

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

J.P. Morgan Securities LLC

February 1, 2013

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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 2012:

- Effective October 1, 2012, Chase Investment Services Corp. ("CISC") merged into its affiliate, J.P. Morgan Securities LLC. ("JPMS") As a result of the merger, CISC ceased to be a registered investment adviser and broker dealer, and JPMS succeeded to the business and operations of CISC. Therefore, all investment advisory programs sponsored by CISC are now sponsored by JPMS.
- As a result of the merger of CISC into JPMS, the disciplinary events disclosed in Item 9.A have been amended to reflect the disciplinary events affecting both CISC and JPMS.

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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 with the U.S. Securities and Exchange Commission 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 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 are contained in separate Wrap Fee Brochures, which can be obtained upon request from your Financial Advisor.

### **CHASE STRATEGIC PORTFOLIO**

#### **Program Description**

CSP is a discretionary unified managed account that is invested in one of the multi-asset class investment strategies made available by JPMS (“Investment Strategies”, individually an “Investment Strategy”). Examples of Investment Strategies are Conservative, Growth, Balanced and Growth and Income. Program account assets in each asset class are allocated in accordance with the selected Investment Strategy to one or more open-end mutual funds or exchange traded funds (each a “Fund”) and, for Program accounts at certain asset levels or “tiers”, may include one or more Manager Models which include individual securities. JPMS has retained J.P. Morgan Investment Management (“JPMIM”), an affiliate, as the Program’s overlay manager (“Overlay Manager”) to provide portfolio implementation and coordination services for Program accounts.

#### **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 regarding 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, Manager Models, that are included in the Investment Strategy. The recommended Investment Strategy and Funds and/or Manager Models are the result of an objective scoring system based on the Client’s responses to the client questionnaire. The IAR will discuss with the Client the historic risk and return characteristics of the recommended Investment Strategy to ensure that it is an appropriate selection for the Client’s specific investment needs and risk tolerance. The IAR does not have authority to modify or suggest alternatives to the recommended Investment Strategy, Funds and/or Manager Models. However, the Client may request reasonable restrictions on their Program account, subject to JPMS acceptance. Any restrictions on the management of a Program account may cause the account to perform differently than similar unrestricted accounts.

Once the Client selects the Investment Strategy, the Client will sign the IPS, a Client Services Agreement and a Brokerage account application and agreement. JPMS will implement the selected Investment Strategy, taking into account any reasonable restrictions Client has placed on management of the account, when assets are deposited in the account in an amount equal to at least the account minimum. JPMS has full discretionary authority, to be exercised in JPMS’s exclusive judgment and consistent with the Investment Strategy selected by Client, to determine the allocation of assets among Funds and, at appropriate asset levels, may include one or more Manager Models, to select, add, remove or replace Funds or Manager Models, and to purchase and sell Funds and other securities for the account.

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 parameters established by JPMS. Rebalancing is a process where asset classes that have exceeded their recommended percentage of the Investment Strategy are sold and assets that are lower than their

percentage of the Investment Strategy are purchased to return the account to approximately the asset class percentage in the selected Investment Strategy. To rebalance the account, the Overlay Manager will buy or sell shares of Funds and/or securities held in the Manager Models that are underweight or overweight, as applicable, until the account holdings are consistent with the selected 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 JPMS has established as effective for rebalancing to the Investment Strategy.

#### **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 a “qualified custodian” as defined in Rule 206(4)-2 under the Investment Advisers Act of 1940 (the “Advisers Act”). JPMCC is an affiliate of JPMS and JPMIM.

#### **Overlay Manager**

JPMS has engaged an affiliate, JPMIM, as the Program’s Overlay Manager to provide portfolio implementation and coordination services to Program accounts. Overlay Manager’s services include: 1) Placing orders for the purchase of Funds to implement JPMS’s asset allocation instructions; 2) implementing instructions furnished by providers of the Manager Models concerning securities to be purchased, held or sold for Program accounts containing Manager Models; 3) placing orders for the purchase of individual securities with broker-dealers with respect to the Manager Models; 4) coordinating the non-Fund portion of Program accounts, subject to policies and procedures established by JPMS and Overlay Manager from time to time; and 5) implementing Client-imposed restrictions. The Overlay Manager does not act in a principal capacity for transactions in CSP accounts.

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

Clients will receive trade confirmations of all transactions but may waive receipt of individual confirmations and instead receive a periodic statement of all transactions that will contain the information required to be in a confirmation. A Client who elects to receive a periodic statement in lieu of individual confirmations 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 previously elected not to receive separate 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 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 Program account assets held in the Account on the last business day of the prior quarter or portion thereof. 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 Program fee to be based on the market value of the additions to or withdrawals from the Account. No minimum fee requirement is applied to accounts. Program accounts will be charged the appropriate 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 fee will be paid out of the MMF within the Program account. If the MMF does not have sufficient funds to pay the fee in its entirety, then shares of the most overweight Fund(s) or securities in a Manager Model will be sold to pay

the entire fee rather than paying any of the 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 or securities in a Manager Model that is currently most overweight in the Investment Strategy, based on actual dollar value, will be sold to clear the debit and replenish the MMF to its current target amount. If a Program account is terminated during a quarter for which a 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 are:

#### **FEE SCHEDULE**

<b>All Models Except 100% Fixed Income</b>	
Eligible Assets	Annual Fee
First \$250,000	1.60%
Next \$250,000	1.35%
Next \$500,000	1.10%
Over \$1,000,000	0.85%
<b>100% Fixed Income Model Fee Schedule</b>	
Eligible Assets	Annual Fee
First \$250,000	1.15%
Next \$250,000	0.85%
Next \$500,000	0.60%
Over \$1,000,000	0.50%

#### **Fees Paid to Overlay Manager and Model Managers**

JPMS pays a portion of the fees set forth in the above table to the Overlay Manager and the Model Managers. Those fees range from a minimum of .03% to .07% for Program Accounts that do not include a Manager Model, to a range of .32% to a maximum of .37% for Program Accounts that include one or more Manager Models, depending on the selected Investment Strategy and the weighted average of the percentage of the portfolio's allocation to each Model Manager.

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

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

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

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

The account fee does not include various additional fees that may be incurred within Client's Program account, including, but not limited to, 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 all or a portion of the revenue from the fee. Additionally, Funds held in a Program account have annual investment advisory expenses, so Program Clients actually incur two 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.

#### **Share Classes**

Fund shares sold in the Program are generally investor or institutional class shares, or no load shares or load-waived Class A shares that are sold at net asset value. Such shares may not be available to Clients if the Fund shares were

purchased outside of the Program. Due to certain Fund family restrictions that prohibit individuals from continuing to hold shares of certain Fund share classes offered in the Program outside of a managed account program, it may, in some instances, be necessary to liquidate the shares in these Funds if a Program account is terminated. The liquidation of these Funds may create a taxable event for the Client. If JPMS receives 12b-1 fees on load-waived Class A Funds, these 12b-1 fees will be credited back 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, which Funds are advised by an affiliate of JPMS, the actual amount of the mutual fund advisory fees associated with Program account assets held in the JPMorgan Funds will be credited to the Program account fee described above. The credit amount will be automatically applied as a credit against the account fee charged for the period and will appear as a separate line item on Client's Program account statement. The amount credited will not exceed the amount of the Account fee. In such cases, the Account fee will be waived in lieu of crediting the amount of 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.

#### **IAR Compensation**

The Programs are recommended to JPMS clients by IARs associated with JPMS. A portion of the Program Fee paid to JPMS is typically paid to the IAR who recommended and/or services the Program account. The exact portion of the fee paid to the IAR varies among IARs and may also depend upon each IAR's overall annual revenue production. JPMS IARs have a number of opportunities for selling products or services in their capacity as JPMS 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 had purchased a different program sponsored by JPMS.

#### **Margin Debit Balances**

In general, any margin debit balances held by a client cannot be held in a Program account. This is significant because, for purposes of the calculation of the Program Fee, the net market value of the assets on which the fee is based will generally not be reduced by the amount of any margin debit balances held by the Client 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 be required to 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 margin debit held by the Client in any account outside of the Program), resulting in a higher fee. In addition, any interest and fees paid by the Client in connection with any debit balances held outside the Program account will not be taken into account in the computation of the net equity or performance of the Client's Program Account as reflected in account statements, performance reports or otherwise.

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

JPMS offers and sells the Program to individuals, trusts, estates, charitable organizations, and corporations and other business entities, and to a Client's assets held in certain types of retirement accounts. The Program 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, the account is subject to termination at the discretion of JPMS. Additions to a Program account must be in amounts of at least \$1000. Under

normal market conditions, it may take 2-4 business days to process the investment of funds in Program accounts (whether initial investments or additions) and requests to sell or withdraw funds from Program accounts, but these timeframes may be longer during conditions of unusual market volatility.

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

### **Selection and Ongoing Review of Investment Strategies**

The JPMS Asset Allocation and Investment Committee (the “Committee”), an internal committee comprised of members of senior management of JPMS, has engaged the Global Multi-Asset Group (“GMAG”), an affiliate, to construct the Investment Strategies and provide ongoing evaluation of the Investment Strategies. The Committee is responsible for reviewing and approving any changes to the asset classes within the Investment Strategies. The Committee may engage various affiliated or third party consultants to assist in its function.

#### ***Changes to Investment Strategies***

Based upon the recommendation of GMAG, the Committee may approve changes to an Investment Strategy. After the effective date of these Investment Strategy composition changes, any Client’s Program account that falls outside of one or more of the modified asset class allocations may be re-balanced to conform to the new Investment Strategy. JPMS will notify affected Clients of the change to the asset class allocations in their Investment Strategy and the subsequent re-balancing executed to bring their Program account into conformity with the revised Investment Strategy.

### **Selection and Ongoing Review of Funds and Manager Models**

#### ***Introduction***

JPMS has engaged the Investment Research Team (“IRT”) of J.P. Morgan Institutional Investments Inc., an affiliate of JPMS, to perform due diligence on Funds, recommend specific Funds for inclusion in the Investment Strategies, monitor the Funds offered in the Program and recommend the elimination of Funds to the Committee when they no longer meet the criteria for inclusion. JPMS has engaged an unaffiliated third party consultant, Prima Capital Holding, Inc. (“Prima Capital”), to perform due diligence on Manager Models offered in the Program, monitor the Manager Models offered in the Program and recommend the inclusion or termination of Manager Models to the Committee. The Program includes both JPMorgan and non-affiliated Funds. Currently, a substantial number of the Funds included in the Program are JPMorgan Funds, and all of the Model Managers are affiliated with JPMS. JPMS has not evaluated or selected any non-affiliated Manager Models for inclusion in the Program. Both JPMorgan and non-affiliated Funds are evaluated and monitored using the same criteria. However, JPMS and its parent company and affiliates will receive greater compensation if JPMorgan Funds and Model Managers are included in the Program, and therefore JPMS may have a conflict of interest in including JPMorgan Funds and Manager Models in the Program.

See *Potential Conflicts of Interest*, below. JPMS is not responsible for the performance of any Fund or any Fund’s compliance with its prospectus, laws or regulations, or other matters within the Fund’s control. Each Fund’s adviser is solely responsible for the management of the Fund as described in the Fund’s prospectus.

#### ***Initial Fund and Manager Model Selection Process***

Both IRT and Prima Capital use evaluation processes that incorporate both quantitative and qualitative elements to identify Funds and Manager Models they believe are most appropriate for each asset class. They may review quantitative factors such as: (1) Performance: absolute and risk adjusted returns; (2) Risk: Absolute, relative, and downside; and (3) Consistency of returns. Qualitative factors that are reviewed may include the overall process and philosophy, Fund/team tenure and resources allocated to each strategy. The Committee approves Funds and Manager Models for the Program based upon the information and recommendations provided by the IRT and Prima Capital and such other affiliated and third party consultants it may engage from time to time.

#### ***Ongoing Monitoring of Funds and Manager Models***

IRT and Prima Capital periodically monitor the Funds and Manager Models to ensure that they continue to perform within expectations. IRT and Prima Capital monitor the Funds and providers of the Manager Models and the performance of the Funds and Manager Models in various ways ranging from monitoring of news events to periodic meetings. IRT and Prima Capital periodically review all Funds and Manager Models to evaluate the key drivers of performance. Funds and Manager Models that do not pass the ongoing evaluation tests may be removed from Program. JPMS does not calculate performance of Model Managers or Funds. Although JPMS screens past performance, it does not audit this data to verify either its accuracy or that each Fund or Model Manager has calculated past performance in a

manner that is consistent with industry standards or the methodology used by other investment advisers. JPMS does not employ any third party to review performance information to determine or verify its accuracy or its compliance with presentation standards. Funds are required by SEC rules to calculate and present their performance in a uniform and consistent basis, but JPMS does not review Fund performance information for accuracy.

#### ***Terminating Funds and Manager Models***

When the ongoing Fund and Manager Model monitoring process uncovers a concern, IRT and Prima Capital assess the situation and, if concerns persist, may recommend to the Committee the termination of the Fund or Manager Model from the Program. Funds and Manager Models may be terminated and replaced at the discretion of the Committee, and the Overlay Manager will execute the necessary trades to purchase any replacement Funds and to implement the Manager Model portion of the portfolio. Transactions resulting from changes in Funds or Manager Models may result in tax consequences to Clients' Program accounts.

#### **Potential Conflicts of Interest**

The Funds and Manager Models available in the Program include JPMorgan Funds and Model Managers affiliated with JPMS. Affiliates of JPMS provide investment advisory and other services to the JPMorgan Funds and receive compensation for those services. Therefore, JPMS may have a conflict of interest by including JPMorgan Funds and Manager Models in the Program because JPMS and/or its affiliates and parent company will receive more overall compensation when JPMorgan Funds and/or Manager Models are included in an Investment Strategy than if JPMS used non-JPMorgan Funds or Manager Models. JPMS manages this conflict through disclosure to clients and by subjecting JPMorgan Funds to the same selection and review process and standards as non-affiliated Funds. For additional potential conflicts of interest, please refer to Item 9.C., below.

#### **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 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 Client 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. With respect to 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 April 2002, the SEC and several other securities and state regulators launched a joint investigation into research analyst conflicts of interest at various large investment banking firms, including Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. In April 2003, ten firms, including Bear Stearns and JPMS, resolved the matter through a "global settlement." As part of the settlement, the SEC filed complaints against the settling firms in the U.S. District Court for the Southern District of New York. The enforcement actions alleged that, from approximately mid-1999 through mid-2001 or later, all of the firms engaged in acts and practices that created or maintained inappropriate influence by investment banking over research analysts, thereby imposing conflicts of interest on research analysts that the firms failed to manage in an adequate or appropriate manner. The regulators also found supervisory deficiencies at every firm. In addition, the complaints alleged that several firms, including Bear Stearns, had issued research reports that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about the covered companies and/or contained opinions for which there were no reasonable bases, and that some firms, including Bear Stearns and JPMS, had made undisclosed payments to other firms for research coverage of their underwriting clients. Bear Stearns and

JPMS each executed a Consent in which it neither admitted nor denied the substantive allegations of the SEC's complaint and consented to the entry of a final judgment. The final judgments were entered by the Court in October 2003 and permanently enjoined Bear Stearns and JPMS from violating the National Association of Securities Dealers ("NASD") and New York Stock Exchange ("NYSE") rules cited in the complaint relating to just and equitable principles of trade, advertising and supervisory procedures. The judgments also ordered Bear Stearns and JPMS each to make payments totaling \$80 million and to comply with undertakings as set forth in the addenda to the final judgments, which included certain structural and other reforms intended to address research analyst conflicts of interest. Both Bear Stearns and JPMS also were among a group of firms that consented to a voluntary initiative imposing restrictions on the allocation of shares in initial public offerings to executives and directors of public companies; the voluntary initiative expired by its own terms in October 2008.

- 2) In October 2003, the SEC filed a complaint in the U.S. District Court for the District of Columbia alleging that during the period from March 1999 through August 2000 J.P. Morgan Securities Inc. violated (i) Rule 101 of Regulation M under the Securities Exchange Act of 1934 by attempting to induce certain institutional customers to place orders of shares in the aftermarket for certain initial public offerings ("IPOs") it underwrote during the restricted period of such IPOs and (ii) NASD Conduct Rule 2110 by persuading one or more institutional investors to take an allocation of one "cold" IPO by promising to reward the customer with an allocation of another upcoming "hot" IPO. JPMS consented, without admitting or denying the substantive allegations of the Complaint, to the entry of a final judgment enjoining JPMS from violating Rule 101 of Regulation M and Conduct Rule 2110 and ordering it to pay a civil penalty of \$25 million.
- 3) 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 with respect to the preservation of emails for compliance with the federal securities laws and regulations and the rules of the NASD and NYSE.
- 4) 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 monetary fine of \$250,000 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.
- 5) 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.
- 6) 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 monetary fine of \$500,000 and agreed to compensate customers disadvantaged by the alleged supervisory failures.



- 7) 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 monetary fine of \$32,500.
- 8) Between June 2009 and October 2011, CISC entered into substantially similar settlements with 50 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 CISC 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 CISC had represented them to be and were unable to sell the ARS. Without admitting or denying the allegations, CISC entered into consent decrees in which CISC agreed to repurchase ARS from certain customers and paid fines, penalties, disgorgement and restitution in amounts ranging from \$42,017 to \$6,742,610 and totaling \$23,845,411.
- 9) 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.
- 10) 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 monetary fine of \$100,000.
- 11) 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.
- 12) 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.

- 13) 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 advisor representatives in the State of Florida. CISC paid an administrative fine in the amount of \$30,000.
- 14) 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 monetary fine of \$1,700,000 and agreed to compensate customers that suffered losses as a result of the alleged supervisory failures.
- 15) 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 the various JPMorgan Funds. Should Program Clients invest in JPMorgan Funds within their Program account, JPMS affiliates will benefit from such purchase as the result of receipt of the indirect investment advisory fees received by the Funds'

advisors. JPMS addresses this conflict through disclosure to clients and by evaluating both JPMorgan Funds and non-affiliated Funds by 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 Fund Advisors and Model Managers**

Program accounts may be invested in open-end mutual funds (including money market funds), closed-end funds and ETFs that have various internal fees and expenses, which are paid by the Funds but which are ultimately borne by Program clients. Affiliates of JPMS provide investment advisory and other services to the JPMorgan Funds and such affiliates receive compensation for providing such services. The portion of the investment management fee received by JPMS's affiliates that is borne by each Program client is not covered by, and is in addition to, the Program fee paid to JPMS. Therefore, because JPMS and its affiliates will in the aggregate receive more compensation when Program accounts are invested in JPMorgan Funds than they would receive if the account were invested in non-JPMorgan Funds, JPMS has a conflict of interest when Program accounts are invested in JPMorgan Funds. The use of affiliated Model Managers in the Program is also a benefit to JPMS and its affiliates since it increases the overall compensation of affiliates of JPMS and their parent company. JPMS addresses this conflict through disclosure and subjecting the JPMorgan Funds to the same selection and evaluation standards as non-JPMorgan Funds.

Clients should review the applicable prospectuses for Funds in the Program for additional information about the internal fees and expenses ultimately borne by Program clients.

#### **ADR Fees**

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

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

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

JPMS has negotiated revenue sharing arrangements with a number of mutual fund families whose mutual funds they offer. Some of these arrangements may include the share classes available in the Program. To the extent that these arrangements include the Funds available in the Program, 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.

#### **Principal Transactions**

The Overlay Manager may effect securities transactions through JPMS or a related person, acting as a broker or dealer, subject to best execution obligations. In connection with transactions executed for Program accounts, JPMS or its affiliates may, to the extent permitted by applicable law, act as principal (i.e., for its own account), agent for the Client, or agent for both the client and the party on the other side of the transaction.

When acting as principal (typically in connection with transactions in certain fixed income and over-the-counter securities), and in accordance with applicable law, JPMS or its affiliate may charge a "dealer spread" (i.e., the difference between the bid price and the offer price), which will be incorporated into the net price paid (for purchases) or received (for sales) by the client in the transaction. Dealer spreads charged to the client and received by JPMS or its affiliates are not covered by and are in addition to the Wrap Account Fee. Therefore, because by acting in a principal capacity JPMS or its affiliates may earn additional amounts at the expense of the client, JPMS and its affiliates and parent company have a financial interest in JPMS or its affiliates acting in such capacity in connection with transactions in Program accounts that conflict with the client's interest regarding the payment of dealer spreads.

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

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

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

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

Cash balances “swept” into the Chase Deposit Sweep are remitted for deposit by JPMCC, acting as client’s agent, into a money market deposit account maintained at JPMCB. Deposits in the Chase Deposit Sweep are covered by the Federal deposit Insurance Corporation (“FDIC”), up to applicable limits.

JPMCB benefits from Program clients’ selection of the Chase Deposit Sweep because JPMCB receives a stable, cost-effective source of funding. JPMCB intends to use deposits made by clients who select 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 earned by JPMCB on loans and investments made with the deposits. The income that JPMCB has the opportunity to earn through its lending and investment activities is usually greater than the fees earned by all JPMorgan Chase-affiliated entities 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 Program clients’ authorization of the use of the Chase Deposit Sweep as the “sweep” option for temporary investment of available cash balances in Program accounts. JPMS does not believe that its and its affiliates’ interest in Program clients’ selection of the Chase Deposit Sweep presents any inherent or general material conflict with the interests of Program clients. However, to the extent a conflict may exist with respect to a particular Program account, JPMS addresses the conflict by: (1) allowing Program clients to select another available “sweep” option and to change the election at any time; (2) providing disclosure to clients, including prospectuses for the available money market mutual funds available as a sweep option, and the Chase Deposit Sweep; and (3) access to information concerning the current yield of the available sweep options.

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

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

The Firm’s Code of Ethics (the “Code”) governs the conduct of IARs and other Firm employees who have access to client information. The Code requires IARs and other Firm employees with access to client information to acknowledge that they understand and are in compliance with its policies. The Code’s policies require that IARs: (1) report personal securities trades; (2) acknowledge their ongoing compliance with SEC broker-dealer and investment advisor 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 once 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 account. JPMS personnel who are knowledgeable about the management of Client 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. As described in this Brochure, JPMS periodically reviews the Investment Strategies and the Funds and Manager Models available in the Program to assure that the Investment Strategies, Manager Models and Funds continue to meet the Program’s requirements. For Program accounts that have requested 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. See “*Trade Confirmations, Statements and Performance Reporting*”, above.

**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 Program clients to JPMS. However, pursuant to an agreement between JPMS and JPMorgan Chase Bank, N.A. ("JPMCB"), an affiliate, 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 shall not increase the Program Fee paid by the client.

**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.