

**FORM ADV, PART 2A**  
**APPENDIX 1**  
**WRAP FEE PROGRAM BROCHURE**  
**MUTUAL FUND ADVISORY PORTFOLIO**

J.P. Morgan Securities LLC

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This wrap fee brochure provides information about the qualifications and business practices of J.P. Morgan Securities LLC. If you have any questions about the contents of this brochure, please contact us at 800-392-5749. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

**ITEM 2 – MATERIAL CHANGES**

The following is a summary of the material changes made to this Brochure since the last annual update dated March 2014:

- Effective September 2, 2014, JPMS will retain J.P. Morgan Private Investments Inc. (“JPMPI”), an affiliate, as the Sub-Adviser in the MFAP Program, replacing J.P. Morgan Investment Management Inc. JPMPI will define target asset allocation and apply consistent asset allocation ranges, and evaluate and approve Fund and ETF recommendations developed by affiliates, all subject to the oversight of JPMS. Please see Item 4, “Program Description,” on page 2. A copy of JPMPI’s Form ADV, Part 2A Brochure is available at [www.chase.com/mfap](http://www.chase.com/mfap) or by contacting your investment advisory representative.
- The Fee Schedule has been changed with respect to the treatment of Program Accounts with a market value equal to or greater than \$1 million. See Item 4 – Wrap Account Fees.

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## **ITEM 4 – SERVICES, FEES AND COMPENSATION**

### **Description of Firm and Advisory Services**

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

This Wrap Fee Brochure provides information about JPMS and the Mutual Fund Advisory Program (“MFAP” or the “Program”). MFAP is offered through the Chase Investments and Chase Private Client sales channels. Information about other wrap fee programs sponsored by JPMS is contained in separate Wrap Fee Brochures, which can be obtained upon request from your Financial Advisor.

### **Program Description**

MFAP is a mutual fund and exchange-traded fund (ETF) managed account program managed and offered by JPMS. A Client (“Client”) invests Program Account assets across each selected asset class into one or more open-end mutual funds or ETFs. In this Brochure we refer to mutual funds and ETFs as “Funds.” The Funds may be managed by affiliates of JPMS (the “JPMorgan Funds”) or managed by third parties (the “Non-JPMorgan Funds”).

JPMS has retained JPMPI as the Program’s Sub-Adviser to define target asset allocation and apply consistent asset allocation ranges for the asset allocation models (the “Models”) offered through the Program. Each Model consists of Funds in a number of asset classes. Depending upon the Model, Clients may choose one or more Funds in each asset class. Each asset class in a Model has

a specific allocation range, and the Client designates the specific asset allocation percentage desired for each asset class. The Sub-Adviser evaluates and approves Fund recommendations developed by the Global Wealth Management Manager Selection Team (“Manager Selection Team”), an affiliate of JPMPI and JPMS. The Manager Selection Team is composed of employees from the Private Bank, a division of JP Morgan Chase Bank, N.A. The asset allocation and Fund approvals are subject to the oversight of, and pursuant to an investment policy statement established by, JPMS. The Manager Selection Team monitors Funds and recommends Fund additions and terminations to the Sub-Adviser.

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

### ***Fixed Income Focused Model***

The Fixed Income Focused Model (previously known as the 100% Fixed Income Model) was closed to new accounts effective June 24, 2013; however, existing Clients may continue to hold such accounts. In this Model, the Sub-Adviser and not the Client establishes the Funds and allocation percentages. Clients may not change the Funds or asset allocation percentages specified in the Fixed Income Focused Model. The Funds and asset allocation percentages may be changed from time to time and appropriate trades will be effected in Program Accounts to conform to those changes, without notice to Clients.

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

Prior to opening a Program Account, a JPMS investment advisory representative (“IAR”) meets with the Client to create a Client Profile based upon the Client’s responses to a questionnaire about their financial situation, investment experience, investment objectives, time horizon and risk tolerance. The information is evaluated and incorporated into an Investment Proposal and Investment Policy Statement (“IPS”), which provides a recommended Model. The IAR will discuss the Model with the Client to ensure that it is appropriate for their specific investment needs and risk tolerance.

Once the Client selects a Model, the Client will select the specific Funds in each asset class of Client’s Model and those Funds and their percentage allocation will be entered on the IPS. The Client also executes a brokerage account agreement and a Client Services Agreement, and JPMS will open a Program Account for the Client and purchase the selected Funds. The Account will purchase shares of mutual funds at net asset value (no-load or load-waived), and ETFs at their market price. Clients may exclude certain Funds from their Program Account, subject to JPMS’s acceptance. Any exclusions may cause the account to perform differently than similar unrestricted accounts.

Clients may change the selected Funds, and the percentage allocation of any asset class within the ranges for the applicable Model, after the Program Account is opened, by giving instructions to the IAR.

For important information about each Fund, including investment objectives, risks, charges, and expenses, Clients should read each Fund's prospectus carefully and consider all the information in it before investing.

### ***Rebalancing***

Clients may choose to have their accounts automatically reviewed for rebalancing quarterly, semi-annually or annually. JPMS also will facilitate the rebalancing of a Program Account upon Client's direction.

To rebalance the account, shares of Funds in the Client's account that are underweight or overweight compared to their asset class percentage in the Model are bought or sold, as applicable, until the account holdings are consistent with the Client's selected Model. Over time, the Funds will appreciate (or depreciate) in value at different rates. Without rebalancing, the change in the percentages of each asset class held will change the level of risk from the risk level that is associated with the original Model. Since rebalancing has tax implications for most Clients, unless the account is in an Individual Retirement Account ("IRA") or other qualified retirement plan, Program Accounts will be rebalanced only if the percentage variance at the asset class level exceeds a threshold amount that has been established as effective for rebalancing to the Model.

### ***Custodian***

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

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

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

## Wrap Account Fees

### *General*

Clients pay an annual asset-based account fee (“Account Fee”) for the Program. The standard fee schedule for the Program is set forth below, expressed as an annual percentage. The Account Fee for Program Accounts will be computed and payable quarterly in advance based upon the market value of assets held in the Program Account on the last business day of the prior quarter or portion thereof. Account Fees for partial quarters upon the inception or termination of a Program Account will be prorated. In addition, deposits to and withdrawals from the account in amounts of \$10,000 or more on any single day will result in an adjustment of the Account Fee to be based on the market value of the additions to or withdrawals from the Program Account. No minimum fee requirement is applied to accounts. Program Accounts will be charged the appropriate Account Fee percentage for the account value or for the value of assets in managed accounts they have combined for fee calculation purposes. Unless the Client has elected to pay the Account Fee from a related JPMS managed account, if there are sufficient funds in the money market sweep fund (“MMF”) to pay the entire amount, the quarterly Account Fee will be paid out of the MMF within the Program Account. If the MMF does not have sufficient funds to pay the Account Fee in its entirety, then shares of the most overweight Fund(s) will be sold to pay the entire Account Fee rather than paying any portion of the Account Fee from the MMF. If, due to withdrawals, payment of fees, or otherwise, the value of the MMF falls to zero or below, sufficient shares in the Fund that is currently most overweight in the Model, based on actual dollar value, will be sold to clear the debit and replenish the MMF to its current target amount. If a Program Account is terminated during a quarter for which an Account Fee has been paid in advance, JPMS will refund a prorated portion of the Account Fee attributable to the remainder of the quarter. Account Fees for Program Accounts (except converted accounts described below) are:

FEE SCHEDULE	
Asset Size < \$1 Million	Annual Fee
First \$250,000	1.60%
Next \$250,000	1.35%
Next \$500,000	1.10%

Asset Size ≥ \$1 Million	Annual Fee
First \$1,000,000	1.00%
Next \$4,000,000	0.70%
Next \$5,000,000	0.50%
Over \$10,000,000	0.25%

Accounts converted from other JPMS managed account programs may pay different fees. The Account Fee for Program Accounts converted from the Private Client Investment Portfolio program ("PCIP") in November 2007 is computed and payable quarterly in arrears based on the average daily balance of Program Account assets held during the preceding quarter.

If the total market value of the assets in the Account is equal to or greater than \$1 million at any time when the Account Fee is calculated (including Account inception, quarterly Account billing, or any billing adjustment calculation due to a contribution or withdrawal of \$10,000 or more in one day), and then falls below \$1 million during a subsequent billing period or periods, the Account Fee (as determined pursuant to the applicable rates and tiers in the Fee Schedule above) will be capped at \$10,000 for the subsequent billing period(s), for so long as the total market value of the assets in the Account continuously remains between \$1 million and \$738,600. If the total market value of the assets in the Account falls below \$738,600 at the time any Account Fee is calculated, or the total market value of managed assets in the client relationship has never equaled or exceeded \$1 million, the Account Fee will be assessed using the applicable rates and tiers in the Fee Schedule above, for so long as the total market value of the managed assets in your client relationship remains below \$1 million.

#### ***Fees Paid to Sub-Advisers***

JPMS pays a portion of the fees set forth in the above table to the Sub-Adviser. Currently, the fee paid to the Sub-Adviser is .04%.

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

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

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

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

The Account Fee does not include Fund fees and expenses, transfer taxes, electronic fund and wire fees, IRA and retirement plan account fees, margin interest, ADR fees, or any other fees that would reasonably be assessed to a brokerage account. If these fees are for services performed by JPMS or its affiliates, JPMS or an affiliate may receive some or all of the revenue from the fee. Additionally,

Funds held in a Program Account have annual investment advisory expenses, so Clients actually incur two levels of investment management fees; one indirectly in the form of an investment advisory fee to the investment adviser of each Fund and one to JPMS as the Program Sponsor. JPMS and its affiliates receive greater revenue if JPMorgan Funds are included in the Program, and therefore, JPMS and the Sub-Adviser may have a conflict of interest in including JPMorgan Funds in the Program.

### ***Share Classes***

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

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

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

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

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

## **Investment Adviser Representative Compensation**

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

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

MFAP Clients include individuals, trusts, estates, charitable organizations, and corporations and other business entities, and certain types of retirement accounts. MFAP is not available to accounts governed by ERISA.

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

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

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

### **General Information**

The Program does not engage portfolio managers to manage Program Accounts; Clients select Funds for their accounts. The Sub-Adviser is responsible for the target asset allocation, broad asset allocation ranges, Fund monitoring and the approval of Fund recommendations. Senior members of the Sub-Adviser's portfolio management team and control groups oversee the Sub-Adviser's investment activities in the Program. Periodically, the Sub-Adviser reviews with JPMS changes to the Program composition, such as Fund additions, terminations, and soft closures. After the effective date of any changes, JPMS notifies affected Clients of the changes and any re-balancing to bring their account into conformity. JPMS Product Management determines the number of Funds in an asset class and the overall design of the Program.



## **Fund Approval Process**

The Sub-Adviser selects Funds based on the Manager Selection Team's research. The Manager Selection Team evaluates and recommends Funds for inclusion on or removal from the list of available Funds (the "Approved List"). The Approved List includes JPMorgan Funds and Non-JPMorgan Funds. The Manager Selection Team evaluates and monitors JPMorgan Funds and Non-JPMorgan Funds using the same criteria. The Manager Selection Team recommends a Fund's removal for reasons such as changes in people or process or performance outside of expectations for the Fund portfolio manager's investment approach.

The Sub-Adviser also reviews the Manager Selection Team's recommendations for Fund additions, terminations, "soft" closing to new accounts, and replacement Funds. The Program only offers JPMorgan Funds that were in existence when the Program began. The Manager Selection Team may recommend the addition of a Fund upon JPMS's request, if the Sub-Adviser seeks to fill a gap in the Approved List, or if a Fund is terminated and no Fund on the Approved List is an appropriate replacement.

## ***Fund Search Process***

The Manager Selection Team uses factors such as a Fund's track record, tenure of key portfolio managers, and investment style to identify appropriate Funds. Generally no single factor determines whether a Fund passes the initial screening process, but a Fund may be eliminated because of a single factor.

When a Fund passes the initial screening, the Manager Selection Team typically meets with the Fund's portfolio managers or product specialists to assess the Fund's team depth, stability and investment process. The Sub-Adviser may participate in these meetings with mutual funds. A committee composed of senior employees from JPMS's affiliates then determines whether to add the Fund to the Approved List, based on factors such as investment approach, objectives and portfolio exposures, size and capacity, and the liquidity of the respective Fund's asset class.

## ***Ongoing Monitoring of Funds***

The Manager Selection Team monitors the Funds on the Approved List through a quarterly review of each Fund's performance and portfolio characteristics, discussions with a Fund's portfolio manager or product specialist, questionnaire responses, and on-site visits. Ongoing monitoring may lead to more frequent calls or meetings with Funds. JPMS, the Sub-Adviser and the Manager Selection Team are not responsible for a Fund's performance or its compliance with its prospectus, laws or regulations, or other matters within the Fund's control, including JPMorgan Funds. Each Fund's adviser is solely responsible for the management of the Fund as disclosed in that Fund's prospectus.

## **Removal and Replacement of Funds**

The Manager Selection Team may recommend that a Fund be removed from the Program because of investment personnel changes, material changes to the Fund's investment process, or significant changes or risks to the Fund's organization. A committee composed of senior employees from JPMS's affiliates reviews all termination recommendations and Fund removals.

When a Fund is removed from the Program, the Fund shares held in Program Accounts will be sold and replaced with another Fund or ETF in the same asset class. When evaluating replacement Funds, the Sub-Adviser may consider their historical and expected excess return and tracking error, volatility, capacity, and number of holdings. The Sub-Adviser may assign different weights to any factor and generally no single factor determines whether it selects a particular Fund.

JPMS will notify affected Clients of the terminated Fund and the replacement Fund. If the Client does not approve of the replacement Fund, they should contact their IAR to select an alternative Fund. The replacement Fund will be sold and the Client-selected Fund will be purchased. Selling the replacement Fund may cause income tax consequences and/or penalties. At times the only alternative Fund may be a JPMorgan Fund.

Terminated Funds in the Fixed Income Focused Model will be replaced as described above without notice to Clients. Clients cannot select a different replacement Fund.

The Manager Selection Team may also recommend that a Fund be soft-closed. A soft-closed Fund will be removed from the Approved List and will not be available to new Clients. Clients may continue to hold Fund shares and purchase additional shares, or they may choose a different Fund in that asset class. If a soft-closed Fund is reactivated, Clients will be notified on the next Quarterly Performance Report. If a soft-closed Fund is terminated, it will be replaced as described above.

### **Potential Conflicts of Interest**

**Affiliates of JPMS provide investment advisory and other services to the JPMorgan Funds for compensation. Therefore, because JPMS and its affiliates will in the aggregate receive more revenue when Program Accounts are invested in JPMorgan Funds than they would receive if the account were invested in non-JPMorgan Funds, JPMS has a conflict of interest when Program Accounts are invested in JPMorgan Funds. JPMS and the Sub-Adviser address this conflict through disclosure and by subjecting the JPMorgan Funds to the same selection and evaluation standards as Non-JPMorgan Funds.**

**For additional potential conflicts of interest, please refer to Item 9.C., below.**

### **ITEM 7 – CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

Not applicable. The Program does not involve the engagement of Portfolio Managers.

### **ITEM 8 – CLIENT CONTACT WITH PORTFOLIO MANAGERS**

The Program does not engage portfolio managers to manage Program Accounts; Clients select Funds for their accounts. Clients will generally have no contact with the investment advisers of the Funds. JPMS personnel knowledgeable about the management of the Program Accounts are available for Client consultation upon reasonable request. IARs can assist Clients in contacting such personnel.

## ITEM 9 – ADDITIONAL INFORMATION

### A. Disciplinary Events

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

- 1) In late 2004, the SEC and other securities regulators engaged in settlement discussions with J.P. Morgan Securities Inc. in connection with a joint investigation into the firm’s alleged failure to preserve all of its employees’ electronic mail communications (emails) between 1999 and 2002 relating to its business as a broker-dealer, in alleged violation of Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4 thereunder. As a result of the settlement discussions, in December 2004 JPMS executed an Offer of Settlement in which it neither admitted nor denied any substantive findings and consented to the entry of an administrative order by the SEC. In February 2005, the SEC issued the contemplated administrative order, in which it censured JPMS, ordered it to cease and desist from violations of Section 17(a) of the Exchange Act and Rule 17a-4, and ordered it to comply with certain undertakings including the payment of penalties and fines totaling \$2.1 million and reviewing its procedures regarding the preservation of emails for compliance with the federal securities laws and regulations and the rules of the NASD and NYSE.
- 2) In March 2005, CISC submitted a Letter of Acceptance and Waiver and Consent (“AWC”) to the NASD in connection with alleged suitability and supervisory violations related to mutual fund sales practices between January 2002 and July 2003. The NASD alleged, among other things, that CISC made recommendations and sales of mutual funds to customers without considering or adequately disclosing on a consistent basis that an equal investment in Class A shares would generally have been more economically advantageous to customers than Class B shares, due to breakpoints. Without admitting or denying the allegations, CISC agreed to the entry of the NASD’s findings, paid a \$250,000 fine and agreed to a remediation plan to restore affected customers to the position they would have been in had they originally purchased Class A shares.
- 3) In March 2006, the SEC and NYSE announced a settlement with Bear, Stearns & Co. Inc. and its clearing affiliate in connection with the firms’ alleged facilitation, in violation of various federal securities laws, of late trading and deceptive market timing in the trading of mutual funds by certain Clients of the firms between 1999 and 2003. Without admitting or denying any of the SEC’s substantive findings, Bear Stearns consented to the SEC’s entry of an administrative order, in which the firm was censured, ordered to cease and desist from violations of Section 17(a) of the Securities Act of 1933, Sections 10(b), 15(c) and 17(a) of the Securities Exchange Act of 1934, and certain rules promulgated under those Acts and the Investment Company Act of 1940, ordered to pay \$160 million in disgorgement and \$90 million in civil penalties, and ordered to comply with certain

undertakings including the retention of independent consultants to review aspects of the firm's mutual fund trading.

- 4) In November 2006, CISC submitted an AWC to the NASD in connection with allegations that, from January 2002 through August 2004, the Firm failed to establish systems and procedures to supervise the sales of 529 college savings plans. Without admitting or denying the allegations, CISC consented to the entry of the NASD's findings and paid a \$500,000 fine and agreed to compensate customers disadvantaged by the alleged supervisory failures.
- 5) In March 2009, CISC submitted an AWC to FINRA in connection with alleged deficiencies related to the completion of the Firm's self-assessment of mutual fund breakpoint discount compliance required pursuant to previously imposed FINRA (then NASD) requirements. Without admitting or denying the allegations, CISC consented to findings that it failed to deliver breakpoint discounts during a later review period and continued to fail to have reasonable written supervisory procedures to assure the appropriate breakpoints would be delivered to customers, and paid a \$32,500 fine.
- 6) Between June 2009 and September 2012, JPMorgan Chase & Co., on behalf of itself and its subsidiaries (including JPMS and CISC) entered into substantially similar settlements with 47 securities regulators in connection with investigations concerning alleged misrepresentations and omissions in connection with the marketing, sales and distribution of auction rate securities ("ARS"). The principal allegations were that the relevant JPMorgan entities misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments, and when the auctions that provided liquidity for ARS failed in February 2008, customers held illiquid ARS instead of the liquid, short-term investments JPM entities had represented them to be and were unable to sell the ARS. Without admitting or denying the allegations, JPMorgan Chase & Co. entered into consent decrees pursuant to which the relevant JPMorgan entities repurchased ARS from certain customers and paid fines, penalties, disgorgement and restitution in amounts that varied from state to state.
- 7) In November 2009, J.P. Morgan Securities Inc. submitted, and the SEC accepted, an Offer of Settlement in connection with allegations by the SEC that in 2002 and 2003 JPMS had made certain payments to firms whose principals or employees were friends of Jefferson County, Alabama public officials in connection with \$5 billion in County bond underwriting and interest rate swap agreement business awarded to JPMS, without disclosing the payments or conflicts of interest in the swap agreement confirmations or bond offering documents. The SEC also alleged that JPMS incorporated certain of the costs of the payments into higher swap interest rates it charged the County, thereby increasing the swap transaction costs to the County and its taxpayers. The SEC found that the alleged conduct violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933, Section 15B(c)(1) of the Securities Exchange Act of 1934, and Municipal Securities Rulemaking Board Rule G-17. Without admitting or denying any of the SEC's substantive findings, JPMS consented to the SEC's entry of an administrative order that included a censure of JPMS, an order to cease and desist from violations of the aforementioned statutes and rules, and an order requiring payment of disgorgement of \$1 and a civil money

penalty of \$25 million. In addition, JPMS undertook to make a \$50 million payment to the County and to terminate any obligations of the County to make any payments to JPMS under certain swap agreements.

- 8) In December 2010, CISC submitted an AWC to FINRA pursuant to which the Firm was censured, fined and required to provide remediation to customers who purchased unit investment trusts (“UITs”) and did not receive applicable sales charge discounts. Additionally, CISC’s UIT purchase confirmations failed to disclose that a deferred sales charge may be imposed. Without admitting or denying the allegations, CISC consented to the findings and paid a \$100,000 fine.
- 9) In June 2011, J.P. Morgan Securities LLC agreed with the SEC to resolve the SEC’s inquiry regarding certain collateralized debt obligations (CDOs). Specifically, JPMS agreed to a settlement of allegations that it was negligent in not providing additional disclosure in marketing materials for a CDO called Squared CDO 2007-1, Ltd (“Squared”). The SEC’s complaint alleged that JPMS represented in marketing materials that the collateral manager selected the investment portfolio for Squared but failed to disclose that the hedge fund that purchased the subordinated notes (or “equity”) issued by Squared, and which also took the short position on roughly half of the portfolio’s assets, played a significant role in the selection process. Without admitting or denying the allegations, JPMS consented to the entry of a final judgment against it by the United States District Court for the Southern District of New York. The Final Judgment permanently restrains and enjoins JPMS from violating Sections 17(a)(2) and (3) of the Securities Act of 1933 in the offer or sale of any security or security-based swap agreement, orders JPMS to pay disgorgement of \$18.6 million, together with prejudgment interest thereon in the amount of \$2 million, and a civil penalty in the amount of \$133 million, and orders JPMS to comply with certain undertakings related to the review and approval of offerings of certain mortgage securities.
- 10) In July 2011, J.P. Morgan Securities LLC resolved an SEC investigation regarding conduct alleged to have taken place on the firm’s municipal derivatives desk. The SEC alleged that prior to at least 2005, JPMS made misrepresentations and omissions in connection with bidding on certain municipal reinvestment instruments, which the SEC alleged affected the prices of certain reinvestment instruments, deprived certain municipalities of a presumption that the reinvestment instruments were purchased at fair market value, and/or jeopardized the tax-exempt status of certain securities. Without admitting or denying the allegations, JPMS consented to the entry of a final judgment against it by the United States District Court for the District of New Jersey. The Final Judgment permanently enjoins JPMS from violating Section 15(c)(1)(A) of the Securities Exchange Act of 1934 and orders it to pay \$51.2 million to certain municipalities and other tax-exempt issuers. In coordination with the SEC settlement, JPMorgan Chase & Co. (“JPMC”) and certain of its affiliates, including JPMS, also entered into settlements with other agencies to resolve concurrent investigations regarding conduct alleged to have taken place on the firm’s municipal derivatives desk relating to certain municipal derivative transactions occurring in or prior to 2006. Those settlements are as follows: JPMorgan Chase Bank, N.A. entered into a Formal Agreement and a Consent Order for a Civil Money Penalty with the Office of the Comptroller of the Currency and agreed to pay \$35 million; JPMC, JPMS, and

JPMorgan Chase Bank, N.A. entered into a Closing Agreement of Final Determination of Tax Liability and Specific Matters with the Internal Revenue Service and agreed to pay \$50 million; and JPMC entered into written agreements with the Antitrust Division of the U.S. Department of Justice, the Federal Reserve Bank of New York, and 25 State Attorneys General. JPMC agreed to pay \$75 million in connection with its agreement with the State Attorneys General. Of the total funds to be paid, \$129.7 million will be eligible for distribution to municipalities and other tax-exempt issuers. The Firm also consented to implement various remedial measures, including enhanced compliance policies and procedures.

- 11) In October 2011, CISC consented to the entry of an order of the Florida Office of Financial Regulation in connection with allegations that the Firm engaged in the investment advisory business within the State of Florida without three (3) individuals being registered as IARs in the State of Florida. CISC paid an administrative fine of \$30,000.
- 12) In November 2011, CISC submitted an AWC to FINRA pursuant to which the Firm was fined, censured and required to provide remediation to customers who purchased certain unit investment trusts (“UITs”) and floating rate funds. FINRA alleged that the Firm failed to establish systems and procedures adequate to supervise the sales of such UITs and floating rate funds. Without admitting or denying the allegations, CISC consented to the entry of FINRA’s findings, paid a \$1,700,000 fine and agreed to compensate customers that suffered losses as a result of the alleged supervisory failures.
- 13) In November 2012, the SEC filed a complaint against J.P. Morgan Securities LLC and several of its affiliates in the District Court for the District of Columbia. The complaint related primarily to Bear Stearns’ alleged failure to disclose information regarding settlements entered into by a Bear Stearns affiliate with originators of loans that had been securitized into residential mortgage-backed securities (“RMBS”) trusts beginning in or about 2005. The complaint also alleged that JPMS, in connection with an RMBS offering by a J.P. Morgan affiliate in 2006, failed to include in the RMBS prospectus supplement’s delinquency disclosures approximately 620 loans that the SEC asserted were more than 30 days delinquent at the cut-off date for the offering. Based on the alleged misconduct described above, the complaint alleged that the defendants violated Sections 17(a)(2) and (3) of the Securities Act of 1933. In settlement of the action, the defendants submitted an executed Consent agreeing to the entry of judgment, without admitting or denying allegations made in the proceeding (other than those relating to the jurisdiction of the District Court over it and the subject matter). In January 2013, the District Court entered a judgment against the defendants that enjoined them from violating, directly or indirectly, Sections 17(a)(2) and (3) of the Securities Act. Additionally, the judgment required the defendants to pay disgorgement in the amount of \$177,700,000, prejudgment interest in the amount of \$38,865,536, and a civil monetary penalty of \$84,350,000.

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

JPMS’s primary business is providing brokerage products and services as a bank- affiliated broker-dealer and making available to its customers, in addition to investment advisory services, a variety of bank, securities and insurance products through its affiliates. JPMS’s officers, managers

and IARs spend the majority of their time in administrative or supervisory duties with broker-dealer activities rather than investment advisor activities.

JPMS is affiliated with several other SEC registered broker-dealers, investment companies, investment advisers, insurance agencies, mortgage companies and JPMorgan Chase Bank, N.A. Other registered investment advisers, collectively referred to as JPMorgan Asset Management, are affiliated with JPMS under the common ownership by JPMorgan Chase & Co. One or more of these investment advisers serve as the investment adviser to various JPMorgan Funds. If Program Clients invest in JPMorgan Funds in their Program Account, JPMS affiliates that advise the Funds will benefit from the receipt of the investment advisory fees. JPMS and the Sub-Adviser address this conflict through disclosure to Clients and by evaluating both JPMorgan Funds and Non-JPMorgan Funds using the same standards.

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

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

#### ***Affiliated Mutual Funds***

Mutual funds (including money market funds) pay fees and expenses that are ultimately borne by Clients. Clients should review the applicable prospectuses for Funds in the Program for additional information about these fees and expenses. These fees are in addition to the Account Fee.

Affiliates of JPMS provide investment advisory and other services to the JPMorgan Funds for compensation. Therefore, because JPMS and its affiliates will in the aggregate receive more revenue when Program Accounts are invested in JPMorgan Funds than they would receive if the account were invested in non-JPMorgan Funds, JPMS has a conflict of interest when Program Accounts are invested in JPMorgan Funds. JPMS and the Sub-Adviser address this conflict through disclosure and by subjecting the JPMorgan Funds to the same selection and evaluation standards as Non-JPMorgan Funds.

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

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

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

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

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

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

Clients may authorize JPMS and JPMCC, to the extent permitted by applicable law, to invest (i.e., “sweep”) available cash balances in the Program Account into a money market deposit account, the “Chase Deposit Sweep”, held with JPMorgan Chase Bank, N.A. (“JPMCB”), an affiliate of JPMS. Deposits in the Chase Deposit Sweep are covered by the Federal Deposit Insurance Corporation (“FDIC”), up to applicable limits.

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

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

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

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

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

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

JPMS IARs are available to meet with Clients upon request to discuss their Program Account. JPMS also contacts Clients at least annually to determine whether there have been any changes in the Client’s financial situation, investment objectives or investment restrictions that would require changes to the Program Account. JPMS personnel who are knowledgeable about the management of Program Accounts are available for Client consultation upon reasonable request. To ensure that the



Program and the selected Model remain suitable for the Client, Clients are instructed to promptly notify JPMS of any material changes to their investment objectives and/or financial situation. As most Program Accounts are managed in a similar manner according to the Model selected by the Client, JPMS does not review individual trades or individual Program Accounts. JPMS periodically reviews the Model composition and the Funds available in the Program to assure that the Models and Funds continue to meet the Program's requirements. When Clients request investment restrictions, JPMS periodically monitors the accounts to ensure compliance with the requested restrictions. JPMS does not provide tax advice, and the account reviews should not be construed as tax advice. Account reviews are not a substitute for careful review of account statements or tax reporting forms.

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

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

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

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

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