

# NextGen College Investing Plan

## DISCLOSURE STATEMENT

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This brochure provides information about the qualifications and business practices of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"). 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](http://www.adviserinfo.sec.gov).

**April 22, 2011**



## **MATERIAL CHANGES**

On March 31, 2011, Merrill Lynch filed its annual update for its NextGen College Investing Plan Program brochure ("Brochure") in accordance with new regulatory requirements. Please note that it is different in structure and content from the previous Form ADV, Part II. Capitalized terms that are not defined in this section have the meanings provided in the Glossary.

### **April 22, 2011, Brochure Update**

In November 2010, Bank of America Corporation reduced its ownership interest in BlackRock to 7.1%, nonvoting and, on April 7, 2011, Bank of America Corporation reduced its representation on the BlackRock Board of Directors. As a result of these changes, Merrill Lynch is updating this disclosure statement to no longer include BlackRock as a Related Company and BlackRock Funds or products as Related Funds or products.



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## ADVISORY BUSINESS

Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch,” “we,” “us,” or “our”), a direct wholly-owned subsidiary of Merrill Lynch & Co., Inc. (“ML&Co.”) and an indirect wholly-owned subsidiary of Bank of America Corporation (“Bank of America”), is a global investment banking firm and a registered broker-dealer, investment adviser and futures commission merchant. Merrill Lynch offers a broad range of brokerage, investment advisory, retail and other services and has been registered with the Securities and Exchange Commission (“SEC”) as an investment adviser since 1978. This brochure relates to the NextGen College Investing Plan (“NextGen” or “you”) offered by Merrill Lynch. Capitalized terms that are not defined in this Brochure have the meanings provided in the Glossary.

## NEXTGEN

NextGen is a Section 529 tuition plan administered by the Finance Authority of Maine (“FAME”). Merrill Lynch serves as the program manager and underwriter.

Pursuant to the terms of the Program Management Agreement (“PMA”) between FAME and Merrill Lynch, we and our affiliate, Financial Data Services, Inc. (“FDS”), will perform certain administrative, recordkeeping and investment services, and will market and distribute NextGen. We and FDS are permitted to delegate certain of our responsibilities to BlackRock and our affiliates. We have delegated certain of our investment advisory responsibilities to BlackRock and other subadvisors that have entered into agreements with us.

Merrill Lynch’s parent, Bank of America, has a financial interest in certain investment advisers, such as BlackRock and Nuveen. Although BlackRock and Nuveen are not deemed “Related Companies” or affiliates of Merrill Lynch or Bank of America, Merrill Lynch may have a conflict of interest when considering whether to recommend that FAME utilize BlackRock and Nuveen Funds, or other BlackRock and Nuveen products and may benefit from increased sales of such Funds/products to a greater extent than from increased sales of Funds/products sponsored by other firms.

NextGen is available to individuals, custodial and trust accounts and state or local government or tax-exempt organizations or certain other entities. NextGen offers two programs to participants – the NextGen Client Direct Series (“the NextGen Direct Series”) and the NextGen Client Select Series (“the NextGen Select Series”). Participants in the NextGen Select Series, with the assistance of Merrill Lynch Financial Advisors acting in a brokerage capacity, make their investment decisions regarding the types of portfolios they would like to invest in. We provide advice to participants that is incidental to our role as a broker-dealer. Participants in the NextGen Direct Series invest directly, without the assistance of a Financial Advisor. Additional information about NextGen, including fees, expenses, sales charges and risks, and the services provided by Merrill Lynch and our affiliates, can be found in the NextGen Program Description and Participation Agreement that are available through a Financial Advisor.

We perform due diligence on the Investment Managers who manage the Portfolios available in NextGen. We recommend them to NextGen and assist NextGen in selecting Investment Managers that are suitable or appropriate to the Portfolios’ strategies. We monitor Investment Managers, including their performance, investment selection and their investment strategies.

In addition to NextGen, we and our affiliates offer a wide variety of advisory services, including (but not limited to) Merrill Lynch Consults® Service, Merrill Lynch Consulting Services, Merrill Lynch Mutual Fund Advisor® Program, Merrill Lynch Personal Advisor® Program, Merrill Lynch Personal Investment Advisory<sup>SM</sup> Program, Merrill Lynch Strategic Portfolio Advisor® Service, and Merrill Lynch Unified Managed Account. We also offer impersonal investment advice (general advice not tailored to the specific needs of any individual) in



the form of publications or research. In addition, we offer financial planning services, including (but not limited to) the Financial Foundation® Report, and the Private Planning Service<sup>SM</sup>. More information about these programs and services is contained in the applicable Merrill Lynch brochure (or Merrill Lynch Form ADV, Part 2) and is available through the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **WRAP FEE PROGRAMS**

We do not make NextGen available through wrap fee programs.

### **ASSETS UNDER MANAGEMENT**

As of December 31, 2010, Merrill Lynch had assets under management of \$341 billion, of which \$177 billion was managed on a discretionary basis and \$164 billion was managed on a non-discretionary basis. These amounts do not include any assets in connection with NextGen.

### **FEES AND COMPENSATION**

Our compensation for our investment advisory services to NextGen is bundled with overall compensation for all services provided to FAME. We are compensated for our sales and distribution efforts to participants in NextGen out of certain sales charges and ongoing compensation from the underlying funds and other investments. The fee arrangement between us and FAME is individually negotiated and is set forth in our agreement with FAME.

### **CALCULATION AND DEDUCTION OF ADVISORY FEES**

Merrill Lynch and our affiliate, Financial Data Services, Inc. ("FDS"), receive certain program management and portfolio servicing fees related to administrative, recordkeeping, investment services, marketing and distribution services we perform related to NextGen. These fees are deducted directly from the NextGen portfolios and are calculated on assets as disclosed in the Program Description and Participation Agreement.

### **OTHER FEES AND EXPENSES**

Depending on the distribution channel a participant uses to establish his or her NextGen account, he or she may have to pay an annual account maintenance fee ranging from \$0 to \$50. However, this fee may be waived at our discretion. The annual account maintenance fee may be waived under certain criteria, including:

- Total annual contributions are at least \$2,500;
- Account balances are \$20,000 or greater at the end of the fee year;
- The participant or beneficiary residing in the state of Maine;
- Affiliation with an employer who has made NextGen available to its employees via payroll deduction; and
- Bank of America Merrill Lynch associates.

Fee waiver criteria are disclosed on the NextGen Program Description and Participation Agreement and may be modified at any time, in our sole discretion. NextGen participants may also be subject to non-sufficient funds fee and wire transfer fee.

**COMPENSATION FOR THE SALE OF SECURITIES**

We are compensated for our sales and distribution efforts to participants in NextGen out of certain sales charges and ongoing compensation from the underlying funds and other investments. Our Financial Advisors receive a portion of this compensation. In addition, we may receive compensation from subadvisors to the underlying funds or from other investments available through NextGen. Our Financial Advisors whose clients are participants in NextGen receive a portion of the distribution and/or sales compensation paid to us. This practice creates a potential conflict of interest that may give us and our Financial Advisors an incentive to recommend advisory services based on the compensation received. Fees and commissions may also be higher for some products or services, and the remuneration and profitability to us and our Financial Advisors resulting from transactions on behalf of or management of certain accounts may be greater than the remuneration and profitability resulting from other advisory accounts, products or services. (See section entitled *Participation or Interest in Client Transactions* for more information about the receipt of compensation for the sale of securities and other investment products.)

We address these conflicts through disclosure in this Brochure.

**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. Less than 1% of our revenues are expected to be generated from NextGen on an annual basis.

**FEE OFFSET FOR EXECUTION CHARGES**

We do not reduce our advisory fees to offset the sales and distribution compensation we receive through the NextGen Select Series and the distribution compensation we receive through the NextGen Direct Series.

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

Neither we nor our Financial Advisors receive performance-based fees for NextGen.

**TYPES OF CLIENTS**

Merrill Lynch's only client is NextGen. Merrill Lynch does not provide investment advisory services to participants enrolled in NextGen.

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

Merrill Lynch uses various analyses in developing its recommendations including quantitative, fundamental, technical, strategic and economic analyses. Merrill Lynch will draw upon analyses and strategies developed by various groups within Merrill Lynch and its affiliates, as well as third party sources.

NextGen is considered a long-term investment vehicle. The NextGen Direct Series is designed to offer choice and flexibility with investment portfolios ranging from age-based portfolios, to static portfolios such as 100% equity and 100% fixed income, as well as a Principal Plus Portfolio. NextGen participants decide what options best suit their risk tolerance and time horizon. In addition, NextGen offers participants the ability to select investments offered by several different fund families in the same account, for additional diversification.



NextGen Direct also offers new ETF investment portfolios, and is the first Section 529 tuition plan to offer ETF investment portfolios to direct participants. ETFs are similar to mutual funds, but are passively managed and tied to an index. They are traded throughout the day (unlike mutual funds that are priced once per day at close of business) and typically offer lower expense ratios and broad diversification.

NextGen's investment portfolios include:

#### **Age-Based Portfolio**

These portfolios are designed to take into account the number of years until the participant's beneficiary attends college and the participant's risk tolerance and offer convenient, professionally managed, asset allocated portfolios that are more aggressive when the participant's child is young and are automatically reallocated to be more conservative as the participant's child nears college age.

#### **Diversified Portfolio**

Diversified portfolios help participants spread their account holdings among many investments, thus potentially reducing risk. Generally, diversified portfolios hold investments in many types of funds and/or securities. For example, investments may span different sectors (such as bio-tech or utilities) and/or geographic regions (such as Asia or Europe). NextGen Direct offers diversified portfolios from BlackRock, Franklin Templeton, iShares and MFS.

#### **Single Fund Portfolio**

A single fund portfolio is invested in one single underlying fund, and is a static investment.

#### **Principal Plus Portfolio**

The Principal Plus Portfolio invests in guaranteed insurance contracts (GICs) issued by one or more insurance companies, corporate fixed-income investments, cash equivalents and/or similar instruments. Effective November 20, 2010, the Principal Plus Portfolio will allocate a portion of its assets to the Cash Allocation Account, in addition to the existing GIC.

NextGen also offers the NextGen Select Series, an advisor-sold program, through Merrill Lynch Financial Advisors and Maine Distribution Agents that offers more investment options as well as the professional assistance of a Financial Advisor, acting in a brokerage capacity, who will work with participants to tailor their investment strategies toward their risk tolerance, investment timelines, and help them achieve their college savings goals. NextGen Select includes portfolios that are managed by Allianz/PIMCO, BlackRock, Eaton Vance, Franklin Templeton, MainStay, MFS, Thornburg and the Principal Plus Portfolio.

The asset allocations of the NextGen portfolios are recommended by the respective investment manager and approved by FAME. NextGen participants do not have any direct ownership interest in the underlying funds.

#### **MATERIAL RISKS**

Clients should understand that all investment strategies and investments in securities involve risk of loss and clients should be prepared to bear such losses. NextGen participants receive the NextGen Program Description that discusses investment options and their risks.

#### **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. 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 January 25, 2011, the SEC issued an order ("Order") pursuant to an offer of settlement made by Merrill Lynch finding that between February 2003 and February 2005 Merrill Lynch market makers executing institutional customer orders for securities sometimes shared information concerning those trades with traders on a Merrill Lynch securities proprietary trading desk. In the Order, the SEC found that, at times, Merrill Lynch's securities proprietary traders used that information to place trades for Merrill Lynch after execution of the institutional customer order. The SEC found: (1) that this disclosure and use of institutional customer order information by Merrill Lynch's traders was improper and contrary to Merrill Lynch's confidentiality representations to its customers; (2) instances between 2002 and 2007 when Merrill Lynch charged institutional and high net worth customers undisclosed mark-ups and mark-downs on riskless securities principal trades for which Merrill Lynch had agreed to charge the customer only a commission equivalent fee, and that, in doing so, Merrill Lynch acted improperly and contrary to its agreements with its customers; and (3) found that from 2002 through 2007 Merrill Lynch failed in many instances to make records of its agreements with institutional customers to guarantee an execution price, which agreements were part of the terms and conditions of the institutional customer orders. The SEC found that, as a result of its conduct: (1) Merrill Lynch willfully violated Section 15(c)(1)(A) of the Exchange Act, by effecting transactions in securities by means of manipulative, deceptive or other fraudulent devices or contrivances, and willfully violated Section 15(g) of the Exchange Act by failing to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the misuse of material, nonpublic information, (2) under Section 15(b)(4)(E) of the Exchange Act, Merrill Lynch failed reasonably to supervise its traders with a view towards preventing them from violating the federal securities laws, and (3) Merrill Lynch willfully violated Section 17(a) of the Exchange Act and Rule 17a-3(a)(6) thereunder by failing to record certain terms and conditions of customer orders. Merrill Lynch neither admitted nor denied the findings in the Order. The findings in the Order are not binding on any person or entity other than Merrill Lynch. The Order (1) required that Merrill Lynch cease and desist from committing or causing any violations and any future violations of Sections 15(c)(1)(A), 15(g) and 17(a) of the Exchange Act and Rule 17a-3(a)(6) thereunder; (2) censured Merrill Lynch pursuant to Section 15(b)(4) of the Exchange Act; and (3) required pursuant to Section 15(b)(4) and Section 21B of the Exchange Act that Merrill Lynch pay a civil money penalty in the amount of \$10 million. The penalty was paid on February 1, 2011.

On January 13, 2011, the Superior Court of Massachusetts, Suffolk County ("Court") issued an order against Benistar Property Exchange Trust Co., Inc. ("Benistar"), Daniel Carpenter ("Carpenter"), Merrill Lynch and others for their involvement in improper options and margin trading by Carpenter of the plaintiffs' monies held by Benistar in qualified intermediary escrow accounts pursuant to 26 U.S.C. § 1031(a)(3). In a 2009 retrial of plaintiffs' claims against Merrill Lynch, a jury determined that Merrill Lynch had engaged in or committed one or more unfair or deceptive trade practices in connection with its dealing with the Benistar accounts held at Merrill Lynch and that the firm's conduct had caused injury to the plaintiffs. In the order, the Court entered a judgment of \$545,386.22 against Merrill Lynch for consequential damages. As to the plaintiffs' claim for punitive damages, the Court entered judgment in favor of Merrill Lynch provided, however that in the event Connecticut law is determined to impose various liability on Merrill Lynch for the conduct of one of its employees, the Court's award of punitive damages would be an amount equal to plaintiffs' actual damages in the total amount of \$9,669,443.58. Merrill Lynch appealed the order and the outcome of the appeal is currently pending.





On January 5, 2011, Merrill Lynch consented to an AWC with FINRA. FINRA summarized its findings with respect to several investigations finding that Merrill Lynch had: (1) failed to exercise reasonable diligence with respect to certain best execution matters in violation of NASD Rules 2110, 2320, 3110, SEC Rule 17a-3 and MSRB Rules G-17 and G-30(a); (2) misreported or failed to report to TRACE certain transactions in violation of NASD Rules 6230 and 2110; (3) failed to report a total of 13,239 positions in conventional options by the close of business the next day in violation of NASD Rules 2110 and 2860(b)(5); (4) misreported to NASD (currently FINRA) and NYSE certain short interest positions in violation of NASD Rules 3360 and 2210 and NYSE Rule 421.10; (5) incorrectly or failed to report certain trades in the NASD/Nasdaq Trade Reporting Facility and Over the Counter Reporting Facility in violation of NASD Rules 6130(b) and (g), 2110 and 3632(a)(2); (6) failed to display immediately 64 customer limit orders in Nasdaq securities in its public quotation in violation of SEC Rule 604 of Regulation NMS; (7) accepted short sale orders in violation of SEC Rule 203(b)(1) of Regulation SHO; and (8) made available a report on the covered orders in national market system securities that it received for execution which included incorrect information in violation of SEC Rule 605 of Regulation NMS. Without admitting or denying the findings in the AWC, Merrill Lynch consented to a censure and a fine of \$304,000, allocated between the various offences listed above. FINRA also ordered Merrill Lynch to pay restitution to certain listed investors in the total amount of \$48,416.83, allocated between the listed investors.

On December 7, 2010, the SEC issued an administrative and cease-and-desist order in which it found that BAS had willfully violated Section 15(c)(1)(A) of the Exchange Act by participating in improper bidding practices involving the temporary investment of proceeds of tax-exempt municipal securities in reinvestment products from at least 1998 through 2002. In the order, BAS is: (1) censured; (2) ordered to cease and desist from committing or causing such violations and future violations; and (3) ordered to pay disgorgement plus prejudgment interest in the aggregate amount of \$36,096,442.00 to certain entities specified in the Order. BAS consented to the order without admitting or denying the SEC's findings. In its order, the SEC noted the cooperation of BAS in the SEC investigation and in related government investigations, as well as remedial actions undertaken by BAS.

On November 10, 2010, Merrill Lynch consented to an AWC with FINRA. FINRA alleged that from June 2002 through February 2007, Merrill Lynch failed to establish and maintain supervisory systems and procedures reasonably designed to achieve compliance with industry suitability standards related to the sale of certain 529 plans ("NextGen Plans"). Without admitting or denying the findings contained in the AWC, Merrill Lynch agreed to (1) a censure; (2) a fine of \$500,000 and (3) certain undertakings including (a) the distribution of a stand-alone 529 letter to each current customer who resided in a state that offered 529-related state tax benefits at the time the customer opened an advisor sold NextGen Plans at Merrill Lynch during the relevant time period; (b) assisting customers with transferring or rolling-over any customers investment in the NextGen Plans into a 529 plan of the customer's choice in the customer's home state; and (c) reporting to FINRA's enforcement staff periodically, until December 31, 2011 about each oral and written inquiry, concern or complaint received by the Firm concerning the NextGen Plans from recipients of the 529 letter, along with a description of how Merrill Lynch resolved such inquiry, concern or complaint.

On August 18, 2010, Merrill Lynch consented to an AWC with FINRA. FINRA alleged that Merrill Lynch: (1) between September 2006 and June 2008 failed to establish, maintain and enforce a supervisory system and written supervisory procedures reasonably designed to identify and ensure that customers received appropriate "breakpoints" and "rollover and exchange" discounts (collectively, "sales charge discounts") on eligible purchases of UITs, in violation of NASD Rules 3010 and 2110; (2) failed to apply sales charge discounts to customers' eligible UIT purchases in violation of NASD Rule 2110; and (3) approved the use of UIT sales literature by its sales force that was inaccurate and misleading in violation of NASD Rule 2210.



Without admitting or denying the findings in the AWC, Merrill Lynch agreed to: (1) a censure; (2) a fine of \$500,000; and (3) certain undertakings including (a) providing remediation to customers who, during the period of January 1, 2006 through the date of the AWC purchased UITs and qualified for, but did not receive the applicable sales charge discount and (b) submitting to FINRA a proposed plan to identify and compensate customers who qualified for, but did not receive the applicable UIT sales charge discounts.

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 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."

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 September 24, 2008, Merrill Lynch consented to an AWC. FINRA alleged that Merrill Lynch violated numerous SEC, FINRA and MSRB Rules in that Merrill Lynch: (1) failed to report correctly transactions to numerous order and trade reporting and tracking systems maintained by FINRA and NASDAQ; (2) failed to provide written notification disclosing to its customers that transactions were executed at an average price



and its executing capacity in a transaction; (3) failed to preserve for the required period brokerage order memoranda; (4) failed to mark properly orders as short in short sale transactions; (5) incorrectly designated certain symbols in various securities transactions; (6) failed to report to the FINRA/NASDAQ Trade Reporting Facility last sale reports of transactions in designated securities; and (7) failed to maintain a supervisory system designed to achieve adequate compliance with the Trade Reporting and Compliance Engine ("TRACE"), quality of markets, transaction reporting, short sales, and the Order Audit Trail System ("OATS"), among other things. Without admitting or denying the findings in the consent, Merrill Lynch consented to the following sanctions: (1) a censure; (2) a fine of \$242,500; (3) payment of \$11,358.65, plus interest, in restitution; and (4) various undertakings including revision of its written supervisory procedures regarding TRACE, quality of markets, OATS receiving inter-firm route matching statistics, transaction reporting, short sales, short sales bid and tick test compliance, OATS clock synchronization, safe harbor compliance, recordkeeping, limit order protection, the one percent rule, and the three-quote rule, among other things.

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 May 31, 2006, Merrill Lynch, without admitting or denying the findings contained therein, consented to the issuance of an order. The SEC found that Merrill Lynch violated Section 17(a)(2) of the Securities Act, by managing auctions for ARS in ways that were not adequately disclosed or that did not conform to disclosed procedures. Based on these findings, the order required that Merrill Lynch: (1) cease and desist from committing or causing any violations or future violations of Section 17(a)(2) of the Securities Act; (2) be censured; (3) pay a civil money penalty of \$1,500,000; and (4) comply with certain undertakings to provide customers with written descriptions of Merrill Lynch's material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by Merrill Lynch to conduct auctions for ARS in accordance with disclosed procedures.



On March 13, 2006, Merrill Lynch, without admitting or denying the findings contained therein, consented to the issuance of an administrative order by the SEC. The SEC found that Merrill Lynch failed to: (1) furnish promptly to representatives of the Commission electronic mail communications ("e-mails") as required under Section 17(a) of the Exchange Act and Rule 17a-4(j) thereunder; and (2) retain certain e-mails related to its business as such in violation of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder. Based on these findings, the order required that Merrill Lynch: (1) cease and desist from committing or causing any violation or future violation of Section 17(a) of the Exchange Act and Rules 17a-4(b)(4) and 17a-4(j) thereunder; (2) be censured; (3) pay a civil money penalty of \$2,500,000; and (4) comply with certain undertakings relating to the retention of e-mails and the prompt production of e-mails to the SEC.

On March 15, 2006, Merrill Lynch consented to an AWC with NASD. NASD found that from 2001 through 2004, Merrill Lynch lacked an adequate supervisory system and written supervisory procedures for its Financial Advisory Center ("FAC") (n/k/a the Merrill Edge Advisory Center). Among other things, the Consent alleged that the firm failed to: (1) establish, maintain and enforce reasonable procedures regarding mutual fund recommendations (including switch transactions); (2) place a sufficient number of properly trained and qualified supervisors to monitor activities within the FAC; (3) conduct annual compliance audits for the FAC's two most active years; (4) provide adequate disclosure to customers regarding mutual fund share class choices in violation of NASD Conduct Rules 3010 and 2110; and (5) maintain a supervisory system and written procedures reasonably designed to achieve compliance with NASD Conduct Rule 2830. Merrill Lynch consented to a censure and a fine of \$5 million and certain undertakings including: (1) a three year prohibition on sales contests to promote the sale of mutual funds or other securities by registered personnel employed at the FAC; (2) requiring investment services advisors to obtain the prior approval of a registered securities principal for any mutual fund switch recommendation; (3) monitoring of customer calls at the FAC for a certain limited period of time; and (4) retention of an independent consultant and the implementation of new procedures.

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 advisers 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 FAs concerning the reallocation of the underlying sub-accounts of variable products; and (3) 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, Banc 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. Pursuant to the settlement, which was entered on October 31, 2003, Merrill Lynch: (1) permanently enjoined Merrill Lynch 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.

On November 15, 2002, the NYSE entered a decision in which it found that between approximately July 1999 through February 2002, Merrill Lynch employed 23 individuals who were subject to statutory disqualification as the result of a criminal conviction prior to being hired by the Firm. NYSE alleged that notwithstanding the fact that at or about the time of hire, each of the 23 individuals disclosed the existence of the criminal convictions to Merrill Lynch, the firm failed promptly to investigate or make inquiry into the information provided by the employee and allowed the employee to be hired in violation of NYSE Rules 346(f), 351(a)(9) and 342 and federal securities laws. Merrill Lynch consented to (1) a censure; (2) a fine of \$300,000 and; (3) a requirement that among other things Merrill Lynch retain an outside consultant, to perform a review and prepare a report, that the firm would be required to adopt, of the firm's systems, policies and procedures, including recommendations for different or additional systems, policies or procedures, if necessary, relating to the hiring of individuals who are subject to statutory disqualification including those who disclosed their criminal convictions during the hiring process.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Merrill Lynch, a 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, Merrill Lynch 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. Merrill Lynch 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 Merrill Lynch and other Affiliates. Merrill Lynch 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. As a registered adviser, Merrill Lynch completes a Form ADV, which contains additional information about itself, Bank of America and their Affiliates. Information is available through publicly available filings at the SEC or at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

For purposes of Form ADV Part 2, MLPF&S management persons include William C. Caccamise (CRD# 2547189), Gloria R. Greco (CRD# 4795234), Anthony J. Guardino (CRD# 2907957), Sallie L. Krawcheck (CRD# (2269652), Thomas K. Montag (CRD# 1474696), Isaac Osaki (CRD# 4910551), Douglas G Preston (CRD# 2586917), Robert Qutub (CRD# 4623123), Michael B. Radest (CRD# 1687387), and Bruce R. Thompson (CRD# 2148942). In addition, Scott J. Blackburn (CRD # 1759375), Michael T. Dimarsco (CRD# 1792956), Richard Polimeni (CRD# 1633012), Thomas N. Psaltis (CRD# 3184454), Charles S. Toth (CRD# 1414129) are also considered management persons as a result of their role supporting the NextGen Investing Plan product. In the future, additional Merrill Lynch 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.

ML&Co., a wholly-owned subsidiary of 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 funds, 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.

We, through our Financial Advisors, may suggest or recommend that clients 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.

#### **RECEIPT OF COMPENSATION FROM INVESTMENT ADVISERS**



Certain potential conflicts may arise, including the fact that Investment Managers may engage in other business activities with us and our affiliates. For example, we and our affiliates may provide investment banking services, advisory services, prime brokerage services, brokerage services, placement agent, referral or other services for some or all of the Investment Managers. These other business activities, along with the fact that we are responsible for recommending particular Investment Managers to NextGen, may influence our recommendation or selection of particular Investment Managers.

We address these conflicts through disclosure in this Brochure.

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

### **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 requires employees to meet 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 clearance of employee personal trading;
- Prevention of misuse of material nonpublic 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 certain personnel obtain specific approval of their securities transactions and have implemented procedures for monitoring these transactions as well as those of all employees.

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

In the United States, Merrill Lynch acts as a broker (i.e., agent) for corporate, institutional and governmental and private clients and as a dealer (i.e., principal) in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. We also act as a broker and/or dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, financial futures contracts and options. We and other affiliates also conduct the futures business and foreign exchange activities. We operate the firm’s U.S. retail branch system, and also provide 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. As a result of the involvement in multiple business activities, we and our employees may have interests unrelated to Financial Foundation clients which may give rise to potential conflicts of interest, including those discussed below. This discussion does not seek to identify all actual or potential conflicts. Information about certain additional conflicts is described throughout this Brochure and in many of the contracts and offering documents that govern the specific products and services we offer.



We, through our Financial Advisors, may suggest or recommend that clients also use Merrill Lynch securities accounts, execution, custody, or other services, or such services of an affiliate. Similarly, Financial Advisors may suggest or recommend that clients purchase Merrill Lynch products or products of an affiliate, including insurance products, mortgage, trust and credit services, and mutual funds. Where Merrill Lynch's or an affiliate's products or services are purchased by clients, we, our affiliates and employees will receive fees and compensation. Compensation received in connection with clients' purchase or sale of stocks, bonds, mutual funds, other securities or insurance products through Merrill Lynch or its affiliates may include commissions, spreads, markups and markdowns, and distribution or other fees.

As a broker-dealer effecting transactions on behalf of clients, including those clients who have purchased financial planning products, we or an affiliate may act as agent or as principal for our own account, as permitted by applicable law. Similarly, we or an affiliate may, in transactions involving such clients' securities, act as agent while also representing another client on the other side of the transaction. In addition, we or our affiliates may have a position in, or enter purchase or sale orders for, securities recommended to clients in the normal course of our business as a broker-dealer. We and/or our affiliates may profit from these positions or transactions in securities.

We, acting in our broker-dealer capacity, may recommend that clients invest in a variety of limited partnerships and limited liability companies, for which certain of our affiliates may act as general partners or managing members. The investments of the limited partnerships may vary but include, without limitation, securities, real estate and futures.

#### **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 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.

Many of the conflicts related to participation or interest in client transactions and personal trading are less pronounced in NextGen. We nevertheless attempt to address conflicts of interest through disclosure in this Brochure and other disclosure documents. 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 their investment accounts, and provide or cause Merrill Lynch to receive annual holdings reports and quarterly transaction reports.

#### **BROKERAGE PRACTICES**

As described above, our client is NextGen. Any investment advice we or our Financial Advisors provide is incidental to our role as a broker-dealer.

#### **REVIEW OF ACCOUNTS**





Various directors and Vice Presidents of the Education Savings Group and the Investment Management & Guidance group conduct quarterly reviews of all NextGen investment portfolios (other than the Principal Plus Portfolio) and report to FAME. The reviews involve both qualitative and quantitative analysis, including, among other things, quarterly presentations by each of the sub-advisors and comparisons to portfolio benchmarks and Lipper peer group indices.

#### **CLIENT REPORTS**

Annually, typically in the month of May, the sub-advisors will present Merrill Lynch and FAME with recommendations to make changes to portfolio allocation and portfolio investment offered through NextGen.

Every semi-annual period ending June 30 and December 31, Merrill Lynch prepares a presentation used to review investment performance of the Principal Plus Portfolio. The presentation includes a comparison of the two-year gross average return of the Principal Plus Portfolio with its corresponding benchmark, as agreed upon with FAME and stated in the PMA.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

As described above, we are compensated for our sales and distribution efforts to participants in NextGen out of certain sales charges and ongoing compensation from the underlying funds and other investments. Our Financial Advisors receive a portion of this compensation. In addition, we may receive compensation from sub-advisors to the underlying funds or from other investments available through NextGen. Our Financial Advisors whose clients are participants in NextGen receive a portion of the sales/distribution efforts compensation paid to us.

#### **CUSTODY**

NextGen assets generally are custodied with us in our capacity as a broker-dealer and qualified custodian, with the exception of the iShare Portfolios and the GICs held within the Principal Plus Portfolio. We will provide you with periodic account statements for the assets held with us. You should carefully review those statements.

For iShares Portfolios, State Street is the custodian of the assets. You will receive account statements directly from State Street regarding iShares Portfolios and may also receive account statements and performance reports from us that reflect those assets. You should understand that State Street will provide the official records of the holdings and transactions for the iShares Portfolios. You are urged to compare the account statements you receive from State Street with any that you receive from us.

The GIC assets are considered part of Transamerica's general assets and therefore, these assets do not have a custodian.

#### **INVESTMENT DISCRETION**

We do not accept discretionary authority in connection with NextGen.

#### **VOTING CLIENT SECURITIES**

NextGen's client is the Program itself; hence, it does not involve the voting of client securities.

#### **FINANCIAL INFORMATION**

Not applicable.



## GLOSSARY

- “Advisers Act” means the U.S. Investment Advisers Act of 1940, as amended.
- “AWC” means a FINRA Letter of Acceptance, Waiver and Consent.
- “Bank of America” means Bank of America Corporation.
- “BlackRock” means BlackRock, Inc. and its affiliates.
- “BlackRock Funds” means Funds sponsored, managed and/or distributed by affiliates of BlackRock, Inc.
- “BofA Funds” means certain Funds sponsored, managed and/or distributed by BofA™ Global Capital Management Group, LLC.
- “Brochure” means the Merrill Lynch program brochure relating to NextGen College Investing Plan, as amended or updated from time to time.
- “Code of Ethics” means Merrill Lynch’s Investment Adviser Code of Ethics.
- “ETF” means an Exchange Traded Fund.
- “Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.
- “FAME” means the Finance Authority of Maine.
- “FDS” means Financial Data Services, Inc., an affiliate of Merrill Lynch.
- “Financial Advisor” means a Merrill Lynch Financial Advisor.
- “GICs” means guaranteed insurance contracts.
- “Investment Company Act” means the U.S. Investment Company Act of 1940, as amended.
- “Investment Manager” means an investment adviser that is registered with the SEC or one or more state regulatory authorities, or which is exempt from the registration requirement.
- “Merrill Lynch,” “we” or “us” means Merrill Lynch, Pierce, Fenner & Smith Incorporated.
- “ML&Co.” means Merrill Lynch & Co., Inc.
- “NextGen” means the NextGen College Investing Plan.
- “Nuveen” means Nuveen Investments, Inc. and its affiliates.
- “Nuveen Funds” means Funds sponsored, managed and/or distributed by Nuveen and its affiliates.
- “PMA” means the Program Management Agreement between FAME and Merrill Lynch.
- “Related Company” means a company that is an affiliate of Merrill Lynch or in which Merrill Lynch or an affiliate of Merrill Lynch has a material ownership interest. BlackRock and Nuveen are not considered Related Companies.
- “SEC” means the U.S. Securities and Exchange Commission.
- “Securities Act” means the U.S. Securities Act of 1933, as amended.