss—Strategic Allocation Modeling Service*) Please note that the capital market assumptions used with this Asset Liability Modeling Service generate expectations of asset class returns, risk, and correlations for the upcoming 15 years instead of 25 years which is used with the Strategic Allocation Modeling Service. The report also includes a liability driven investment glide path, if applicable, with clearly defined trigger points that correspond with dynamic asset allocation changes that seek to limit swings in the plan's funded status, changes in contribution requirements, and impact on the balance sheet.

Merrill Lynch will utilize its affiliate, BANA, under a servicing arrangement between Merrill Lynch and BANA to assist Merrill Lynch in providing the Asset Liability Modeling Service. The servicing agreement details the roles and responsibilities of each party in connection with the report.

Your Designated Advisor will collect certain information from you, such as your portfolio's investment objectives, risk tolerance, and projected cash flows, through a questionnaire in order to provide this service. Your Designated Advisor will also request that you provide certain actuarial reports in order to provide the service. However, it is your responsibility to provide all necessary information and actuarial reports, particularly any limitations imposed by law or otherwise. We rely upon information provided by you to provide the report as well as the other Program services described in this Brochure. You should provide prompt written notice to Merrill Lynch of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information, which could materially change the information previously provided by you and used by us to create the report or provide other Program services described below.

Note the guidance we provide in the creation of your asset allocation for the Program is a recommendation and it is your responsibility to approve the final portfolio strategic asset allocation. If you choose to invest your assets in a manner that differs from our recommendations, you may assume additional risks that result from your decisions. We also encourage you to consult with your tax and legal professionals, since we do not provide tax or legal advice that may affect asset classes or allocations used in the modeling. However, we will apply guidelines you supply as directed. Again, compliance with restrictions or guidelines, if any, is your responsibility.

## **B. INVESTMENT POLICY STATEMENT CREATION**

The Program questionnaire is designed to profile various characteristics of you that will assist in the creation of the client's IPS. The characteristics that are taken into consideration include tax status, investment goals, risk tolerance, time horizon, liquidity needs, and investment constraints. Your Designated Advisor will also discuss with you minimum and maximum ranges for each asset class for realigning your portfolio to your selected strategic asset allocation based on investment goals and objectives. Your Designated Advisor will provide a draft IPS for your investment portfolio to you for review that will include your selected strategic



asset allocation, as well as a recommendation for the minimum and maximum ranges for realigning your portfolio to your selected strategic asset allocation. During the editing phase, we strongly recommend that you utilize your other professional advisers, such as attorneys and/or accountants to check relevant documentation, particularly in the case of trusts and retirement plans. Please note that it is your responsibility to provide all necessary information for the preparation of the IPS, particularly any limitations imposed by law or otherwise.

As stated above, your Designated Advisor will provide you with a copy of your IPS. The acceptance and adoption of the IPS created for you through this Program, as well as ensuring your portfolio's adherence to the IPS, is your responsibility. You are also responsible for ensuring that investment managers and strategies that you select are able to accommodate any investment restrictions reflected in your IPS and the investment restrictions are properly captured by any program you select for implementation.

## **C. MANAGER SEARCHES AND RECOMMENDATIONS**

### **1. Manager Identification Report**

We assist you with the identification of investment managers and strategies from the IIC Eligible Strategies universe that are appropriate based on your IPS and your responses to a questionnaire. Clients, with the assistance of their Designated Advisor, complete the questionnaire, which details the need for the service as well as specific investment manager criteria and constraints to be considered during the identification process. This information is then compared against data about investment managers available to us from a variety of sources, including both nonproprietary databases and subscription services. Information about investment managers is obtained from sources believed to be reliable, but reliability cannot be guaranteed. While Merrill Lynch only recommends investment managers and strategies that are IIC Eligible Strategies, clients may request investment managers and strategies that are not IIC Eligible Strategies. The client must provide a written request to the Designated Advisor to include in the MID an investment manager or strategy that is not an IIC Eligible Strategy for comparison purposes only. Merrill Lynch expresses no opinion about an investment manager or strategy that is not an IIC Eligible Strategy and inclusion of the investment manager or strategy in the MID is not an endorsement or recommendation of the investment manager or strategy.

Although we generally review an investment manager's past performance, we do not perform an audit of this data to verify either its accuracy or that each investment manager has calculated past performance in a manner that is consistent with industry standards or uniform with other managers. Moreover, the methodology used by an investment manager to select and aggregate accounts for performance reporting purposes (*i.e.*, the development of the investment manager's composite), as well as the calculation of performance results reported by each investment manager for its composite and its underlying accounts, may not have been created or calculated on a uniform or consistent basis from manager to manager. Further, performance information provided by the manager or obtained from third-party sources may include data pertaining to types of accounts (*e.g.*, mutual funds or other commingled accounts) that are different from the type of account you are interested in having managed. You are encouraged to evaluate this performance data carefully and to consider all relevant factors in selecting or retaining one or more managers.

Using this analysis, we will present you with a list of typically three to five investment managers or strategies per asset class that appear appropriate for you based upon your IPS and your selected strategic asset allocation.





We will review the list of candidates with you and provide the necessary guidance so that you may choose an investment manager and strategy that you believe is appropriate based upon your portfolio's goal and objectives. As discussed above, you are responsible for the implementation of any investment manager or strategy recommended under the Program and determining how the strategy will be implemented. Not all investment structures are available for each recommended investment manager and strategy.

Investment managers or strategies recommended for your portfolio are limited to the IIC Eligible Strategies. Our recommendations therefore will not include every investment option available in the industry, including those offered through other Merrill Lynch investment advisory programs.

## **2. IIC Eligible Strategies**

IIC Eligible Strategies are investment managers and strategies that meet Merrill Lynch's due diligence standards that may be used by Merrill Lynch and the Designated Advisor to make recommendations for your portfolio. From time to time Merrill Lynch may make additional investment strategies available in the IIC Eligible Strategies. Final selection of all investment strategies for your portfolio will be made solely by you.

As a general matter, Merrill Lynch selects IIC Eligible Strategies based on a variety of factors, including investment styles available in the marketplace, client demand, and the outcome of due diligence reviews. You should discuss with your Designated Advisor which investment strategies are appropriate for your portfolio.

### **a. Review Process**

The initial and periodic reviews of IIC Eligible Strategies are performed through an investment review conducted by or under the auspices of personnel of the GWIM CIO.

The initial and periodic review is conducted through Merrill Lynch's proprietary processes, including those conducted by the GWIM CIO, or through those provided by third-party reviewers, which Merrill Lynch has engaged for this purpose (such review processes, including those provided by third-party reviewers are referred to as the "GWIM CIO Review Process"). The services provided by third parties as part of the GWIM CIO Review Process are generally consistent with the multi-factor processes described below, but they are not identical. The third parties may use different factors in evaluating investment strategies, or may assign different weightings to the same factors. However, Merrill Lynch, through the GWIM CIO, has reviewed such third-party reviewers' processes and believes they are reasonable and appropriate in light of the objectives of the Program.

The initial and periodic review of investment managers and strategies, whether conducted by Merrill Lynch or a third party, is subject to a multi-factor process. Merrill Lynch retains the decision-making authority to add or remove an investment manager and strategy from the IIC Eligible Strategies.

The Review Process generally considers the following factors:

- Organizational structure and stability of a fund manager
- Adherence to investment style
- Evaluation of risk and volatility
- Investment professional and strategy resources
- Investment philosophy and process
- Portfolio construction
- Performance
- Operating and administrative capability.



Based on these factors and using the information collected, both quantitative and qualitative analytical methods may be used in the context of the GWIM CIO Review Process to review and select investment managers and strategies. Some of the analytical methods may be subjective. Different weightings may be assigned to each of the factors considered and generally no single factor will be determinative as to whether a particular investment strategy is offered. Further, Merrill Lynch may replace one or more factors with a different factor that Merrill Lynch reasonably believes is suitable and appropriate.

These reviews, including those conducted through the GWIM CIO Review Process, may be accomplished through various means, including, but not limited to, in-person visits, telephone conference calls, reviews of performance, and updates of certain investment strategy documents and information. Merrill Lynch does not perform audits of the investment strategies to verify past performance information.

For each investment manager or strategy, Merrill Lynch will periodically, but no less frequently than annually, evaluate factors related to the investment manager and strategy that Merrill Lynch deems appropriate, including those factors listed above (except certain mutual funds not subject to the GWIM CIO Review Process). These reviews may occur as part of the GWIM CIO Review Process or otherwise. In addition, Merrill Lynch will evaluate on an as needed basis, as determined by the GWIM CIO or by Merrill Lynch, any material change related to such investment manager or strategy and the impact of any such changes including on the investment advisers managing the assets.

**b. Information Available to Designated Advisors Regarding IIC Eligible Strategies**

Merrill Lynch makes available to Designated Advisors through regular or ad hoc internal publications or communications information reflecting our internal opinions and views with respect to investment managers and strategies. All such information is available to your Designated Advisor in considering whether a particular strategy is appropriate for your portfolio. You should discuss with your Designated Advisor any questions you may have about our views with respect to a particular strategy.

**c. Status change of IIC Eligible Strategies**

If your portfolio contains investment managers and strategies that no longer meet Merrill Lynch's due diligence standards for inclusion as an IIC Eligible Strategy, your investment performance report will highlight those ineligible strategies. Your Designated Advisor will provide recommendations of IIC Eligible Strategies to replace those investment managers and strategies that no longer meet Merrill Lynch's due diligence standards.

IIC Eligible Strategies may change at any time. Merrill Lynch will generally not provide specific information regarding the basis for a change.

Note that not all investment managers and strategies recommended for other Merrill Lynch clients outside of this Program will be included as IIC Eligible Strategies, and vice versa.

Merrill Lynch's review of your portfolio's investment managers and strategies is not a substitute for your continued review of your portfolio and the performance of your investment strategies.

**d. Portfolio Evaluation, Review, and Reporting**

We provide periodic portfolio evaluation review, and reporting of your investments and your selected strategic asset allocation as agreed upon in your Client Agreement. We will assist you in evaluating your portfolio including the review of your investment performance on an absolute and relative basis. We can also assist you in determining whether and how adjustments should be made.

We will include your investment managers and strategies that are held in your portfolio in your IPR, including investment managers or strategies that are not in the IIC Eligible Strategy Universe upon written request. Our



inclusion of these non-IIC Eligible Strategies is solely for the purpose of performance measurement and strategic asset allocation monitoring and does not constitute an endorsement or recommendation that you should continue to hold those investments or retain those managers.

The principal source of information used for our performance reports is from Merrill Lynch unless your portfolio has a custodian other than Merrill Lynch. We also use outside information sources including computer and data analysis firms. This information is obtained from sources believed to be reliable, but reliability cannot be guaranteed. Merrill Lynch is not responsible for the accuracy of this data.

In connection with the information in your performance review, such as the comparisons of the returns of your investment managers and strategies with those of the benchmarks recommended by us, it should be noted that:

- If provided in the custodial statement, changes in portfolio valuations due to capital gains or losses, dividends, interest or other income are included in the calculation of returns; and
- Typically transaction costs, such as commissions, are included in the purchase cost or deducted from the proceeds of a sale of a security.

If you also maintain an account(s) in one of our investment advisory programs, you will receive performance reporting for each advisory account through that program, unless otherwise agreed upon.

#### **D. PRICING OF SECURITIES**

Pricing of securities is provided for your information. Your Merrill Lynch account statement or the account statements provided by other custodians reflect your official record of holdings, balances, and security values. Unless otherwise indicated, values reflect current information as of the date shown at the top of each report. The valuation of alternative investments is prepared based upon information from third party sources. The information has not been verified and cannot be guaranteed. This data may include estimates and is subject to revision.

If an account has been managed by more than one manager, the manager name in the IPR reflects the current manager. However, the return and standard deviation information may be calculated using the entire history of each account. Note that the IPR may also include information regarding account(s) that are not managed by a manager (*i.e.*, where you make the investment decisions).

Performance information set forth in an IPR is dependent upon valuations received from Merrill Lynch and custodians other than Merrill Lynch. For custodians other than Merrill Lynch, we rely upon their valuations and do not verify valuation data independently.

#### **E. RISKS ASSOCIATED WITH CERTAIN INVESTMENTS**

You should understand that investing in securities involves risk of loss that you should be prepared to bear. You should understand that all investments involve risk (the degree of risk may vary significantly), that investment performance can never be predicted or guaranteed and that the values of the portfolio's assets will fluctuate due to market conditions, and other factors. Merrill Lynch makes no representations or warranties with respect to the present or future level of risk or volatility in your portfolios, strategies, mutual funds, or investments' future performance or activities. There is no assurance that the performance results of any benchmark or index used in connection with the Program, including those shown on the performance report or other Merrill Lynch reports, can be attained. Nor is there any guarantee that our investment



manager identification process will identify the best performing investment managers and strategies in their respective competitive universe. You are assuming the risks involved in selecting investment strategies for the portfolio and the portfolio could lose all or a portion of the amount held in those investment strategies.

Typically, Merrill Lynch recommends that a client seek a diversified portfolio in an effort to meet the portfolio's investment objectives and have investments diversified across multiple asset classes in order to reduce investment risk associated with concentrated investments.

For specific risks associated with the investments in your portfolio, you should consult with the relevant investment manager you select to manage your portfolio.

### **IMPORTANT CLIENT RESPONSIBILITIES**

For the various services described herein, you are asked to complete a questionnaire or other form that elicits various types of information. You are responsible for providing accurate and complete information, and failure to do so could significantly affect the services that we provide. Further, you are obligated to notify your Designated Advisor promptly of any material change in financial circumstances or investment objectives or investment restrictions (if any) that may affect the strategic asset allocation, IPS, or other Program services provided by Merrill Lynch.

A Designated Advisor will create an IPS for you based upon the financial, and other information provided by you. You are responsible to review the IPS to ensure it is reflective of your goals and objectives, and the information you provided is captured correctly. The acceptance and adoption of the IPS created for you through this Program, as well as ensuring your portfolio's adherence to the IPS, is your responsibility. You are also responsible for ensuring that investment managers and strategies that you select can accommodate any investment restrictions reflected in your IPS and are properly captured for any other program you select for implementation.

With respect to selecting a strategic asset allocation, you are responsible for providing us with the information necessary to create and update your strategic asset allocation. In addition, you maintain sole responsibility for selecting a strategic asset allocation that best aligns with your investment goals and objectives, as well as the minimum and maximum ranges for realigning your portfolio. Your Designated Advisor will provide recommendations to assist you in the initial selection of the strategic asset allocation and minimum and maximum ranges, as well as any subsequent updates to your strategic asset allocation. On a periodic basis, we will monitor your strategic asset allocation and if appropriate make recommendations regarding updates.

Merrill Lynch conducts due diligence on certain investment managers and strategies as part of the investment manager identification service offered within this Program. Your Designated Advisor will provide you with a MID to assist you in the selection of eligible investment managers and strategies. It is your responsibility to review the material presented to you prior to taking action. The selection of any investment manager or strategy is the responsibility of the client.

By participating in the Program you represent and confirm that: (i) you have sole and final responsibility for selecting asset allocations, accepting and adopting an IPS, and selecting investment managers and strategies for inclusion in your portfolio; and (ii) you have determined that these services and fees are reasonable, necessary and suitable in relation to your portfolio.

You have also concluded that participation in the Program is prudent and shall determine, in your own discretion, that each investment manager and strategy included in the portfolio is suitable. You will use best



efforts to notify Merrill Lynch if any of the foregoing representations become inaccurate or if the identity of any of the portfolio's named fiduciaries or authorized persons with respect to this relationship changes. Such notification must be made in writing to your Designated Advisor.

You should understand that our services described above should not substitute for or diminish the careful deliberation and determination made by those fiduciaries having responsibility for management and administration of the portfolio, following appropriate consultation with your other professional advisers and the review of relevant documentation.

## RELATED PERSONS

In addition, other Bank of America Affiliates or divisions, such as U.S. Trust, Bank of America Private Wealth Management, offer their own managed products or wrap programs that are similar to this or other Merrill Lynch programs. Advice and/or recommendations provided to accounts in these programs will be different from or even conflict with the advice and guidance provided in connection with the Program, including advice related to the recommendation of certain investment managers. This is due to, among other things, the differing nature of the other investment advisory services and differing processes and criteria upon which determinations are made. For example, Merrill Lynch may recommend a specific investment manager for inclusion in a U.S. Trust program, but not in a Merrill Lynch program.

## DISCIPLINARY INFORMATION

The following is a summary of certain adverse legal and disciplinary events and regulatory settlements that may be material to your decision of whether to retain us for your investment advisory needs. Certain disclosures below relate to disciplinary events that occurred with predecessor firms, Banc of America Investment Services, Inc. ("BAI") and Banc of America Securities LLC ("BAS"), which merged with MLPF&S in the 2009-2010 time period. You can find additional information regarding these settlements in Part 1 of Merrill Lynch's Form ADV at:

[http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx).

On June 16, 2014, MLPF&S, without admitting or denying the findings, entered into a FINRA settlement relating to its failure to have an adequate supervisory system to ensure that certain clients received sales charge waivers for purchases of certain mutual funds' Class A shares which affected certain retirement accounts and certain clients with a particular type of brokerage account. This settlement resulted from MLPF&S self-identifying certain of these issues. MLPF&S consented to the imposition of a censure and a fine of \$8 million and agreed to provide additional reimbursement to the agreed upon impacted clients and has reimbursed all such impacted clients.

On June 21, 2012, MLPF&S, without admitting or denying the findings, entered into a FINRA settlement related to the following: (1) failure to have an adequate supervisory system around billing processes for certain investment advisory programs and, as a result, overcharging certain client accounts during the 2003-2011 time period (client accounts impacted were less than 5% of its total advisory accounts and the aggregate fee overcharge amount was less than 1/2 of 1% (approximately \$32 million) of the total advisory fees billed during that period); (2) failure to send contemporaneous or periodic trade confirmations to certain client accounts for ten investment advisory programs; (3) having inaccurate or incomplete trade confirmations for certain mutual fund transactions by failing to state trade capacity (agent or a principal) on trade confirmations and account statements; (4) failure to deliver (directly or through a vendor) proxy materials to certain clients or to their designated investment advisers and failure to have an adequate



supervisory system to detect this failure (clients impacted constituted less than 1% of its clients during the relevant period); and (5) failure to send margin risk disclosure statements and/or business continuity plans to certain clients upon the opening of their accounts (clients impacted were less than 1% of its clients during the relevant period). In determining the appropriate sanctions, FINRA considered MLPF&S' internal review through which it identified the violations, the remedial measures that it took to correct its systems and procedures, and its efforts to provide remediation to affected clients. MLPF&S consented to the imposition of a censure and a fine of \$2.8 million. All overcharged accounts were reimbursed.

On October 4, 2011, MLPF&S entered into a consent agreement with FINRA regarding its alleged failure to have a supervisory system to ensure that all accounts in which an employee either had a financial interest or over which the employee had control were monitored and reviewed for potential misconduct. In addition, FINRA found that MLPF&S failed to establish, maintain and enforce written procedures to adequately supervise a registered representative who was subsequently found to have used a business account at the firm to implement a fraudulent scheme. Without admitting or denying the findings, MLPF&S consented to the entry of findings, a censure, and a fine of \$1 million.

On June 6, 2009, BAI and BAS, two of our predecessor firms, were enjoined by the United States District Court for the Southern District of New York from violating, directly or indirectly, Section 15(c) of the Exchange Act. The injunction was the result of an SEC complaint alleging that BAI and BAS had violated Section 15(c) of the Exchange Act by allegedly misleading customers about the nature and risks associated with auction rate securities ("ARS"). Without admitting or denying the allegations, BAI and BAS entered into a consent decree and agreed to a series of undertakings designed to provide relief to certain individual investors. On January 10, 2012, MLPF&S agreed to settlements with the Illinois Securities Department (for alleged activities of BAS and BAI, its predecessors by merger) and the North Carolina Department of the Secretary of State, Securities Division (for ARS activities of MLPF&S) involving the marketing and sale of ARS. In both actions, it was alleged that the inappropriate marketing and sales of ARS occurred without adequately informing certain customers of the increased risks of illiquidity associated with ARS that constituted an occurrence of dishonest and unethical practices in the offer and sale of securities and failure to supervise. In the Illinois action, MLPF&S agreed, among other things, to repurchase at par certain illiquid ARS and to pay a total fine of \$1,578,321 to the State of Illinois out of a total civil penalty of \$50 million that was to be distributed among the other state regulator parties to an ARS-related consent order. With respect to the North Carolina action, MLPF&S agreed, among other things, to repurchase at par certain illiquid ARS held by certain of its clients and to pay a total fine of \$3,193,552 to the North Carolina regulator representing its portion of a total civil penalty of \$125 million that was to be distributed among the other state regulator parties to an ARS-related consent order.

On March 11, 2009, the SEC issued an order against MLPF&S alleging that from 2002 to 2004, several of its financial advisors permitted day traders to hear confidential information regarding MLPF&S institutional customers' unexecuted orders as they were transmitted over the internal squawk box system. According to the SEC, MLPF&S lacked written policies or procedures to limit access to the equity squawk box, to track which employees had access to the equity squawk box or to monitor employees' use of the equity squawk box in violation of Section 15(f) of the Exchange Act and Section 204A of the Advisers Act. Without admitting or denying the SEC's findings, MLPF&S consented to the entry of a cease and desist order as to violations of these provisions, a censure and the payment of a \$7 million civil money penalty. It was obligated to comply with certain undertakings regarding the enhancement of certain policies and procedures.

On January 30, 2009, the SEC issued an order against MLPF&S regarding the Merrill Lynch Consulting Services program and the offering of those services through a Florida branch office for a period of several years concluding in 2005. The Order found that material misrepresentations had been made and certain conflicts of interest not disclosed, and that MLPF&S had not maintained adequate records or reasonably



supervised certain Florida investment advisory representatives. Without admitting or denying the non-jurisdictional findings, MLPF&S consented to a censure, to cease and desist from violations of sections 204 and 206(2) of the Advisers Act and its Rule 204-2(a)(14), and a fine of \$1 million. In accepting the settlement, the SEC noted the voluntary and significant remedial acts promptly undertaken by MLPF&S.

On May 1, 2008, BAI, one of our predecessor firms, and Columbia Management Advisors, LLC, an Affiliate of BAI at the time ("Columbia"), without admitting or denying the findings, consented to an SEC administrative order relating to (1) BAI's alleged failure to disclose to clients that in selecting investments for discretionary mutual fund wrap fee accounts, it favored two mutual funds managed by Columbia and (2) Columbia's allegedly willful acts to aid and abet and cause such acts. BAI and Columbia consented to a censure and to cease and desist from committing or causing violations and future violations of Sections 17(a) (2) and 17(a) (3) of the Securities Act, Sections 206(2), 206(4) and 207 of the Advisers Act and Advisers Act Rule 206(4)-1(a) (5). In addition, BAI was ordered to pay an aggregate amount of \$793,773 to certain entities specified in the Order and penalty of \$2 million to the SEC. Columbia was ordered to pay an aggregate amount of \$516,382 to certain entities specified in the Order, and a fine of \$1 million. BAI also agreed to certain undertakings contained within the Order.

#### OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

MLPF&S, an indirect wholly-owned subsidiary of BAC, is a leading global investment banking firm and a registered broker-dealer, investment adviser and futures commission merchant. In the United States, MLPF&S acts as a broker (*i.e.*, agent) for corporate, institutional and governmental and private clients and as a dealer (*i.e.*, principal) in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. We also act as a broker and/or a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, financial futures contracts, and options. The futures business and foreign exchange activities are conducted through MLPF&S and other Affiliates.

MLPF&S operates the firm's U.S. retail branch system, and also provides financing to clients, including margin lending and other extensions of credit as well as a wide variety of financial services, such as securities clearing, retirement services, and custodial services.

In July 2015, BAC announced a decision to separate the retail and institutional broker-dealer activities currently operating through MLPF&S into two distinct legal entities. Retail customers will continue to be serviced through MLPF&S, while institutional clients currently transacting through MLPF&S will move to a new broker-dealer entity, BofAML Securities, Inc., which is also a wholly-owned indirect subsidiary of BAC. The migration of institutional broker-dealer activities to BofAML Securities, Inc. is subject to regulatory approvals and is intended to conclude in 2018.

Managed Account Advisors LLC ("MAA"), an indirect wholly-owned subsidiary of Bank of America, is a registered investment adviser that provides investment advisory services to clients that establish accounts under another investment advisory program and other investment advisory programs.

As registered investment advisers, Merrill Lynch and MAA complete Form ADVs, which contain additional information about those entities, Bank of America and their Affiliates. Information is available through publicly available filings at the SEC or at

[http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx). For purposes of Form ADV Part 2, certain Merrill Lynch and/or MAA management persons are registered as registered representatives or associated persons of Merrill Lynch. In the future, certain Merrill Lynch and/or MAA personnel may be



considered management persons and, as such, may be registered, or have applications pending to register, as registered representatives and associated persons of Merrill Lynch to the extent necessary or appropriate to perform their job responsibilities.

Bank of America, through its subsidiaries and Affiliates, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending and related products and services on a global basis. These products and services include (1) securities brokerage, trading and underwriting; (2) investment banking, strategic advisory services (including mergers and acquisitions) and other corporate finance activities; (3) wealth management products and services including financial, retirement and generational planning; asset management and investment advisory and related record-keeping services; (4) origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, commodities and foreign exchange products; (5) securities clearance, settlement financing services and prime brokerage; (6) private equity and other principal investing activities; (7) proprietary trading of securities, derivatives and loans; (8) banking, trust and lending services, including deposit-taking, consumer and commercial lending, including mortgage loans, and related services; (9) insurance and annuities sales and (10) providing research including: global equity strategy and economics, global fixed income and equity-linked research, global fundamental equity research, and global wealth management strategy. Bank of America is subject to the reporting requirements of the Exchange Act and additional information about Bank of America can be found in publicly available filings with the SEC.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. CONFLICTS OF INTEREST AND INFORMATION WALLS**

Merrill Lynch is an indirect wholly-owned subsidiary of Bank of America. Bank of America engages in a wide range of activities and businesses across a broad spectrum of clients. As a result, we recognize actual, potential and perceived conflicts of interest may develop in the normal course of operations in various parts of the Bank of America organization. To address these potential conflicts, information walls are in place to allow multiple businesses to engage with the same or related clients at the same time while mitigating the conflicts which may arise from such a situation. For example, information walls are designed to prevent the unauthorized disclosure of material nonpublic information and allow public side sales, trading and research activities to continue while other businesses within Bank of America possess material nonpublic information. Additionally, Bank of America maintains a Code of Ethics which provides guidelines for the business practices and personal conduct all associates and board members are expected to adopt and uphold.

Managing conflicts of interest is an integral part of Bank of America's risk management process. Each of Bank of America and Merrill Lynch, with the Bank of America Merrill Lynch's investment advisory business, evaluates its business activities and the actual and possible conflicts that may emerge from its activities on an ongoing basis. To the extent that existing or new business activities raise an actual conflict of interest, or even the appearance of a conflict, we endeavor to provide you with full and clear disclosure or to take action to avoid them.





## **B. CODE OF ETHICS**

We have adopted an Investment Adviser Code of Ethics (the “Code of Ethics”) covering our personnel who are involved in the operation and offering of investment advisory services. Each Code of Ethics is based on the principle that clients’ interests come first, and it is intended to assist employees in meeting the high standards that we follow in conducting our business with integrity and professionalism. Each Code of Ethics covers requirements related to employees complying with all applicable securities and related laws and regulations; reporting and/or clearance of employee personal trading; prevention of misuse of material nonpublic information; and the obligation to report possible violations of the Code of Ethics to management or other appropriate personnel. All covered personnel must certify to receipt of the Code of Ethics. We will provide a copy of each of the Code of Ethics to you upon request.

We also have imposed policy restrictions on all personnel for transactions for their own accounts and accounts over which they have control or a beneficial interest. In addition, we have special policies requiring that certain personnel obtain specific approval of securities transactions and have implemented procedures for monitoring these transactions, as well as those of all employees. Our requirements impose certain responsibilities on Financial Advisors and their trading. Financial Advisors are permitted to participate in block trades along with their clients.

## **C. PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

We, our Affiliates, your Designated Advisor and other of our employees’ benefit from the fees and charges you and other clients pay for the services described in this Brochure. Financial Advisors receive compensation from us for providing the services to clients enrolled in the Program and may share portions of this compensation with other Financial Advisors whom they have made certain arrangements. The amount of this compensation is based upon, and will vary depending on the Program Fee. The amount of compensation your Designated Advisor may receive from your enrollment in the Program may be more or less than the compensation the Designated Advisor might receive if you had instead participated in other investment advisory programs offered by Merrill Lynch or its Affiliates. If there is a difference in compensation, the Designated Advisor may have a financial incentive to recommend this Program over other programs or other services offered by us (or our Affiliates).

We, through our Financial Advisors, may suggest or recommend that clients, including Program clients, use our investment advisory programs, securities account, execution, and custody or other services, or such services of an Affiliate. Similarly, Financial Advisors, who also handle clients’ securities accounts, may suggest or recommend that clients purchase Merrill Lynch’s products or products of an Affiliate. Where you use or purchase Merrill Lynch’s or our Affiliate’s services or products, we and our Affiliates will receive fees and compensation. Financial Advisors may, as permitted by applicable law, receive compensation (the amount of which may vary) in connection with these products and services.

As noted above, if your investment portfolio is subject to ERISA, your plan assets, including your investment portfolio under the Client Agreement, must be held at a custodian other than Merrill Lynch and may not be held in a brokerage account or enrolled in any investment advisory program offered by Merrill Lynch or its Affiliates. If your investment portfolio is not subject to ERISA, we may terminate your participation in the Program if you hold any investment portfolio assets under the Program in, or implement Program recommendations through, a brokerage account at Merrill Lynch or its Affiliates. If your investment portfolio is not subject to ERISA, you may implement Program recommendations through an investment advisory program offered by Merrill Lynch or its Affiliates. If you utilize other products and services that we offer, we and our Financial Advisors will benefit from the additional compensation paid or generated by the selection.



In particular, if you select an investment advisory program offered by Merrill Lynch or its Affiliates to implement Program recommendations, the amount of compensation we and your Designated Advisor receive would increase if the fees for the investment advisory program were higher than the fees for the Program. In that case, we and your Designated Advisor would have a financial incentive to recommend investment managers and strategies under the Program that you can implement at Merrill Lynch or its Affiliates and will have a further financial incentive to make recommendations to use an affiliated investment advisory program.

Merrill Lynch may have business relationships with the officers, directors, or employees of a variety of clients, including corporations, pension and retirement plans, and other entities receiving services through the Program. These business arrangements may create a conflict of interest to the extent that these individuals have any role or influence in the hiring or retention of Merrill Lynch and its Financial Advisors or with respect to their compensation. It is the Client's responsibility to determine whether any such Merrill Lynch business relationship creates a conflict of interest, to implement appropriate policies and procedures for the disclosure and handling of such matters and to resolve any such conflicts in its best interest.

We address these conflicts in a variety of ways, including disclosure of various conflicts in this Brochure. Moreover, our Financial Advisors are required to recommend investment advisory programs, investment products and securities that are suitable for each client based upon the client's investment objectives, risk tolerance and financial situation and needs. In addition, we have established a variety of restrictions, procedures and disclosures designed to address potential conflicts of interest – both those arising between and among client accounts as well as between client accounts and our business.

#### **D. SECURITIES TRADING BY MERRILL LYNCH AND OUR PERSONNEL**

We and our Affiliates act in a variety of capacities to a wide range of clients. From time to time in the course of those duties, confidential information may be acquired that cannot be divulged or acted upon for advisory or other clients. Similarly, we may give advice or take action with regard to certain clients, including IIC clients, which may differ from that given or taken with regard to other clients. This includes the advice given or actions taken with respect to certain securities or investment managers. In some instances, the actions taken by Affiliates for similar services and programs may conflict with the actions taken by us. This is due to, among other things, the differing nature of the Affiliate's investment advisory service and differing processes and criteria upon which determinations are made.

Many of the conflicts related to participation or interest in client transactions and personal trading are less pronounced in the context of the IIC because our recommendations are limited to the IIC Eligible Strategy universe.

We have established a variety of restrictions, procedures and disclosures designed to address potential conflicts of interest – both those arising between and among client accounts as well as between client accounts and our business. For example, our personnel also are subject to personal trading restrictions as detailed in our policies and procedures and Code of Ethics. These policies and procedures and the Code of Ethics require our Financial Advisors to obtain pre-approval for certain securities transactions, disclose their investment accounts, and provide or cause Merrill Lynch to receive annual holdings reports and quarterly transaction reports.

#### **BROKERAGE PRACTICES**

The Program does not make specific securities recommendations or analyze particular securities.



## REVIEW OF ACCOUNTS

An important part of the Program relationship involves providing you with the opportunity to engage in periodic reviews with your Designated Advisor. These reviews provide updates on the progress of your Portfolio towards your goals and other important information about your portfolio. Because these reviews provide you with important and necessary information relating to your portfolio, you are strongly encouraged to take advantage of these opportunities to participate in these reviews.

As part of IIC, we will provide you with periodic written reports containing returns and other reasonable statistical performance analyses. Your Designated Advisor shall be made reasonably available to assist you in reviewing and evaluating the reports on the portfolio provided through IIC.

Any review we perform does not substitute for your continued review of your reports or accounts.

## CLIENT REFERRALS AND OTHER COMPENSATION

### A. COMPENSATION FOR CLIENT REFERRALS

Merrill Lynch has not entered into any client referral arrangements with third parties in connection with referrals of clients to IIC.

### B. OTHER COMPENSATION

#### 1. Event Payments from Fund Providers

Some third-party vendors, including third party managers, distributors, and insurance companies, will periodically participate in Merrill Lynch or affiliate-hosted internal training and education conferences, as well as conferences that Merrill Lynch or affiliates may host for clients. The amount paid for participation is used to offset the expenses incurred for these events and cannot be reasonably allocated to any particular client. The amount paid by any third party vendor may vary. Note that the level of vendor support is not dependent or related to the level of assets invested by you or any other of our clients in or with the products or services of the particular vendor. Neither Merrill Lynch nor its affiliates incentivize Financial Advisors to recommend one vendor's products over another vendor. For a list of those vendors, please contact us.

#### 2. Gifts and Other Non-Monetary Compensation

From time to time, third-party vendors, including third-party investment or fund managers, distributors, and insurance companies, may provide MLPF&S with non-monetary gifts and gratuities ("gifts"), such as promotional items (e.g., coffee mugs, golf balls, or gift baskets), meals and access to certain industry related conferences. Third-party vendors may also make charitable donations or cover the costs of reasonable entertainment in connection with events sponsored by Merrill Lynch or its Affiliates or related to clients. Merrill Lynch has implemented policies and procedures intended to identify, quantify and track gifts that Merrill Lynch and its Financial Advisors and personnel receive. Merrill Lynch will report gifts received by it or its employees to the extent such amounts exceed the thresholds imposed by applicable regulations.

## CUSTODY

To the extent we or an Affiliate hold any of the assets of your investment portfolio under this Program, you receive account statements from us or an Affiliate. You also should receive account statements from other unaffiliated custodians for assets of your investment portfolio held with such other unaffiliated custodians.



We urge you to review these account statements carefully. Clients who do not receive such account statements are encouraged to follow-up directly with their custodian and request such statements. To the extent you receive additional reports from us, you should compare these reports to account statements received from custodians. Such reports may vary from custodial account statements based on accounting procedures, reporting dates, valuation methodologies and other factors and are not intended to be a substitute for account statements provided by a custodian, and should not be used for official purposes. Your account statement from us or an Affiliate or the account statements provided by other custodians reflect your official record of holdings, balances, and security values.

#### **INVESTMENT DISCRETION**

We do not accept discretionary authority in connection with the Program.

#### **VOTING CLIENT SECURITIES**

The Program does not involve voting proxies on a client's behalf.

#### **FINANCIAL INFORMATION**

Not applicable.

#### **GLOSSARY**

"Advisers Act" means the Investment Advisers Act of 1940, as amended.

"Affiliate" means a company that is controlled by, in control of, or under common control with another company.

"ARS" means auction rate securities.

"BAI" means Banc of America Investment Services, Inc.

"BANA" means Bank of America, N.A.

"Bank of America" or "BAC" means Bank of America Corporation.

"BAS" means Banc of America Securities LLC.

"Brochure" means the Merrill Lynch program brochure relating to the Merrill Lynch Institutional Investment Consulting Program, as amended or updated from time to time. The Brochure is also referred to as the Disclosure Statement.

"Client," "you," or "your" means the IIC client.

"Client Agreement" means the investment advisory agreement between the Client and Merrill Lynch that you sign for the Program, as amended from time to time.

"Code of Ethics" means Merrill Lynch's Investment Adviser Code of Ethics.

"Columbia" means Columbia Management Advisors, LLC.

"Designated Advisor" means a Merrill Lynch Financial Advisor that has met certain Merrill Lynch requirements and qualifications to deliver IIC services.



“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Excluded Assets” means the investment portfolio assets that Merrill Lynch will not assist the client in the evaluation, review and selection of investment managers and strategies under the Program. These assets are private equity funds, hedge funds, limited partnerships, or other illiquid assets held by the client as a part of the investment portfolio under the Program.

“Financial Advisor” means a Merrill Lynch Financial Advisor.

“FINRA” means the Financial Services Regulatory Authority, Inc.

“Gifts” means non-monetary gifts and gratuities.

“IIC” or “Program” means the Merrill Lynch Institutional Investment Consulting Program.

“IIC Eligible Strategies” mean investment managers and strategies that meet Merrill Lynch’s due diligence standards that may be used by Merrill Lynch and your Designated Advisor to make recommendations for your portfolio.

“GWIM CIO” means the Merrill Lynch Global Wealth and Investment Management Chief Investment Office and is a division of Merrill Lynch division providing investment solutions, portfolio construction advice and wealth management guidance to Designated Advisors and clients. It is separate from the Merrill Lynch business group that administers the Program.

“GWIM CIO Review Process” means the initial and periodic review conducted through Merrill Lynch’s proprietary processes, including those conducted by the GWIM CIO, or through those provided by third-party reviewers, which Merrill Lynch has engaged for this purpose.

“IPR” means the Institutional Performance Report.

“IPS” means Investment Policy Statement.

“MAA” means Managed Account Advisors LLC.

“Merrill Lynch,” “MLPF&S,” “we,” “us,” or “our” means Merrill Lynch, Pierce, Fenner & Smith Incorporated.

“MID” means Manager Identification Report.

“Order” means an order issued by the SEC.

“Program Fee” means the IIC fee.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

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