

# Merrill Lynch Institutional Investment Consulting Program

## BROCHURE

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This Brochure provides information about the qualifications and business practices of Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S” or “Merrill”) relating to the Merrill Lynch Institutional Investment Consulting Program. If you have any questions about the contents of this Brochure, please contact us at 800.MERRILL (800.637.7455).

Please note that the information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Investment adviser registration does not imply a certain level of skill or training. Additional information about MLPF&S also is available on the SEC’s website at <http://www.adviserinfo.sec.gov/IAPD>.

The investment advisory services described in this Brochure are not insured by the Federal Deposit Insurance Corporation (“FDIC”) or any other government agency, are not a deposit or other obligation of or guaranteed by MLPF&S, Bank of America Corporation (“BofA Corp.”) or any of its affiliates and are subject to investment risks, including possible loss of principal.

**March 23, 2020**

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Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
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## **MATERIAL CHANGES**

On March 25, 2019, Merrill filed its last annual update for its Merrill Lynch Institutional Investment Consulting brochure ("Brochure"). This summary of material changes is designed to make clients aware of information that has changed since the Brochure's last annual update and that may be important to them. The material changes summarized below were also incorporated within this Brochure. All capitalized terms are defined either in the body of this Brochure or in the Glossary, which can be found at the end of this Brochure.

No material changes have been made since the last annual update was filed for this Brochure.

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This Brochure, as amended or updated from time to time relates to the Merrill Lynch Institutional Investment Consulting Program (the "Program" or "IIC") offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated (referred to in this Brochure as "Merrill," "MLPF&S," "we," "us," or "our"). For purposes of this Brochure, "client," "you," or "your" refers to the client enumerated in the Institutional Investment Consulting Client Agreement (the "Client Agreement").

## ADVISORY BUSINESS

### A. ABOUT MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

Merrill, an indirect wholly-owned subsidiary of Bank of America Corporation ("Bank of America"), is a global investment banking and financial services firm. Merrill offers a broad range of brokerage, investment advisory, retail and other services and is registered with the U.S. Securities and Exchange Commission ("SEC") as a broker-dealer and has been registered as an investment adviser since 1978.

### B. INSTITUTIONAL INVESTMENT CONSULTING

Merrill agrees in the Client Agreement to provide non-discretionary investment advice as an investment adviser under the Investment Advisers Act of 1940, as amended ("Advisers Act") to you under the Program. If your investment portfolio is subject to Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Merrill also agrees in the Client Agreement to provide non-discretionary investment advice as a fiduciary under section 3(21)(A)(ii) of ERISA to you under the Program.

#### 1. Summary Description of Services

Under the Program, a client receives for an investment portfolio certain asset allocation services, investment policy statement services, and investment manager and strategy review and recommendation services along with periodic investment reporting. If a client's investment portfolio is for a defined benefit plan, a client also receives an asset liability modeling service provided the investment portfolio meets certain requirements and the client requests such services. Merrill provides the Program services through a select group of Merrill Financial Advisors who are designated to provide Program services ("Designated Advisor").

Before you select the Program, we want to highlight the following to you:

- You enter into a Client Agreement with Merrill for the Program services you receive;
- As described in detail in this Brochure, you agree to pay Merrill a fee which will be an annual fixed dollar amount or an annual amount resulting from an annual asset-based fee rate applied to your investment portfolio as defined in your Client Agreement;
- The Program fee is based on the totality of the services and is negotiable depending on a number of factors;
- You will need to enter into a separate agreement with each of your selected investment managers and these investment managers will each charge you a separate investment management fee for services;
- As long as you are a client in this Program and your investment portfolio is subject to ERISA, Merrill and its Affiliates may not accept you as a client in other investment advisory programs or brokerage accounts.

- We are not responsible for the management of your investment portfolio assets through the Program. The investment manager you select and retain is exclusively responsible for the management of the assets in your investment portfolio that you assign to such investment manager.
- If your investment portfolio is not subject to ERISA, you may elect to implement Program recommendations through another investment advisory program offered by Merrill and its Affiliates:
  - You will sign a separate investment advisory agreement for the services provided through that program.
  - You will be charged a separate fee through other investment advisory programs and the fee calculation and billing methodology will differ from that of this Program.
  - The profiling process, program guidelines and requirements of other investment advisory programs will differ from that of this Program.
  - Advice and/or recommendations and investment solutions available in other investment advisory programs are not limited by the investment policy statement (“IPS”) created through this Program or if using your own IPS, the written confirmation of your investment guidelines that you will receive from Merrill, and may not align to IIC Eligible Strategies. (see *Methods of Analysis-Manager Searches and Recommendations*)
  - If implementation in other investment advisory programs results in a misalignment with the Program guidelines, we may, at our discretion and with notice to you, terminate you as a Program client.

This Program is available to charitable organizations, pension, welfare benefit and profit sharing plans, corporations, high net worth individuals, trusts, and estates. A more detailed description of the Program is provided elsewhere in this Brochure, along with other material information about Merrill. Before selecting this Program, please review this Brochure carefully and speak with your Designated Advisor if you have any questions.

## **2. Investment Advisory Agreement**

With respect to the Program, the scope of any investment advisory relationship we have with you is defined in the Client Agreement that you sign. Under the Program, we act as your investment adviser only for the investment portfolio specifically identified by you. We will not act as an investment advisor for you for any other assets or accounts, including any other employee benefit plans, unless otherwise separately agreed to by Merrill and you in writing. Our advisory relationship begins when we enter into the Client Agreement with you, which occurs when we accept your signed Client Agreement. Preliminary discussions or recommendations, including any Request for Proposal or Request for Information responses, before we enter into the Client Agreement with you are not intended as investment advice and should not be relied upon as such. By participating in the Program, you acknowledge that the services we are providing in the Program are non-discretionary and that you have retained, and will exercise, final decision-making authority and responsibility for all matters concerning the investment portfolio as well as for the selection of an investment manager and implementation of any investment strategy resulting from the services provided under the Client Agreement.

If your investment portfolio is subject to ERISA, Merrill agrees that it will be an ERISA fiduciary to the extent that we render investment advice within the meaning of section 3(21)(A)(ii) of ERISA to you regarding your investment portfolio, including but not limited to the recommendation of IIC Eligible Strategies as defined below.

You may make decisions with respect to your investment portfolio that are contrary to our recommendations, or make your own decisions without the benefit of our advice, including retaining an investment manager or

strategy we do not review or recommend. However, if you disregard our advice, we may, at our discretion and with notice to you, terminate you as a Program client.

### **3. Detailed Description of Services**

What follows is a detailed description of the services included in the Program:

#### **ASSET ALLOCATION**

##### *Strategic Allocation Modeling Service*

Merrill will assist you in identifying an appropriate long-term strategic asset allocation for your portfolio's specific investment goals and objectives. The recommendation of a strategic asset allocation will be provided by your Designated Advisor to you in a report. Please note that alternative asset allocations based on different assumptions, such as different risk tolerances, may be presented for comparison purposes in your report. However, these alternative asset allocations are not intended to be our recommendation.

Under this service, sophisticated computer models are used to construct asset allocations and to project potential ranges of returns and market values over various time periods and using various cash flows. The modeling uses our forward-looking capital market assumptions of risk, return, and correlations for the different asset mixes. (see *Methods of Analysis, Investment Strategies and Risk of Loss-Strategic Allocation Modeling Service* for further information)

Your Designated Advisor will collect certain information from you, such as your portfolio's investment objectives, risk tolerance, and projected cash flows, through a questionnaire in order to provide this service. However, you are responsible for providing all necessary information, particularly any limitations imposed by law or otherwise. We rely upon information provided by you to create the report as well as to provide the other Program services described in this Brochure. You should provide prompt written notice to your Designated Advisor of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information, which could materially change the information previously provided by you and used by us to create the report or provide other Program services described in this Brochure.

It is your responsibility to select the final strategic asset allocation and to determine whether to implement any asset allocation strategy. After you select a strategic asset allocation, it is important that you periodically review your portfolio's actual asset allocation to verify that it remains in line with your investment guidelines. (see *Important Client Responsibilities* for further information)

##### *Asset Liability Modeling Service*

If you are or are acting on behalf of a single-employer sponsored defined benefit plan with an investment portfolio under the Program of at least \$50 million, we will provide the Asset Liability Modeling Service to you upon your request. Merrill will assist you in identifying an appropriate strategic asset allocation for your portfolio's specific investment goals and objectives in meeting future defined benefit plan payment obligations. The recommendation of a strategic asset allocation will be provided by your Designated Advisor to you in a report. Please note that alternative asset allocations based on different assumptions, such as different risk tolerances, may be presented for comparison purposes in your report. However, these alternative asset allocations are not intended to be our recommendation.

Under this service, we provide a report with a comprehensive stochastic modeling of plan assets and liabilities using Monte Carlo simulations to forecast pension metrics – annual contributions (according to the plan sponsor's funding policy), profit and loss expense, funded status on an ERISA basis, and balance sheet



funded status – for various efficient strategic asset allocations and plan constraints. The modeling uses our forward-looking capital market assumptions of risk, return, and correlations for the different asset mixes and liability calculations during the forecast period.

The report also includes a liability driven investment glide path, if applicable, with clearly defined trigger points that correspond with dynamic asset allocation changes which seek to limit swings in the plan's funded status, changes in contribution requirements, and balance sheet volatility.

Merrill will utilize its Affiliate, Bank of America, N.A. ("BANA"), under a servicing arrangement between Merrill and BANA to assist Merrill in providing the Asset Liability Modeling Service. The servicing agreement details the roles and responsibilities of each party in connection with the report.

Your Designated Advisor will collect certain information from you, such as your portfolio's investment objectives, risk tolerance, and projected cash flows, through a questionnaire in order to provide this service. Your Designated Advisor will also request that you provide certain actuarial reports in order to provide the service. However, it is your responsibility to provide all necessary information and actuarial reports, particularly any limitations imposed by law or otherwise. We rely upon information provided by you to create the report as well as to provide the other Program services described in this Brochure. You should provide prompt written notice to Merrill of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information, which could materially change the information previously provided by you and used by us to create the report or provide other Program services described in this Brochure.

It is your responsibility to select the final strategic asset allocation and to determine whether to implement any asset allocation strategy. After you select a strategic asset allocation, it is important that you periodically review your portfolio's actual asset allocation to verify that it remains in line with your investment guidelines. (see *Important Client Responsibilities* for further information)

#### *Ongoing Asset Allocation Advice*

We will also periodically report to you, in writing, the actual asset allocation of your portfolio relative to the strategic asset allocation you selected for your portfolio. Your portfolio's actual asset allocation may deviate from the strategic asset allocation you selected for many reasons, such as market movements, additions and withdrawals of assets from your portfolio, changes in investment managers and strategies, and the purchase and sale of certain securities within those investment strategies. Your Designated Advisor will review your portfolio's actual asset allocation with you on a periodic basis and may make a recommendation to realign your actual asset allocation with the strategic asset allocation you selected. As noted above, you should notify Merrill of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information as such change may change our strategic asset allocation recommendation to you. Should you disregard our recommendations, we may, at our discretion and with notice to you, terminate you as a Program client. (see *Important Client Responsibilities* for further information)

#### INVESTMENT POLICY STATEMENT ("IPS") SERVICE

Merrill will assist you in creating a written IPS which will describe the investment goals and objectives of your portfolio, and certain policies governing the investment of assets. As with the Strategic Allocation Modeling Service and the Asset Liability Modeling Service, your Designated Advisor will use the information collected from you through a questionnaire to assist you in creating an IPS for your portfolio. Your Designated Advisor will also discuss with you minimum and maximum ranges for each asset class which will be used for realigning your portfolio to your selected strategic asset allocation based on investment goals and objectives. Your Designated Advisor will provide a draft IPS for your investment portfolio to you for review that will

include your selected strategic asset allocation, as well as a recommendation for the minimum and maximum ranges for realigning your portfolio to your selected strategic asset allocation.

If you have an existing IPS and do not choose to create a new IPS through the Program, your Designated Advisor will review your existing IPS and provide guidance including minimum and maximum ranges for the selected strategic asset allocation. You will also receive written confirmation of your investment guidelines including but not limited to your risk tolerance, time horizon and selected strategic asset allocation and minimum and maximum ranges. The information set forth in the initial and each subsequent written confirmation of your investment guidelines is how we reflect our understanding of your investment guidelines for the Program. You should review each written confirmation of investment guidelines we send to you carefully to ensure that the information reflected therein is accurate and you should contact your Designated Advisor if you believe any of the information is, or becomes, inaccurate.

Merrill will not have discretion or any authority over implementation of your strategic asset allocation or IPS, under this Program. (See *Other Investment Advisory Programs* and *Participation or Interest in Client Transactions*) The acceptance and adoption of the IPS created for you through this Program, as well as ensuring your portfolio's adherence to your IPS, is your responsibility. You are also responsible for ensuring that investment managers and strategies that you select can accommodate any investment restrictions reflected in your IPS and are properly captured through any Merrill investment advisory program or any other program you select for implementation.

If the information you provided to Merrill changes, it is your responsibility to inform your Designated Advisor of those changes so we may work with you to update the IPS created for you through the Program or the written confirmation of investment guidelines. Notification typically can occur during the portfolio reviews with your Designated Advisor. However, if you consider the changes to be significant, it is your responsibility to notify your Designated Advisor prior to the portfolio review. We strongly encourage that you utilize your other professional advisers, such as attorneys and/or accountants prior to your acceptance of the IPS. (see *Important Client Responsibilities* for further information)

#### **MANAGER SEARCHES AND RECOMMENDATIONS**

Merrill and your Designated Advisor will assist you in your evaluation, review, and selection of investment managers and strategies for your portfolio, specifically IIC Eligible Strategies as described below. We will not provide investment manager and strategy recommendations for certain asset categories which are designated as Excluded Assets. Excluded Assets are private equity funds, hedge funds, limited partnerships, or other illiquid assets that may be held by the client as a part of the investment portfolio. (See *Limitation of Services*)

IIC Eligible Strategies will include those strategies that meet Merrill's due diligence standards. As a general matter, we select IIC Eligible Strategies based on a variety of factors, including investment styles available in the marketplace, platform capacity, client demand, and the outcome of due diligence reviews. The initial and periodic reviews of IIC Eligible Strategies are performed through an investment review conducted by or under the auspices of personnel of our Chief Investment Office (the "CIO") (see *Methods of Analysis, Investment Strategies and Risk of Loss* for further information). The CIO is a business group that provides investment solutions, portfolio construction advice and wealth management guidance to our clients. It is a separate division from the business group that administers the Program.

Your Designated Advisor and Merrill will use either your IPS created through the Program or the written confirmation of your investment guidelines that was sent to you, as well as information gathered from you through a questionnaire to recommend a list of IIC Eligible Strategies by asset class, except for Excluded Assets. (See *Limitation of Services*) This list will be provided in the Manager Identification Report ("MID").

Upon specific written request of a client, and for comparison purposes only, we may include an investment manager or strategy that is not an IIC Eligible Strategy in the MID. Merrill expresses no opinion about the investment manager or strategy and the inclusion of the investment manager or strategy in the MID is not an endorsement or recommendation of the investment manager or strategy. Merrill will not assume any liability for any loss, claim, damage or expense attributable to your selection of an investment manager or strategy not included in the IIC Eligible Strategy universe.

It is your responsibility to negotiate directly with independent third party investment managers (not retained through any Merrill investment advisory program) the terms of any investment manager agreement and applicable fees. You may select an investment manager or strategy (or continue the use of an investment manager or strategy) without receiving a recommendation from Merrill.

Merrill and its Affiliates offer other managed products or wrap programs. Recommendations provided to accounts in these programs will be different from, or even conflict with, the advice and guidance provided in connection with the Program, including advice related to the recommendation of certain investment managers and strategies. This is due to, among other things, the differing nature of the other investment advisory services and differing processes and criteria upon which determinations are made. (see *Related Persons*)

Your Institutional Performance Report, as described below, will highlight any investment managers or strategies that are not IIC Eligible Strategies. Replacement recommendations of IIC Eligible Strategies will be provided by your Designated Advisor for any investment managers and strategies in a portfolio that are not IIC Eligible Strategies. (See *Advisory Business - Investment Performance Reporting* and see *Methods of Analysis, Investment Strategies and Risk of Loss - Status Change of IIC Eligible Strategies*).

You may make investment-related decisions contrary to our recommendations. However, if you disregard our advice, we may, at our discretion and with notice to you, terminate you as a Program client. (see *Important Client Responsibilities* for further information)

#### **INVESTMENT PERFORMANCE REPORTING**

Merrill will provide a periodic portfolio-level report called the Institutional Performance Report ("IPR") to assist you in reviewing your actual asset allocation versus your selected strategic asset allocation, and the performance of your investment portfolio. The investment returns in your portfolio will be compared to the returns of the benchmarks recommended by us, for IIC Eligible Strategies. For strategies that are not IIC Eligible Strategies, account returns are compared with the returns of appropriate market indices, as specified by you.

We will rely upon the data supplied by your custodian or third-party investment manager in preparing the IPR. Merrill will not be held responsible for the accuracy of the data provided by your custodian, if other than Merrill, or third party investment manager. We also use outside information sources in preparing the IPR, including computer and data analysis firms. This information is obtained from sources believed to be reliable.

When making performance comparisons, you should note that:

- Differences in transaction costs among accounts will affect account comparisons; and
- The benchmarks shown in the IPR do not include transaction costs. If available, an actual investment in these benchmarks, or in the securities comprising the benchmarks, would require an investor to incur transaction costs. Performance would be reduced by such costs and their compounded effect.

Performance information from third-party sources or performance reports provided by Merrill for accounts enrolled in other Merrill investment advisory programs may differ from that shown in the IPR. These differences may be due to different methods of analysis, different pricing sources, treatment of accrued income or different accounting procedures. For example, infrequently traded fixed-income securities may be priced according to yields calculated on a matrix system, which may vary among pricing sources. As another example, if sufficient data is available and the IPRs are prepared on a trade date basis, their performance information may differ from reports prepared on a settlement date or other basis.

You should use the report to evaluate your investments and progress towards your investment goals. Your Designated Advisor will be available to assist you in understanding the format and content of the report, which includes graphic and tabular presentations of performance, and will assist you in reviewing and evaluating the reports. The IPR will not include any performance information for assets held in a Merrill brokerage account.

The reports provided to you by Merrill on a periodic basis in the normal course of the delivery of services will be available via web access. You are responsible for reviewing and accessing the provided information through web delivery means, including the establishment of user ID's and passwords. (see *Important Client Responsibilities* for further information)

#### **4. Limitation of Services**

Universe of Investment Managers and Strategies – Investment managers or strategies recommended for your portfolio are limited to the IIC Eligible Strategies. Our recommendations therefore will not include every investment option available in the industry, including investment strategies offered through other Merrill investment advisory programs.

Under the Program, Bank of America and Merrill and its Affiliates do not and will not act in a fiduciary capacity under the Adviser's Act, ERISA, or otherwise with respect to your decision to purchase, sell or hold any Bank of America or Merrill affiliated products or services. Without limiting the generality of the immediately foregoing, Merrill may provide periodic investment performance reporting for any such affiliated investments or service providers, which you agree is not a fiduciary act of Merrill.

Excluded Assets ("Excluded Assets") – Merrill will not assist the client in the evaluation, review and selection of investment managers and strategies under the Program with respect to Excluded Assets. Excluded Assets are private equity funds, hedge funds, limited partnerships, or other illiquid assets held by the client as a part of the investment portfolio under the Program.

BANA Discretionary Investment Management Services – BANA furnishes investment management services to personal trusts, estates, private foundations, philanthropic institutions and other non-profit organizations. The Investment management services are provided on a fully discretionary basis and BANA acts as a co-trustee or co-fiduciary. Clients receiving discretionary investment management for a portfolio through BANA are not eligible for participation in the Program for the same portfolio.

Other Investment Advisory Programs and Brokerage Accounts - Merrill offers a wide variety of advisory services. (See *Advisory Business – Other Investment Advisory Programs*) If your investment portfolio is subject to ERISA, your plan assets, including your investment portfolio under the Client Agreement, must be held at a custodian other than Merrill and may not be held in a brokerage account or enrolled in any investment advisory program offered by Merrill or its Affiliates. If your investment portfolio is not subject to ERISA, we may terminate your participation in the Program if you hold any investment portfolio assets under

the Program in, or implement Program recommendations through, a brokerage account at Merrill or its Affiliates.

## **5. Termination**

The Client Agreement may be terminated at any time by you or Merrill by giving notice as described in the Client Agreement.

## **6. Qualifications of Designated Advisors**

Designated Advisors are registered as broker-dealer and investment adviser representatives. To become designated to provide Program services, Designated Advisors are generally required to demonstrate specialized experience and meet certain qualification requirements. These requirements include the Certified Investment Management Analyst® (CIMA) certification through the Investment Management Consultants Association® or the Chartered Financial Analyst® credential through the CFA Institute. In addition, Designated Advisors must complete training administered by Merrill. Those Designated Advisors who meet Merrill's criteria are designated to provide Program services.

## **7. Other Investment Advisory Programs**

In addition to this Program, Merrill offers a wide variety of advisory services. These include, but are not limited to, the following: Merrill Lynch Investment Advisory Program, Merrill Lynch Defined Contribution Investment Consulting Services, Merrill Lynch Fiduciary Advisory Services, Merrill Lynch Advice Access, Merrill Guided Investing, Merrill Guided Investing with Advisor program, Merrill Edge Advisory Account program, and Merrill Lynch Strategic Portfolio Advisor® Service. We also offer general information not directed to and not tailored to the specific needs of any individual or individual clients in the form of publications or research.

More information about these programs and services is contained in the applicable Merrill brochure (or Merrill Form ADV, Part 2A) and is available upon request or through the SEC's website at <http://www.adviserinfo.sec.gov/IAPD>. Special arrangements with certain clients to provide particular or unique services for clients of a specific Financial Advisor or branch office may also be established.

If your investment portfolio is not subject to ERISA, you may elect to engage an investment manager or strategy recommended by us through another Merrill investment advisory program. If you enroll in another investment advisory program, you will sign a separate investment advisory agreement for the services provided through that program. In addition, you will be charged a separate fee through another Merrill investment advisory program and the profiling process, program guidelines, fee calculation and billing methodology will differ from that of this Program. Advice and/or recommendations provided to accounts in these programs will be different from, or even conflict with, the advice and guidance provided in connection with this Program, including advice related to the recommendation of certain investment managers and strategies. For more information about those programs, please review the applicable brochure as described above. You may make investment-related decisions contrary to our recommendations. However, if you disregard our advice, we may, at our discretion and with notice to you, terminate you as a Program client. (see *Important Client Responsibilities* for further information)

## **ASSETS UNDER MANAGEMENT**

As of December 31, 2019, Merrill had assets under management of \$962.05 billion, of which \$289.19 billion was managed on a discretionary basis and \$672.86 billion was managed on a non-discretionary basis.

Merrill financial planning services, are not included in this data.

## **FEES AND COMPENSATION**

### **A. PROGRAM FEES**

For services provided in the Program, clients will pay a fee ("Program Fee"). The Program Fee will equal an annual fixed dollar amount or an annual amount resulting from an annual asset-based fee rate applied to certain portfolio assets. The Program Fee is subject to a Program minimum and maximum annual fee amount. The Program minimum annual fee amount is \$1,500. The Program maximum annual fee amount is an amount resulting from an annual asset-based fee rate of 0.45% of your portfolio assets under the Program, which includes Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excludes any portfolio assets under the Program that are held in other Merrill advisory programs or Merrill brokerage accounts.

The Program Fee may be negotiated with your Designated Advisor depending on a number of factors. The extent to which we negotiate the Program Fee is solely within our discretion. Unless otherwise agreed to by us, all fees are payable quarterly, in arrears.

If a client has chosen to enter into another Merrill investment advisory agreement, the fees for the services provided under that agreement will be separate and distinct from those for the Program. For a more detailed discussion of the methodology used to calculate the fees charged for any other Merrill investment advisory program, please see the applicable brochure.

### **B. CALCULATION OF PROGRAM FEES**

Unless otherwise agreed to by us, the following describes the calculation of the Program Fee.

#### **Asset-Based Fee Rate**

Asset-based fees are calculated and payable quarterly, in arrears, based upon the market value of the portfolio assets on the last business day of each calendar quarter as displayed in the IPR, including any Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excluding any portfolio assets held in another Merrill investment advisory program or a Merrill brokerage account. The fee rate applied will be one quarter of the annual asset-based fee rate.

#### **Fixed Dollar Fee**

Fixed dollar payments equal to one quarter of the agreed upon annual fee are due quarterly, in arrears.

#### **1. Initial Billing of Program Fees**

For all clients, for the first quarter in which the client is enrolled in the Program, the fees charged will be calculated on a pro-rata basis, based on the number of calendar days enrolled during the quarter. For asset-based fee arrangements, the market value of the last business day of the quarter displayed in the first IPR will be used to calculate the fee, including any Excluded Assets but, for clients with an investment portfolio

not subject to ERISA, excluding any portfolio assets held in other Merrill investment advisory programs or Merrill brokerage accounts.

## **2. Billing Upon Termination of Service**

For all clients, in the event of termination, the Program Fees payable hereunder shall be prorated based upon the effective date of termination. For asset-based fee arrangements, the market value as of the last business day of the quarter displayed in the final IPR will be used to calculate the final fee, including any Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excluding portfolio assets held in other Merrill investment advisory programs or Merrill brokerage accounts.

For additional information, see *Advisory Business-Institutional Investment Consulting-Termination* section.

## **C. PAYMENT OF PROGRAM FEES**

Program Fees are calculated and invoiced quarterly in arrears based upon the market value of your assets including any Excluded Assets but, for clients with an investment portfolio not subject to ERISA, excluding any portfolio assets held in other Merrill investment advisory programs or Merrill brokerage accounts. The following methods are acceptable for paying your Program Fees:

- U.S. Mail
- Wire Transfer

Merrill will provide you with mailing and wire instructions on your quarterly invoice.

## **D. OTHER FEES AND EXPENSES**

The Program Fee only covers the Program services described in this Brochure.

For further information, see *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - Conflicts of Interest and Information Walls* below.

## **E. COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS**

We and our employees, including your Designated Advisor, benefit from compensation paid to us, and may directly or indirectly receive a portion of the fees and other compensation paid by Program clients for other services.

Clients may also use other products or services available from or through us and in such case pay additional fees. Designated Advisors offering these other services or programs will, in turn, receive compensation from Merrill. In particular, we and your Designated Advisor will receive additional compensation if you choose to use a Merrill investment advisory program to implement any Program recommendations and the fees for that investment advisory program are higher than the fees under the Program. This practice creates a conflict of interest that gives us and our Financial Advisors an incentive to recommend advisory services based on the compensation received. Fees and commissions are higher for some products or services, and the remuneration and profitability to us and our Financial Advisors resulting from transactions on behalf of our management of certain accounts will be greater than the remuneration and profitability resulting from other advisory accounts, products or services.

We address conflicts from compensation described in this section and throughout the Brochure in a variety of ways including the disclosure of the conflicts in this Brochure. Moreover, our Designated Advisors are required to recommend investment advisory programs, investment products and securities that are suitable for you based upon your investment goals, risk tolerance and financial situation and needs. In addition, we

have established a variety of restrictions, procedures and disclosures designed to address actual and potential conflicts of interest – both those arising between and among accounts as well as between accounts and our business.

#### **F. SOURCES OF REVENUE**

As a broker-dealer, Merrill offers a wide variety of products and services. Our principal sources of income, which include commissions and other compensation for the sale of investment products, are derived from our business as a broker-dealer. Less than 1% of our gross revenues are expected to be generated from the Program on an annual basis.

#### **G. CONDUCTING BUSINESS THROUGH MERRILL**

You should discuss the investment advisory services we make available with your Designated Advisor to determine which is most appropriate for you. Program fees may be higher or lower than the fees charged by other firms for comparable services, assuming such services are available. Your Designated Advisor can provide you with a *Summary of Services* document which outlines the differences between IIC and other Merrill investment advisory programs.

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

Neither we nor our Designated Advisors receive performance-based fees for the Program. The investment recommendations provided in connection with the Program do not raise the conflicts associated with the side-by-side management of accounts.

### **TYPES OF CLIENTS**

This Program is available to charitable organizations, pension, welfare benefit and profit sharing plans, corporations, high net worth individuals, trusts, and estates.

The Program is typically available for clients with \$20 million or more in assets. The minimum can be waived, at our sole discretion. The Program's Asset Liability Modeling Service is available if you are or are acting on behalf of a single-employer sponsored defined benefit plan with an investment portfolio under the Program of at least \$50 million.

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

#### **A. ASSET ALLOCATION**

##### **1. Strategic Allocation Modeling Service**

Merrill will assist you in identifying an appropriate long-term asset allocation for your portfolio based upon your risk tolerance, investment goals and objectives, liquidity needs, tax status, time horizon, portfolio initial investment value, and investment constraints. These inputs are used in conjunction with our forward-looking capital market assumptions and a probabilistic modeling approach known as Monte Carlo simulation to recommend a strategic asset allocation to you. Monte Carlo simulation is a statistical modeling technique in which a set of future outcomes are forecasted based on the variability or randomness associated with historical occurrences. We use Monte Carlo simulation when producing a range of simulated asset allocations for comparison with your current strategic asset allocation. Each asset allocation (current and



simulated) is accompanied by the range of expected returns, volatility estimates, potential portfolio values, and yield projections over various investment horizons. The recommended strategic asset allocation for your portfolio will be presented to you in a report by your Designated Advisor.

**a. Monte Carlo Simulation**

Monte Carlo simulations are the result of running a large number of random scenarios in an attempt to determine the most probable performance results of a given portfolio. These simulations may be based not only on past performance information, which is not indicative of future results, but they may also be based on hypothetical performance for certain periods and for certain underlying funds or accounts. Note that this does not imply that these results are actually the best and worst cases that one will actually experience. Monte Carlo simulations do not purport to represent the actual performance of any portfolio, but attempt to illustrate the probabilistic range of hypothetical performance results of a large number of different hypothetical portfolios. No actual portfolio has performed in the manner indicated in the Monte Carlo simulations, and the hypothetical scenarios used in the simulation may omit entire categories of relevant scenarios. There can be no assurance that any given portfolio will in fact perform in a manner materially consistent with the probabilities indicated by the simulation. No representation is or could be made that the probabilities indicated by these simulations are based on any fundamental economic or market characteristics, and in the absence of such characteristics, there is no reason that these probabilities will be representative of any actual portfolio. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under-or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any recommendation or portfolio will or is likely to achieve profits or losses similar to those shown.

**b. Merrill's Capital Market Assumptions Framework**

Merrill's capital market assumptions framework generates expectations of asset class returns, risk, and correlations for the upcoming 25 years. This time horizon, strategic in nature, is meant to capture multiple business cycles and can potentially contain periods of economic expansion, contraction, market peaks, and market troughs, all with varying degrees of volatility. By looking beyond these short-term fluctuations in the market, we focus instead on the more stable, long-term financial relationships that provide a strong foundation from which we aim to construct efficient and well diversified portfolios. History has demonstrated that inter-asset class relationships are dynamic and traditional relationships that have held in the past, may not in the future. As a result, we take secular shifts into account in our modeling and incorporate new trends as they develop. Generating forecasts for returns, standard deviations, and correlations is the first step in developing the particular strategic asset allocation that helps meet each of our clients' unique needs and situations.

**c. Expected-Return Methodology**

There are many different methodologies for developing expected-return forecasts. Models can range in sophistication from the more basic, which rely exclusively on historical data (often producing misleading results) to the more complex, which seek to merge historical analysis with forward-looking views. Further, care must be taken when selecting suitable methodologies, as models built in the same manner for disparate asset classes can lead to unrealistic return expectations. As such, a wide array of techniques has been employed to more precisely estimate the return potential for each asset class. Merrill asset class expected return forecasts are guided by economic theories and based on the principle that asset returns provide compensation for exposure to systematic risk factors. To develop capital market assumptions, Merrill

uses a proprietary approach that reflects the dynamic interrelationships between asset class returns and a set of risk factors. Those risk factors have been found in academic research to represent systematic sources of risk and exhibit risk premium that are expected to persist in the future. More specifically, Merrill first generates forward looking forecasts for those selected key risk factors guided by financial theories, academic and practitioner research, and using data that gauge current market conditions. We then estimate relationships between the asset classes and the risk factors by applying regression analysis to historical data. Asset class expected returns are then developed based on asset class exposure to those systematic risk factors and our forecasts for those risk factors.

**d. Standard Deviation and Correlation Coefficient Methodology**

As in the case with Merrill's expected return modeling, Merrill applies a factor based approach to generate forward-looking volatility and correlation assumptions. We first generate forward looking scenarios for a set of risk factors guided by financial theories and empirical evidences. We then use historical data to estimate the empirical relationship between each asset class and relevant risk factors. For example, for U.S. equity asset classes, we use three well-known risk factors devised by Fama and French-market size and value. Next, we simulate asset class future return scenarios based on their relationship with relevant risk factors. Finally, we derive asset class expected volatilities and correlations coefficients from simulated future return scenarios.

**e. Forecasted Annualized Returns**

Forecasts within the report we provide to you for the current portfolio or alternate portfolio mixes studied do not take into account capital gains taxes incurred by re-allocating from your current asset allocation. Annual rebalancing of portfolios consistent with the asset allocation used in the analysis is assumed. Dividends and income are reinvested to the extent not used to fund annual spending. Neither the historical performance of the indexes nor the adjusted performance data guarantee future results. The returns of the market indexes and the strategic asset allocation alternatives included in the report we provide to you do not reflect actual account performance or the deduction of transaction costs or advisory fees. The deduction of such costs and fees would reduce performance. Certain assumptions are made in the analyses included in the report we provide to you. For example, the allocations shown for each alternative remain consistent over all periods of time. This practice would seldom be followed in actual investing; and performance returns of the alternatives assume reinvestment of income. Assumptions concerning inflation and tax rates in the report we provide to you are for illustrative purposes only and are not intended to predict or guarantee economic performance.

**f. Market Risks**

Diversification does not guarantee a profit or protect against loss in declining markets. Since the goals-based asset allocation contained in the report we provide to you involves continual investment in securities regardless of fluctuating price levels, you must consider your willingness to continue purchasing during periods of high or low price levels. You should also carefully consider the results of your modeling study and make an independent judgment that this material accurately reflects your situation, investment philosophy and risk tolerance. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Foreign currency exchange rates may adversely affect the value, price or income of any security or related investment mentioned in the report we provide to you. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk. There are special risks associated with an investment in

commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

#### **g. Risks in Alternative Investments**

Most alternative investment products are sold on a private placement basis and eligible clients must typically be Qualified Purchasers (\$5 million net investments). No assurance can be given that any alternative investment's investment objectives will be achieved. In addition to certain general risks, each product will be subject to its own specific risks, including strategy and market risk.

You should bear in mind the following risks of alternative investments:

- Alternative Investments are speculative and involve a high degree of risk.
- Alternative investments may trade on a leveraged basis which increases the risk of loss.
- Performance can be volatile.
- An investor could lose all or a substantial amount of his or her investment.
- The use of one or a small number of fund managers applying one set of allocation procedures could mean lack of diversification and, consequently, higher risk.
- There is no secondary market for investor's interest in alternative investments and none is expected to develop.
- There may be restrictions on transferring interests in the alternative investments.
- High fees and expenses, including performance fees payable to the manager, may offset trading profits.
- Fund managers have broad authority to suspend redemptions, defer payment of redemption proceeds and establish illiquid side pockets to segregate illiquid investments.
- A substantial portion of the trades executed by the underlying managers may take place on non-US exchanges.
- Alternative investments may require tax reports on Schedule K-1 to be prepared. As a result, investors may be required to obtain extensions for filing federal, state, and local income tax returns each year.
- In addition to the foregoing risks, each alternative investment fund is subject to its own strategy-specific or other risks. You must carefully review the offering memorandum for any particular fund and consider your ability to bear these risks before any decision to invest.
- Past performance is not indicative of future results.
- Hedge Funds and Private Equity may be included in the recommended strategic asset allocation but Merrill will not provide any investment manager or strategy recommendations with respect to such assets.

#### **h. Risks in Private Equity**

In addition to the foregoing, private equity fund investments are subject to the following risks:

- Private equity investments involve significant risks, are typically illiquid on a long-term basis and may require a holding period of at least 8 to 12 years. Underlying private investments may be difficult to value. Investors may lose their entire investment.
- Private equity managers typically take several years to invest a fund's capital. Investors will not realize the benefits of their investment in the near term and there will likely be little or no near-term cash flow

distributed by the fund during the commitment period. Interests may not be transferred, assigned or otherwise disposed of without the prior written consent of the manager.

- Private equity funds may make a limited number of investments, and such investments generally will involve a high degree of risk, such as start-up ventures with little or no operating histories. In addition, funds may make minority equity investments where the fund may not be able to protect its investment or control or influence the business of such entities. The performance of a fund may be materially impacted by a single investment.
- A private equity fund may obtain rights to participate in, or to influence, the management of certain portfolio companies, including the ability to designate directors. This or other measures could expose the assets of the fund to claims by a portfolio company, its security holders, creditors and others.
- Private equity fund investors are subject to periodic capital calls. Failure to make required capital contributions when due will cause severe consequences to the investor, including possible forfeiture of all investments in the fund made to date.

#### **I. Past Performance is No Guarantee of Future Results**

Once you have reviewed the report we provide to you, it is your responsibility to decide if, and how, the suggestions made in conjunction with this report should be implemented. You should carefully consider all relevant factors in making these decisions and are encouraged to consult with any of your outside professional advisors. In particular, neither Merrill nor its Financial Advisors provide legal or tax advice. We recommend that you consult with your lawyer, accountant or other advisor about questions affecting your individual circumstances. It is important to review your financial situation regularly. If your financial goals or circumstances change, you should carefully consider how these changes might affect any course of action you have previously selected.

Your Designated Advisor will collect certain information from you, such as your portfolio's investment objectives, risk tolerance, and projected cash flows, through a questionnaire in order to provide this service. However, you are responsible to provide all necessary information, particularly any limitations imposed by law or otherwise. We rely upon information provided by you to provide the report as well as the other Program services described below. You should provide prompt written notice to Merrill of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information, which could materially change the information previously provided by you and used by us to create the report or provide other Program services described below.

It is your responsibility to select the final strategic asset allocation and to determine whether to implement any asset allocation strategy. After you select a strategic asset allocation, it is important that you periodically review your portfolio's actual asset allocation to verify that it remains in line with your investment guidelines.

#### **2. Asset Liability Modeling Service**

If you are or are acting on behalf of a single-employer sponsored defined benefit plan with an investment portfolio under the Program of at least \$50 million, we will provide the Asset Liability Modeling Service to you upon your request. Merrill will assist you in identifying an appropriate strategic asset allocation for your portfolio's specific investment goals and objectives in meeting future defined benefit plan payment obligations. Under the service, we provide a report that includes a comprehensive stochastic modeling of plan assets and liabilities using Monte Carlo simulations to forecast the following pension metrics:

- Annual contributions (according to the plan sponsor's funding policy)
- Profit and loss expense

- Funded status on an ERISA basis
- Balance sheet funded status

The modeling uses our forward-looking capital market assumptions of risk, return, and correlations for the different asset mixes and for liability calculations during the forecast period. For further information on our capital market assumptions and Monte Carlo simulation. (see above *Methods of Analysis, Investment Strategies and Risk of Loss—Strategic Allocation Modeling Service*) Please note that the capital market assumptions used with this Asset Liability Modeling Service generate expectations of asset class returns, risk, and correlations for the upcoming 15 years instead of 25 years which is used with the Strategic Allocation Modeling Service. The report also includes a liability driven investment glide path, if applicable, with clearly defined trigger points that correspond with dynamic asset allocation changes that seek to limit swings in the plan's funded status, changes in contribution requirements, and impact on the balance sheet.

Merrill will utilize its Affiliate, BANA, under a servicing arrangement between Merrill and BANA to assist Merrill in providing the Asset Liability Modeling Service. The servicing agreement details the roles and responsibilities of each party in connection with the report.

Your Designated Advisor will collect certain information from you, such as your portfolio's investment objectives, risk tolerance, and projected cash flows, through a questionnaire in order to provide this service. Your Designated Advisor will also request that you provide certain actuarial reports in order to provide the service. However, it is your responsibility to provide all necessary information and actuarial reports, particularly any limitations imposed by law or otherwise. We rely upon information provided by you to provide the report as well as the other Program services described in this Brochure. You should provide prompt written notice to Merrill of any change in your portfolio's investment goals, risk tolerance, guidelines, restrictions or similar information, which could materially change the information previously provided by you and used by us to create the report or provide other Program services described below.

Note the guidance we provide in the creation of your asset allocation for the Program is a recommendation and it is your responsibility to approve the final portfolio strategic asset allocation. If you choose to invest your assets in a manner that differs from our recommendations, you may assume additional risks that result from your decisions. We also encourage you to consult with your tax and legal professionals, since we do not provide tax or legal advice that may affect asset classes or allocations used in the modeling. However, we will apply guidelines you supply as directed. Again, compliance with restrictions or guidelines, if any, is your responsibility.

## **B. INVESTMENT POLICY STATEMENT SERVICE**

The Program questionnaire is designed to profile various characteristics of you that will assist in the creation of the client's IPS. The characteristics that are taken into consideration include tax status, investment goals, risk tolerance, time horizon, liquidity needs, and investment constraints. Your Designated Advisor will also discuss with you minimum and maximum ranges for each asset class for realigning your portfolio to your selected strategic asset allocation based on investment goals and objectives. Your Designated Advisor will provide a draft IPS for your investment portfolio to you for review that will include your selected strategic asset allocation, as well as a recommendation for the minimum and maximum ranges for realigning your portfolio to your selected strategic asset allocation. During the editing phase, we strongly recommend that you utilize your other professional advisers, such as attorneys and accountants to check relevant documentation, particularly in the case of trusts and retirement plans. Please note that it is your responsibility to provide all necessary information for the preparation of the IPS, particularly any limitations imposed by law or otherwise.

If you have an existing IPS and do not choose to create a new IPS through the Program, your Designated Advisor will review your existing IPS and provide guidance including minimum and maximum ranges for the selected strategic asset allocation. You will also receive written confirmation of your investment guidelines including but not limited to your risk tolerance, time horizon and selected strategic asset allocation and minimum and maximum ranges. The information set forth in the initial and each subsequent written confirmation of your investment guidelines is how we reflect our understanding of your investment guidelines for the Program. You should review each written confirmation of investment guidelines we send to you carefully to ensure that the information reflected therein is accurate and you should contact your Designated Advisor if you believe any of the information is, or becomes, inaccurate.

The acceptance and adoption of the IPS created for you through this Program, as well as ensuring your portfolio's adherence to your IPS, is your responsibility. You are also responsible for ensuring that investment managers and strategies that you select are able to accommodate any investment restrictions reflected in your IPS and the investment restrictions are properly captured by any program you select for implementation.

## **C. MANAGER SEARCHES AND RECOMMENDATIONS**

### **1. Manager Identification Report**

We assist you with the identification of investment managers and strategies from the IIC Eligible Strategies universe that are appropriate based on either your IPS created through the Program or the written confirmation of your investment guidelines that was sent to you, as well as your responses to a questionnaire. Clients, with the assistance of their Designated Advisor, complete the questionnaire, which details the need for the service as well as specific investment manager criteria and constraints to be considered during the identification process. This information is then compared against data about investment managers available to us from a variety of sources, including both nonproprietary databases and subscription services. Information about investment managers is obtained from sources believed to be reliable, but reliability cannot be guaranteed. While Merrill only recommends investment managers and strategies that are IIC Eligible Strategies, clients may request investment managers and strategies that are not IIC Eligible Strategies. The client must provide a written request to the Designated Advisor to include in the MID an investment manager or strategy that is not an IIC Eligible Strategy for comparison purposes only. Merrill expresses no opinion about an investment manager or strategy that is not an IIC Eligible Strategy and inclusion of the investment manager or strategy in the MID is not an endorsement or recommendation of the investment manager or strategy.

Although we generally review an investment manager's past performance, we do not perform an audit of this data to verify either its accuracy or that each investment manager has calculated past performance in a manner that is consistent with industry standards or uniform with other managers. Moreover, the methodology used by an investment manager to select and aggregate accounts for performance reporting purposes (*i.e.*, the development of the investment manager's composite), as well as the calculation of performance results reported by each investment manager for its composite and its underlying accounts, may not have been created or calculated on a uniform or consistent basis from manager to manager. Further, performance information provided by the manager or obtained from third-party sources may include data pertaining to types of accounts that are different from the type of account you are interested in having managed. You are encouraged to evaluate this performance data carefully and to consider all relevant factors in selecting or retaining one or more managers.

Using this analysis, we will present you with a list of typically three to five investment managers or strategies per asset class that appear appropriate for you based upon your investment guidelines and your selected strategic asset allocation.

We will review the list of candidates with you and provide guidance to assist you in choosing an investment manager or strategy that you believe is appropriate based upon your portfolio's goal and objectives. As discussed above, you are responsible for the implementation of any investment manager or strategy recommended under the Program and determining how the strategy will be implemented. Not all investment structures are available for each recommended investment manager or strategy.

Investment managers or strategies recommended for your portfolio are limited to the IIC Eligible Strategies. Our recommendations therefore will not include every investment option available in the industry, including those offered through other Merrill investment advisory programs.

## **2. IIC Eligible Strategies**

IIC Eligible Strategies are investment managers and strategies that have been identified by us and may be used by Merrill and the Designated Advisor to make recommendations for your portfolio. As a general matter, we decide whether to include particular investment manager or strategies in the Program (or to remove them from the Program) based on a variety of factors, including client needs, investment styles available in the marketplace, platform capacity, client demand and the outcome of certain reviews that are conducted by or under the auspices of Merrill, including through the CIO. From time to time Merrill makes additional investment strategies available in the IIC Eligible Strategies. Final selection of all investment strategies for your portfolio will be made solely by you.

You should discuss with your Designated Advisor which investment strategies are appropriate for your portfolio.

### **a. Review Process**

The initial and periodic reviews of IIC Eligible Strategies are performed by our product teams through an internal business review. In addition, for IIC Eligible Strategies we have in place an investment review conducted by or under the auspices of personnel of the CIO, referred to as the "CIO Review Process". The CIO Review Process consists of proprietary processes conducted by the CIO and those processes and reviews provided by third-party reviewers that we have engaged for this purpose. The third party reviewer services are generally consistent with the multi-factor processes that the CIO deploys but they are not identical. We, through the CIO, have reviewed such third-party reviewers' processes and believe they are reasonable and appropriate in light of the objectives of the Program.

Once we identify a need for a particular investment management style, we employ a multi-factor process to review appropriate investment managers and strategies to meet this need. These factors may include, but are not limited to: organizational structure and stability of an investment manager or strategy, adherence to investment style, evaluation of risk and volatility, investment professional and strategy resources, investment philosophy and process, portfolio construction, performance, and operating and administrative capability. Based on these factors and using the information collected, the CIO Review Process involves quantitative and qualitative analytical methods, some of which may be subjective. Different weightings may be assigned to each of the factors considered and generally no single factor will be determinative. There is no assurance that the CIO Review Process or our internal business reviews will identify the best performing investment managers and or strategies.

Our reviews may involve in-person visits, telephone conference calls, reviews of performance, and updates of certain investment manager or strategy documents and information. We may also conduct periodic analysis of composite performance to determine whether that performance generally appears to be consistent with that of the manager or strategy. Merrill does not perform audits of the investment strategies to verify past performance information.

For each investment manager or strategy, we will periodically evaluate factors related to the investment manager or strategy, that we deem appropriate. In addition, we may initiate reviews based on various factors determined by us and the CIO to be appropriate. These reviews occur as part of the CIO Review Process or otherwise. In addition, Merrill will evaluate on an as needed basis, as determined by the CIO or by Merrill, any material change related to such investment manager or strategy and the impact of any such changes including on the investment advisers managing the assets.

**b. Information Available to Designated Advisors Regarding IIC Eligible Strategies**

We make available to Designated Advisors through regular or ad hoc internal publications, including those from the CIO, that reflect our internal opinions and views with respect to investment managers and strategies. All such information is available to your Designated Advisor in considering whether a particular strategy is appropriate for your portfolio. You should discuss with your Designated Advisor any questions you have about our views with respect to a particular strategy.

**c. Status Change of IIC Eligible Strategies**

If your portfolio contains investment managers and strategies that no longer meet Merrill's due diligence standards for inclusion as an IIC Eligible Strategy, your investment performance report will highlight those ineligible strategies. Your Designated Advisor will provide recommendations of IIC Eligible Strategies to replace those investment managers and strategies that no longer meet Merrill's due diligence standards.

IIC Eligible Strategies may change at any time. Merrill will generally not provide specific information regarding the basis for a change.

Note that not all investment managers and strategies recommended for other Merrill clients outside of this Program will be included as IIC Eligible Strategies, and vice versa.

Merrill's review of your portfolio's investment managers and strategies is not a substitute for your continued review of your portfolio and the performance of your investment strategies.

**d. Portfolio Evaluation, Review, and Reporting**

We provide periodic portfolio evaluation review, and reporting of your investments and your selected strategic asset allocation as agreed upon in your Client Agreement. We will assist you in evaluating your portfolio including the review of your investment performance on an absolute and relative basis. We can also assist you in determining whether and how adjustments should be made.

We will include your investment managers and strategies that are held in your portfolio in your IPR, including investment managers or strategies that are not in the IIC Eligible Strategy Universe upon written request. Our inclusion of these non-IIC Eligible Strategies is solely for the purpose of performance measurement and strategic asset allocation monitoring and does not constitute an endorsement or recommendation that you should continue to hold those investments or retain those managers.

The principal source of information used for our performance reports is from Merrill unless your portfolio has a custodian other than Merrill. We also use outside information sources including computer and data analysis firms. This information is obtained from sources believed to be reliable, but reliability cannot be guaranteed. Merrill is not responsible for the accuracy of this data.

The accuracy of the IPR and the information contained is limited by the accuracy and completeness of the information and data available to Merrill. Merrill relies solely on the information provided to us by your investment managers and custodians, and computational or other errors or limitations in that information will necessarily be reflected in the IPR. One particular area where information is limited is the calculation of



net performance. Clients in the IIC Program may arrange to pay investment advisory fees to their investment managers and the Program Fee to Merrill directly rather than authorize deduction from the account managed by the investment manager. Similarly, clients may authorize the deduction of the Program Fee and investment advisory fees for an account or multiple accounts from a different or single account. Depending on whether your fees are paid directly out of your managed account, or fees for multiple investment managers are deducted from a single account, the performance information reported to Merrill by your investment manager(s) may or may not reflect accurately the deduction of those fees. In the event that clients have arrangements that provide such alternative payment mechanisms, the actual net performance of your accounts will differ from that shown in the IPR.

In connection with the information in your performance review, such as the comparisons of the returns of your investment managers and strategies with those of the benchmarks recommended by us, it should be noted that:

- If provided in the custodial statement, changes in portfolio valuations due to capital gains or losses, dividends, interest or other income are included in the calculation of returns; and
- Typically transaction costs, such as commissions, are included in the purchase cost or deducted from the proceeds of a sale of a security.

If you also maintain an account(s) in one of our investment advisory programs, you will receive performance reporting for each advisory account through that program, unless otherwise agreed upon.

#### **D. PRICING OF SECURITIES**

Pricing of securities is provided for your information. Your Merrill account statement or the account statements provided by other custodians reflect your official record of holdings, balances, and security values. Unless otherwise indicated, values reflect current information as of the date shown at the top of each report. The valuation of alternative investments is prepared based upon information from third party sources. The information has not been verified and cannot be guaranteed. This data may include estimates and is subject to revision.

If an account has been managed by more than one manager, the manager name in the IPR reflects the current manager. However, the return and standard deviation information may be calculated using the entire history of each account. Note that the IPR may also include information regarding account(s) that are not managed by a manager (*i.e.*, where you make the investment decisions).

Performance information set forth in an IPR is dependent upon valuations received from Merrill and custodians other than Merrill. For custodians other than Merrill, we rely upon their valuations and do not verify valuation data independently.

#### **E. RISKS ASSOCIATED WITH CERTAIN INVESTMENTS**

You should understand that investing in securities involves risk of loss that you should be prepared to bear. You should understand that all investments involve risk (the degree of risk varies significantly), that investment performance can never be predicted or guaranteed and that the values of the portfolio's assets will fluctuate due to market conditions, and other factors. Merrill makes no representations or warranties with respect to the present or future level of risk or volatility in your portfolios, strategies, mutual funds, or investments' future performance or activities. There is no assurance that the performance results of any benchmark or index used in connection with the Program, including those shown on the performance report or other Merrill reports, can be attained. Nor is there any guarantee that our investment manager identification process will identify the best performing investment managers and strategies in their

respective competitive universe. You are assuming the risks involved in selecting investment strategies for the portfolio and the portfolio could lose all or a portion of the amount held in those investment strategies.

Typically, Merrill recommends that a client seek a diversified portfolio in an effort to meet the portfolio's investment objectives and have investments diversified across multiple asset classes in order to reduce investment risk associated with concentrated investments.

For specific risks associated with the investments in your portfolio, you should consult with the relevant investment manager you select to manage your portfolio.

## **F. CYBER SECURITY RISKS**

With the increased use of technologies to conduct business, Merrill and its Affiliates are susceptible to operational, information security, and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and may arise from external or internal sources. Cyber attacks include unauthorized access to digital systems (such as through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information; corrupting data, equipment, or systems; or causing operational disruption. Cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (making network services unavailable to intended users).

Cyber incidents may cause disruptions and affect business operations, potentially resulting in financial losses, impediments to trading, the inability to transact business, destruction to equipment and systems, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs.

## **IMPORTANT CLIENT RESPONSIBILITIES**

For the various services described herein, you are asked to complete a questionnaire or other form that elicits various types of information. You are responsible for providing accurate and complete information, and failure to do so could significantly affect the services that we provide. Further, you are obligated to notify your Designated Advisor promptly of any material change in financial circumstances or investment objectives or investment restrictions (if any) that may affect the strategic asset allocation, investment guidelines, or other Program services provided by Merrill.

A Designated Advisor will make recommendations for your IPS based upon the financial, and other information provided by you. You are responsible for reviewing the IPS or written confirmation of investment guidelines to ensure it is reflective of your goals and objectives, and the information you provided is captured correctly. The acceptance and adoption of an IPS for this Program, as well as ensuring your portfolio's adherence to your IPS, is your responsibility. You are also responsible for ensuring that investment managers and strategies that you select can accommodate any investment restrictions reflected in your IPS and are properly captured for any other program you select for implementation.

With respect to selecting a strategic asset allocation, you are responsible for providing us with the information necessary to create and update your strategic asset allocation. In addition, you maintain sole responsibility for selecting a strategic asset allocation that best aligns with your investment goals and objectives, as well as the minimum and maximum ranges for realigning your portfolio. Your Designated Advisor will provide recommendations to assist you in the initial selection of the strategic asset allocation and minimum and maximum ranges, as well as any subsequent updates to your strategic asset allocation, IPS created through the Program, or investment guidelines. On a periodic basis, we will monitor your strategic asset allocation and if appropriate make recommendations regarding updates.

Merrill conducts due diligence on certain investment managers and strategies as part of the investment manager identification service offered within this Program. Your Designated Advisor will provide you with a MID to assist you in the selection of eligible investment managers and strategies. It is your responsibility to review the material presented to you prior to taking action. The selection of any investment manager and strategy is the responsibility of the client.

By participating in the Program you represent and confirm that you have sole and final responsibility for selecting asset allocations, accepting and adopting an IPS or reviewing the written confirmation of your investment guidelines if electing to not have an IPS created through the Program, and selecting investment managers and strategies for inclusion in your portfolio.

You will use best efforts to notify Merrill if any of the foregoing representations become inaccurate or if the identity of any of the portfolio's named fiduciaries or authorized persons with respect to this relationship changes. Such notification must be made in writing to your Designated Advisor.

You should understand that our services described above should not substitute for or diminish the careful deliberation and determination made by those fiduciaries having responsibility for management and administration of the portfolio, following appropriate consultation with your other professional advisers and the review of relevant documentation.

#### **DISCIPLINARY INFORMATION**

The following is a summary of certain adverse legal and disciplinary events and regulatory settlements that may be material to your decision of whether to retain us for your investment advisory needs. Certain disclosures below relate to disciplinary events that occurred with predecessor firms, Banc of America Investment Services, Inc. ("BAI") and Banc of America Securities LLC ("BAS"), which merged with MLPF&S in the 2009-2010 time period. You can find additional information regarding these settlements in Part 1 of Merrill Lynch's Form ADV at: <http://www.adviserinfo.sec.gov/IAPD>.

On August 20, 2018, the SEC announced that MLPF&S, without admitting or denying the findings, entered into a settlement related to willful violations of Sections 206(2) and 206(4) of the Advisers Act and Advisers Act Rule 206(4)-7. Specifically, the SEC's administrative order found: (1) a failure to disclose that the portfolio manager process employed in connection with a January 2013 termination recommendation was exposed to a conflict of interest (less than one-seventh (1/7) of 1% of total advisory accounts (approximately 1,500) were invested in the products subject to the termination recommendation); and (2) a failure to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act. In determining the appropriate sanctions, the SEC considered MLPF&S's remedial acts promptly undertaken and cooperation afforded the SEC staff. MLPF&S consented to the imposition of a cease-and-desist order, a censure, and disgorgement and a financial penalty totaling approximately \$8.8 million

On June 16, 2014, MLPF&S, without admitting or denying the findings, entered into a FINRA settlement relating to its failure to have an adequate supervisory system to ensure that certain clients received sales charge waivers for purchases of certain mutual funds' Class A shares which affected certain retirement accounts and certain clients with a particular type of brokerage account. This settlement resulted from MLPF&S self-identifying certain of these issues. MLPF&S consented to the imposition of a censure and a fine of \$8 million and agreed to provide additional reimbursement to the agreed upon impacted clients and has reimbursed all such impacted clients.

On June 21, 2012, MLPF&S, without admitting or denying the findings, entered into a FINRA settlement related to the following: (1) failure to have an adequate supervisory system around billing processes for

certain investment advisory programs and, as a result, overcharging certain client accounts during the 2003-2011 time period (client accounts impacted were less than 5% of its total advisory accounts and the aggregate fee overcharge amount was less than  $\frac{1}{2}$  of 1% (approximately \$32 million) of the total advisory fees billed during that period); (2) failure to send contemporaneous or periodic trade confirmations to certain client accounts for ten investment advisory programs; (3) having inaccurate or incomplete trade confirmations for certain mutual fund transactions by failing to state trade capacity (agent or a principal) on trade confirmations and account statements; (4) failure to deliver (directly or through a vendor) proxy materials to certain clients or to their designated investment advisers and failure to have an adequate supervisory system to detect this failure (clients impacted constituted less than 1% of its clients during the relevant period); and (5) failure to send margin risk disclosure statements and/or business continuity plans to certain clients upon the opening of their accounts (clients impacted were less than 1% of its clients during the relevant period). In determining the appropriate sanctions, FINRA considered MLPF&S' internal review through which it identified the violations, the remedial measures that it took to correct its systems and procedures, and its efforts to provide remediation to affected clients. MLPF&S consented to the imposition of a censure and a fine of \$2.8 million. All overcharged accounts were reimbursed.

On October 4, 2011, MLPF&S entered into a consent agreement with FINRA regarding its alleged failure to have a supervisory system to ensure that all accounts in which an employee either had a financial interest or over which the employee had control were monitored and reviewed for potential misconduct. In addition, FINRA found that MLPF&S failed to establish, maintain and enforce written procedures to adequately supervise a registered representative who was subsequently found to have used a business account at the firm to implement a fraudulent scheme. Without admitting or denying the findings, MLPF&S consented to the entry of findings, a censure, and a fine of \$1 million.

On June 6, 2009, BAI and BAS, two of our predecessor firms, were enjoined by the United States District Court for the Southern District of New York from violating, directly or indirectly, Section 15(c) of the Exchange Act. The injunction was the result of an SEC complaint alleging that BAI and BAS had violated Section 15(c) of the Exchange Act by allegedly misleading customers about the nature and risks associated with auction rate securities ("ARS"). Without admitting or denying the allegations, BAI and BAS entered into a consent decree and agreed to a series of undertakings designed to provide relief to certain individual investors. On January 10, 2012, MLPF&S agreed to settlements with the Illinois Securities Department (for alleged activities of BAS and BAI, its predecessors by merger) and the North Carolina Department of the Secretary of State, Securities Division (for ARS activities of MLPF&S) involving the marketing and sale of ARS. In both actions, it was alleged that the inappropriate marketing and sales of ARS occurred without adequately informing certain customers of the increased risks of illiquidity associated with ARS that constituted an occurrence of dishonest and unethical practices in the offer and sale of securities and failure to supervise. In the Illinois action, MLPF&S agreed, among other things, to repurchase at par certain illiquid ARS and to pay a total fine of \$1,578,321 to the State of Illinois out of a total civil penalty of \$50 million that was to be distributed among the other state regulator parties to an ARS-related consent order. With respect to the North Carolina action, MLPF&S agreed, among other things, to repurchase at par certain illiquid ARS held by certain of its clients and to pay a total fine of \$3,193,552 to the North Carolina regulator representing its portion of a total civil penalty of \$125 million that was to be distributed among the other state regulator parties to an ARS-related consent order.

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

Merrill, an indirect wholly-owned subsidiary of Bank of America, is a leading global investment banking firm and a registered broker-dealer and investment adviser. In the United States, Merrill acts as a broker (*i.e.*,

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agent) for our corporate, institutional and private clients. Through our own arrangements and through our affiliate, BofA Securities, Inc. ("BofAS"), we have access to a dealer market in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. We also act as a broker and/or a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, financial futures contracts, and options.

MLPF&S operates the firm's U.S. retail branch system, and also provides financing to clients, including margin lending and other extensions of credit as well as a wide variety of financial services, such as securities clearing, retirement services, and custodial services.

In May 2019, Bank of America separated the retail and institutional broker-dealer activities that had operated through Merrill into two distinct legal entities. Retail customers continue to be serviced through Merrill, while institutional clients are serviced through BofAS.

Managed Account Advisors LLC ("MAA"), an indirect wholly-owned subsidiary of Bank of America, is a registered investment adviser that provides investment advisory services to clients that establish accounts under other investment advisory programs.

As registered investment advisers, Merrill and MAA complete Form ADVs, which contain additional information about those entities, Bank of America and their Affiliates. Information is available through publicly available filings at the SEC or at [http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx). For purposes of Form ADV Part 2, certain Merrill and/or MAA management persons are registered as registered representatives or associated persons of Merrill. In the future, certain Merrill and/or MAA personnel may be considered management persons and, as such, may be registered, or have applications pending to register, as registered representatives and associated persons of Merrill to the extent necessary or appropriate to perform their job responsibilities.

Bank of America, through its subsidiaries and Affiliates, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending and related products and services on a global basis. These products and services include (1) securities brokerage, trading and underwriting; (2) investment banking, strategic advisory services (including mergers and acquisitions) and other corporate finance activities; (3) wealth management products and services including financial, retirement and generational planning; asset management and investment advisory and related record-keeping services; (4) origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, commodities and foreign exchange products; (5) securities clearance, settlement financing services and prime brokerage; (6) private equity and other principal investing activities; (7) proprietary trading of securities, derivatives and loans; (8) banking, trust and lending services, including deposit-taking, consumer and commercial lending, including mortgage loans, and related services; (9) insurance and annuities sales and (10) providing research including: global equity strategy and economics, global fixed income and equity-linked research, global fundamental equity research, and global wealth management strategy. Bank of America is subject to the reporting requirements of the Exchange Act and additional information about Bank of America can be found in publicly available filings with the SEC.

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

### **A. CONFLICTS OF INTEREST AND INFORMATION WALLS**

Merrill and its parent company, Bank of America engages in a wide range of activities and businesses across a broad spectrum of clients. As a result, we recognize that actual, potential and perceived conflicts of interest develop in the normal course of operations in various parts of the Bank of America organization. To address these conflicts, information walls which are designed to allow multiple businesses to engage with the same or related clients at the same time, while mitigating any conflicts arising from such a situation. For example, information walls are designed to prevent the unauthorized disclosure of material nonpublic information and allow public side sales, trading and research activities to continue while other businesses within Bank of America possess material nonpublic information. Additionally, Bank of America maintains a Code of Conduct which provides guidelines for the business practices and personal conduct all associates and board members are expected to adopt and uphold.

Managing conflicts of interest is an integral part of Bank of America's risk management process. We believe that no organization can totally eliminate conflicts of interest that exist explicitly or implicitly. Each of Bank of America and Merrill, with the Bank of America Merrill's investment advisory business, evaluates its business activities and the actual and possible conflicts that may emerge from its activities on an ongoing basis. To the extent that existing or new business activities raise an actual conflict of interest, or even the appearance of a conflict, we endeavor to provide you with full and clear disclosure or to take action to avoid them.

### **B. CODE OF ETHICS**

We have adopted an Investment Adviser Code of Ethics (the "Code of Ethics") covering our personnel who are involved in the operation and offering of investment advisory services. Each Code of Ethics is based on the principle that clients' interests come first, and it is intended to assist employees in meeting the high standards that we follow in conducting our business with integrity and professionalism. Each Code of Ethics covers requirements related to employees complying with all applicable securities and related laws and regulations; reporting and/or clearance of employee personal trading; prevention of misuse of material nonpublic information; and the obligation to report possible violations of the Code of Ethics to management or other appropriate personnel. All covered personnel must certify to the receipt of the Code of Ethics. We will provide a copy of each of the Code of Ethics to you upon request.

We also have imposed policy restrictions on all personnel for transactions for their own accounts and accounts over which they have control or a beneficial interest. In addition, we have special policies requiring that certain personnel obtain specific approval of securities transactions and have implemented procedures for monitoring these transactions, as well as those of all employees. Our requirements impose certain responsibilities on Financial Advisors and their trading. Financial Advisors are permitted to participate in block trades along with their clients.

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

We, our Affiliates, your Designated Advisor and other of our employees' benefit from the fees and charges you and other clients pay for the services described in this Brochure. Financial Advisors receive compensation from us for providing the services to clients enrolled in the Program and share portions of this compensation with other Financial Advisors whom they have made certain arrangements. The amount of this compensation is based upon, and will vary depending on the Program Fee. The amount of compensation we and your Designated Advisor receive from your enrollment in the Program may be more or less than the compensation we and the Designated Advisor might receive if you had instead participated in other of our investment

advisory programs. If there is higher compensation, the Designated Advisor has a financial incentive to recommend this Program over other programs or other services offered by us (or our Affiliates).

We, through our Financial Advisors, may suggest or recommend that clients use our investment advisory programs, securities account, execution, and custody or other services, or such services of an Affiliate. Similarly, Financial Advisors, who also handle clients' securities accounts, may suggest or recommend that clients purchase Merrill's products or products of an Affiliate. Where you use or purchase Merrill's or our Affiliate's services or products, we and our Affiliates will receive fees and compensation. Financial Advisors will, as permitted by applicable law, receive compensation (the amount of which varies) in connection with these products and services.

As noted above, if your investment portfolio is subject to ERISA, your plan assets, including your investment portfolio under the Client Agreement, must be held at a custodian other than Merrill and may not be held in a brokerage account or enrolled in any investment advisory program offered by Merrill or its Affiliates. If your investment portfolio is not subject to ERISA, you may implement Program recommendations through an investment advisory program offered by Merrill or its Affiliates, however, you may not implement through a brokerage account at Merrill and should you do so, you will be subject to termination. If you utilize other products and services that we offer, we and our Financial Advisors will benefit from the additional compensation paid or generated by the selection. In particular, if you select an investment advisory program offered by Merrill or its Affiliates to implement Program recommendations, the amount of compensation we and your Designated Advisor receive would increase if the fees for the investment advisory program were higher than the fees for the Program. In that case, we and your Designated Advisor would have a financial incentive to recommend investment managers and strategies under the Program that you can implement at Merrill or its Affiliates and will have a further financial incentive to make recommendations to use an affiliated investment advisory program.

Merrill has business relationships with the officers, directors, or employees of a variety of clients, including corporations, pension and retirement plans, and other entities receiving services through the Program. These business arrangements create a conflict of interest to the extent that these individuals have any role or influence in the hiring or retention of Merrill and its Financial Advisors or with respect to their compensation.

We address these conflicts in a variety of ways, including through disclosure in this Brochure, our policies that require our Advisors to recommend investment advisory programs, investment products and securities that are suitable for each client based upon your investment objectives, risk tolerance and financial situation and needs; and a variety of restrictions, procedures and disclosures designed to address actual or potential conflicts of interest – both those arising between and among Accounts as well as between Accounts and our business (e.g., personal trading preapprovals, self-reporting, restrictions on our personnel detailed in our policies and procedures and Code of Ethics).

#### **D. RELATED PERSONS**

Other Bank of America Affiliates or divisions, such as BANA, offer their own managed products or wrap programs that are similar to this or other Merrill programs. Advice and/or recommendations provided to accounts in these programs will be different from, or even conflict with, the advice and guidance provided in connection with the Program, including advice related to the recommendation of certain investment managers. This is due to, among other things, the differing nature of the Affiliate's investment advisory services and differing processes and criteria upon which determinations are made.



#### **E. COVERED FUNDS UNDER THE VOLCKER RULE**

Certain entity clients may be considered a “covered fund” under the “Super 23A” provision of the Volcker Rule that is part of Dodd-Frank Wall Street Reform and Consumer Protection Act. Covered fund clients in the Program may not have any outstanding margin, outstanding loans or other extensions of credit from us or any of our Affiliates, including BANA, or engage in certain principal transactions while enrolled in an investment advisory program, such as the Program. If the covered fund would like to engage in margin or other lending transactions, it must terminate its investment advisory agreement and utilize a brokerage or custody relationship with us for its investments. Certain other transactions between BANA or its Affiliates and the entity client will also be prohibited.

#### **F. SECURITIES TRADING BY MERRILL AND OUR PERSONNEL**

We and our Affiliates act in a variety of capacities to a wide range of clients. From time to time in the course of those duties, confidential information will be acquired that cannot be divulged or acted upon for advisory or other clients. Similarly, we may give advice or take action with regard to certain clients, including IIC clients, which differs from that given or taken with regard to other clients. This includes the advice given or actions taken with respect to certain securities or investment managers. In some instances, the actions taken by Affiliates for similar services and programs will conflict with the actions taken by us. This is due to, among other things, the differing nature of the Affiliate’s investment advisory service and differing processes and criteria upon which determinations are made.

Many of the conflicts related to participation or interest in client transactions and personal trading are less pronounced in the context of the IIC because our recommendations are limited to the IIC Eligible Strategy universe.

We have established a variety of restrictions, procedures and disclosures designed to address potential conflicts of interest – both those arising between and among client accounts as well as between client accounts and our business. For example, our personnel also are subject to personal trading restrictions as detailed in our policies and procedures and Code of Ethics. These policies and procedures and the Code of Ethics require our Financial Advisors to obtain pre-approval for certain securities transactions, disclose their investment accounts, and provide or cause Merrill to receive annual holdings reports and quarterly transaction reports.

### **BROKERAGE PRACTICES**

The Program does not make specific securities recommendations or analyze particular securities.

### **REVIEW OF ACCOUNTS**

An important part of the Program relationship involves providing you with the opportunity to engage in periodic reviews with your Designated Advisor. These reviews provide updates on the progress of your Portfolio towards your goals and other important information about your portfolio. Because these reviews provide you with important and necessary information relating to your portfolio, you are strongly encouraged to take advantage of these opportunities to participate in these reviews.

As part of IIC, we will provide you with periodic written reports containing returns and other reasonable statistical performance analyses. Your Designated Advisor shall be made reasonably available to assist you in reviewing and evaluating the reports on the portfolio provided through IIC.



Any review we perform does not substitute for your continued review of your reports or accounts.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

### **A. COMPENSATION FOR CLIENT REFERRALS**

Merrill has not entered into any client referral arrangements with third parties in connection with referrals of clients to IIC.

### **B. OTHER COMPENSATION**

#### **1. Event Payments from Fund Providers**

Some third-party vendors, including third party managers, distributors, and insurance companies, will periodically participate in Merrill or affiliate-hosted internal training and education conferences for our advisors and other personnel, as well as conferences that Merrill or Affiliates host for clients ("Events"). The amount paid for participation is used to offset the expenses incurred for these Events. The amounts paid by any third-party vendors may vary and the level of vendor support is not dependent on or related to the level of assets invested by you or and other of our clients in or with a Merrill investment advisory program or services of a particular vendor. Neither we nor our Affiliates incentivize our advisors to recommend one vendor service or product over another.

Based on our historical experience, contributing third-party vendors, including third-party managers, distributors, and insurance companies that participate in Events generally range from 150 to 175 firms and the aggregate value of the payments they make to cover out of pocket costs of these Events in any particular year has not exceeded \$50 million. This aggregate payment represents less than one-half (½) of one basis point (0.005%) of total customer assets.

#### **2. Gifts and Other Non-Monetary Compensation**

From time to time, third-party vendors, including third-party investment or fund managers, distributors, and insurance companies, provide advisors with non-monetary gifts and gratuities ("gifts"), such as promotional items (e.g., coffee mugs, golf balls, or gift baskets), meals and access to certain industry related conferences. Third-party vendors also make charitable donations or cover the costs of reasonable entertainment in connection with events sponsored by Merrill or its Affiliates or related to clients. we have implemented policies and procedures intended to identify, quantify and track gifts that we and our advisors and personnel receive.

#### **3. Provision of Diversified Financial Services**

Bank of America is a diversified financial services company that generally seeks to provide a wide range of services to retail and institutional clients for which it receives compensation. As a result, Bank of America and Merrill can be expected to pursue additional business opportunities with the firms whose investment strategies Merrill and its Affiliates make available to its clients through their investment advisory programs. Consistent with industry regulations, these services could include banking and lending services, sponsorship of deferred compensation and retirement plans, recordkeeping services, investment banking, securities research, institutional trading and prime brokerage services, custody services, investment advisory services, licensing arrangements involving indices and effecting portfolio securities transactions for its clients.

We and our Affiliates have business relationships with many investment managers, including those who are available for recommendation by us through the Program. For example, these investment managers may direct their clients' transactions to us or our Affiliates and receive research, execution, custodial, pricing and other services offered by us in the normal course of our business. Merrill professionals, including your Designated Advisor, may introduce fund and other investment product distributors, sponsors, service providers or their Affiliates to other services that BofA Corp., Merrill and their other Affiliates provide and earn additional compensation for services by doing so. Advisors will, as permitted by applicable law, receive compensation (the amount of which varies and could be significant) in connection with these introductions and/or services.

We attempt to address this conflict through the disclosure in this Brochure and by selecting investment managers and strategies based on the investment merits of the particular investment manager and not based on the compensation that we and our Affiliates earn from the providing these services.

#### **CUSTODY**

To the extent we or an Affiliate hold any of the assets of your investment portfolio under this Program, you receive account statements from us or an Affiliate. You also should receive account statements from other unaffiliated custodians for assets of your investment portfolio held with such other unaffiliated custodians. We urge you to review these account statements carefully. Clients who do not receive such account statements are encouraged to follow-up directly with their custodian and request such statements. To the extent you receive additional reports from us, you should compare these reports to account statements received from custodians. Such reports may vary from custodial account statements based on accounting procedures, reporting dates, valuation methodologies and other factors and are not intended to be a substitute for account statements provided by a custodian, and should not be used for official purposes. Your account statement from us or an Affiliate or the account statements provided by other custodians reflect your official record of holdings, balances, and security values.

#### **INVESTMENT DISCRETION**

We do not accept discretionary authority in connection with the Program.

#### **VOTING CLIENT SECURITIES**

The Program does not involve voting proxies on a client's behalf.

#### **FINANCIAL INFORMATION**

Not applicable.

## GLOSSARY

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

“Affiliate” means a company that is controlled by, in control of, or under common control with another company.

“ARS” means auction rate securities.

“BANA” means Bank of America, N.A.

“Bank of America” means Bank of America Corporation.

“BofAS” means Banc of America Securities LLC.

“Brochure” means the Merrill program brochure relating to the Merrill Lynch Institutional Investment Consulting Program, as amended or updated from time to time. The Brochure is also referred to as the Disclosure Statement.

“CIO” means the Chief Investment Office and is the business group that provides investment solutions, portfolio construction advice and wealth management guidance to our clients. It is a separate division from the business group that administers the Program.

“CIO Review Process” means the initial and periodic review conducted by the CIO and those processes and reviews provided by third-party reviewers that we have engaged for this purpose.

“Client,” “you,” or “your” means the IIC client.

“Client Agreement” means the investment advisory agreement between the Client and Merrill that you sign for the Program, as amended from time to time.

“Code of Ethics” means Merrill’s Investment Adviser Code of Ethics.

“Designated Advisor” means a Merrill Financial Advisor that has met certain Merrill requirements and qualifications to deliver IIC services.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

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

“Excluded Assets” means the investment portfolio assets that Merrill will not assist the Client in the evaluation, review and selection of investment managers and strategies under the Program. These assets are private equity funds, hedge funds, limited partnerships, or other illiquid assets held by the Client as a part of the investment portfolio under the Program.

“Financial Advisor” means a Merrill Financial Advisor.

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

“Gifts” means non-monetary gifts and gratuities.

“IIC” or “Program” means the Merrill Lynch Institutional Investment Consulting Program.

“IIC Eligible Strategies” mean investment managers and strategies that meet Merrill’s due diligence standards that will be used by Merrill and your Designated Advisor to make recommendations for your portfolio.

“IPR” means the Institutional Performance Report.

“IPS” means Investment Policy Statement.

**“MAA” means Managed Account Advisors LLC.**

**“Merrill,” “MLPF&S,” “we,” “us,” or “our” means Merrill Lynch, Pierce, Fenner & Smith Incorporated.**

**“MID” means Manager Identification Report.**

**“Order” means an order issued by the SEC.**

**“Program Fee” means the IIC fee.**

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

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