

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

J.P. Morgan Securities LLC

June 7, 2017

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

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

**The advisory services described in this Brochure are: not insured by the Federal Deposit Insurance Corporation (“FDIC”); not a deposit or other obligation of, or guaranteed by, JPMorgan Chase Bank, N.A. or any of its affiliates; and are subject to investment risks, including possible loss of the principal amount invested.**

**ITEM 2 – MATERIAL CHANGES**

The following is a summary of the changes made to this Brochure since the last annual update dated March 30, 2017:

Items 4 and 6 were updated to reflect that as of June 1, 2017 the fee credit applied to qualified retirement accounts invested in affiliated funds will reflect all of the underlying affiliated fund fees paid to JPMS and its affiliates, instead of merely crediting the underlying affiliated fund management fee.

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

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## ITEM 4 – SERVICES, FEES AND COMPENSATION

### Description of Firm and Advisory Services

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

This Wrap Fee Brochure provides information about JPMS and the Chase Strategic Portfolio (“CSP” or the “Program”). CSP is offered through the Chase Investments and Chase Private Client sales channels. Information about other wrap fee programs sponsored by JPMS is contained in separate Wrap Fee Brochures, which can be obtained upon request from your Financial Advisor or at the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). JPMS also maintains a separate website, available at [www.chase.com/managed-account-disclosures](http://www.chase.com/managed-account-disclosures), that contains the wrap fee program brochures for CSP and JPMS’s other advisory programs, as well as the advisory brochures for J.P. Morgan Private Investments Inc. (“JPMPI” or the “Sub-Adviser”), the Program’s sub-adviser (“Sub-Adviser”). These materials are also available by contacting your Investment Advisory Representative (“IAR”).

**Investing in securities involves risk of loss that clients should be prepared to bear. The investment performance and success of any particular investment cannot be predicted or guaranteed, and the value of a client’s investments will fluctuate due to market conditions and other factors. Investments are subject to various risks, including but not limited to market, liquidity, currency, economic, and political risks, and will not necessarily be profitable. Past performance of investments is not indicative of future performance.**

### Program Description

**On January 9, 2016, CSP was closed to new investors; however, existing CSP clients can continue to hold their accounts and add new assets. On the same date, JPMS commenced offering a similar unified managed account, J.P. Morgan Core Advisory Portfolio (“JPMCAP”).**

CSP is a discretionary unified managed account program that is managed and offered by JPMS. Through the Program, client (“Client”) assets are invested in a manner consistent with one of the multi-asset class investment strategies (each, an “Investment Strategy”) made available by JPMS to clients. Assets within an Investment Strategy are generally invested in each asset class through one or more open-end mutual funds or exchange traded funds (“ETFs”). In this brochure, we refer to mutual funds and ETFs as “Funds.” For Program Accounts (“Accounts”) at higher asset levels, assets within an Investment Strategy can be invested across an asset class through one or more models that include individual securities (the “Model Managers”), *i.e.*, clients with at least \$500,000 in their Accounts can elect to have assets within an Investment Strategy in individual securities in accordance with one or more models following model portfolios provided by the Model Managers. Currently, J.P. Morgan Investment Management Inc. (“JPMIM”) is the only Model Manager, and no unaffiliated Model Managers have been evaluated or selected for inclusion in CSP. See “Use of J.P. Morgan Funds and Model Managers and Potential Conflicts of Interest” below for more information on the use of JPMIM as an affiliated Model Manager. The Form ADV, Part 2A for each Model Manager selected for a client’s CSP account is available from JPMS upon request.

JPMS has full discretionary authority, to be exercised in JPMS’s exclusive judgment and consistent with the Investment Strategy selected by the Client, to determine the allocation of assets among Funds and, at appropriate asset levels, one or more

Model Managers; to select, add, remove, or replace Funds or Model Managers; and to purchase and sell Funds and other securities for the Account. JPMS has delegated this discretionary authority to JPMPI as the Program's Sub-Adviser. JPMPI is an affiliate of JPMS and JPMIM. JPMPI determines strategic and tactical allocation for the Investment Strategies and selects the Funds and Model Managers available through the Program using due diligence produced by JPMPI's affiliates. JPMS oversees the selections using an investment policy statement it established and remains responsible for overseeing the Sub-Adviser's performance.

CSP is subject to certain operational considerations, such as Fund concentration, prospectus delivery, and capacity issues, that can affect the timing of certain tactical trades, and can result in the timing or implementation of trades for a client's account differing from that of another client or group of clients of JPMS or its affiliates. It is JPMS's policy, to the extent practicable, to allocate, within its reasonable discretion, investment opportunities among clients over a period of time on a fair and equitable basis.

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

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

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

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

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

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

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

### ***Rebalancing***

JPMS will continuously review Client's asset allocation relative to the selected Investment Strategy and will generally rebalance the Program Account to the allocations in the chosen Investment Strategy when the asset allocation percentages deviate from established parameters. To rebalance the Account, shares of Funds and/or securities held in the models advised

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

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

### ***Custodian***

JPMS, in its capacity as an SEC registered broker-dealer, provides clearing and trade execution services for and serves as the custodian for the Program Accounts.

### ***Overlay Manager***

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

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

Clients will receive trade confirmations of all transactions unless they 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 can 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 can rescind this election at any time upon written notice to JPMS. Clients will receive Account statements from the custodian of the program at least quarterly (monthly for months when there is activity in their Account). Clients will also receive quarterly performance reports from an independent third party administrator. The quarterly performance report contains general market commentary and analysis, charts and graphs detailing the quarterly performance of the Account versus relevant industry benchmarks and indices, and the trading activity in the Account during the quarter. JPMS performs periodic testing of a limited number of randomly selected Program Accounts to validate the administrator’s performance calculations.

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

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

Each client has the right to vote, and is responsible for voting, proxies for any securities and other property in the client’s account. A client can appoint an independent services provider designated by JPMS for purposes of voting proxies (“**Proxy Service**”) as the client’s agent and attorney-in-fact, and authorize the Proxy Service, in its discretion, to vote proxies for any securities and other property in the client’s account in accordance with the Proxy Service’s proxy voting guidelines in effect from time to time, copies of which are available on request. The Proxy Service is currently Institutional Shareholder Services Inc. (“**ISS**”). Information relating to ISS’s services is available on ISS’s website at [www.issgovernance.com](http://www.issgovernance.com). ISS’s advisory brochure is available at the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Proxy Service’s role as the client’s agent applies only to proxies that the Proxy Service generally votes and does not apply to proxies with respect to which the Proxy Service declines to vote. A client that appoints the Proxy Service will not receive proxy materials or annual reports relating to securities and other property for which the Proxy Service has accepted responsibility for voting related proxies. In limited

circumstances there may be proxies that are not voted by Proxy Service. A client can revoke its appointment of the Proxy Service upon written notice to JPMS. If a client revokes his or her appointment of the Proxy Service, the client will receive all proxy materials and annual reports related to securities and other property in the client's account, and will be responsible for voting such proxies directly or instructing any custodian that holds such securities and other property. JPMS can, in its discretion, change the Proxy Service. JPMS will not be deemed to have or exercise proxy voting responsibility or authority by virtue of any authority to hire or change the Proxy Service.

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

## **Wrap Account Fees**

### ***General***

Clients pay an annual asset-based Account fee ("**Account Fee**") for the Program. The standard fee schedule for the Program is set forth below, expressed as an annual percentage. The Account Fee for Program Accounts will be computed and payable monthly in arrears based upon the market value of all assets held in the Program Account (including cash) on the last business day of the prior month. Generally, all Account values used to determine the Account Fee described herein are based on the market value of the assets in the Account, as determined by JPMS. The Firm charges Account Fees that it believes are reasonable, but these fees are not necessarily the lowest available from other firms, including affiliated ones.

Account Fees for partial months upon the inception or termination of a Program Account will be prorated.

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

If the Account has at any time qualified for a particular fee rate based on the market value of the Account, the same fee rate shall apply so long as the market value of the Account is no lower than 10% below the minimum asset size required for the applicable fee rate. If the market value of the Account falls below 10% of the minimum asset size required for the current fee rate, the Account Fee rate will be assessed using the applicable fee rate reflected in the fee schedule.

Account Fees for Program Accounts are:

<b>ALL MODELS EXCEPT FIXED INCOME FOCUS FEE SCHEDULE (Linear<sup>1</sup>)</b>	
<b>Eligible Assets</b>	<b>Annual Fee</b>
0 - \$250,000	1.45%
\$250,000 - \$500,000	1.30%
\$500,000 - \$1,000,000	1.15%
\$1,000,000 - \$2,000,000	1.00%
\$2,000,000 - \$5,000,000	0.75%
\$5,000,000 - \$10,000,000	0.65%
\$10,000,000 - \$15,000,000	0.55%
\$15,000,000 - \$25,000,000	0.50%
\$25,000,000 - \$50,000,000	0.40%
> \$50,000,000	0.30%

<sup>1</sup> The linear fee calculation applies the same rate to the entire portfolio, and will be applied monthly in arrears.

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

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

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

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

JPMS, in its discretion, can waive or reduce the Account Fee. Account Fees are discounted for employees of JPMS or its affiliates. From time to time the Account Fee can be increased. JPMS will promptly notify the Client whenever an Account Fee increase is made to the Program. The Account Fee includes investment management, brokerage, execution, custody and reporting services.

Client can combine assets held in certain other JPMS advisory products (together a "household") to determine the applicable fee percentage. JPMS advisory accounts subject to the same fee schedule, fee calculation methodology, and under the same tax identification number are automatically linked for Account Fee calculations. Clients must submit a Managed Account Combined Fee Request Form, which is subject to approval by JPMS at its discretion, to link other related advisory accounts. When the combined assets in the linked accounts are sufficient to reach the next advisory Account Fee breakpoint, the Client will benefit from a lower overall fee. The combined Account Fee is then divided ratably and assessed over all of the related advisory accounts. All linked accounts, within the same household, will have the same Advisory Fee rate applied. Subject to restrictions for retirement accounts, Clients can request that one of the related accounts pay the entire Account Fee for the combined holdings.

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

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

The Account Fee does not include internal Fund fees and expenses, transfer taxes, electronic fund and wire fees, IRA and retirement plan Account fees, margin interest, American Depository Receipts ("ADR") fees, or any other fees that would reasonably be assessed to a brokerage Account. Mutual funds and ETFs pay fees and expenses that are ultimately borne by clients (including but not limited to management fees, brokerage costs, administration, and custody). Additionally, Funds

held in a Program Account have annual investment advisory expenses, so Clients actually incur two levels of investment management fees; one indirectly in the form of an investment advisory fee to the investment adviser of each Fund and one to JPMS as the Program Sponsor. If these fees are for services performed by JPMS or its affiliates, JPMS or an affiliate can receive some or all of the revenue from the fee. These fees and expenses are in addition to any fees paid to JPMS. Clients should review the applicable prospectuses for Funds in the Program for additional information about these fees and expenses. JPMS and its affiliates collectively receive greater revenue if J.P. Morgan Funds are included in the Program, and therefore, JPMS and the Sub-Adviser have a conflict of interest in including J.P. Morgan Funds in the Program. See “Use of J.P. Morgan Funds and Model Managers and Potential Conflicts of Interest” below for more information on the use of J.P. Morgan Funds.

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

### ***Share Classes***

Mutual fund shares purchased through CSP are generally advisory or institutional class shares, or no-load or load-waived Class A shares that are sold at net asset value. Generally, JPMS seeks to make available, and will invest client accounts in, the lowest cost share class for any Fund offered in CSP. However, for certain Funds, the share classes with the lowest fee structures are not available in CSP, either because: (1) the Fund family restricts access to these share classes, or (2) JPMS does not have an agreement with the Fund to distribute the share class in CSP. For a description of all available share classes for a given Fund, please refer to the Fund’s prospectus. JPMS periodically reviews the share classes offered by Funds in CSP, but also relies on the Fund families to inform JPMS when and if these share classes will be made available. Please contact your IAR for information about any limitations on share classes available through CSP.

JPMS will invest client accounts in the lowest cost share class of a Fund offered through CSP. Clients should be aware that certain lower cost Fund share classes may be available outside of CSP.

JPMS can receive distribution fees from certain Funds pursuant to Rule 12b-1 under the Investment Company Act of 1940 (“**Investment Company Act**”). Rule 12b-1 allows Funds to use Fund assets to pay the costs of marketing and distribution of the fund’s shares. If JPMS receives 12b-1 fees on load-waived Class A shares purchased in a client’s CSP account, it will credit these fees to the client’s CSP account.

In addition, JPMS, directly or indirectly, receives administrative and/or shareholder servicing fees from certain Funds or their affiliates that are held in a client’s CSP account. The administrative and/or shareholder servicing that JPMS receives generally range from 0 basis points to 40 basis points of the Fund assets in CSP accounts, or a rate of \$8 to \$19 per year per mutual fund position in each CSP account. JPMS collects the servicing or administrative fees from the Funds that pay those fees, but does not retain any portion of those fees for retirement accounts. For non-retirement accounts, JPMS retains the servicing or administrative fees. With respect to a CSP account owned by an IRA, or other client that is a qualified retirement plan subject to the prohibited transaction provisions of Section 4975 of the IRC, the servicing or administrative fees are rebated to the CSP account, net any vendor sub-accounting charges, which are charged for each Fund position. The administrative and/or shareholder servicing fees that JPMS receives represent additional compensation to JPMS for providing services to CSP clients. If JPMS did not receive this compensation, JPMS would likely charge higher Account Fees or other charges to clients for the services provided by JPMS in CSP. When evaluating the fees for, and cost of, CSP, clients should consider the administrative and/or shareholder servicing fees that JPMS receives, in addition to the Account Fee. Details about administration and/or shareholder servicing fees and other compensation are available upon request. In addition, clients should review the applicable Fund prospectuses for more information about these fees and expenses.

If JPMS introduces a class of shares for a Fund in CSP with a lower fee structure than the class of shares previously made available in CSP for the Fund, to the extent allowed, JPMS will effectuate an exchange of previously purchased shares of the Fund to the other share class of the same Fund with the lower fee structure. The conversion of shares of a Fund can take time, including several days or more, to complete. Operational considerations, as well as efforts by JPMS to transition share classes



in a tax-efficient manner, can affect the timing of the conversion of shares, and can cause the timing or implementation of such conversions to differ between clients.

Some of the Fund share classes available through CSP are not be available to clients outside of CSP. Funds can prohibit CSP clients from continuing to hold certain share classes offered in CSP outside of CSP accounts. If so, it will be necessary to sell these shares or convert them to other share classes if a CSP account is terminated.

The sale of Fund shares can create income tax consequences for the client.

#### ***Offset of Certain Fees to IRAs and Certain Other Retirement Plan Accounts***

If a Program account owned by an IRA, or other client that is a qualified retirement account subject to the prohibited transaction provisions of Section 4975 of the IRC, holds any J.P. Morgan Funds, the actual amount of the J.P. Morgan Funds' underlying fees paid to J.P. Morgan and associated with Program account assets will be offset to the Account Fee. The offset amount will be automatically applied against the Account Fee charged for the period and will appear as a separate line item on the client's Program account statement. If the amount to be offset exceeds the amount of the Account Fee, then the Account Fee will be waived in lieu of offsetting the mutual fund fees associated with Program account assets held in the J.P. Morgan Funds. This offset does not apply to account investments in non-J.P. Morgan 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 has a financial incentive for the Client to incur margin debt to buy securities in a Program Account because: 1) the Client will pay JPMS or its affiliates interest and fees on the debt; and 2) the net market value of the Program Account will be increased by the value of the additional securities purchased with the margin loan (and will not be offset by the amount of the Client's margin debit in any account outside of the Program), resulting in a higher fee. In addition, any interest and fees the Client pays on any debit balances held outside the Program Account will not be taken into account in computing the net equity or performance of the Client's Program Account as reflected in Account statements, performance reports or otherwise.

#### **Investment Adviser Representative Compensation**

IARs associated with JPMS recommend the Program to Clients. JPMS typically pays a portion of the Account Fee to the IAR who recommended and/or services the Program Account. The exact portion of the Account Fee paid to the IAR varies among IARs and can also depend upon each IAR's overall annual revenue production. In addition, JPMS will negate the above payouts to IARs in connection with accounts they service that do not meet certain prescribed asset levels on a household basis. JPMS IARs have a number of opportunities for selling products or services in their capacity as JPMS broker-dealer registered representatives or insurance agents. Depending on a number of factors, including the size of the Program Account, changes in its value over time, the number of transactions and the ability to negotiate fees and commissions, the amount of compensation a JPMS IAR receives from a Program Account can 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 can have a financial incentive to recommend the Program, especially if the IAR believes that this compensation would be more than if the services were provided separately or if the Client participated in a different JPMS program.

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

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

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

The initial Program Account minimum is \$50,000. JPMS can waive the account minimum at its discretion. If a Program



Account falls below the minimum, JPMS can terminate the Program Account at its discretion. Clients whose Account address becomes a non-U.S. address will have their Account terminated from the Program. Under normal market conditions, it can take 2-4 business days to process the investment of funds in Program Accounts (whether initial investments or additions) and requests to sell or withdraw funds from Program Accounts, but these timeframes can be longer due to market conditions.

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

### **General Information**

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

The Sub-Adviser is responsible for determining asset allocation, selecting Funds and Model Managers, determining portfolio construction, and evaluating the Investment Strategies on an ongoing basis subject to the oversight of and pursuant to an investment policy statement approved by JPMS. The Sub-Adviser's approach is generally comparable to the approach to asset allocation, Fund and manager selection, and portfolio construction taken by the Wealth Management division of J.P. Morgan Asset & Wealth Management for Wealth Management's Private Bank ("**PB**") discretionary accounts.

See "Use of J.P. Morgan Funds and Model Managers and Potential Conflicts of Interest" below for more information on the use of J.P. Morgan Funds and affiliated Model Managers.

### **Asset Allocation Process**

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

### **Research Process**

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

### **Strategy Approval**

The internal governance forum approves or rejects new affiliated and unaffiliated Funds and Model Managers to be made available for JPMPI to use in CSP Investment Strategies. There can be Funds or Model Managers that are not available in CSP, but that are available in other programs advised by JPMPI or its affiliates. The Manager Selection Team provides a formal presentation on prospective managed strategies to the governance forum for review. The internal governance forum is expected to consider the same factors in its review and approval process for J.P. Morgan and non-J.P. Morgan managed

strategies. These factors include, but are not limited to: (a) an analysis of the manager's overall investment opportunity; (b) investment thesis; (c) track record; (d) performance; (e) terms of the vehicle; (f) reputational risk; (g) potential for conflicts of interest; and (h) regulatory issues.

### ***Portfolio Construction***

From the pool of strategies, the Sub-Adviser selects the combination of Funds and Model Managers that, in its view, fit each CSP Investment Strategy's asset allocation goals and the Sub-Adviser's forward looking views in an effort to best meet the Investment Strategy's investment objectives. The Sub-Adviser can also consider other factors, including but not limited to: (a) manager capacity, (b) investment guidelines, and/or (c) portfolio-specific constraints. In making portfolio construction decisions, the Sub-Adviser will consider and is permitted to prefer J.P. Morgan Funds and affiliated Model Managers. JPMS and JPMIM (as Overlay Manager) are responsible for the portfolio implementation in individual Clients' Program Accounts.

### ***Ongoing Review of Approved Strategies***

Another internal governance forum is responsible for making decisions to maintain Funds and Model Managers as approved and available for the Program, place them on probation, or terminate them as part of its ongoing monitoring and oversight responsibilities. The factors considered by the forum are expected to be the same for J.P. Morgan and non-J.P. Morgan managed strategies, and include, but are not limited to: (a) changes in the portfolio management team; (b) significant underperformance; (c) discovery of material operational risks; (d) changes in investment thesis; (e) terms of the vehicle; (f) reputational risk; (g) potential for conflicts of interest; and (h) regulatory issues.

The Sub-Adviser also can, for portfolio construction reasons, remove a Fund or Model Manager from CSP.

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

If the Sub-Adviser removes a Fund or Model Manager from the Program, the assets held in Program Accounts will be sold and replaced with another Fund or Model Manager that is approved for use in the Program. When evaluating a replacement Fund or Model Manager, the Sub-Adviser is expected to consider the same factors described above.

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

### ***Use of J.P. Morgan Funds and Model Managers and Potential Conflicts of Interest***

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

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

As a general matter, J.P. Morgan prefers J.P. Morgan managed strategies, including J.P. Morgan Funds and affiliated Model Managers. The proportion of J.P. Morgan managed strategies in CSP portfolios will be high (in fact, up to 100 percent), in

strategies such as, for example, cash and high-quality fixed income, subject to applicable law and any account-specific considerations.

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

When J.P. Morgan selects J.P. Morgan Funds for CSP, affiliates of JPMPI receives a fee for managing the J.P. Morgan Funds. As such, J.P. Morgan will receive more total revenue when a client's Program Account is invested in J.P. Morgan Funds than when it is invested in third-party funds.

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

With respect to Model Managers, currently JPMIM is the only Model Manager in CSP, and no unaffiliated Model Managers have been evaluated or selected for inclusion in CSP. When JPMIM (an affiliate of JPMS) serves as Model Manager, there is a benefit to J.P. Morgan since it increases the overall revenue of J.P. Morgan. Additionally, a manager of a Model Manager can invest in products that result in additional revenue to J.P. Morgan.

If a Program account owned by an IRA, or other client that is a qualified retirement plan subject to the prohibited transaction provisions of Section 4975 of the IRC, holds any J.P. Morgan Funds, the actual amount of the J.P. Morgan Funds' underlying fees paid to J.P. Morgan and associated with Program account assets will be credited against the Account Fee. See "Offset of Certain Fees to IRAs and Certain Other Retirement Plan accounts" in Item 4 above.

The Sub-Adviser can allocate a significant portion of the assets in CSP to J.P. Morgan Funds depending on market and other conditions. There are multiple models in each of the Investment Strategies available in CSP. Certain models invest only in taxable mutual funds and ETFs, while other models may also invest in individual securities through Model Managers and municipal securities. The following chart illustrates, as of the dates indicated, the allocation of J.P. Morgan Funds, non-J.P. Morgan Funds, and J.P. Morgan money market funds in six models (of the approximately 50 available) that implement the Investment Strategies in CSP. The chart does not reflect models that invest in individual securities through Model Managers or municipal securities. As JPMPI became the sub-adviser to CSP on September 2, 2014, it had no involvement in the selection of Funds prior to that date.

	Year End 2016			Year End 2015		
Investment Strategy	J.P. Morgan Funds	Non-J.P. Morgan Funds	J.P. Morgan Cash	J.P. Morgan Funds	Non-J.P. Morgan Funds	J.P. Morgan Cash
Fixed Income Focused	6.00%	92.00%	2.00%	18.00%	80.00%	2.00%
Conservative	8.00%	90.00%	2.00%	24.50%	73.50%	2.00%
Moderate	10.00%	88.00%	2.00%	27.50%	70.50%	2.00%
Moderate Growth	8.00%	90.00%	2.00%	21.00%	77.00%	2.00%
Growth	7.00%	91.00%	2.00%	19.75%	78.25%	2.00%
Aggressive Growth	7.00%	91.00%	2.00%	14.00%	84.00%	2.00%

The prior composition of Investment Strategies in CSP is not intended to predict future composition of Investment Strategies. Allocations shown here are illustrative only, do not necessarily represent actual use of J.P. Morgan Funds and third-party issuers and managers in any particular Client's Account, and can change without notice. The Sub-Adviser is not required to adhere to the illustrative allocations pictured here. The allocations in any particular client's account will depend on, among

other things, the Investment Strategy selected, client elections, client asset level, reasonable restrictions placed by clients on the management of an account, and other factors. Each client should review account opening documentation, confirmations, and quarterly and annual statements for more information about the actual allocation in his or her account. Please refer to Item 9, section C for more information on Potential Conflicts of Interest.

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

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

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

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

## **ITEM 9 – ADDITIONAL INFORMATION**

### **A. Disciplinary Events**

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

- 1) In March 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.
- 2) Between June 2009 and September 2012, JPMorgan Chase & Co., on behalf of itself and its subsidiaries (including JPMS and CISC) entered into substantially similar settlements with 47 securities regulators in connection with investigations concerning alleged misrepresentations and omissions in connection with the marketing, sales and distribution of auction rate securities (“ARS”). The principal allegations were that the relevant JPMorgan entities misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments, and when the auctions that provided liquidity for ARS failed in February 2008, customers held illiquid ARS instead of the liquid, short-term investments JPMorgan entities had represented them to be and were unable to sell the ARS. Without admitting or denying the allegations, JPMorgan Chase & Co. entered into consent decrees pursuant to which the relevant JPMorgan entities repurchased ARS from certain customers and paid fines, penalties, disgorgement and restitution in amounts that varied from state to state.
- 3) 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.

- 4) 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.
- 5) In June 2011, J.P. Morgan Securities LLC agreed with the SEC to resolve the SEC’s inquiry regarding certain collateralized debt obligations (“CDO”s). Specifically, JPMS agreed to a settlement of allegations that it was negligent in not providing additional disclosure in marketing materials for a CDO called Squared CDO 2007-1, Ltd (“Squared”). The SEC’s complaint alleged that JPMS represented in marketing materials that the collateral manager selected the investment portfolio for Squared but failed to disclose that the hedge fund that purchased the subordinated notes (or “equity”) issued by Squared, and which also took the short position on roughly half of the portfolio’s assets, played a significant role in the selection process. Without admitting or denying the allegations, JPMS consented to the entry of a final judgment against it by the 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.
- 6) 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.

- 7) In October 2011, CISC consented to the entry of an order of the Florida Office of Financial Regulation in connection with allegations that the Firm engaged in the investment advisory business within the State of Florida without three (3) individuals being registered as investment adviser representatives in the State of Florida. CISC paid an administrative fine of \$30,000.
- 8) In November 2011, CISC submitted an AWC to FINRA pursuant to which the Firm was fined, censured and required to provide remediation to customers who purchased certain UITs and floating rate funds. FINRA alleged that the Firm failed to establish systems and procedures adequate to supervise the sales of such UITs and floating rate funds. Without admitting or denying the allegations, CISC consented to the entry of FINRA’s findings, paid a \$1,700,000 fine and agreed to compensate customers that suffered losses as a result of the alleged supervisory failures.
- 9) 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.

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

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

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

- 11) On or about July 28, 2016, JPMS and JPMCB entered into a Consent Agreement (“**Agreement**”) with the Indiana Securities Division (“**ISD**”). The Respondents consented to the entry of the Agreement that alleged that certain conduct of the Respondents was outside the standards of honesty and ethics generally accepted in the securities trade and industry, in violation of 710 Ind. Admin. Code§ 4-10-1(23) (2016). Specifically, the Agreement alleged that, between 2008 and 2013, JPMS failed to disclose to Indiana investors that certain proprietary mutual funds purchased for CSP clients offered institutional shares that were less expensive than the institutional shares JPMS chose for CSP clients. In addition, the Agreement alleged that, from February 2011 to January 2014, no account opening document or marketing materials disclosed to Indiana investment management account clients or Indiana J.P. Morgan Investment Portfolio

clients that JPMCB preferred to invest client assets in proprietary mutual funds, and that between 2008 and January 2014, JPMCB did not disclose its preference for investing certain investment management account assets in certain proprietary hedge funds to Indiana clients. Lastly, the Agreement alleged that, JPMCB did not disclose its preference for placement-agent-fee-paying third-party hedge fund managers in certain investment management accounts to Indiana clients until August 2015. Solely for the purpose of settling these proceedings, the Respondents consented to the Agreement, with no admissions as to liability. In the Agreement, the Respondents agreed to pay a total of \$950,000 to resolve the ISD's investigation.

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

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

JPMS is affiliated with several other SEC-registered broker-dealers, investment companies, investment advisers, insurance agencies, mortgage companies and JPMCB. Other registered investment advisers, collectively referred to as J.P. Morgan Asset Management, are affiliated with JPMS under the common ownership by JPMorgan. One or more of these investment advisers serve as the investment adviser to the various J.P. Morgan Funds. In addition, JPMIM is currently the only Model Manager, and no unaffiliated Model Managers have been evaluated or selected for inclusion in the Program. JPMS and the Sub-Adviser prefer internally managed strategies because they generally align well with their forward-looking views and our familiarity with the investment process, as well as the risk and compliance philosophy that comes from being part of the same firm. It is important to note that J.P. Morgan receives more overall fees when internally managed strategies (e.g., J.P. Morgan Funds and affiliated Model Managers) are included in the Program. JPMS and the Sub-Adviser address this conflict through disclosure to Clients and through the investment process described in Item 6 above.

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

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

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

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

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

### ***Securities Allocations and Limitations***

JPMS is part of a large financial services firm. In connection with providing investment advisory services to its clients, JPMS uses the products or services of its affiliates or other related persons, as described both above and below. JPMS and/or its affiliates can receive more compensation from certain accounts that use strategies similar to those used by JPMCAP accounts ("**Similar Accounts**") than it or its affiliates receive from JPMCAP accounts. JPMS or its affiliates has a conflict of interest to the extent that JPMS or an affiliate has a proprietary investment in Similar Accounts, the portfolio managers have personal investments in Similar Accounts, or the Similar Accounts are investment options in JPMS' or its affiliates' employee benefit plans. Potential conflicts of interest can arise with both the aggregation and allocation of securities transactions and allocation of investment opportunities because of market factors or investment restrictions imposed upon JPMS and its affiliates by law, regulation, contract, or internal policies. Allocations of aggregated trades, particularly trade orders that were only partially completed due to limited availability and allocation of investment opportunities generally, could raise a potential conflict of



interest as JPMS or its affiliates can have an incentive to allocate securities that are expected to increase in value to favored accounts. Initial public offerings, in particular, are frequently of very limited availability. JPMS and its affiliates can be perceived as causing accounts they manage to participate in an initial public offering to increase JPMS' and its affiliates' overall allocation of securities in that offering. A potential conflict of interest arises if transactions in one account closely follow related transactions in a different account, such as when a purchase increases the value of securities previously purchased by another account or when a sale in one account lowers the sale price received in a sale by a second account.

JPMS and its affiliates maintain certain investment limitations on the positions in securities (including registered funds), or other financial instruments, that JPMS or its affiliates will take on behalf of its various clients due to, among other things: (i) liquidity concerns, (ii) regulatory requirements applicable to JPMS or its affiliates, and (iii) internal policies related to such concerns or requirements, in light of the management of multiple portfolios and businesses by JPMS and its affiliates. Such policies preclude JPMS or its affiliates from purchasing certain securities for clients, and can cause JPMS to sell certain securities held in client accounts.

### ***ADR Fees***

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

### ***Fractional Shares***

In order to comply with principal trade restrictions, orders for the Program are routed for agency execution. Where permissible by applicable law, and after complying with applicable regulatory requirements, we can route orders for our Advisory clients for execution as principal. Fractional shares, for example, can be created as a result of the division of an account or a transfer into the Program Account from an outside firm. As an accommodation to a client, fractional shares can be sold on a principal basis to JPMS at the same price as whole shares of the same issuer are sold to a third party.

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

JPMS receives a distribution fee from certain Funds pursuant to Rule 12b-1 under the Investment Company Act of 1940. However, any 12b-1 fees received by JPMS will be credited to Client's Program Account. In addition, JPMS, directly or indirectly, receives servicing or administrative fees for certain Funds that are held in a client's CSP account. Please see the discussion of "Share Classes" in Item 4 above for more information on the receipt of administrative and servicing fees.

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

<https://www.chase.com/content/dam/chasecom/en/investments/documents/understanding-revenue-sharing.pdf>.

### ***J.P. Morgan's Use and Ownership of Trading Systems***

JPMS may effect trades on behalf of Program accounts through exchanges, electronic communications networks, alternative trading systems and similar execution systems and trading venues (collectively, "**Trading Systems**"), including Trading Systems in which J.P. Morgan has a direct or indirect ownership interest. J.P. Morgan may receive indirect proportionate compensation based upon its ownership percentage in relation to the transaction fees charged by such Trading Systems in which it has an ownership interest. An up-to-date list of all Trading Systems through which JPMS might trade and in which J.P. Morgan has an ownership interest can be found at <https://www.jpmorgansecurities.com/pages/am/securities/legal/ecn>. Such Trading Systems (and the extent of J.P. Morgan's ownership interest in any Trading System) may change from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

Program Accounts are offered and sold only through IARs associated with JPMS. JPMS does not engage any unaffiliated third party cash solicitation or referral arrangements to refer prospective new clients to JPMS. However, pursuant to an agreement between JPMS and JPMCB, JPMCB can compensate its employees for referring clients to JPMS for various

products and services, including the Program and other advisory products and services. Any such payments to JPMCB employees do not increase the Client's Program Account Fee.

**G. Financial Information**

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