

**FORM ADV, PART 2A**  
**APPENDIX 1**  
**WRAP FEE PROGRAM BROCHURE**  
**CHASE STRATEGIC PORTFOLIO**

J.P. Morgan Securities LLC

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This wrap fee brochure provides information about the qualifications and business practices of J.P. Morgan Securities LLC (“JPMS”). If you have any questions about the contents of this brochure, please contact us at 800-392-5749. 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.

Additional information about JPMS is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

**ITEM 2 – MATERIAL CHANGES**

The following is a summary of the changes made to this brochure since the last update dated September 3, 2015:

In Item 4, a new section was added entitled “Proxy Voting, Corporate Actions, and Other Legal Matters” which specifies that clients retain the right to vote proxies, and may elect to delegate proxy voting to an independent third-party proxy voting service designated by JPMS. JPMS will remain responsible for corporate actions. Clients retain the rights and responsibilities related to any legal proceeding or actions solely responsible with respect to transactions, securities, or other investments held in the client’s account or the issuers thereof.

In Item 9, under the heading “Disciplinary Events,” we have new disclosures about material disciplinary events affecting JPMS and its affiliates: a settlement between the SEC, JPMS and JPMorgan Chase Bank, N.A. (“JPMCB”); and a related settlement between the Commodity Futures Trading Commission (“CFTC”) and JPMCB.

Copies of Form ADV, Part 2A Brochure, for JPMS, J.P. Morgan Investment Management Inc., the Program’s overlay manager, and J.P. Morgan Private Investments Inc., the Program’s Sub-Adviser, are available at [www.chase.com/csp](http://www.chase.com/csp) or by contacting your Investment Advisory Representative (“IAR”).

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## ITEM 4 – SERVICES, FEES AND COMPENSATION

### Description of Firm and Advisory Services

J.P. Morgan Securities LLC (“**JPMS**” or the “**Firm**”) is a wholly-owned subsidiary of JPMorgan Chase & Co. (“**JPMorgan**”), a publicly-held financial services holding company. JPMorgan and its affiliates (together “**J.P. Morgan**”) are engaged in a large number of financial businesses worldwide, including banking, asset management, securities brokerage and investment advisory services. JPMS is registered as a broker-dealer and investment adviser with the U.S. Securities and Exchange Commission (“**SEC**”) and is a member of the Financial Industry Regulatory Authority (“**FINRA**”). JPMS’s investment advisory services are limited to sponsoring a variety of wrap fee accounts. JPMS offers investment advisory products through three separate sales channels: J.P. Morgan Securities, Chase Investments, and Chase Private Client.

This wrap fee brochure provides information about JPMS and the Chase Strategic Portfolio (“**CSP**” or the “**Program**”). CSP is offered through the Chase Investments and Chase Private Client sales channels. Information about other wrap fee programs sponsored by JPMS is contained in separate wrap fee brochures, which can be obtained upon request from your Financial Advisor.

### Program Description

CSP is a discretionary unified managed account program that is managed and offered by JPMS. Through the Program, client (“**Client**”) assets are invested in a manner consistent with one of the multi-asset class investment strategies (each, an “**Investment Strategy**”) made available by JPMS. Assets within an Investment Strategy are invested across each asset class into one or more open-end mutual funds or exchange traded funds (“**ETFs**”). In this brochure, we refer to mutual funds and ETFs as “**Funds**.” For Program Accounts (“**Accounts**”) at higher asset levels, assets within an Investment Strategy may be invested across an asset class through one or more models that include individual securities (the “**Model Managers**”).

JPMS has full discretionary authority, to be exercised in JPMS’s exclusive judgment and consistent with the Investment Strategy selected by the Client, to determine the allocation of assets among Funds and, at appropriate asset levels, one or more Model Managers; to select, add, remove, or replace Funds or Model Managers; and to purchase and sell Funds and other securities for the Account. JPMS has delegated this discretionary authority to J.P. Morgan Private Investments Inc. (“**JPMPI**” or the “**Sub-Adviser**”) as the Program’s Sub-Adviser. JPMPI is an affiliate of JPMS and J.P. Morgan Investment Management Inc. (“**JPMIM**”). JPMPI constructs and evaluates the Investment Strategies and selects the Funds and Model Managers available through the Program using research produced by JPMPI’s affiliates. JPMS oversees the selections using an investment policy statement it established and remains responsible for overseeing the Sub-Adviser’s performance.

JPMS has retained an affiliate, JPMIM as the Program’s overlay manager (“**Overlay Manager**”) to provide portfolio implementation and coordination services for Program Accounts.

The Chase Wealth Management (“**CWM**”) Registered Investment Advisers (“**RIA**”) Fiduciary Oversight Committee (the “**Committee**”) seeks to ensure that CSP offers suitable investment products to Clients and that assets in CSP are managed in a manner consistent with the goals of the Program and applicable law. The Committee is composed of members of senior management of JPMS and JPMorgan Global Wealth Management (“**GWM**”) and meets at least quarterly. Among other things, the Committee evaluates the Sub-Adviser’s performance, the investment performance of the Funds and Model Managers, portfolio composition and risk, fees, disclosures to Clients, conflicts of interest, and any material compliance issues affecting JPMPI, JPMIM, or CSP related to the Program.

Funds managed by JPMS affiliates, including JPMIM (the “**JPMorgan Funds**”) and third-party asset managers’ funds (the “**non-JPMorgan Funds**”) are available in the Program. Currently, a substantial portion of the assets in the Program are invested in JPMorgan Funds. JPMIM is the only Model Manager, and no unaffiliated Model Managers have been evaluated or selected for inclusion in the Program. See “Use of JPMorgan Funds and Model Managers and Potential Conflicts of Interest” below for more information on the use of JPMorgan Funds and affiliated Model Managers.

### ***Client Profile and Account Opening***

Prior to opening a Program Account, a JPMS Investment Advisory Representative (“**IAR**”) meets with the Client to create a Client Profile based upon the Client’s responses to a questionnaire about their financial situation, investment experience, investment objectives, time horizon and risk tolerance. The information is evaluated and incorporated into an Investment Proposal and Investment Policy Statement (“**IPS**”), which provides a recommended Investment Strategy and specifies the Funds and, if appropriate, Model Managers, that are included in the Investment Strategy. The recommended Investment Strategy is the result of an objective scoring system based on the Client’s responses to the Client questionnaire. The IAR will discuss the recommended Investment Strategy with the Client to ensure that it is appropriate for the Client’s specific investment needs and risk tolerance. However, the Client may request reasonable restrictions on their Program Account, subject to JPMS acceptance. Any restrictions on the management of a Program Account may cause the Account to perform differently than similar unrestricted accounts.

Once the Client selects the Investment Strategy, the Client will sign the IPS, a Client Services Agreement and a Brokerage account application and agreement. JPMS will implement the selected Investment Strategy, taking into account any reasonable restrictions Client has placed on management of the Account, when assets are deposited in the Account in an amount equal to at least the Account minimum.

If a Client uses securities to fund a Program Account, JPMS or the Model Manager will sell any securities that are not consistent with the Investment Strategy as an accommodation to the Client without charging a commission or spread on the trade. If non US denominated securities are sold, the Client will incur currency conversion charges. For important information about each Fund, including investment objectives, risks, charges, and expenses, Clients should read each Fund’s prospectus carefully and consider all of the information in it before investing.

### ***Rebalancing***

JPMS will continuously review Client’s asset allocation relative to the selected Investment Strategy and will generally rebalance the Program Account to the allocations in the chosen Investment Strategy when the asset allocation percentages deviate from established parameters. To rebalance the Account, shares of Funds and/or securities held in the models advised by Model Managers that are underweight or overweight compared to their asset class percentage in the Investment Strategy will be bought or sold, as applicable, until the Account holdings are consistent with the Investment Strategy. Over time, the Funds and/or individual securities in the Account will appreciate (or depreciate) in value at different rates. Without rebalancing, the change in the percentages of each asset class held will change the level of risk from the risk level that is associated with the allocations in the selected Investment Strategy. Since rebalancing has tax implications for most Clients, unless the Account is in an Individual Retirement Account (“**IRA**”) or other qualified retirement plan, Program Accounts will be rebalanced only if the percentage variance at the asset class level exceeds a threshold amount that has been established as effective for rebalancing to the Investment Strategy.

If a trade error is made in a Client’s Account, JPMS will take action to make the Account whole. JPMS may use a firm account to correct trade errors. If bonds are erroneously sold from a Client’s Account, JPMS or the Model Manager may not be able to find the same bonds to buy back for the Account. In that case, JPMS or the Model Manager will purchase bonds that it believes are equivalent in quality and yield.

### ***Custodian***

J.P. Morgan Clearing Corp. (“**JPMCC**”), an SEC registered New York Stock Exchange (“**NYSE**”) member broker-dealer, provides clearing and trade execution services for and serves as the custodian for the Program Accounts. JPMCC is an affiliate of JPMS, JPMPI and JPMIM.

### ***Overlay Manager***

JPMS has engaged JPMIM as the Program’s Overlay Manager to provide portfolio implementation and coordination services to Program Accounts. The Overlay Manager’s services include: (1) Placing orders for the purchase of Funds to implement asset allocation instructions; (2) buying and selling securities on the instruction of Managers; (3) coordinating the non-Fund portion of Program Accounts, subject to policies and procedures established by JPMS and Overlay Manager from time to time; and (4) implementing Client-imposed restrictions. The Overlay Manager does not act in a principal capacity for transactions in CSP accounts.

### ***Trade Confirmations, Statements, and Performance Reporting***

Clients will receive trade confirmations of all transactions but may waive receipt of individual confirmations and instead receive a periodic statement of all transactions that will contain the information required to be in a confirmation. A Client who elects to receive a periodic statement may later choose to receive from JPMS, at no additional cost, transaction confirmations for any prior transactions effected during the period in which the Client did not receive transaction confirmations. Clients will not pay a different fee based upon this election and may rescind this election at any time upon written notice to JPMS. Clients will receive Account statements from the custodian of the program at least quarterly (monthly for months when there is activity in their Account). Clients will also receive quarterly performance reports from an independent third-party administrator. The quarterly performance report contains general market commentary and analysis, charts and graphs detailing the quarterly performance of the Account versus relevant industry benchmarks and indices, and the trading activity in the Account during the quarter. JPMS performs periodic testing of a limited number of randomly selected Program Accounts to validate the administrator's performance calculations.

### ***Proxy Voting, Corporate Actions, and Other Legal Matters***

JPMS will not vote proxies (or give advice about how to vote proxies) relating to securities and other property currently or formerly held in a client's account. JPMS and its affiliates will not be responsible or liable for: (1) failing to notify a client of proxies, or (2) failing to send to the Proxy Service or a client, as applicable, proxy materials or annual reports where JPMS or its affiliates have not received proxies or related shareholder communications on a timely basis or at all.

Each client has the right to vote, and is responsible for voting, proxies for any securities and other property in the client's account. A client may appoint an independent services provider designated by JPMS for purposes of voting proxies ("**Proxy Service**") as the client's agent and attorney-in-fact, and authorize the Proxy Service, in its discretion, to vote proxies for any securities and other property in the client's account in accordance with the Proxy Service's proxy voting guidelines in effect from time to time, copies of which are available on request. The Proxy Service is currently Institutional Shareholder Services Inc. ("**ISS**"). Information relating to ISS's services is available on ISS's website at [www.issgovernance.com](http://www.issgovernance.com). ISS's advisory brochure is available at the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Proxy Service's role as the client's agent applies only to proxies that the Proxy Service generally votes and does not apply to proxies with respect to which the Proxy Service declines to vote. A client that appoints the Proxy Service will not receive proxy materials or annual reports relating to securities and other property for which the Proxy Service has accepted responsibility for voting related proxies, but will continue to receive and be responsible for voting other proxies. A client may revoke its appointment of the Proxy Service upon written notice to JPMS. If a client revokes his or her appointment of the Proxy Service, the client will receive all proxy materials and annual reports related to securities and other property in the client's account, and will be responsible for voting such proxies directly or instructing any custodian that holds such securities and other property. JPMS may, in its discretion, change the Proxy Service. JPMS will not be deemed to have or exercise proxy voting responsibility or authority by virtue of any authority to hire or change the Proxy Service.

JPMS is responsible for corporate actions with respect to securities in a client's account, such as: any conversion option; execution of waivers, consents, and other instruments; and consents to any plan of reorganization, merger, combination, consolidation, liquidation, or similar plan. Each client has the right and responsibility to take any actions with respect to any legal proceedings, including without limitation, bankruptcies and shareholder litigation, and the right to initiate or pursue any legal proceedings, including without limitation, shareholder litigation, including with respect to transactions, securities, or other investments held in the client's account or the issuers thereof. Neither JPMS nor the Sub-Adviser is obligated to render any advice or take any action on a client's behalf with respect to securities or other property held in the client's account, or the issuers thereof, which become the subject of any legal proceedings, including without limitation, bankruptcies and shareholder litigation, to which any securities or other investments held or previously held in the account, or the issuers thereof, become subject. In addition, neither JPMS nor the Sub-Adviser is obligated to initiate or pursue any legal proceedings, including without limitation, shareholder litigation, on behalf of a client's account, including with respect to transactions, securities, or other investments held or previously held, in the client's account or the issuers thereof.

### ***Wrap Account Fees***

#### ***General***

Clients pay an annual asset-based Account fee ("**Account Fee**") for the Program. The standard fee schedule for the Program is set forth below, expressed as an annual percentage. The Account Fee for Program Accounts will be computed and payable quarterly in advance based upon the market value of assets held in the Program Account on the last business day of the prior quarter or portion thereof.

Account Fees for partial quarters upon the inception or termination of a Program Account will be prorated. In addition, client deposits to and withdrawals from the Program Account in amounts of \$10,000 or more on any single day will result in an adjustment of the Account Fee to be based on the net overall market value of the additions to and/or withdrawals from the Program Account.

No minimum fee requirement is applied to Program Accounts. Program Accounts will be charged the appropriate Account Fee percentage for the asset value in the Program Account or for the value of assets in managed accounts that have been combined for Account Fee calculation purposes. Unless the Client has elected to pay the Account Fee from a related JPMS managed account, if there are sufficient funds in the money market sweep fund ("MMF") to pay the entire amount, the quarterly Account Fee will be paid out of the MMF within the Program Account. If the MMF does not have sufficient funds to pay the Account Fee in its entirety, then shares of the most overweight Fund(s) or securities in a model advised by a Model Manager will be sold to pay the entire Account Fee rather than paying any portion of the Account Fee from the MMF. If, due to withdrawals, payment of fees, or otherwise, the value of the MMF falls to zero or below, sufficient shares in the Fund(s) or securities in a model advised by a Model Manager that is currently most overweight in the Investment Strategy, based on actual dollar value, will be sold to clear the debit and replenish the MMF to its current target amount. If a Program Account is terminated during a quarter for which an Account Fee has been paid in advance, JPMS will refund the prorated portion of the Account Fee attributable to the remainder of the quarter. Account Fees for Program Accounts are:

### **FEE SCHEDULE**

<b>All Models Except Fixed Income Focus</b>	
Eligible Assets	Annual Fee
First \$250,000	1.60%
Next \$250,000	1.35%
Next \$500,000	1.10%
Over \$1,000,000	0.85%
<b>Fixed Income Focus Model Fee Schedule</b>	
Eligible Assets	Annual Fee
First \$250,000	1.15%
Next \$250,000	0.85%
Next \$500,000	0.60%
Over \$1,000,000	0.50%

Because the Account Fee is charged on all assets in the Program Account, in a low interest rate environment, a Client may earn less interest on assets held in the Program Account as cash or cash alternatives, such as money market funds, than the amount of the Account Fee the client is paying JPMS with respect to such assets, and therefore the Client's net yield with respect to such assets may be negative.

#### ***Fees Paid to Overlay Manager, Sub-Adviser, and Model Managers***

JPMS pays a portion of the fees set forth in the above table to the Sub-adviser. Those fees range from a minimum of .02% to a maximum .06%. JPMS pays the Overlay Manager for the Manager Models a fee range of a minimum of .23% to a maximum of .40%. JPMS also pays the expenses of JPMIM as Overlay Manager in return for its services. As a convenience to JPMS, the Sub-Adviser undertakes to pay those Overlay Manager expenses on behalf of JPMS.

#### ***Waivers, Reductions and Negotiated Fees***

JPMS, in its discretion, may waive or reduce the Account Fee. Account Fees are discounted for employees of JPMS or its affiliates. From time to time the Account Fee may be increased. JPMS will promptly notify the Client whenever an Account Fee increase is made to the Program. The Account Fee includes investment management, brokerage, execution, custody and reporting services. Client may combine assets held in certain other JPMS advisory products to determine the applicable fee percentage. JPMS advisory accounts under the same social security number are automatically linked for Account Fee calculations. Clients must submit a Householding Request Form to link other related advisory accounts. When the combined assets in the linked accounts are sufficient to reach the next advisory Account Fee breakpoint, the Client will benefit from a lower overall fee. The combined Account Fee is then divided ratably and assessed over all of the related advisory accounts. Clients may request that one of the related accounts pay the entire Account Fee for the combined holdings.

The Account Fee may be more or less than the cost of paying for investment advice, trade execution, custody and reporting services separately, depending on the cost of these services if provided separately and the level of trading activity in the Client's Account.

### ***Other Fees and Expenses***

The Account Fee does not include internal Fund fees and expenses, transfer taxes, electronic fund and wire fees, IRA and retirement plan Account fees, margin interest, American Depository Receipts ("ADR") fees, or any other fees that would reasonably be assessed to a brokerage Account. Mutual funds and ETFs pay fees and expenses that are ultimately borne by Clients (including but not limited to management fees, brokerage costs, administration, and custody). Additionally, Funds held in a Program Account have annual investment advisory expenses, so Clients actually incur two levels of investment management fees; one indirectly in the form of an investment advisory fee to the investment adviser of each Fund and one to JPMS as the Program Sponsor. If these fees are for services performed by JPMS or its affiliates, JPMS or an affiliate may receive some or all of the revenue from the fee. These fees and expenses are in addition to any fees paid to JPMS. Clients should review the applicable prospectuses for Funds in the Program for additional information about these fees and expenses. JPMS and its affiliates collectively receive greater revenue if JPMorgan Funds are included in the Program, and therefore, JPMS and the Sub-Adviser may have a conflict of interest in including JPMorgan Funds in the Program.

The Account Fee does not cover brokerage commissions or other charges resulting from transactions not effected through JPMS or its affiliates. In general, Model Managers in the Program place orders in fixed-income or debt securities with broker-dealers other than JPMS; for these trades the Client will incur a brokerage commission, mark-up or mark-down charged by the other broker-dealer that is not covered by the Account Fee. Model Managers in the Program also may choose to place orders in equities and other types of securities with broker-dealers other than JPMS, in which event the Client will incur a brokerage commission that is not covered by the Account Fee. When Model Managers place orders with broker-dealers other than JPMS, the trade confirmation issued by JPMS with the details of the trade shows a price for the traded security that is inclusive (i.e., net) of the commission, mark-up or mark-down paid by the Client to the other broker-dealer, but it does not break out or otherwise show the amount of the commission, mark-up or mark-down separately.

### ***Share Classes***

Mutual fund shares sold in the Program are generally investor or institutional class shares, or no-load or load-waived Class A shares that are sold at net asset value. Such shares may not be available to Clients outside of the Program. Fund families may prohibit individuals from continuing to hold certain share classes offered in the Program outside of a managed account program. It may be necessary to sell these shares if a Program Account is terminated. The sale of these shares may create income tax consequences for the Client. If JPMS receives 12b-1 fees on load-waived Class A shares, it will credit these fees to the Client's Program Account.

### ***Rebate of Certain Fees to Retirement Plan Accounts***

If a Program Account owned by a qualified retirement plan holds any JPMorgan Funds, the actual amount of the JPMorgan Funds' advisory fees associated with Program Account assets will be credited to the Account Fee. The credit amount will be automatically applied against the Account Fee charged for the period and will appear as a separate line item on Client's Program Account statement. If the amount to be credited exceeds the amount of the Account Fee, then the Account Fee will be waived in lieu of crediting the mutual fund advisory fees associated with Program Account assets held in the JPMorgan Funds. The credit or offset does not apply to other mutual fund expenses such as transfer agency fees and shareholder servicing fees, or actual distribution, shareholder servicing and other fees paid to JPMS and its affiliates for Account investments in non-JPMorgan Funds.

### ***Margin Debit Balances***

In general, Clients cannot hold margin debit balances in a Program Account. This is significant because, when calculating the Account Fee, the net market value of the assets on which the fee is based will generally not be reduced by the amount of a Client's margin debit balances in an account outside of the Program, even if some or all of the proceeds of the loan represented by the margin debit balances are held in the Client's Program Account and even if some or all of the assets in the Client's Program Account are used to collateralize or secure the loan represented by the margin balances. JPMS may have a financial incentive for the Client to incur margin debt to buy securities in a Program Account because: (1) the Client will pay JPMS or its affiliates interest and fees on the debt; and (2) the net market value of the Program Account will be increased by the value of the additional securities purchased with the margin loan (and will not be offset by the amount of the Client's margin debit in any account outside of the Program), resulting in a higher fee. In addition, any interest and fees the Client pays on any debit

balances held outside the Program Account will not be taken into account in computing the net equity or performance of the Client's Program Account as reflected in Account statements, performance reports or otherwise.

### **Investment Adviser Representative Compensation**

IARs associated with JPMS recommend the Program to Clients. JPMS typically pays a portion of the Account Fee to the IAR who recommended and/or services the Program Account. The exact portion of the Account Fee paid to the IAR varies among IARs and may also depend upon each IAR's overall annual revenue production. JPMS IARs have a number of opportunities for selling products or services in their capacity as JPMS broker-dealer registered representatives or insurance agents. Depending on a number of factors, including the size of the Program Account, changes in its value over time, the number of transactions and the ability to negotiate fees and commissions, the amount of compensation a JPMS IAR receives from a Program Account may be more or less than JPMS and the IAR would receive if the Client paid separately for investment advice, brokerage and other services. Since the IAR who recommends and/or services the Program Account will receive ongoing compensation as a result of Client's participation in the Program, the IAR may have a financial incentive to recommend the Program, especially if the IAR believes that this compensation would be more than if the services were provided separately or if the Client participated in a different JPMS program.

### **ITEM 5 – ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

Clients include individuals, trusts, estates, charitable organizations, and corporations and other business entities, and certain types of retirement accounts. The Program is not available to accounts governed by the Employee Retirement Income Security Act of 1974 (“ERISA”).

The Program is not intended for investors who seek to maintain control over trading in their Account, who have a short-term time horizon (or expect ongoing and significant withdrawals), or who expect or desire to maintain consistently high levels of cash or money market funds.

The initial Program Account minimum is \$50,000. JPMS may waive the account minimum at its discretion. If a Program Account falls below the minimum, JPMS may terminate the Program Account at its discretion. Under normal market conditions, it may take 2-4 business days to process the investment of funds in Program Accounts (whether initial investments or additions) and requests to sell or withdraw funds from Program Accounts, but these timeframes may be longer due to market conditions.

### **ITEM 6 – PORTFOLIO MANAGER SELECTION AND EVALUATION**

#### **General Information**

Set forth below is a general description of the primary methods of analysis that the Sub-Adviser utilizes for the Program. This description is not intended to serve as Fund, Model Manager, or Account guidelines. In connection with investments in a Fund or Model Manager, the description is qualified in its entirety by the information included in the applicable Fund's prospectus or other relevant offering documentation. JPMS, the Sub-Adviser, and the Manager Selection Team (defined below) are not responsible for the performance of any Fund (including any JPMorgan Fund) or Model Manager, or its compliance with its prospectus, laws or regulations, or other matters within the Fund's or Model Manager's control. Each Fund's or Model Manager's adviser is solely responsible for the management of the Fund or Model Manager. JPMS, the Sub-Adviser, and the Manager Selection Team cannot ensure that a given Investment Strategy's investment objective will be attained.

The Sub-Adviser is responsible for the asset allocation, Model Manager and Fund selection, portfolio construction, and evaluation of the Investment Strategies on an ongoing basis subject to the oversight of and pursuant to an investment policy statement approved by JPMS. The Sub-Adviser's approach is generally comparable to the GWM approach to asset allocation, manager and Fund selection, and portfolio construction for GWM's Private Bank (“PB”) discretionary accounts. GWM is a business unit of JPMorgan.

As a general matter, the Sub-Adviser prefers JPMorgan Funds over non-JPMorgan Funds. The Sub-Adviser expects the proportion of JPMorgan Funds in CSP accounts will be high (and can be as high as 100%), subject to applicable law and any account-specific considerations. With respect to Model Managers used in the Program, JPMIM is the only Model Manager, and no unaffiliated Model Managers have been evaluated or selected for inclusion in the Program.

While internally managed strategies generally align well with the Sub-Adviser's forward-looking views and the Sub-Adviser is familiar with the investment process, as well as the risk and compliance philosophy of the firm, it is important to note that JPMorgan receives more overall fees when internally managed strategies are included. See “Use of JPMorgan Funds and

Model Managers and Potential Conflicts of Interest” below for more information on the use of JPMorgan Funds and affiliated Model Managers.

### **Asset Allocation of Investment Strategies**

The Sub-Adviser follows the same process as GWM to establish and update the overall strategic and tactical asset allocations for the Investment Strategies. This process includes several internal forums. These asset allocations generally are the overall basis for the process described below. The JPMPI personnel who perform these functions are shared with JPMorgan Chase Bank, N.A. (“**JPMCB**”), an affiliate of JPMS and the Sub-Adviser, and perform substantially similar services for other clients of GWM. The Sub-Adviser periodically reviews the asset allocation and performance of the Investment Strategies with JPMS. A GWM internal governance committee oversees the Sub-Adviser’s investment activities in the Program.

### **Selection and Ongoing Review of Funds and Model Managers**

#### ***Due Diligence Process***

The Sub-Adviser uses due diligence from GWM’s Manager Selection Team (“**Manager Selection Team**”) to select and monitor Funds and Model Managers. The Manager Selection Team is composed of employees of JPMCB and other affiliates. These specialists are responsible for researching and selecting prospective Funds and Model Managers and subjecting them to a review process. The Manager Selection Team will begin the search process by defining an applicable universe of managed strategies, which typically will include JPMorgan managed strategies when there is one in the desired asset class. The Manager Selection Team utilizes both quantitative and qualitative assessments during its initial review process. The Manager Selection Team then recommends particular Funds and Model Managers to an internal governance forum, which is responsible for approving or rejecting them. The Manager Selection Team is also responsible for monitoring and re-evaluating approved Funds and Model Managers as part of their ongoing review process. The Manager Selection Team and internal governance forum perform substantially similar services for other clients of GWM.

#### ***Strategy Approval***

The internal governance forum approves or rejects new strategies, creating an approved list of Funds and Model Managers available for the Sub-Adviser to use in Investment Strategies (the “**Approved List**”). The internal governance forum is expected to consider various factors during its review and approval process. These factors include, but are not limited to: (a) an analysis of the manager’s overall investment opportunity; (b) investment thesis; (c) track record; (d) performance; (e) terms of the vehicle; (f) reputational risk; (g) potential for conflicts of interest; and (h) regulatory issues. The internal governance forum considers the same factors in evaluating JPMorgan Funds and non-JPMorgan Funds, but may assign different weights to any factor. Generally, no single factor determines whether a Fund or Model Manager passes the initial screening process, but a Fund or Model Manager may be eliminated because of a single factor. Selection is not solely based on performance relative to peers or benchmarks within a calendar year or periods shorter than a market cycle. As a general matter, the Sub-Adviser prefers JPMorgan Funds. JPMPI expects the proportion of JPMorgan Funds in CSP accounts to be high (and can be as high as 100%), subject to applicable law and any account-specific considerations. JPMIM is the only Model Manager, and no unaffiliated Model Managers have been evaluated or selected for inclusion in the Program. CSP only offers JPMorgan Funds and Model Managers that were in existence when the Program began.

#### ***Portfolio Construction***

The Sub-Adviser selects the combination of Funds and Model Managers from the Approved List that, in its view, fit each CSP portfolio’s asset allocation goals and the Sub-Adviser’s forward looking views in an effort to best meet the portfolio’s investment objectives. The Sub-Adviser may also consider other factors, including but not limited to: (a) manager capacity, (b) investment guidelines, and/or (c) client/portfolio-specific constraints. Selection is not solely based on performance relative to peers, or benchmarks within a calendar year or periods shorter than a market cycle. The Sub-Adviser may assign different weights to any factor and generally no single factor determines whether the Sub-Adviser selects a particular Fund or Model Manager. In making portfolio construction decisions, the Sub-Adviser will consider and is permitted to prefer JPMorgan Funds. JPMIM is the only Model Manager, and no unaffiliated Model Managers have been evaluated or selected for inclusion in CSP. JPMIM (as Overlay Manager) is responsible for the portfolio implementation in individual Clients’ Program Accounts.

#### ***Removal of Funds and Model Managers***

Another internal governance forum is responsible for making decisions to maintain Funds and Model Managers on the Approved List, place them on probation, or terminate them as part of its ongoing monitoring and oversight responsibilities. The Manager Selection Team may make recommendations in this regard, using the factors described above. The factors



considered by the forum are expected to be the same for proprietary and third-party managed strategies, and include, but are not limited to: (a) changes in the portfolio management team; (b) significant underperformance; (c) discovery of material operational risks; (d) changes in investment thesis; (e) terms of the vehicle; (f) reputational risk; (g) potential for conflicts of interest; and (h) regulatory issues. The forum may assign different weights to any factor and generally no single factor determines whether to maintain, place on probation, or terminate a Fund or Model Manager.

A Fund or Model Manager that is on probation may be held in a Client Account, but generally the Sub-Adviser may not direct new purchases until the Fund or Model Manager is removed from probation. During the probation period, Funds and Model Managers will continue to be reviewed by the Manager Selection Team. Generally, a Fund or Model Manager that is terminated will be sold in a Client Account, and the Sub-Adviser will not direct new purchases of that Fund or Model Manager. After a change in an Investment Strategy's composition, any Client's Program Account that falls outside of a modified asset class allocation may be re-balanced to conform to the revised Investment Strategy. JPMS notifies affected Clients of the change to their Investment Strategy and the subsequent re-balancing.

If a Fund or Model Manager is terminated from the Approved List, JPMS will determine whether to re-invest Program Account assets in a replacement Fund or with a new Model Manager and the Sub-Adviser will determine the specific Fund or Model Manager in which to re-invest the assets, using the factors described above.

The Sub-Adviser also may, for portfolio construction reasons, remove a Fund or Model Manager from the Program. If the Sub-Adviser removes a Fund or Model Manager from the Program, the assets held in Program Accounts will be sold and replaced with another Fund or Model Manager from the Approved List. When evaluating replacement Funds or Model Managers, the Sub-Adviser is expected to consider the same factors described above. The Sub-Adviser may assign different weights to any factor and generally no single factor determines whether the Sub-Adviser selects a particular Fund or Model Manager.

#### **Use of JPMorgan Funds and Model Managers and Potential Conflicts of Interest**

Conflicts of interest will arise whenever J.P. Morgan has an actual or perceived economic or other incentive in its management of our clients' portfolios to act in a way that benefits J.P. Morgan. Conflicts will result, for example (to the extent the following activities are permitted in a Program Account): (1) when J.P. Morgan invests in an investment product, such as a mutual fund, structured product, separately managed account or hedge fund issued or managed by J.P. Morgan or an affiliate, such as JPMIM; (2) when a J.P. Morgan entity obtains services, including trade execution and trade clearing, from an affiliate; (3) when J.P. Morgan receives payment as a result of an investment product for a client's Account; or (4) when J.P. Morgan receives payment for providing services (including shareholder servicing, recordkeeping, or custody) with respect to investment products purchased for a client's Account. Other conflicts will result because of relationships that J.P. Morgan has with other clients or when J.P. Morgan acts for its own account.

Investment strategies are selected from both J.P. Morgan and third-party asset managers and are subject to a review process by J.P. Morgan manager research teams. From this pool of strategies J.P. Morgan portfolio construction teams select those strategies J.P. Morgan believes fit its asset allocation goals and forward looking views in order to meet the portfolio's investment objective.

From the approved pool of managed strategies, the Sub-Adviser selects those strategies it believes best fit its asset allocation goals and forward-looking views in order to meet each portfolio's investment objective. The Sub-Adviser may also consider other factors, including but not limited to: (a) manager capacity, (b) investment guidelines, and/or (c) client/portfolio-specific constraints. Selection is not based solely on performance relative to peers, or benchmarks within a calendar year or periods shorter than a market cycle. The Sub-Adviser may assign different weights to any factor and generally no single factor determines whether the Sub-Adviser selects a particular Fund or Model Manager. As a general matter, the Sub-Adviser prefers J.P. Morgan managed strategies (*e.g.*, JPMorgan Funds and affiliated Model Managers). JPMS or the Sub-Adviser expect the proportion of J.P. Morgan managed strategies will be high (and can be as high as 100%), subject to applicable law and any Account-specific considerations. With respect to Model Managers used in the Program, JPMIM is the only Model Manager, and no unaffiliated Model Managers have been evaluated or selected for inclusion in the Program.

While internally managed strategies generally align well with the Sub-Advisor's forward-looking views and the Sub-Advisor is familiar with the investment process, as well as the risk and compliance philosophy of the firm, it is important to note that J.P. Morgan receives more overall fees when internally managed strategies are included in the Program.

JPMS and the Sub-Adviser may select JPMorgan Funds for the Program. Affiliates of JPMS and the Sub-Adviser are the sponsors or managers of these Funds, and may receive a fee for managing the Funds. As such, J.P. Morgan will receive more total revenue when JPMS or the Sub-Adviser select JPMorgan Funds than when either selects non-JPMorgan Funds.

All Funds have various internal fees and other expenses that are paid by managers or issuers of the Funds or by the Funds themselves, but that ultimately are borne by the investor. These fees and expenses are in addition to any fees paid to JPMS or received by JPMPI for acting as Sub-Adviser. Affiliates of JPMS and the Sub-Adviser may receive administrative and servicing fees for providing services to both JPMorgan Funds and non-JPMorgan Funds that are held in a Client's Account. Clients should review the applicable Fund prospectuses for more information about these fees and expenses. These payments may be made by sponsors of the Funds (including affiliates of JPMS and JPMPI) but not the Funds themselves, and may be based on the value of the Funds in the Client's portfolio. Funds or their sponsors may have other business relationships with JPMS or its affiliates, which may provide brokerage or other services that pay commissions, fees, and other compensation.

Portfolios invested in Model Managers are managed by JPMIM, an affiliate of JPMS and the Sub-Adviser. When JPMIM manages these investments, there is a benefit to J.P. Morgan since it increases the overall revenue of J.P. Morgan. Additionally, a manager of a Model Manager may invest in products that may result in additional revenue to J.P. Morgan.

If a Program Account owned by a qualified retirement plan holds any JPMorgan Funds, the actual amount of the JPMorgan Funds' advisory fees associated with Program Account assets will be credited to the Account Fee. See "Rebate of Certain Fees to Retirement Plan Accounts" in Item 4 above.

The Sub-Adviser may allocate a significant portion of the assets in the Program to JPMorgan Funds. That portion varies depending on market or other conditions. The prior composition of JPMorgan Funds in the Program is not intended to predict the future composition of JPMorgan Funds in the Program.

The following chart shows the allocation of JPMorgan Funds, third-party funds and JPMorgan money market funds in the CSP Investment Strategies as of the dates indicated:

Investment Strategy	Year End 2014			Year End 2013		
	J.P. Morgan Funds	3rd Party Funds	J.P. Morgan Cash	J.P. Morgan Funds	3rd Party Funds	J.P. Morgan Cash
<b>Fixed Income Focused</b>	18.00%	80.00%	2.00%	30.25%	67.75%	2.00%
<b>Conservative</b>	26.50%	71.50%	2.00%	31.00%	67.00%	2.00%
<b>Moderate</b>	30.50%	67.50%	2.00%	32.50%	65.50%	2.00%
<b>Moderate Growth</b>	25.00%	73.00%	2.00%	30.00%	68.00%	2.00%
<b>Growth</b>	24.50%	73.50%	2.00%	27.50%	70.50%	2.00%
<b>Aggressive Growth</b>	21.50%	76.50%	2.00%	25.00%	73.00%	2.00%

Allocations shown here are illustrative only, do not necessarily represent actual use of JPMorgan and third-party issuers and managers in any particular Client's portfolio, and may change without notice. The Sub-Adviser has full discretionary authority to select securities, investment vehicles, and managers and is not required to adhere to the illustrative allocations pictured here. Each Client's periodic statement will show the actual investments held, which may vary from the illustration above for reasons such as Client asset level, Client restrictions on management of a portfolio, and other reasons.

Please refer to Item 9, section C for more information on Potential Conflicts of Interest.

## ITEM 7 – CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS

JPMS provides to the Overlay Manager a summary of information relevant to Overlay Manager's services to the Client, including the Client's name, address, Account number, social security number or taxpayer identification number, whether the Program Account is taxable or non-taxable, the name of the IAR, investment strategy selected, amount invested, and any investment restrictions requested by Client. That information is updated if it becomes materially incorrect, such as in the event that the Client selects a new Investment Strategy or changes the investment restrictions.

## ITEM 8 – CLIENT CONTACT WITH PORTFOLIO MANAGERS

JPMS personnel knowledgeable about the management of the Program Accounts are available for Client consultation on reasonable request. IARs can assist Clients in contacting such personnel.

## ITEM 9 – ADDITIONAL INFORMATION

### A. Disciplinary Events

JPMS has been involved in the following material legal or disciplinary events during the last ten years. For the periods before the merger of J.P. Morgan Securities Inc. into Bear, Stearns & Co. Inc. (and the naming of the surviving entity as J.P. Morgan Securities Inc., now J.P. Morgan Securities LLC) on October 1, 2008, and the merger of Chase Investment Services Corp. (“CISC”) into J.P. Morgan Securities LLC on October 1, 2012, the events include those involving any of the three entities.

- 1) In March 2006, the SEC and NYSE announced a settlement with Bear, Stearns & Co. Inc. (“**Bear Stearns**”) and its clearing affiliate in connection with the firms’ alleged facilitation, in violation of various federal securities laws, of late trading and deceptive market timing in the trading of mutual funds by certain clients of the firms between 1999 and 2003. Without admitting or denying any of the SEC’s substantive findings, Bear Stearns consented to the SEC’s entry of an administrative order, in which the firm was censured, ordered to cease and desist from violations of Section 17(a) of the Securities Act of 1933, Sections 10(b), 15(c) and 17(a) of the Securities Exchange Act of 1934, and certain rules promulgated under those Acts and the Investment Company Act of 1940, ordered to pay \$160 million in disgorgement and \$90 million in civil penalties, and ordered to comply with certain undertakings including the retention of independent consultants to review aspects of the firm’s mutual fund trading.
- 2) In November 2006, CISC submitted a Letter of Acceptance, Waiver and Consent (“**AWC**”) to the National Association of Securities Dealers (“**NASD**”) in connection with allegations that, from January 2002 through August 2004, the Firm failed to establish systems and procedures to supervise the sales of 529 college savings plans. Without admitting or denying the allegations, CISC consented to the entry of the NASD’s findings and paid a \$500,000 fine and agreed to compensate customers disadvantaged by the alleged supervisory failures.
- 3) In March 2009, CISC submitted an AWC to FINRA in connection with alleged deficiencies related to the completion of the Firm’s self-assessment of mutual fund breakpoint discount compliance required pursuant to previously imposed FINRA (then NASD) requirements. Without admitting or denying the allegations, CISC consented to findings that it failed to deliver breakpoint discounts during a later review period and continued to fail to have reasonable written supervisory procedures to assure the appropriate breakpoints would be delivered to customers, and paid a \$32,500 fine.
- 4) Between June 2009 and September 2012, JPMorgan Chase & Co., on behalf of itself and its subsidiaries (including JPMS and CISC) entered into substantially similar settlements with 47 securities regulators in connection with investigations concerning alleged misrepresentations and omissions in connection with the marketing, sales and distribution of auction rate securities (“**ARS**”). The principal allegations were that the relevant JPMorgan entities misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments, and when the auctions that provided liquidity for ARS failed in February 2008, customers held illiquid ARS instead of the liquid, short-term investments JPMorgan entities had represented them to be and were unable to sell the ARS. Without admitting or denying the allegations, JPMorgan Chase & Co. entered into consent decrees pursuant to which the relevant JPMorgan entities repurchased ARS from certain customers and paid fines, penalties, disgorgement and restitution in amounts that varied from state to state.
- 5) In November 2009, J.P. Morgan Securities Inc. submitted, and the SEC accepted, an Offer of Settlement in connection with allegations by the SEC that in 2002 and 2003 JPMS had made certain payments to firms whose principals or employees were friends of Jefferson County, Alabama public officials in connection with \$5 billion in County bond underwriting and interest rate swap agreement business awarded to JPMS, without disclosing the payments or conflicts of interest in the swap agreement confirmations or bond offering documents. The SEC also alleged that JPMS incorporated certain of the costs of the payments into higher swap interest rates it charged the County, thereby increasing the swap transaction costs to the County and its taxpayers. The SEC found that the alleged conduct violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933, Section 15B(c)(1) of the Securities Exchange Act of 1934, and Municipal Securities Rulemaking Board Rule G-17. Without admitting or denying any of the SEC’s substantive findings, JPMS consented to the SEC’s entry of an administrative order that included a censure of JPMS, an order to cease and desist from violations of the aforementioned statutes and rules, and an order requiring payment of disgorgement of \$1 and a civil money penalty of \$25 million. In addition, JPMS undertook to make a \$50 million payment to the County and to terminate any obligations of the County to make any payments to JPMS under certain swap agreements.

- 6) In December 2010, CISC submitted an AWC to FINRA pursuant to which the Firm was censured, fined and required to provide remediation to customers who purchased unit investment trusts (“**UITs**”) and did not receive applicable sales charge discounts. Additionally, CISC’s UIT purchase confirmations failed to disclose that a deferred sales charge may be imposed. Without admitting or denying the allegations, CISC consented to the findings and paid a \$100,000 fine.
- 7) In June 2011, J.P. Morgan Securities LLC agreed with the SEC to resolve the SEC’s inquiry regarding certain collateralized debt obligations (“**CDO**”s). Specifically, JPMS agreed to a settlement of allegations that it was negligent in not providing additional disclosure in marketing materials for a CDO called Squared CDO 2007-1, Ltd (“**Squared**”). The SEC’s complaint alleged that JPMS represented in marketing materials that the collateral manager selected the investment portfolio for Squared but failed to disclose that the hedge fund that purchased the subordinated notes (or “equity”) issued by Squared, and which also took the short position on roughly half of the portfolio’s assets, played a significant role in the selection process. Without admitting or denying the allegations, JPMS consented to the entry of a final judgment against it by the U.S. District Court for the Southern District of New York. The Final Judgment permanently restrains and enjoins JPMS from violating Sections 17(a)(2) and (3) of the Securities Act of 1933 in the offer or sale of any security or security-based swap agreement, orders JPMS to pay disgorgement of \$18.6 million, together with prejudgment interest thereon in the amount of \$2 million, and a civil penalty in the amount of \$133 million, and orders JPMS to comply with certain undertakings related to the review and approval of offerings of certain mortgage securities.
- 8) In July 2011, J.P. Morgan Securities LLC resolved an SEC investigation regarding conduct alleged to have taken place on the firm’s municipal derivatives desk. The SEC alleged that prior to at least 2005, JPMS made misrepresentations and omissions in connection with bidding on certain municipal reinvestment instruments, which the SEC alleged affected the prices of certain reinvestment instruments, deprived certain municipalities of a presumption that the reinvestment instruments were purchased at fair market value, and/or jeopardized the tax-exempt status of certain securities. Without admitting or denying the allegations, JPMS consented to the entry of a final judgment against it by the U.S. District Court for the District of New Jersey. The Final Judgment permanently enjoins JPMS from violating Section 15(c)(1)(A) of the Securities Exchange Act of 1934 and orders it to pay \$51.2 million to certain municipalities and other tax-exempt issuers.

In coordination with the SEC settlement, JPMorgan Chase & Co. (“**JPMC**”) and certain of its affiliates, including JPMS, also entered into settlements with other agencies to resolve concurrent investigations regarding conduct alleged to have taken place on the firm’s municipal derivatives desk relating to certain municipal derivative transactions occurring in or prior to 2006. Those settlements are as follows: JPMorgan Chase Bank, N.A. entered into a Formal Agreement and a Consent Order for a Civil Money Penalty with the Office of the Comptroller of the Currency and agreed to pay \$35 million; JPMC, JPMS, and JPMorgan Chase Bank, N.A. entered into a Closing Agreement of Final Determination of Tax Liability and Specific Matters with the Internal Revenue Service and agreed to pay \$50 million; and JPMC entered into written agreements with the Antitrust Division of the U.S. Department of Justice, the Federal Reserve Bank of New York, and 25 State Attorneys General. JPMC agreed to pay \$75 million in connection with its agreement with the State Attorneys General. Of the total funds to be paid, \$129.7 million will be eligible for distribution to municipalities and other tax-exempt issuers. The Firm also consented to implement various remedial measures, including enhanced compliance policies and procedures.

- 9) In October 2011, CISC consented to the entry of an order of the Florida Office of Financial Regulation in connection with allegations that the Firm engaged in the investment advisory business within the State of Florida without three (3) individuals being registered as investment adviser representatives in the State of Florida. CISC paid an administrative fine of \$30,000.
- 10) In November 2011, CISC submitted an AWC to FINRA pursuant to which the Firm was fined, censured and required to provide remediation to customers who purchased certain UITs and floating rate funds. FINRA alleged that the Firm failed to establish systems and procedures adequate to supervise the sales of such UITs and floating rate funds. Without admitting or denying the allegations, CISC consented to the entry of FINRA’s findings, paid a \$1.7 million fine and agreed to compensate customers that suffered losses as a result of the alleged supervisory failures.
- 11) In November 2012, the SEC filed a complaint against J.P. Morgan Securities LLC and several of its affiliates in the District Court for the District of Columbia. The complaint related primarily to Bear Stearns’ alleged failure to disclose information regarding settlements entered into by a Bear Stearns affiliate with originators of loans that had been securitized into residential mortgage-backed securities (“**RMBS**”) trusts beginning in or about 2005. The complaint also alleged that JPMS, in connection with an RMBS offering by a J.P. Morgan affiliate in 2006, failed to include in the RMBS prospectus supplement’s delinquency disclosures approximately 620 loans that the SEC asserted were more than

30 days delinquent at the cut-off date for the offering. Based on the alleged misconduct described above, the complaint alleged that the defendants violated Sections 17(a)(2) and (3) of the Securities Act of 1933. In settlement of the action, the defendants submitted an executed Consent agreeing to the entry of judgment, without admitting or denying allegations made in the proceeding (other than those relating to the jurisdiction of the District Court over it and the subject matter). In January 2013, the District Court entered a judgment against the defendants that enjoined them from violating, directly or indirectly, Sections 17(a)(2) and (3) of the Securities Act. Additionally, the judgment required the defendants to pay disgorgement in the amount of \$177.7 million, prejudgment interest in the amount of \$38,865,536, and a civil monetary penalty of \$84,350,000.

- 12) On December 18, 2015, JPMS and JPMCB (together “**Respondents**”) entered into a settlement with the SEC resulting in the SEC issuing an order (“**Order**”). The Respondents consented to the entry of the Order that finds that JPMS violated Sections 206(2), 206(4), and 207 of the Investment Advisers Act of 1940 and Rule 206(4)-7 and JPMCB violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933. The Order finds that JPMCB negligently failed to adequately disclose (a) from February 2011 to January 2014, a preference for affiliated mutual funds in certain discretionary investment portfolios (the “**Discretionary Portfolios**”) managed by JPMCB and offered through J.P. Morgan’s U.S. Private Bank (the “**U.S. Private Bank**”) and the Chase Private Client lines of business; (b) from 2008 to 2014, a preference for affiliated hedge funds in certain of those portfolios offered through the U.S. Private Bank; and (c) from 2008 to August 2015, a preference for retrocession-paying third-party hedge funds in certain of those portfolios offered through the U.S. Private Bank. With respect to JPMS, the Order finds, that from May 2008 to 2013, JPMS negligently failed to adequately disclose, including in documents filed with the SEC, conflicts of interest associated with its use of affiliated mutual funds in the CSP program, specifically, a preference for affiliated mutual funds, the relationship between the discounted pricing of certain services provided by an affiliate and the amount of CSP assets invested in affiliated products, and that certain affiliated mutual funds offered a lower-cost share class than the share class purchased for CSP. In addition, the Order finds that JPMS failed to implement written policies and procedures adequate to ensure disclosure of these conflicts of interest. Solely for the purpose of settling these proceedings, the Respondents consented to the Order, admitted to the certain facts set forth in the Order and acknowledged that certain conduct set forth in the Order violated the federal securities laws. The Order censures JPMS and directs the Respondents to cease-and-desist from committing or causing any violations and any future violations of the above-enumerated statutory provisions. Additionally, the Order requires the Respondents to pay a total of \$266,815,000 in disgorgement, interest and civil penalty.

Concurrently, on December 18, 2015, JPMCB reached a settlement agreement with the CFTC to resolve its investigation of JPMCB’s disclosure of certain conflicts of interest to discretionary account clients of J.P. Morgan Private Bank’s U.S.-based wealth management business. In connection with the settlement, the CFTC issued an Order (“**CFTC Order**”) finding that JPMCB violated Section 4o(1)(B) of the Commodity Exchange Act (“**CEA**”) and Regulation 4.41(a)(2) by failing to fully disclose to certain clients its preferences for investing certain discretionary portfolio assets in certain commodity pools or exempt pools, namely (a) investment funds operated by JPMorgan Asset Management and (b) third-party managed hedge funds that shared management and/or performance fees with an affiliate of JPMCB. The CFTC Order directs JPMCB to cease-and-desist from violating Section 4o(1)(B) of the CEA and Regulation 4.41(a)(2). Additionally, JPMCB shall pay \$40 million as a civil penalty to the CFTC and disgorgement of \$60 million satisfied by disgorgement to be paid to the SEC by JPMCB and an affiliate in a related and concurrent settlement with the SEC.

For a copy of the Order, please go to <http://www.sec.gov/litigation/admin/2015/33-9992.pdf>.

## **B. Other Financial Industry Activities and Affiliations**

JPMS’s primary business is providing brokerage products and services as a bank-affiliated broker-dealer and making available to its customers, in addition to investment advisory services, a variety of bank, securities and insurance products through its affiliates. JPMS’s officers, managers and IARs spend the majority of their time in administrative or supervisory duties with broker-dealer activities rather than investment adviser activities.

JPMS is affiliated with several other SEC-registered broker-dealers, investment companies, investment advisers, insurance agencies, mortgage companies and JPMCB. Other registered investment advisers, collectively referred to as JPMorgan Asset Management, are affiliated with JPMS under the common ownership by JPMorgan. One or more of these investment advisers serve as the investment adviser to the various JPMorgan Funds. In addition, JPMIM is currently the only Model Manager, and no unaffiliated Model Managers have been evaluated or selected for inclusion in the Program. While JPMS and the Sub-Adviser prefer internally managed strategies because they generally align well with their forward-looking views and familiarity with the investment process, as well as the risk and compliance philosophy that comes from being part of the firm,

it is important to note that JPMorgan receives more overall fees when internally managed strategies (*e.g.*, JPMorgan Funds and affiliated Model Managers) are included in the Program. JPMS and the Sub-Adviser address this conflict through disclosure to Clients and through the investment process described in Item 6 above.

### **C. Material Relationships with Related Persons and Potential Conflicts of Interest**

JPMS has several relationships or arrangements with related persons that are material to its investment advisory business.

#### ***Affiliated Mutual Fund Advisors and Model Managers***

Mutual funds (including money market funds) and ETFs pay fees and expenses that are ultimately borne by Clients. Clients should review the applicable prospectuses for mutual funds and ETFs in the Program for additional information about these fees and expenses. These fees and expenses are in addition to the Program Fee. See “Other Fees and Expenses” in Item 4 above for more information.

Affiliates of JPMS provide investment advisory and other services to the JPMorgan Funds for compensation. Therefore, because JPMS and its affiliates will in the aggregate receive more revenue when Program Accounts are invested in JPMorgan Funds than they would receive if the Account were invested in non-JPMorgan Funds, JPMS has a conflict of interest when Program Accounts are invested in JPMorgan Funds. The use of affiliated Model Managers in the Program is also a benefit to JPMS and its affiliates since it increases the overall revenue of affiliates of JPMS and their parent company. JPMS addresses this conflict through disclosure and subjecting the JPMorgan Funds and non-JPMorgan Funds to the investment process described in Item 6 above. See “Use of JPMorgan Mutual Funds and Model Managers and Potential Conflicts of Interest” in Item 6 above for more information on the use of JPMorgan Funds.

#### ***ADR Fees***

The Overlay Manager may buy shares of foreign companies on foreign exchanges and convert the shares to ADRs for their Client’s accounts, if the total cost of the purchase and conversion is better than directly purchasing the ADRs. To the extent that a subsidiary of JPMorgan assists in the conversion of foreign stock, JPMS affiliates will receive additional compensation from the transaction but in no event should the total cost of the purchase and conversion costs exceed the cost if they had originally purchased the ADR in U.S. markets.

#### ***Distribution Fees and Revenue Sharing***

JPMS may receive a distribution fee from certain Funds pursuant to Rule 12b-1 under the Investment Company Act of 1940. However, any 12b-1 fees received by JPMS will be credited to Client’s Program Account.

JPMS has negotiated revenue sharing arrangements with a number of mutual fund families. Some of these Funds are available in the Program, and JPMS will receive additional revenue on either the Fund assets in Client Accounts or on the initial purchase of these Funds. IARs are not compensated from JPMS’s receipt of shared revenues.

#### ***J.P. Morgan Clearing Corp.***

JPMS has an arrangement with its clearing broker-dealer affiliate, J.P. Morgan Clearing Corp. (“JPMCC”), which provides the following services in the Program: trade execution, clearing and settlement services, service bureau requirements, and securities custody and processing.

#### ***JPMorgan Chase Bank, N.A.***

Clients may authorize JPMS and JPMCC, to the extent permitted by applicable law, to invest (*i.e.*, “sweep”) available cash balances in the Program Account into a bank deposit account, the “Chase Deposit Sweep”, held with JPMCB, an affiliate of JPMS.

Deposits in the Chase Deposit Sweep are covered by the Federal Deposit Insurance Corporation (“**FDIC**”), up to applicable limits.

JPMCB benefits from Clients’ selection of the Chase Deposit Sweep because JPMCB receives a stable, cost-effective source of funding. JPMCB intends to use deposits in the Chase Deposit Sweep to fund current and new business, including lending activities and investments. The profitability on such lending activities and investments is generally measured by the difference, or “spread”, between the interest rate paid on the deposits and other costs associated with the Chase Deposit Sweep, and the interest rate or other income JPMCB earns on loans and investments made with the deposits. The income that JPMCB can earn through its lending and investment activities is usually greater than the fees all JPMorgan-affiliated entities can earn from

managing and distributing money market mutual funds that may be available to Clients as an alternative cash “sweep” for their Program Accounts.

Therefore, JPMS, JPMCC and JPMCB have a financial incentive in Clients’ selection of the Chase Deposit Sweep. JPMS does not believe that its and its affiliates’ interest in Clients’ selection of the Chase Deposit Sweep presents any inherent or general material conflict with the interests of Clients. However, if a conflict exists, JPMS addresses it by: (1) allowing Clients to select another available “sweep” option and to change the election at any time; (2) providing disclosure to Clients, including prospectuses for the money market mutual funds available as a sweep option, and the Chase Deposit Sweep; and (3) providing information on the current yield of the available sweep options.

All or substantially all registered representatives of JPMS, including IARs, are also employees of JPMCB. In their capacity as employees of JPMCB and outside of the Program, IARs may market and sell to clients products and services of JPMCB (including discretionary portfolio management services), and be compensated in connection with such sales.

#### **D. Code of Ethics**

The Firm’s Code of Ethics (the “**Code**”) governs the conduct of IARs and other Firm employees who have access to client information. The Code requires IARs and other Firm employees with access to client information to acknowledge that they understand and are in compliance with its policies. The Code’s policies require that IARs: (1) report personal securities trades; (2) acknowledge their ongoing compliance with SEC broker-dealer and investment adviser rules and regulations; and (3) report any violations of the Code of which they are aware to the Firm’s Chief Compliance Officer. Clients may telephone or write their IAR or the Firm to request a copy of the Code.

The Firm has a personal trading policy for its IARs and registered personnel and the Firm monitors the personal trading activity of each IAR in compliance with its internal supervisory process.

#### **E. Review of Accounts**

JPMS IARs are available to meet with Clients upon request to discuss their Program Account. JPMS also contacts Clients at least annually to determine whether there have been any changes in the Client’s financial situation, investment objectives or investment restrictions that would require changes to the Program Account. JPMS personnel who are knowledgeable about the management of Program Accounts are available for Client consultation upon reasonable request. To ensure that the Program and the selected Investment Strategy remain suitable for the Client, Clients are instructed to promptly notify JPMS of any material changes to their investment objectives and/or financial situation. As most Program Accounts are managed in a similar manner according to the Investment Strategy selected by the Client, JPMS does not review individual trades or individual Program Accounts. JPMS periodically reviews the Investment Strategies and the Funds and Model Managers available in the Program to assure that the Investment Strategies, Model Managers, and Funds continue to meet the Program’s requirements. When Clients request investment restrictions, JPMS periodically monitors the Program Accounts to ensure compliance with the requested restrictions. JPMS does not provide tax advice, and the Account reviews should not be construed as tax advice. Account reviews are not a substitute for careful review of Account statements or tax reporting forms.

Clients receive written Account statements from the custodian at least quarterly and also receive written quarterly performance reports.

#### **F. Client Referrals and Other Compensation**

Program Accounts are offered and sold only through IARs associated with JPMS. JPMS does not engage any unaffiliated third-party cash solicitation or referral arrangements to refer prospective new clients to JPMS. However, pursuant to an agreement between JPMS and JPMCB, JPMCB may compensate its employees for referring clients to JPMS for various products and services, including the Program and other advisory products and services. Any such payments to JPMCB employees do not increase the Client’s Program Account Fee.

#### **G. Financial Information**

JPMS is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its Clients, nor has JPMS been the subject of a bankruptcy petition at any time during the past ten years.