

# Wealth Management Analysis Report

Brochure

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**Merrill Lynch, Pierce, Fenner &  
Smith Incorporated**

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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 Merrill Lynch Wealth Management Analysis Report and Estate and Insurance Report. 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 [www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx).



**Merrill Lynch**

Bank of America Corporation

## **MATERIAL CHANGES**

This is our initial Brochure for the Wealth Management Estate and Insurance Analysis Report, therefore there are no material changes to disclose. In the future, this page will be updated at least annually to describe any material changes made to this Brochure.

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## ADVISORY BUSINESS

This Brochure describes the service as further described below, which consists of delivery of various Wealth Management Analysis reports, which are offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch," "we," "us," or "our"), an indirect wholly-owned subsidiary of Bank of America. Clients are referred to as "Client" or "You." 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.

### WEALTH MANAGEMENT ANALYSIS REPORTS AND ESTATE AND INSURANCE ANALYSIS REPORT

The Wealth Management Analysis Report is a report that we may provide to brokerage customers which consists of a number of optional components. The reports are designed to assist clients in the area of wealth management. We prepare the reports by analyzing various aspects of your current financial situation, which may include your net worth, income tax, asset allocation, cash flow, estate tax and planning, survivor and wealth protection, disability income and long term care expense protection.

The Estate Report, Insurance Report (or if delivered together, the Estate and Insurance Report), are each optional components of a Wealth Management Analysis Report that we may provide to brokerage customers designed to assist them in the area of personal insurance and estate planning, respectively.

By themselves, the Wealth Management Analysis Report, Estate Report and Insurance Report (collectively referred to herein as the "Reports"), are not investment advisory services. However, if you receive a Wealth Management Analysis Report and an Estate and/or Insurance Report dated within 180 calendar days of each other, those Reports will be considered an investment advisory service from Merrill Lynch, as they may contain more comprehensive investment advice designed to assist you in the areas of wealth management and structuring, and personal insurance and estate planning. The Reports do not make specific investment recommendations or analyze particular securities, but rather may contain one or more asset allocation scenarios based upon your stated investment objective, risk tolerance and other factors, as well as an insurance needs and/or estate expense and wealth transfer analysis.

The Reports do not provide on-going investment advice. The investment advice provided as part of this service is contained in the collective Reports themselves, is current as of the date of each respective Report and is completed upon the delivery of the specific Report. Thereafter, your Financial Advisor - acting in a brokerage and/or insurance agent capacity - is available to discuss the Reports. However, it is your responsibility to determine whether any further action with respect to the implementation of the Reports should be taken, and Merrill Lynch will only act upon your instruction.

### ASSETS UNDER MANAGEMENT

As of December 2014, Merrill Lynch had assets under management of \$560.7 billion, of which \$215.4 billion was managed on a discretionary basis and \$345.3 billion was managed on a non-discretionary basis.

## FEES AND COMPENSATION

Merrill Lynch does not charge fees for the Reports.

## **OTHER FEES AND EXPENSES**

You are neither required to implement any of the recommendations made in the Reports, nor are you required to transact business with us if you choose to implement any aspects of a Report. Similarly, there is no obligation for you to open a securities account with us, to purchase any insurance products through a Financial Advisor (some of whom are also insurance salespersons) or to use any of the products or services offered by us or our affiliates (such as credit, mortgage, employee benefits or trust services) either before or after receiving the Reports.

If you decide to implement any of the recommendations in the Reports, such implementation will be outside the scope of the services covered by the Reports described in this Brochure. We will not act as investment adviser or broker-dealer with respect to your implementation of the recommendations, unless you and we otherwise agree, in which case such services will be subject to separate agreements between you and us and will again be outside the scope of the services covered by this Brochure. Should you decide to use or purchase our products or services or those of an affiliate, we, our affiliates and employees will receive fees and compensation for such products and services. Such fees and compensation may include commissions, spreads, markups or markdowns, compensation from investment advisory fees and mutual fund advisory and distribution fees.

## **COMPENSATION FOR THE SALE OF SECURITIES**

As noted above, our investment advice to you in relation to the Reports begins and ends with the Reports themselves. It is entirely your decision whether to implement any of the recommendations contained in the Reports. If you choose to implement any of the recommendations we make in the Reports through Merrill Lynch, this will be a separate service outside the scope of the service represented by the Reports, which will require separate agreements between you and us and separate disclosures from us. We and our employees, including your Financial Advisor, will benefit from any fees or other compensation paid to us that result from your use of our other services to implement your recommendations. Clients may also use other products or services available from or through us and in such case pay additional compensation. Financial Advisors offering these services receive compensation from Merrill Lynch. This practice creates a potential conflict of interest that may give us and our Financial Advisors an incentive to recommend products or 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 or management of certain accounts may be greater than the remuneration and profitability resulting from other advisory accounts, products or services.

We address these conflicts through disclosure in this Brochure. Moreover, our Financial Advisors are required to recommend programs, services, investment products and securities that are suitable for you based upon your investment objectives, risk tolerance and financial situation and needs. In addition, we have adopted policies and procedures to address the suitability of products, services and programs offered to clients.

## **CONDUCTING BUSINESS THROUGH MERRILL LYNCH**

It is your responsibility to determine if, and how, the suggestions contained in the Reports should be implemented or otherwise followed. You are neither required to implement any of the recommendations made in the Reports, nor are you required to transact business with us if you choose to implement any aspects of a Report.

As noted above, the collective Reports are considered an investment advisory service that is completed upon the delivery of the Reports. Thereafter, if you choose to implement any of the suggestions made in the Reports through your Merrill Lynch securities account(s), we will be acting solely as a broker-dealer, not as an

investment adviser (unless otherwise agreed in writing). In executing transactions for your accounts in accordance with your instructions, we, acting as a broker-dealer, may act as agent or as principal for our own account.

We are both a broker-dealer and an investment adviser, and we offer both brokerage and investment advisory services. There are important differences between brokerage and investment advisory services, including the types of advice and assistance provided, the fees charged, and the rights and obligations of the parties. Brokerage services are also regulated under different laws and rules than investment advisory services. Among our many obligations as a broker-dealer, we will execute transactions upon your instruction, deal fairly with you, and make recommendations that are suitable in light of your stated risk tolerance, financial needs and investment objectives. As an investment adviser, we must act solely in your best interest, provide certain specific disclosures and generally act in accordance with the standards of a fiduciary as that term is interpreted under applicable law. Of course, the above is an exceedingly brief summary, and numerous laws and regulations apply to each capacity as well as to the specific products or services being provided. It is important for you to understand these differences, particularly when determining which service or services you might select. You should carefully read all the applicable agreements and disclosures for the services you are considering. For additional information, you should contact your Financial Advisor.

In our capacity as a broker-dealer, we, through our Financial Advisors, may provide you with additional analyses, reports and proposals at various times, including during the course of discussing possible implementation steps. These analyses, reports and proposals are not part of the Wealth Management Analysis Reports. In addition, our employees or an affiliate may review client data, including your responses to the Wealth Management or other questionnaires, to assist you and your Financial Advisor with implementation issues or in connection with offering other Merrill Lynch products or services.

## **SOURCES OF REVENUE**

As a broker-dealer, Merrill Lynch offers a wide variety of securities and brokerage 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.

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

Neither we nor our Financial Advisors receive performance-based or other fees for the Reports. As described above, the Reports do not make specific investment recommendations or analyze particular securities. The asset allocation recommendations provided in connection with the Reports do not raise the conflicts associated with the side-by-side management of accounts.

## **TYPES OF CLIENTS**

The Reports are designed to assist individual clients. You are not required to open or maintain a securities account with us in order to implement any options contained in the Reports.

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

As part of the Reports, we may provide one or more asset allocation scenarios for clients to consider. An asset allocation is a mix of investment classes - equities, fixed income, cash, and, where appropriate, alternative investments - for a client's investment portfolio. The appropriate balance is based on the anticipated return and relative risk of each asset category as well as the client's personal factors such as risk tolerance, investment objective, age, liquidity needs, time horizon, current asset allocation and asset level.

We may provide one more asset allocation scenarios. These asset allocations may recommend allocation ranges of 0% to 100% to four asset classes:

- Equity Securities;
- Fixed Income Securities;
- Alternative Investments, if appropriate (including non-traditional funds);
- Cash

Our more conservative asset allocations typically recommend a greater percentage of your assets be allocated to fixed-income investments and cash, rather than to equity securities. Our more aggressive asset allocations typically recommend a greater percentage of your assets be allocated to equity investments and alternative investments (if appropriate), rather than to fixed-income investments and cash. You are under no obligation to implement any asset allocation recommendation made in the Reports. From time to time, we may adjust the recommended allocation ranges within these categories based on market conditions and other factors.

Principal sources of information that Merrill Lynch uses to prepare a Report may include a client questionnaire, other verbal information you may provide to your Financial Advisor, as well as government reports and publications, tax and financial planning publications, and material prepared by us. You are responsible for providing us with information that is accurate and complete, and any failure to do so is likely to affect the analyses and recommendations contained in the Report. Any change in your financial circumstances would also impact the conclusions and suggestions provided through the Report.

### CLIENT RESPONSIBILITIES

It is important for you to understand that it is your responsibility to determine if, and how, the suggestions contained in the Report should be implemented or otherwise followed. You should carefully consider all relevant factors in making these decisions, and you are encouraged to consult any of your outside professional advisers. Any information presented about tax considerations affecting your financial transactions or arrangements is not intended as tax advice and should not be relied upon for the purpose of avoiding any tax penalties. Neither we nor our Financial Advisors provide tax, accounting or legal advice. You should review any planned financial transactions or arrangements that may have tax, accounting, or legal implications with your personal professional advisors.

### RISK DISCLOSURE

The Reports do not make specific investment recommendations or analyze particular securities. If you decide to implement any of these proposed asset allocation models through a brokerage or investment advisory account, your account will be subject to investment risk and you may lose money. Brokerage or investment advisory accounts are not bank accounts. They are not insured or otherwise protected by the Federal Deposit Insurance Corporation, are not an obligation of any bank or any affiliate of Merrill Lynch; and are not endorsed

or guaranteed by Bank of America, Merrill Lynch, or any bank or any affiliate of Merrill Lynch. You should further understand that all investments involve risk (the amount of which may vary significantly), that performance of any kind can never be predicted or guaranteed and that the value of your portfolios will fluctuate due to market conditions and other factors.

## **MATERIAL RISKS**

Following are the material risks associated with the Reports:

- The Reports typically contain one or more asset allocation scenarios based upon your stated risk tolerance, investment objective, age, liquidity needs, time horizon, current asset allocation and value of the assets. We have changed the allocation models in the past and may change these models in the future depending on research and investment strategy analysis. We have no obligation to revise the Reports or otherwise advise you if an allocation model or any of our assumptions change in the future.
- The analyses and asset allocations contained in the Reports are based on historical financial data, assumptions about future financial trends (including market appreciation or decline, rates of return and risks for various asset classes), assumptions about applicable laws and regulations, and appropriate financial planning strategies.
- The analyses contained in the Reports are based on probabilistic and/or deterministic modeling as appropriate, which do not analyze specific security holdings. Instead, it analyzes the identified asset allocation, cash inflows, and cash outflows. Any analysis represents a static analysis at a specific point in time. As a result, the results of the analysis can change over time and with each use if any of the underlying assumptions and/or profile data are adjusted.
- Any projections, analyses or other information contained in or with the Reports regarding various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.
- The Reports do not provide ongoing advice regarding your specific securities investments. Therefore, it is important for you to monitor current events, such as changes in tax laws or in the financial markets, which may affect your plans and circumstances. You should review your investment strategy and decisions from time to time with your Financial Advisor to determine the impact that these events or changes may have on your circumstances.
- We apply certain assumptions to your particular circumstances. The analyses and recommendations provided in or with the Reports can be significantly affected by even small changes in our assumptions or your individual circumstances, in particular by any changes in your financial position or investment objectives. It is strongly recommended that you obtain an updated Report if you choose to implement any recommendations or proposed strategies at a later time.
- Unless otherwise indicated, the return rates and dollar figures contained in the Reports do not include investment expenses (including, but not limited to commissions, transaction fees or investment advisory program fees as applicable); thus, any results shown will be reduced by such costs. Also, where applicable (and only as indicated) assumptions as to federal income tax rates, state income tax rates, and estate taxes reflected in the Report would only be general estimates and subject to change.
- We make no representations or warranties with respect to the present or future level of risk or volatility in a portfolio that is invested in accordance with any asset allocation recommendation or your portfolio's future performance. Should you choose to implement the recommendations, you



assume the risks involved with investing in securities and other investment products, and you could lose all or a portion of the amount so invested.

- Our asset allocation recommendation may include an allocation to alternative investments, where appropriate. For investors who may want to consider alternative investments as part of a diversified portfolio, careful consideration should be given to the associated risks of these investments. The investor's investment objectives, time horizon, risk tolerance, liquidity needs and net worth should be appropriate as certain types of products that implement alternative investment strategies (such as hedge funds and private equity) are often long-term, illiquid investments that are not easily valued. Often specific levels of net worth and liquidity are required in making certain alternative investments available (e.g., for some alternative investments, such as hedge funds and private equity, net worth of \$5 million or more is required). In addition, the timing of capital calls and distributions may not be predictable; periodic pricing or valuation information may not be available; and complex tax structures may be utilized and there may be delays in distributing important tax information. Certain alternative investment products (such as hedge funds and private equity) are sold pursuant to exemptions from registration with the SEC and may not be subject to the same regulatory requirements as other investment products. Certain alternative investments require tax reports on Schedule K-1 to be prepared and filed. As a result, investors will likely be required to obtain extensions for filing federal, state, and local income tax returns each year. Certain other investments in your portfolio may also be classified as alternative investments. Non-Traditional funds (NTFs) are mutual funds and exchange traded funds that are classified as alternative investments because their principal investment strategies utilize alternative investment strategies or provide for alternative asset exposure as the means to meet their investment objectives. Though the portfolio holdings of NTFs are generally made up of stocks and bonds, NTFs may also hold other asset classes and may use short selling, leverage and derivatives. While the strategies employed by NTFs are often used by hedge funds and other alternative investment vehicles, unlike hedge funds, NTFs are registered with the SEC and thus subject to a more structured regulatory regime and offer lower initial and subsequent investment minimums, along with daily pricing and liquidity. While these investment vehicles can offer diversification within a relatively liquid and accessible structure, it is absolutely essential to understand that because of this structure, NTFs may not have the same type of non-market returns as other investments classified as alternative investments (such as hedge funds) and thus may serve as an imperfect substitute for such other investment vehicles. The risk characteristics of NTFs can be similar to those generally associated with traditional alternative investment products (such as hedge funds). No assurance can be given that the investment objectives of any particular alternative investment will be achieved. Like any investment, an investor can lose all or a substantial amount of his or her investment. In addition to the foregoing risks, each alternative investment vehicle is subject to its own varying degrees of strategy-specific or other risks. Whether a particular investment meets the investment objectives and risk parameters of any particular client must be determined case by case. You must carefully review the prospectus or offering materials for any particular fund/pooled vehicle and consider your ability to bear these risks before any decision to invest.

## DISCIPLINARY INFORMATION

In the past, we have entered into certain settlements with our regulators and other third parties and have been the subject of adverse legal and disciplinary events. Below are summaries of certain events that may be material to your decision of whether to retain us for your investment advisory needs. Please note that certain disclosures discuss disciplinary events associated with Banc of America Investment Services, Inc.

("BAI") and Banc of America Securities LLC ("BAS"). BAI merged with Merrill Lynch on October 23, 2009, and BAS merged with Merrill Lynch on November 1, 2010. For purposes of the disclosures of disciplinary information set forth in this section, "Merrill Lynch" refers to MLPF&S. In addition to the descriptions below, you can find additional information regarding these settlements in Part 1 of Merrill Lynch's Form ADV at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

On June 16, 2014, MLPF&S, without admitting or denying the findings, entered into an AWC with FINRA. The AWC related to MLPF&S' failure to have an adequate supervisory system to ensure that certain clients received Class A shares with sales charge waivers when purchasing certain mutual funds. As a result, those clients paid sales loads when purchasing Class A shares, or purchased Class B or C shares with higher expenses, during various periods. The clients included those having two types of retirement accounts and another type of client in brokerage accounts offered by MLPF&S. MLPF&S reported certain of these issues to FINRA and all impacted clients have been or are in the process of being reimbursed as set forth in the AWC. MLPF&S consented to the imposition of a censure and a fine of \$8 million, and agreed to provide additional reimbursement to impacted clients as set forth in the AWC.

On June 21, 2012, Merrill Lynch, without admitting or denying the findings, entered into an AWC with FINRA related to the following five issues: (1) Merrill Lynch failed to have an adequate supervisory system to ensure that clients in certain investment advisory programs were billed in accordance with applicable contract and disclosure statements, and, as a result, overcharged certain client accounts unwarranted fees from April 2003 to December 2011; the client accounts impacted were less than 5% of Merrill Lynch's total advisory accounts, and the fees overcharged represented less than one-half of 1% (\$32,174,369) of the total advisory fees billed during that period; all impacted clients have been reimbursed; (2) between July 2006 and November 2010, Merrill Lynch failed to send contemporaneous and/or periodic trade confirmations to certain client accounts for ten investment advisory programs; (3) between 1992 and June 2011, Merrill Lynch did not include or accurately state whether Merrill Lynch acted as an agent or a principal on trade confirmations and account statements relating to certain mutual fund transactions; (4) between 2007 and 2010, Merrill Lynch, either directly or through third-party vendors, failed to deliver proxy materials to certain clients or to their designated investment advisers, and to have an adequate supervisory system to detect its failure to deliver proxies; the clients impacted constituted less than 1% of Merrill Lynch's clients during that period; and (5) between October 2001 and June 2010, Merrill Lynch failed to send margin risk disclosure statements and/or business continuity plans to certain clients upon the opening of their accounts; the clients impacted constituted less than 1% of Merrill Lynch's clients during that period. In determining the appropriate sanctions, FINRA considered Merrill Lynch's internal review through which it identified the violations, the remedial measures that Merrill Lynch took to correct its systems and procedures, and Merrill Lynch's efforts to provide remediation to affected clients. Merrill Lynch consented to the imposition of a censure and a fine of \$2.8 million.

On June 21, 2012, Merrill Lynch, without admitting or denying the findings, entered into an AWC with FINRA related to the following five issues: (1) Merrill Lynch failed to have an adequate supervisory system to ensure that clients in certain investment advisory programs were billed in accordance with applicable contract and disclosure statements, and, as a result, overcharged certain client accounts unwarranted fees from April 2003 to December 2011; the client accounts impacted were less than 5% of Merrill Lynch's total advisory accounts, and the fees overcharged represented less than one-half of 1% (\$32,174,369) of the total advisory fees billed during that period; all impacted clients have been reimbursed; (2) between July 2006 and November 2010, Merrill Lynch failed to send contemporaneous and/or periodic trade confirmations to certain client accounts for ten investment advisory programs; (3) between 1992 and June 2011, Merrill Lynch did not include or accurately state whether Merrill Lynch acted as an agent or a principal on trade confirmations and account statements relating to certain mutual fund transactions; (4) between 2007 and 2010, Merrill Lynch, either directly or through third-party vendors, failed to deliver proxy materials to certain clients or to their

designated investment advisers, and to have an adequate supervisory system to detect its failure to deliver proxies; the clients impacted constituted less than 1% of Merrill Lynch's clients during that period; and (5) between October 2001 and June 2010, Merrill Lynch failed to send margin risk disclosure statements and/or business continuity plans to certain clients upon the opening of their accounts; the clients impacted constituted less than 1% of Merrill Lynch's clients during that period. In determining the appropriate sanctions, FINRA considered Merrill Lynch's internal review through which it identified the violations, the remedial measures that Merrill Lynch took to correct its systems and procedures, and Merrill Lynch's efforts to provide remediation to affected clients. Merrill Lynch consented to the imposition of a censure and a fine of \$2.8 million. On June 21, 2012, Merrill Lynch, without admitting or denying the findings, entered into an AWC with FINRA related to the following five issues: (1) Merrill Lynch failed to have an adequate supervisory system to ensure that clients in certain investment advisory programs were billed in accordance with applicable contract and disclosure statements, and, as a result, overcharged certain client accounts unwarranted fees from April 2003 to December 2011; the client accounts impacted were less than 5% of Merrill Lynch's total advisory accounts, and the fees overcharged represented less than one-half of 1% (\$32,174,369) of the total advisory fees billed during that period; all impacted clients have been reimbursed; (2) between July 2006 and November 2010, Merrill Lynch failed to send contemporaneous and/or periodic trade confirmations to certain client accounts for ten investment advisory programs; (3) between 1992 and June 2011, Merrill Lynch did not include or accurately state whether Merrill Lynch acted as an agent or a principal on trade confirmations and account statements relating to certain mutual fund transactions; (4) between 2007 and 2010, Merrill Lynch, either directly or through third-party vendors, failed to deliver proxy materials to certain clients or to their designated investment advisers, and to have an adequate supervisory system to detect its failure to deliver proxies; the clients impacted constituted less than 1% of Merrill Lynch's clients during that period; and (5) between October 2001 and June 2010, Merrill Lynch failed to send margin risk disclosure statements and/or business continuity plans to certain clients upon the opening of their accounts; the clients impacted constituted less than 1% of Merrill Lynch's clients during that period. In determining the appropriate sanctions, FINRA considered Merrill Lynch's internal review through which it identified the violations, the remedial measures that Merrill Lynch took to correct its systems and procedures, and Merrill Lynch's efforts to provide remediation to affected clients. Merrill Lynch consented to the imposition of a censure and a fine of \$2.8 million.

On October 4, 2011, Merrill Lynch entered into a consent agreement with FINRA regarding the following events. FINRA alleged that Merrill Lynch failed 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 Merrill Lynch 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, Merrill Lynch consented to the entry of findings, a censure, and a fine of \$1,000,000.

On June 6, 2009, the United States District Court for the Southern District of New York entered a judgment enjoining BAI and BAS from violating, directly or indirectly, Section 15(c) of the Exchange Act. The SEC had filed a complaint alleging that BAI and BAS misled customers regarding the fundamental nature and increasing risks associated with auction rate securities ("ARS") underwritten, marketed and sold by BAS and BAI and that by engaging in such conduct, BAI and BAS had violated Section 15(c) of the Exchange Act. Without admitting or denying the allegations, BAI and BAS entered into a consent, whereby they agreed to a series of undertakings designed to provide relief to "individual investors" (as defined in the consent) including: (1) through their affiliate, offering to purchase at par from individual investors certain ARS; (2)

agreeing to use reasonable efforts to identify individual investors who sold certain ARS below par, and to pay such investors the difference between par and the price at which they sold the securities; (3) agreeing to

participate in a special arbitration process for the purpose of arbitrating any individual investor's consequential damage claim related to its investment in ARS; (4) agreeing to refund certain refinancing securities through the firms; and (5) undertaking to make their best efforts to work with issuers and other interested parties to seek to provide liquidity solutions for institutional investors that are not considered "individual investors." Two similar regulatory actions involving the marketing and sale of ARS occurred on January 10, 2012: (1) Merrill Lynch (as successor by merger to BAS and BAI, the "Respondents") agreed to a settlement with the Illinois Securities Department (the "Department"); and (2) Merrill Lynch agreed to a settlement with the North Carolina Department of the Secretary of State, Securities Division (the "Division"). In both actions, it was alleged that inappropriate marketing and sales of ARS occurred without adequately informing certain customers of the increased risks of illiquidity associated with ARS. Both the Department and the Division of the respective states alleged that, through the aforementioned conduct, there occurred dishonest and unethical practices in the offer and sale of securities and failure to supervise agents resulted. In the Illinois action, the Respondents agreed, among other things, to repurchase at par certain illiquid ARS held by certain clients of Merrill Lynch. Additionally, the Respondents agreed to pay a total fine of \$1,578,320.87 to the State of Illinois representing Illinois's portion of a total civil penalty of \$50,000,000 that will be distributed among the states and U.S. territories that enter into similar administrative or civil consent orders related to ARS. With respect to the North Carolina action, Merrill Lynch agreed, among other things, to repurchase at par certain illiquid ARS held by certain clients of Merrill Lynch. Additionally, Merrill Lynch agreed to pay a total fine of \$3,193,552.24 to the Division representing its portion of a total civil penalty of \$125,000,000 that will be distributed among the states and U.S. territories that enter into similar administrative or civil consent orders related to ARS.

On March 11, 2009, the SEC issued an order against Merrill Lynch alleging that from 2002 to 2004, several Merrill Lynch retail brokers permitted day traders to hear confidential information regarding Merrill Lynch institutional customers' unexecuted orders as they were transmitted over Merrill Lynch's squawk box system. According to the SEC, Merrill Lynch 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, Merrill Lynch consented to the entry of the order that: (1) found violations of Section 15(f) of the Exchange Act and Section 204A of the Advisers Act for allegedly failing to maintain written policies and procedures reasonably designed to prevent the misuse of customer order information; (2) required that Merrill Lynch cease and desist from committing or causing any future violations of the provisions charged; (3) censured Merrill Lynch; (4) imposed a \$7,000,000 civil money penalty; and (5) required Merrill Lynch to comply with certain undertakings regarding the enhancement of certain policies and procedures.

On January 30, 2009, the SEC issued an order against Merrill Lynch 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 Merrill Lynch had not maintained adequate records or reasonably supervised certain Florida investment advisory representatives. Without admitting or denying the non-jurisdictional findings thereof, Merrill Lynch consented to a censure, to cease and desist from violations of sections 204 and 206(2) of the Advisers Act and Rule 204-2(a) (14) thereunder, and a fine of \$1,000,000. In accepting the settlement, the SEC noted the voluntary and significant remedial acts promptly undertaken by Merrill Lynch.

On May 1, 2008, the SEC issued an administrative order in which it found that BAI had willfully violated 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) for failing to disclose to clients that in selecting investments for discretionary mutual fund wrap fee accounts, it favored two mutual funds affiliated with BAI. In the Order the SEC also

found that Columbia Management Advisors, LLC (“Columbia Management”), as successor in interest to Banc of America Capital Management, LLC willfully aided and abetted and caused BAI’s violations of Sections 206(2) and 206(4) of the Advisers Act, and Advisers Act Rule 206(4)-1(a)(5). In the order, BAI and Columbia Management were censured and ordered to cease and desist from committing or causing such violations and future violations. In addition, BAI was ordered to pay disgorgement plus prejudgment interest in the aggregate amount of \$793,773.00 to certain entities specified in the Order, and a civil monetary penalty of \$2,000,000; and Columbia Management was ordered to pay disgorgement plus prejudgment interest in the aggregate amount of \$516,382 to certain entities specified in the Order, and a civil monetary penalty of \$1,000,000. BAI and Columbia Management consented to the Order without admitting or denying the SEC’s findings. BAI also agreed to certain undertakings contained within the Order.

On February 14, 2008, Merrill Lynch consented to an AWC issued by FINRA. FINRA alleged that from at least January 2001 until January 2006, as a result of certain operational and supervisory deficiencies Merrill Lynch failed to timely and consistently update the firm’s record system relating to certain investment advisory and fee-based accounts. When clients change investment advisers or terminated enrollment in certain investment advisory or fee-based accounts, Merrill Lynch failed to consistently make changes in account proxy delivery addresses and/or remove traits that suppressed trade confirmation delivery in the firm’s record systems. Additionally, Merrill Lynch failed to maintain written supervisory procedures and a reasonable system of follow-up and review with respect to such operational changes. Without admitting or denying the findings, Merrill Lynch consented to a censure and a fine of \$175,000.

On March 4, 2005, Merrill Lynch entered into a consent order with the State of New Jersey Office of the Attorney General Department of Law and Public Safety and the New Jersey Bureau of Securities (“Attorney General”). The Attorney General alleged: (1) market timing conduct by three Merrill Lynch Financial Advisors engaged in market timing on behalf of their principal client, a hedge fund and that despite warnings from supervisors that they were violating Merrill Lynch’s policies, the Financial Advisors continued to market time for the client until they were fired in October 2003, using among other things, multiple accounts and undisclosed agreements to conduct and disguise their trading; (2) that Merrill Lynch failed to adequately supervise certain activities in connection with the conduct described above including failure to keep adequate books and records in violation of the Exchange Act and New Jersey law; (3) the client entered into variable annuity contracts and certain other variable life insurance contracts with certain non-proprietary insurance carriers through the Financial Advisors to engage in short term trading in the investment sub-accounts of these products and although the client’s reallocation instructions were relayed through the Financial Advisors to the insurance companies, Merrill Lynch gave no specific instruction to the Financial Advisors concerning the reallocation of the underlying sub-accounts of variable products; and (4) that Merrill Lynch failed to adequately enforce its established policy prohibiting market timing. Without admitting or denying the findings in the order, Merrill Lynch agreed to pay a civil monetary penalty of \$10 million and to certain undertakings including implementation of new procedures to maintain, as a required book and record under New Jersey and federal securities laws, records of all client reallocation requests made through a Merrill Lynch employee that involve mutual funds held as sub-accounts of variable annuity products of outside insurance carriers.

On February 9, 2005, pursuant to an offer of settlement by BAS in which it neither admitted nor denied the findings, the SEC issued an administrative order. The SEC found that from July 2000 through July 2003, BAS, Bank of America Capital Management, LLC (“BACAP”) and BACAP Distributors, LLC (“BACAP Distributors”) facilitated market timing and late trading by some introducing broker-dealers and a hedge fund at the expense of shareholders of Nations Funds and other mutual fund families, provided account management tools and other assistance, and enabled introducing broker-dealers to conceal their client’s market timing activities from mutual funds. In the order, BAS was: (1) censured; (2) ordered to cease and desist from committing or causing any present or future violations of 17(a) of the Securities Act, 10(b), 15(c) and 17(a) of the Exchange Act and Rules

10b-5, 15c1-2, and 17a-4 thereunder and Rule 22c-1, as adopted under 22(c) of the Investment Company Act, and from causing any present or future violations of 34(b) of the Investment Company Act and 206(1) and 206(2) of the Advisers Act; (3) ordered to pay, jointly and severally with BACAP and BACAP Distributors \$250 million in disgorgement plus a civil monetary penalty of \$125 million. BAS also agreed to comply with certain undertakings including: (1) maintaining a compliance and ethics oversight infrastructure having, among other things, a code of ethics oversight committee, an internal compliance controls committee, a senior level compliance officer for conflicts of interest and a corporate ombudsman; (2) retaining an independent compliance consultant to, among other things, review compliance, supervisory and other policies and procedures and adopt such procedures; (3) undergoing third party compliance review every other year; and (4) retaining an independent distribution consultant.

On April 28, 2003, as part of a joint settlement with the SEC, NYSE and NASD arising from a joint investigation by the SEC, NYSE and NASD into research analysts' conflicts of interest, Merrill Lynch, without admitting or denying the allegations of the complaint filed by the SEC, consented to the entry of a final judgment ("Final Judgment"). Pursuant to the settlement, which was entered on October 31, 2003 and modified on March 15, 2010, Merrill Lynch: (1) was permanently enjoined from violating Section 15(c) of the Exchange Act and Rule 15c1-2 thereunder, NASD Conduct Rules 2110, 2210 and 3010, and NYSE Rules 342, 401, 472 and 476; (2) was ordered to pay a penalty of \$100,000,000, which was deemed satisfied by prior payments to the states in a related proceeding; (3) was ordered to pay substantial amounts for third party research and investor education; and (4) was ordered to comply with certain additional undertakings. In a related disciplinary event, Merrill Lynch (as successor by merger to BAS) entered into an amended offer of settlement with the SEC on October 9, 2012. The settlement stems from an SEC Order dated March 14, 2007 against BAS (the "2007 BAS Order") claiming that BAS investment bankers inappropriately influenced equity research analysts, resulting in the publication of materially false and misleading research during the period of January 1999 through December 2001. The 2007 BAS Order censured BAS and ordered BAS to: (i) cease and desist from committing or causing any violations or future violations of Section 15(c) and 15(f) of the Exchange Act, and Rule 15c1-2(a); (ii) pay \$26 million in disgorgement and penalties into a fair fund for distribution to its affected customers; (iii) retain an independent consultant to conduct a comprehensive review of the firm's internal controls to prevent the misuse of material nonpublic information concerning BAS research; (iv) certify to the SEC's staff in the second year following the issue of the 2007 BAS Order that BAS had established and continued to maintain Exchange Act Section 15(f) policies, practices, and procedures consistent with the findings of the 2007 BAS Order; and (v) comply with Addendum A to the 2007 BAS Order, which implemented certain structural changes to the operations of the firm's equity research and investment banking departments. In the Merrill Lynch action, the District Court, on March 15, 2010, modified Addendum A to the October 31, 2003 Final Judgment by, among other things, removing similar provisions that remained in Addendum A to the 2007 BAS Order. The 2007 BAS Order, which remains in effect and binding on Merrill Lynch (as successor by merger to BAS), was modified on October 9, 2012, to strike Addendum A and provide that Merrill Lynch analysts, including ex-BAS analysts, must comply with the Final Judgment.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

MLPF&S, an indirect wholly-owned subsidiary of Bank of America, 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. MLPF&S also acts 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.

For purposes of Form ADV Part 2, certain MLPF&S management persons are registered as registered representatives or associated persons of MLPF&S. In the future, additional MLPF&S 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 securities brokerage, trading and underwriting; investment banking, strategic advisory services (including mergers and acquisitions) and other corporate finance activities; wealth management products and services including financial, retirement and generational planning; asset management and investment advisory and related record-keeping services; origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, commodities and foreign exchange products; securities clearance, settlement financing services and prime brokerage; private equity and other principal investing activities; proprietary trading of securities, derivatives and loans; banking, trust and lending services, including deposit-taking, consumer and commercial lending, including mortgage loans, and related services; insurance and annuities sales and research across the following disciplines: 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.

Our affiliated insurance agency, Merrill Lynch Life Agency Inc. ("MLLA") offers and sells insurance products, and certain of our Financial Advisors are also insurance salespeople. If you decide to purchase insurance products from or through MLLA, we, including your Financial Advisor, will receive fees and compensation for such products.

We, through our Financial Advisors, may suggest or recommend that clients, including clients receiving the Reports, use our 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 our products or products of an affiliate. Where Merrill Lynch's or our affiliate's services are used or products are purchased by clients, 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.

We address these conflicts through disclosure in this Brochure. Moreover, our Financial Advisors are required to recommend 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.

We do not recommend or select other investment advisers in connection with the Reports. However, we do recommend or select other investment advisers in connection with other investment advisory programs that we maintain. You will receive a separate brochure describing these services in more detail if you were to enroll in one of these investment advisory programs.

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

### **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. We believe that no organization can totally eliminate conflicts that exist explicitly or implicitly. Bank of America, including 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.

### **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. The Code of Ethics is based on the principle that clients' interests come first, and is intended to assist employees in meeting the high standards that we follow in conducting our business with integrity and professionalism. The Code of Ethics covers such topics as the:

- Requirement that all employees comply with all applicable securities and related laws and regulations;
- Reporting and/or clearance of employee personal trading;
- Prevention of misuse of material non-public information; and
- Obligation to report possible violations of the Code of Ethics to management or other appropriate personnel.

All covered personnel must certify receipt of the Code of Ethics. We will provide a copy of the Code of Ethics to you upon request.

We also have imposed policy restrictions on all personnel regarding 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 their securities transactions and have implemented procedures for monitoring these transactions as well as those of all our employees.



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

As described above, the Reports are considered an investment advisory service that is completed upon the delivery of the Reports. You are neither required to implement any of the recommendations made in the Reports, nor are you required to transact business with us if you choose to implement any aspects of a Report. If you choose to implement any or all of the recommendations made in the Reports through us, we will be acting solely as a broker-dealer, not as an investment adviser (unless otherwise agreed in writing). If you choose to enroll in another Merrill Lynch investment advisory program, you will receive a separate brochure for that program describing Merrill Lynch's participation or interest in client transactions.

## **INVESTMENTS IN SECURITIES 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 clients who receive the Reports, 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 with respect to 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.

We may share our analyses of securities with Financial Advisors and others within Merrill Lynch or our affiliates. In certain cases, this may precede the implementation of investment management decisions in investment advisory accounts. Financial Advisors may consider such analyses in connection with services provided to brokerage and other customers who are not clients participating in any investment advisory program.

MLPF&S or one of its affiliates may have a position in or enter into "proprietary" transactions in securities purchased or sold for clients. MLPF&S or its affiliates may benefit from such securities positions or transactions.

Many of the conflicts related to participation or interest in client transactions and personal trading are less pronounced in the context of financial planning products, such as the Reports, because the Reports do not make specific investment recommendations or analyze particular securities. Rather, the Reports typically contain a proposed asset allocation model based upon your stated risk tolerance, age, current asset allocation and value of the assets. We nevertheless attempt to address conflicts of interest through disclosure in this Brochure and other disclosure documents for clients to consider when deciding whether and how to implement our recommendations. Merrill Lynch Financial Advisors are required to recommend programs, investment products and securities that are suitable for you based upon your 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. 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 pre-approve certain securities transactions, disclose his or her investment accounts, and provide or cause Merrill Lynch to receive annual holdings reports and quarterly transaction reports.

## **BROKERAGE PRACTICES**

As described above, you are neither required to implement any of the recommendations made in the Reports, nor are you required to transact business with us if you choose to implement any aspects of a Report. If you choose to implement any or all of the recommendations made in the Report through us, we will be acting solely as a broker-dealer, not as an investment adviser (unless otherwise agreed in writing).

## **REVIEW OF ACCOUNTS**

If delivered within the 180 day period as described above, the Reports are considered an investment advisory service that is completed upon the delivery of the specific Reports, and as such, we do not provide ongoing advice with respect to this service. As indicated previously, you are not required to open a securities account(s) or otherwise transact with us. Accordingly, there are no account reviews associated with the service as described in this Brochure. We do not provide clients with the Reports on a regular or periodic basis. Accounts for clients who participate in other Merrill Lynch investment advisory programs may be subject to reviews as described in the brochures applicable to those programs.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

As part of broader Firm arrangements, we have entered into solicitation arrangements with certain third party entities to refer prospective investment advisory clients to us ("Solicitors"). Generally, the fees paid to Solicitors will be paid from the fee earned by us for providing investment advisory services. This fee will generally be a percentage of the fee ordinarily credited to the client's Financial Advisor. We will pay this fee to the Solicitor for each investment advisory account referred to us by the Solicitor. If we terminate the agreement with the Solicitor for certain reasons, we may continue to pay the Solicitor for a period of time after termination. We will not increase the advisory fees payable by you as a result of our payments to the Solicitor. The fees we charge will not be higher than our usual fees because of the payments to the Solicitor. As noted above, we charge no fees for the Reports.

Employees of Merrill Lynch may refer advisory clients to BANA, including its private bank, U.S. Trust, Bank of America Private Wealth Management, and its affiliates for products and services. Similarly, employees of BANA and other affiliates may refer clients to Merrill Lynch for brokerage or advisory services. These referrals may involve the payment of referral fees between Merrill Lynch and BANA or its affiliates.

## **CUSTODY**

Custody services are not provided as a part of this service. As discussed above, you are neither required to transact business with us if you choose to implement any aspects of a Report. Similarly, there is no obligation for you to open a securities account with us. However, if you choose to open a securities account with us, custody services may be provided as part of that service.

## **INVESTMENT DISCRETION**

The Reports do not involve the exercise of investment discretion. If a client who receives the Reports is enrolled in certain Merrill Lynch investment advisory programs, we may accept discretionary authority to the extent described in the brochures for those programs and our written investment advisory agreement with the client.

## **VOTING CLIENT SECURITIES**

We do not make specific investment recommendations or analyze particular securities in the Reports. Accordingly, this service does not involve the voting of client securities.

## **FINANCIAL INFORMATION**

Not applicable.

## GLOSSARY

“Advisers Act” means the Investment Advisers Act of 1940, as amended.

“AWC” means a FINRA letter of acceptance, waiver and consent.

“BAI” means Banc of America Investment Services, Inc.

“BANA” means Bank of America, N.A.

“Bank of America” means Bank of America Corporation.

“BAS” means Banc of America Securities LLC.

“Brochure” means the Merrill Lynch brochure relating to Merrill Lynch Wealth Management and Estate and Insurance Analysis Reports, as specifically described herein, as amended or updated from time to time. The Brochure is also referred to as the Disclosure Statement.

“Client” or “You” means the client who receives the Reports.

“Columbia Management” means Columbia Management Advisors, LLC.

“Code of Ethics” means Merrill Lynch’s Investment Adviser Code of Ethics. “Consent” means a letter of acceptance, waiver and consent.

“Disclosure Statement” means the Merrill Lynch brochure relating to Merrill Lynch Wealth Management and Estate and Insurance Analysis Reports, as specifically described herein, as amended or updated from time to time. The Disclosure Statement is also referred to as the Brochure.

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

“Financial Advisor” means your Merrill Lynch Financial Advisor or, for certain clients, a representative of the Merrill Edge Advisory Center.

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

“Investment Company Act” means the Investment Company Act of 1940, as amended.

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

“ML&Co.” means Merrill Lynch & Co., Inc.

“Order” means an order issued by the SEC.

“Report” or “Reports” means the Merrill Lynch Wealth Management Estate and Insurance Analysis Report.

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

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

“Solicitors” means third party entities that Merrill Lynch has entered into solicitation agreements with to refer prospective investment advisory clients to Merrill Lynch.