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Executive Summary

QUARTERLY RECAP

Risk assets continue to rally in Q1 of 2013 as global economic recovery displays regional divergences.
- US economy continues to show resilience despite fiscal headwinds (higher taxes and spending cuts).
- Europe continues to muddle through its debt crisis dealing with flare ups along the way. Cyprus was the latest country to receive a bailout.
- Japan’s central bank took cues from the Fed by implementing an aggressive monetary stimulus to reflate its economy currently mired by low growth and deflation.
- Emerging markets activity was affected by China weakness and higher inflation expectations compared to 2012.

S&P 500 Index sets new record high as Developed Markets outperform Emerging Markets.
- The S&P 500 Index closed at 1,569 for the quarter, up 10.6% on a total return basis exceeding other major markets. MSCI Pacific Index, which was up 9.8%, benefited from the rally in the Japanese equity markets.
- The US Large Cap Russell 1000 Index and Russell Midcap Index rose 11% and 13%, respectively. Large Cap Value stocks outperformed Large Cap Growth. The Russell 1000 Value Index was up 12.3%, compared to a 9.5% gain in the Russell 1000 Growth Index.
- Emerging Markets (EM) lagged Developed Markets, with the MSCI Emerging Markets Index down 1.6% for the quarter compared to the MSCI EAFE Index, which was up 5.2%.

Investors continue to favor riskier, lower quality bonds led by high yield bonds.
- ML US Broad Market Index posted a 0.11% return for the quarter - the first negative quarter since 4Q 2010. The 10-year US Treasury yield averaged 1.91% and rose to a high of 2.06% during the quarter before dropping to 1.86% at the end of Q1.
- The best-performing sectors in Q1 2013 were HY Corps (+2.9%), Prefered (+2.8%), Municipal (+0.5%). The worst performing sectors were Non-US IG Sovereigns and Emerging Market debt posting returns of -4.0% and -2.2%.

US Economy continues to heal with Fed support
- With unemployment slowly declining and inflation under control, the FED reiterated support for continuation of its bond buying program.
- Consumer confidence bounced back to 78.6 in March from 72.9 in December given improving economic outlook and rallying equity and housing markets.
- Housing recovery shows continued momentum with various housing fundamentals such as household formation, home prices, housing starts, housing inventory, etc. point to an improvement in the sector. BofA ML expects home prices (as measured by Case Shiller home price index) to rise by 8.0% (Q4/Q4) in 2013.

BofA ML RESEARCH KEY FORECASTS

<table>
<thead>
<tr>
<th>Gross Domestic Product (%)</th>
<th>2013E</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>3.1</td>
<td>3.9</td>
</tr>
<tr>
<td>US</td>
<td>1.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5.2</td>
<td>5.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US Interest Rates (%)</th>
<th>Jun 2013E</th>
<th>Sept 2013E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fed Funds</td>
<td>0.025</td>
<td>0.025</td>
</tr>
<tr>
<td>10-Yr T-Note</td>
<td>1.75</td>
<td>2.00</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Currencies</th>
<th>Jun 2013E</th>
<th>Sept 2013E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR/USD</td>
<td>1.28</td>
<td>1.26</td>
</tr>
<tr>
<td>USD/JPY</td>
<td>93</td>
<td>94</td>
</tr>
<tr>
<td>USD/CAD</td>
<td>1.02</td>
<td>1.01</td>
</tr>
</tbody>
</table>

E = Estimate
Market Outlook

LOOKING AHEAD

- We believe we may be entering the early innings of a “Great Rotation” to equities.
- We anticipate global growth to re-accelerate modestly this year and in 2014. Major sources of strength and stability remain a robust US housing recovery, continued quantitative easing around the world and increasing stability in Europe and Asia.
- Global equity valuations remain attractive, while strong corporate earnings and balance sheets should support increased capital spending, dividends and share buybacks.
- We encourage investors to “globalize” portfolios and think beyond traditional US-centric allocations. Other developed equity markets outside the US are poised to continue their recent strong performance, while emerging markets offer superior secular growth despite recent Q1 underperformance.
- While equity valuations remain attractive today, bonds are expensive - most rates are at extremely low levels following a 30-year bull market in credit. We only expect a modest rise in rates this year, but think risks skew to the upside.
- We would reduce duration risk (or exposure to rising rates) in fixed income portfolios by diversifying to shorter-term instruments, despite the limited yields.
- Other considerations: For income - high yield bonds, convertible and emerging market bonds as well as dividend-paying equities. For portfolio diversification - absolute return strategies and private equity, and real assets.
- We continue to like municipal bonds for yield and tax advantages.

ML CIO OFFICE TACTICAL POSITIONING RELATIVE TO STRATEGIC ASSET ALLOCATION (MODERATE GLOBAL ALLOCATION TIER 2 LIQUIDITY)

Real Assets: Overweight

Recently upgraded on improved global growth outlook. Prefer direct real estate and REITs.

US Treasuries: Underweight

Negative real returns and Fed intervention have created highly overvalued and unattractive conditions.

US Municipals: Overweight

Valuations relative to Treasuries remain attractive, and tax-exempt status recently re-affirmed.

Global Equities: Overweight

In developed markets, valuations are fair and they are becoming attractive in Emerging Markets. Focus on growth, yield and quality. Preferred sectors include tech, energy, and industrials.

Emerging Markets: Overweight

Focus on regional opportunities in Asia and LATAM

---

1Moderate Global Allocation Tier 2 Liquidity (up to 20% of the portfolio may be unavailable for 3-5 years).
2Certain alternative investments are available only to pre-qualified clients.
3Hedged strategies include non-traditional mutual funds.

The Strategic Profile Asset Allocation Models with Alternative Assets were developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management and are designed to serve as guidelines for a 20-30 year investment horizon. The Merrill Lynch Global Wealth Management models allocate assets among specified asset classes and, within each class, reflect broad investment diversification. The models offer benchmarks for traditional asset class allocation (stocks, bonds and cash), as well as models for allocations among traditional and alternative asset classes reflecting portfolios targeting varying liquidity levels. The models are designed to provide allocation benchmarks based on risk/return profiles. Merrill Lynch Global Wealth Management defines liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given time duration under typical market conditions. Given the less-liquid nature of certain alternative assets, IMG does not include alternative investments in all SAA model portfolios. Clients should consult with their financial advisor about these allocations.
Markets Review

**WORLD BY REGION**
- S&P 500
- MSCI World
- MSCI EAFE
- MSCI Europe
- MSCI Emerging Markets
- MSCI Pacific

**S&P 500 SECTOR RETURNS**
- Healthcare
- Cons Staples
- Utilities
- Cons Disc
- Financials
- Industrials
- Energy
- Telecom
- Materials
- Info Tech

**BOND MARKET RETURNS**
- US Broad Market
- Treasury
- TIPS
- Municipal
- Corp.
- High Yield
- Non-US
- Emerging Markets
- Mortgage
- Asset-Backed
- IG Preferred
- Floating

**CROSS ASSET RETURNS**
- DJ-UBS TR
- Global NAREIT
- Gold
- HFRX Global HF
- Russell 1000 Growth
- Russell 1000 Value
- Russell 2000 Growth
- Russell 2000 Value
- Russell Midcap Growth
- Russell Midcap Value
- S&P 500

**STOCKS**
- DJIA
- NASDAQ
- S&P 500
- S&P 400 Mid Cap
- Russell 2000
- MSCI World
- MSCI EAFE
- MSCI EAFE
- MSCI Emerging Markets
- MSCI Pacific

**BONDS**
- ML US Broad Market Master
- ML US Treasury Master
- ML Agency Master
- ML Muni Master
- ML US Corp Master
- ML High Yield

**COMMODITIES**
- DJ-UBS Total Return
- Gold Spot*
- Silver Spot*
- Copper Spot*
- WTI Crude $/Barrel*

**CURRENCIES**
- EUR/USD
- USD/JPY
- GBP/USD
- USD/CHF

**ALTERNATIVES**
- Global NAREIT
- US NAREIT
- Alerean MLP
- HFRX Global Hedge Fund

Returns calculated are total returns unless otherwise stated (*indicates spot returns). All bond indexes represented by BofA Merrill Lynch Global Bond Indexes.
Economic conditions around the world are improving.

**US REAL GDP GROWTH, QoQ ANNUALIZED**

- 1Q 2013: 3.0%
- 2Q 2013: 1.3%
- 3Q 2013: 1.5%
- 4Q 2013: 2.5%
- 2013: 1.8%

**EMERGING MARKET GROWTH TO RISE IN 2013 AND 2014**

- Global xU.S. 5%
- Euro Area 6%
- Japan 8%
- Emerging Markets 10%

**INFLATION IS UNDER CONTROL GLOBALLY**

**BoFA ML GLOBAL FINANCIAL STRESS INDEX AT LOWEST SINCE 2007**

Source: (Top left) BEA, BoA ML Global Research. (Top right and bottom left) IMF, IMG. (Bottom right) BoA ML Global Research, IMG.
US unemployment rate remains elevated, but improving

UNEMPLOYMENT RATE

TOTAL PRIVATE PAYROLL

PARTICIPATION RATE LOWEST SINCE MAY 1979

Source: (Left) Bureau of Labor Statistics, Haver Analytics, IMG. Unemployment rate is seasonally adjusted. (Top Right) Bureau of Labor Statistics, Haver Analytics, IMG. (Bottom Right) US Department of Labor, Haver Analytics, IMG.
Expansion of the Fed’s balance sheet has had a muted effect on inflation so far...

INFLATION RATE VS FED BALANCE SHEET

Source: Federal Reserve Board, Bureau of Labor Statistics, Haver Analytics, IMF. CPI figures reflect year-over-year % change.
But US fiscal challenges remain absent a comprehensive plan to increase revenue and rein in spending.

**FEDERAL SPENDING AND REVENUE AS % of GDP**

- Revenue as % of GDP (LHS)
- Spending as % of GDP (LHS)

**PUBLIC DEBT AS % OF GDP**

- CBO's Baseline
- Alternative

**POPULATION GROWTH THE NEXT 10-20 YEARS**

- Change in Age Groups

**DRIVERS OF SPENDING**

- Social Security
- Major Health Programs
- Other Mandatory
- Defense Discretionary
- Nondefense Discretionary
- Net Interest

Source: (Top Left) CBO, IMG (Bottom Left) Age Wave, Inc, IMG, (Top Right/Bottom Right) CBO, IMG.
Despite political gridlock in Washington, consumers show resilience

**CONSUMER SENTIMENT INDEX VS. POLICY UNCERTAINTY INDEX**

Despite political gridlock in Washington, consumers show resilience

**RETAIL SALES CONTINUE TO STABILIZE (YoY %)**

**MOTOR VEHICLE SALES IMPROVING**

Source: (Top Right) Census Bureau, Haver Analytics, IMG. (Bottom Right) Autodata, Haver Analytics, IMG. (Left) University of Michigan, www.policyuncertainty.com, Haver Analytics, IMG. Policy Uncertainty Index measures policy-related economic uncertainty constructed from three types of underlying components: newspaper coverage of policy-related economic uncertainty, number of federal tax code provisions set to expire in future years, and disagreement among economic forecasters as a proxy for uncertainty using the Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters. For more information on the index methodology, please visit www.policyuncertainty.com.
As households continue to delever, consumer credit growth is driven primarily by non-revolving debt (i.e. installment loans).

**CONSUMER CREDIT VS. HOUSEHOLD DEBT SERVICE RATIO**

**GROWTH OF REVOLVING DEBT VS. NON-REVOLVING DEBT**

**STUDENT LOANS DRIVE NON-REVOLVING DEBT**

Source: (Left) Federal Reserve Board, Haver Analytics, IMG. Household debt service ratio is an estimate of debt payments to disposable income. Consumer credit is an annualized quarter-over-quarter calculation. (Top Right) Federal Reserve, Haver Analytics, IMG. (Bottom Right) FRBNY Consumer Credit Panel/Equifax, IMG. Non-revolving debt includes auto loans, student loans, mortgages, etc. These loans can be both secured or unsecured.
US trade balance narrows due to export strength and decrease in petroleum imports

TRADE BALANCE CONTINUES TO IMPROVE

PETROLEUM ACCOUNTS FOR 35% OF TRADE BALANCE

Source: (Left) BEA, Federal Reserve, Haver Analytics, IMG. (Right) US Census Bureau, Haver Analytics, IMG
Housing recovery in progress

**HOME PRICES TRENDING UPWARD**

- Case-Shiller National, +7.3% in 2012
- Case-Shiller 20 City, +6.9% in 2012
- FHFA House Price Index, +5.6% in 2012

**EXISTING HOME SALES AND INVENTORY**

- Existing Homes Sales
- Existing Home Inventory
- Months of supply of existing homes

- Market Peak: 3.6 months of supply

**MORTGAGE DELINQUENCIES IMPROVING**

- % of Balance 90+ Days Delinquent by Loan Type

**CONSTRUCTION JOBS LAG HOUSING STARTS**

- Housing Starts, Lagged 5Qs (LHS)
- Construction jobs as % of Labor Force (RHS)

Source: (Top Left) Federal Housing Finance Agency, S&P, Haver Analytics, IMGe. (Top Right) Census Bureau, Haver Analytics, IMGe. (Bottom Left) FRBNY Consumer Credit Panel/Equifax, IMGe. (Bottom Right) National Association of Realtors, Haver Analytics, IMGe.
Corporations, with large cash balances and healthy balance sheets are beginning to spend

**CORPORATE PROFITS SOAR**

**CAPEX SPENDING HAS NOT KEPT PACE**

**UPTICK IN M&A ACTIVITY**

**USE OF CASH: SHARE BUYBACKS AND DIVIDENDS AMONG S&P 500 COMPANIES**

Source: (Top Left) Bureau of Economic Analysis, Haver Analytics, IMG. (Top Right) Census Bureau, Haver Analytics, IMG. (Bottom Left) BofA ML Global Research. (Bottom Right) S&P, Haver Analytics, IMG.
US Equity Market Performance: S&P 500 Index closes out 1Q at an all-time high of 1,569

S&P 500 INDEX (Jan 1997 – Mar 2013)

Source: Bloomberg, IMG
As earnings surge and fundamentals remain strong, the S&P 500 is still relatively undervalued.

S&P 500 EARNINGS PER SHARE FORECAST TO GROW

CASH HOARDING: CASH AS A % OF TOTAL ASSETS AMONG S&P 500 COMPANIES

S&P 500 INDEX: FORWARD PRICE TO EARNINGS RATIO

IMPROVING FUNDAMENTALS (DEC 1994 – MAR 2013)

Source: (Top Left and Right) BofA ML Global Research, IMG. (Bottom Left) S&P, Haver Analytics, IMG. (Bottom Right) Factset, IMG. 1. S&P 500 Forward PE is based on the bottom-up consensus for the next twelve months EPS.
### Strategies performance & earnings estimate revisions

#### Valuation Based Strategies Performed Best in 1Q13

<table>
<thead>
<tr>
<th>Strategy</th>
<th>1M</th>
<th>3M</th>
<th>12M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward Earnings Yield</td>
<td>18.1%</td>
<td>16.7%</td>
<td>27.4%</td>
</tr>
<tr>
<td>Low Price to Sales</td>
<td>17.6%</td>
<td>18.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Alpha Surprise Model</td>
<td>6.3%</td>
<td>6.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Share Repurchase</td>
<td>22.0%</td>
<td>22.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Price Returns (3 M)</td>
<td>6.7%</td>
<td>5.8%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

#### S&P 500 3 Month Earnings Estimate Revision Ratio (Mar 2013)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1M</th>
<th>3M</th>
<th>12M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staples</td>
<td>1.40</td>
<td>1.04</td>
<td>1.02</td>
</tr>
<tr>
<td>Health Care</td>
<td>0.96</td>
<td>0.91</td>
<td>0.86</td>
</tr>
<tr>
<td>Financials</td>
<td>0.84</td>
<td>0.81</td>
<td>0.74</td>
</tr>
<tr>
<td>Cons. Disc.</td>
<td>0.66</td>
<td>0.65</td>
<td>0.54</td>
</tr>
<tr>
<td>Energy</td>
<td>0.28</td>
<td>0.28</td>
<td>0.28</td>
</tr>
</tbody>
</table>

#### 4Q12 EPS and Sales Beats by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>% EPS beat</th>
<th>% Sales beat</th>
<th>Both EPS &amp; Sales beat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cons. Disc.</td>
<td>60%</td>
<td>53%</td>
<td>39%</td>
</tr>
<tr>
<td>Staples</td>
<td>62%</td>
<td>50%</td>
<td>33%</td>
</tr>
<tr>
<td>Energy</td>
<td>53%</td>
<td>65%</td>
<td>40%</td>
</tr>
<tr>
<td>Financials</td>
<td>56%</td>
<td>64%</td>
<td>43%</td>
</tr>
<tr>
<td>Health Care</td>
<td>62%</td>
<td>65%</td>
<td>42%</td>
</tr>
<tr>
<td>Industrials</td>
<td>57%</td>
<td>65%</td>
<td>38%</td>
</tr>
<tr>
<td>Technology</td>
<td>70%</td>
<td>59%</td>
<td>51%</td>
</tr>
<tr>
<td>Materials</td>
<td>47%</td>
<td>63%</td>
<td>30%</td>
</tr>
<tr>
<td>Telecom</td>
<td>13%</td>
<td>50%</td>
<td>13%</td>
</tr>
<tr>
<td>Utilities</td>
<td>52%</td>
<td>29%</td>
<td>23%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>58%</td>
<td>59%</td>
<td>39%</td>
</tr>
</tbody>
</table>

#### Historical S&P 500 3-Month Earnings Estimate Revision Ratio

Source: BofA ML Global Research, IMG. Earnings Revision Ratio measures the total number of earnings estimate increases divided by total number of earnings-estimate decreases during the past three months.
With the “Great Rotation” setting in, equity inflows are set to rise.

**RECORD INVESTOR FLOWS INTO BOND FUNDS SINCE 2007**

![Diagram showing cumulative net cash flow into bond and equity funds from 2007 to 2013.]

**STOCKS ATTRACTIVELY PRICED RELATIVE TO BONDS**

![Equity Risk Premium chart from 1976 to 2012, showing standard deviations.]

Source: (Left) Investment Company Institute, IMG. (Right) S&P, Haver Analytics, IMG. Equity risk premium is defined as the difference between the earnings yield and the 10 Yr US Treasury yield.
Active managers continue to struggle despite decreasing correlations

S&P 500 PAIRWISE CORRELATION (Q1 2000 – Q1 2013)

CROSS-ASSET CORRELATION BEGINS TO NORMALIZE

S&P 500 PERFORMANCE DISPERSION (Q1 2000 – Q1 2013)

Source: BofA ML Global Research, IMG. Cross-asset represented by S&P 500 Index, Russell 2000 Index, MSCI EAFE Index, MSCI Emerging Markets Index, HFRI FoF Composite, LPX50, FTSE NAREIT Composite Index, Dow Jones-UBS Commodity Index, and US 30 Day Tbill TR Index.
Equity sector performance: Defensive sectors lead the way in Q1 2013

S&P 500 INDEX

MSCI ALL-COUNTRY WORLD INDEX Ex US

Source: Bloomberg, IMG. Returns calculated are total returns.
Fixed Income: Despite a modest rise in rates, a low yield environment is likely to persist as the Fed remains a major buyer.

2-YR, 10-YR YIELDS ON US TREASURIES

NOMINAL VS. REAL YIELDS (JAN 1990 - MAR 2013)

Source: (Top) BofA ML Global Research, IMG. (Bottom Left) Bloomberg, BofA ML Global Research, IMG. (Bottom Right) Bloomberg, BofA ML Global Research, IMG. Real yields are calculated using monthly nominal 10-year US Treasury yield minus core inflation.
**Taking on credit risk over duration risk**

**EM & HY DEBT OUTPERFORM OTHER ASSET CLASSES (2006 - 2012)**

<table>
<thead>
<tr>
<th></th>
<th>Returns</th>
<th>Volatility</th>
<th>Sharpe Ratio</th>
<th>Max Drawdown (DD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM Sovereign Debt (USD)</td>
<td>9.7%</td>
<td>10.3%</td>
<td>0.79</td>
<td>-22.9%</td>
</tr>
<tr>
<td>U.S. High Yield Debt</td>
<td>9.1%</td>
<td>12.0%</td>
<td>0.65</td>
<td>-33.2%</td>
</tr>
<tr>
<td>EM Sovereign Debt (LCL)</td>
<td>8.5%</td>
<td>10.5%</td>
<td>0.67</td>
<td>-20.0%</td>
</tr>
<tr>
<td>EM Corporates (USD)</td>
<td>8.1%</td>
<td>10.2%</td>
<td>0.66</td>
<td>-25.6%</td>
</tr>
<tr>
<td>US IG Debt</td>
<td>6.8%</td>
<td>6.4%</td>
<td>0.80</td>
<td>-16.1%</td>
</tr>
<tr>
<td>EM Equities</td>
<td>5.9%</td>
<td>26.5%</td>
<td>0.29</td>
<td>-62.7%</td>
</tr>
<tr>
<td>US Treasuries</td>
<td>5.5%</td>
<td>4.2%</td>
<td>0.92</td>
<td>-3.5%</td>
</tr>
<tr>
<td>US Equities</td>
<td>4.1%</td>
<td>16.6%</td>
<td>0.23</td>
<td>-50.9%</td>
</tr>
<tr>
<td>Developed Non-US Sovereign Debt</td>
<td>3.6%</td>
<td>2.7%</td>
<td>0.70</td>
<td>-3.3%</td>
</tr>
</tbody>
</table>

**EM & HY DEBT PROVIDE HIGH CORRELATION TO S&P 500 (2006 - 2012)**

**BENEFITS OF DIVERSIFICATION IN A RISING RATE ENVIRONMENT**

<table>
<thead>
<tr>
<th>Moderate Recommended Allocation</th>
<th>Par Weighted Coupon*</th>
<th>Effective Duration*</th>
<th>25 BPS Change</th>
<th>50 BPS Change</th>
<th>75 BPS Change</th>
<th>100 BPS Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasuries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasuries</td>
<td>11%</td>
<td>2.5%</td>
<td>6.0</td>
<td>-1.5%</td>
<td>-3.0%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>TIPS</td>
<td>2%</td>
<td>1.4%</td>
<td>6.2</td>
<td>-1.5%</td>
<td>-3.1%</td>
<td>-4.6%</td>
</tr>
<tr>
<td>U.S. Municipal Bonds</td>
<td>58%</td>
<td>4.7%</td>
<td>7.5</td>
<td>-1.9%</td>
<td>-3.8%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>U.S. Investment Grade Bonds</td>
<td>11%</td>
<td>4.9%</td>
<td>6.8</td>
<td>-1.7%</td>
<td>-3.4%</td>
<td>-5.1%</td>
</tr>
<tr>
<td>U.S. High Yield &amp; Collateralized</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Yield Bonds</td>
<td>3%</td>
<td>7.7%</td>
<td>4.2</td>
<td>-1.1%</td>
<td>-2.1%</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Mortgage Backed Secs</td>
<td>10%</td>
<td>4.2%</td>
<td>3.2</td>
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<td>-2.4%</td>
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<td>Preferreds</td>
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<td>Non-U.S. Sovereigns</td>
<td>1%</td>
<td>2.8%</td>
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<td>Emerging Market Debt</td>
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<tr>
<td>Emerging Market: USD</td>
<td>1%</td>
<td>6.9%</td>
<td>7.3</td>
<td>-1.8%</td>
<td>-3.7%</td>
<td>-5.5%</td>
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<tr>
<td>Emerging Markets: Local</td>
<td>2%</td>
<td>6.4%</td>
<td>5.2</td>
<td>-1.3%</td>
<td>-2.6%</td>
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<td>Price Return</td>
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<tr>
<td>Total Return</td>
<td>4.5%</td>
<td>2.9%</td>
<td>1.2%</td>
<td>-0.5%</td>
<td>-2.1%</td>
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</table>

*As of 3/31/2013; BoA ML Bond Indexes used to represent the various sectors of the Bond Market.

Source: Bloomberg, IMG. * Par weighted coupon = The average of the index constituent security coupons, weighted by face value. Effective Duration is a metric that accounts for the sensitivity of a bond’s price to changes in interest rate after adjusting for the possibility that bonds can be called before maturity. The longer the duration of a bond, the more sensitive the price will be to changes in interest rates.
Fixed income market update

2-YR/10-YR TREASURY SPREAD

MUNI/TREASURY RATIO

LOW DEFAULT RATES IN HIGH YIELD SECTOR

CORPORATE SPREADS (OAS)

CREDIT SPREADS TIGHTEN

YIELDS

Source: Bloomberg, BofA ML Global Research, IMG. Yields represented by BofA Merrill Lynch Global Bond Indexes. Default rates based on BofA ML High Yield Index.

1Ratio of Moody’s AAA Municipal Bond yield to 10-Year Treasury
Hedge Funds Strategies Underperform the S&P 500 Index

HEDGE FUND STRATEGIES PERFORMANCE IN 2012

CROSS ASSET CLASS VOLATILITY REMAINS LOW

RELATIVE VALUE AND GLOBAL MACRO STRATEGY ATTRACTS NET INFLOWS

CORRELATION TO S&P 500 (OCT 2004 - FEB 2013)

Source: Hedge fund indexes represented by Dow Jones Credit Suisse AllHedge Indexes as of 12/31/2012. Net inflows based on HFR Global Hedge Fund Industry Report as of 12/31/2012. Cross asset volatility represented by BofA Merrill Lynch iMktRisk Index. 1. Macro category includes Global Macro and Managed Futures. Emerging Markets strategy involves equity and fixed income investing and is included in equity hedge and relative value categories.

Executive Summary | Macroeconomic Update | Equities | Fixed Income | Alternative Investments | Portfolio Management | In Focus | Appendix

24
Private equity deal volume down compared to peak years

PRIVATE EQUITY HAS OUTPERFORMED PUBLIC EQUITIES

GLOBAL DEAL VOLUME DOWN 58% FROM 2006 PEAK

GLOBAL PE FIRMS HAVE CLOSE TO $1 TRILLION OF UNDEPLOYED CASH

Source: (Top Left) Cambridge Associates, data as of 6/30/12. (Top Right) Thomson Reuters. (Bottom) Prequin.
Commodities continue to struggle in 2013 as the global economic recovery remains tepid.

**Energy Sector Posts Positive Returns**

After multi-year rally, gold prices remain range bound.

**Price of Oil: Brent vs West Texas Intermediate (WTI)**

Source: Commodity indexes represented by DJ-UBS Commodity Indexes.
US Dollar continues to strengthen

PERFORMANCE AGAINST US DOLLAR

IMPACT OF CURRENCIES ON RETURNS: JAPANESE EQUITIES

CORRELATIONS OF MAJOR CURRENCY PAIRS WITH WORLD EQUITY MARKETS (JAN 2000 – MAR 2013)

Source: Bloomberg, IMG.
Potential Risks to Capital Markets

- Political gridlock in the U.S. leading to fiscal drag
- Slow job growth and budget cutbacks at the federal, state and local levels
- Slowdown in consumer spending
- Inflation (or deflation) dynamics
- Declining corporate margins

Europe:
- Sovereign debt contagion in periphery
- Recession at the core

Weak growth in Emerging Markets

Geopolitical tensions: Iran, Syria, North Korea
Merrill Lynch Strategic Asset Allocation (Tier 0 - High Liquidity, Jan 1994- Feb 2013)

STATISTICS

<table>
<thead>
<tr>
<th></th>
<th>Conservative</th>
<th>Mod Conservative</th>
<th>Moderate</th>
<th>Mod Aggressive</th>
<th>Aggressive</th>
<th>S&amp;P 500</th>
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<td>7.2%</td>
<td>8.1%</td>
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<td>8.5%</td>
<td>8.4%</td>
<td>8.4%</td>
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<tr>
<td>Annualized Volatility</td>
<td>6.0%</td>
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<td>15.4%</td>
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<td>Sharpe Ratio</td>
<td>0.69</td>
<td>0.69</td>
<td>0.60</td>
<td>0.54</td>
<td>0.48</td>
<td>0.41</td>
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<td>Max Drawdown</td>
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<td>-19.0%</td>
<td>-30.5%</td>
<td>-36.1%</td>
<td>-41.4%</td>
<td>-50.9%</td>
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<td>Num of Pos Months</td>
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<td>148</td>
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<td>82</td>
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<td>82</td>
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<td>Avg Pos Months</td>
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<td>1.8%</td>
<td>2.3%</td>
<td>2.5%</td>
<td>2.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Avg Neg Months</td>
<td>-1.1%</td>
<td>-1.7%</td>
<td>-2.2%</td>
<td>-2.5%</td>
<td>-2.9%</td>
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RISK & RETURN

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<th>Mod Agg</th>
<th>Aggressive</th>
<th>S&amp;P 500</th>
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</table>

ROLLING 12 MONTH RETURNS

Source: Bloomberg, IMG. Past performance is no guarantee of future results. Risk profiles based on Tier 0 (highest liquidity). Conservative (Stocks = 20%, Bonds = 55%, Cash=25%), Moderately Conservative (Stocks = 40%, Bonds = 50%, Cash = 10%), Moderate (Stocks = 60%, Bonds = 35%, Cash = 5%), Moderately Aggressive (Stocks = 70%, Bonds = 25%, Cash = 5%), Aggressive (Stocks = 80%, Bonds = 15%, Cash = 5%) Stocks represented by S&P 500 TR Index. Bonds represented by a composite of US Long Term Government Bond TR Index (60%) and US Long Term Corporate Bond TR Index (40%). Cash represented by 30 Day Tbills TR Index. The market indexes presented are unmanaged and considered representative of specific segments of the markets. Indexes are not available for direct investment. All historical model performance is hypothetical and based on index returns. It excludes the impact of transaction costs, taxes and fees. Hypothetical performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading and therefore the results may have under-or over-compensated for the impact, if any, of certain market factors. Hypothetical performance is designed with the benefit of hindsight. No representation is being made that any portfolio will or is likely to achieve profits or losses similar to the results shown. The model portfolios are not an investment product and cannot be purchased through one investment vehicle.
Merrill Lynch Dynamic Asset Allocation (3-Month, Tier 0 - High Liquidity, Jan 1994 - Feb 2013)\(^1\)

### STATISTICS

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<thead>
<tr>
<th></th>
<th>Conservative</th>
<th>Mod Conservative</th>
<th>Moderate</th>
<th>Mod Aggressive</th>
<th>Aggressive</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annualized Returns</strong></td>
<td>7.5%</td>
<td>9.0%</td>
<td>10.1%</td>
<td>10.4%</td>
<td>10.8%</td>
<td>8.4%</td>
</tr>
<tr>
<td><strong>Annualized Volatility</strong></td>
<td>4.8%</td>
<td>7.4%</td>
<td>10.5%</td>
<td>11.9%</td>
<td>13.4%</td>
<td>15.4%</td>
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<tr>
<td><strong>Sharpe Ratio</strong></td>
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<td>0.81</td>
<td>0.69</td>
<td>0.65</td>
<td>0.62</td>
<td>0.41</td>
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<td><strong>Max Drawdown</strong></td>
<td>-8.2%</td>
<td>-17.8%</td>
<td>-28.7%</td>
<td>-32.2%</td>
<td>-36.5%</td>
<td>-50.9%</td>
</tr>
<tr>
<td><strong>Num of Pos Months</strong></td>
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<td>157</td>
<td>151</td>
<td>150</td>
<td>146</td>
<td>148</td>
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<tr>
<td><strong>Num of Neg Months</strong></td>
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<td>73</td>
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<td>82</td>
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<td><strong>Avg Pos Months</strong></td>
<td>1.3%</td>
<td>1.9%</td>
<td>2.6%</td>
<td>2.8%</td>
<td>3.2%</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Avg Neg Months</strong></td>
<td>-1.0%</td>
<td>-1.7%</td>
<td>-2.4%</td>
<td>-2.8%</td>
<td>-3.0%</td>
<td>-3.9%</td>
</tr>
</tbody>
</table>

### ROLLING 12 MONTH RETURNS

![Graph showing rolling 12-month returns for different asset allocations and benchmarks.](image)

Source: Bloomberg, IMG. *Past performance is no guarantee of future results.*

Dynamic asset allocation (DAA) is a systematic process for navigating shorter-term investment opportunities while maintaining a view toward longer-term financial goals.

Unlike Strategic Asset Allocation which develops assumptions based on a 20-30 year investment horizon, DAA models operate based on two investment horizons: 3 months and 5 years. Risk profiles based on Tier 0 (highest liquidity). Data reflects performance and risk characteristics of the Dynamic Asset Allocation model portfolios (3-month) for US-oriented, U.S. Dollar investors (Tier 0 liquidity preference). Please refer to the Dynamic Asset Allocation whitepaper and the latest Dynamic Asset Allocation Update publication for further information on the model portfolios. All historical model performance is hypothetical and based on index returns. It excludes the impact of transaction costs, taxes and fees. Hypothetical performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading and therefore the results may have under-or over-compensated for the impact, if any, of certain market factors. Hypothetical performance is designed with the benefit of hindsight. No representation is being made that any portfolio will or is likely to achieve profits or losses similar to the results shown. The model portfolios are not an investment product and cannot be purchased through one investment vehicle.
Merrill Lynch Strategic Asset Allocation (Tier 3 - Low Liquidity, Jan 1994 - Feb 2013)

STATISTICS

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<tr>
<th>Portfolio</th>
<th>Annualized Returns</th>
<th>Annualized Volatility</th>
<th>Sharpe Ratio</th>
<th>Max Drawdown</th>
<th>Num of Pos Months</th>
<th>Num of Neg Months</th>
<th>Avg Pos Months</th>
<th>Avg Neg Months</th>
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</thead>
<tbody>
<tr>
<td>Conservative</td>
<td>7.3%</td>
<td>5.5%</td>
<td>0.8</td>
<td>-11.6%</td>
<td>157</td>
<td>73</td>
<td>1.4%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Moderate</td>
<td>8.7%</td>
<td>9.2%</td>
<td>0.6</td>
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<td>75</td>
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<td>Aggressive</td>
<td>8.9%</td>
<td>12.1%</td>
<td>0.5</td>
<td>-48.1%</td>
<td>153</td>
<td>77</td>
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<td>-3.0%</td>
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<tr>
<td>S&amp;P 500</td>
<td>8.4%</td>
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<td>0.4</td>
<td>-50.9%</td>
<td>148</td>
<td>82</td>
<td>3.4%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Fixed Income Composite</td>
<td>7.9%</td>
<td>9.7%</td>
<td>0.5</td>
<td>-12.3%</td>
<td>138</td>
<td>92</td>
<td>2.4%</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

ASSET ALLOCATION FOR TIER 3 (LOW LIQUIDITY)

Tier 3 - Conservative
- Equity: 45%
- Fixed Income: 25%
- Cash: 10%
- Hedge Funds: 15%
- Private Equity: 3%
- Real Assets: 2%

Tier 3 - Moderate
- Equity: 40%
- Fixed Income: 20%
- Cash: 14%
- Hedge Funds: 11%
- Private Equity: 10%
- Real Assets: 5%

Tier 3 - Aggressive
- Equity: 40%
- Fixed Income: 20%
- Cash: 14%
- Hedge Funds: 11%
- Private Equity: 10%
- Real Assets: 5%

Source: Bloomberg, IMG. Past performance is not indicative of future results. Risk profiles based on Tier 3 (lowest liquidity, up to 30% of the portfolio may not be available for 3-5 years). Equity represented by S&P 500 TR Index. Fixed Income represented by a composite of US Long Term Government Bond TR Index (60%) and US Long Term Corporate Bond TR Index (40%). Cash represented by 30 Day Tbill TR Index. Hedge funds represented by Dow Jones Credit Suisse Hedge Fund Index. Real Assets represented by a composite of 46% NAREIT Global Total Return, 36% DJ UBS Commodity TR Index, and 18% ML U.S. Treasury Inflation-Linked Securities. Private Equity represented by LPX50 Total Return Index. The market indexes presented are unmanaged and considered representative of specific segments of the markets. Indexes are not available for direct investment. All historical model performance is hypothetical and based on index returns. It excludes the impact of transaction costs, taxes and fees. Hypothetical performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading and therefore the results may have under-or over-compensated for the impact, if any, of certain market factors. Hypothetical performance is designed with the benefit of hindsight. No representation is being made that any portfolio will or is likely to achieve profits or losses similar to the results shown. The model portfolios are not an investment product and cannot be purchased through one investment vehicle.
# Merrill Lynch Current Capital Market Return Assumptions

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Index Proxies</th>
<th>Annualized Expected Return</th>
<th>Annualized Expected Volatility</th>
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<tbody>
<tr>
<td>US Large Cap Growth</td>
<td>Russell 1000 Growth TR</td>
<td>9.9%</td>
<td>20.5%</td>
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<tr>
<td>US Large Cap Value</td>
<td>Russell 1000 Value TR</td>
<td>9.2%</td>
<td>16.5%</td>
</tr>
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<td>US Small Cap Growth</td>
<td>Russell 2000 Growth TR</td>
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<td>28.8%</td>
</tr>
<tr>
<td>US Small Cap Value</td>
<td>Russell 2000 Value TR</td>
<td>9.8%</td>
<td>20.4%</td>
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<tr>
<td>International Equity</td>
<td>MSCI Daily TR Net EAFE USD*</td>
<td>10.0%</td>
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<td>Emerging Markets</td>
<td>MSCI Daily TR Net EM USD*</td>
<td>12.2%</td>
<td>31.5%</td>
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<td>Taxable FI Short Term (1-3 Year)</td>
<td>ML US Treasuries TR 1-3yr</td>
<td>4.2%</td>
<td>3.6%</td>
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<tr>
<td>Taxable FI Int. Term (3-10 Year)</td>
<td>ML US Treasuries TR 3-10yr</td>
<td>5.3%</td>
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<td>Taxable FI Long Term (10+)</td>
<td>ML US Treasuries TR 10yr+</td>
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<tr>
<td>High Yield</td>
<td>ML High Yield Master (Cash Pay) TR</td>
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<td>International Fixed Income</td>
<td>ML Global Broad Market TR ex USD</td>
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<td>Cash/Near Cash</td>
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<td>Real Assets</td>
<td>Real Assets Composite (i)</td>
<td>6.2%</td>
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Source: IMG Investment Analytics
### Historical Asset Class Performance

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<td>2004</td>
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<td>US Treasuries</td>
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Source: Bloomberg, IMG. Cash, Commodities, Gold, Hedge Funds, Reits, US Fixed Income, and US Treasuries represented by the BoFA ML 3-Month Treasury Bills Index, DJUBS Commodity Total Return Index, GOLDS Index, HFRX Global Hedge Fund Index, UNGL Index, BoFA ML Broad Market Bond Index, and BoFA Treasury Master Index, respectively. Returns calculated are total returns with exception of Gold returns (spot returns).
In Focus: Chinese Rebound

**ESTIMATED CONTRIBUTION TO GLOBAL GROWTH BY REGION***

- **EM, 76%**
- **China, 40%**
- **Indonesia, 12%**
- **Brazil, 3%**
- **Russia, 3%**
- **EM Other, 18%**
- **DM Others, 9%**
- **Japan, 4%**
- **UK, 0%**
- **EU, -1%**
- **US, 12%**

**CHINA REAL GDP FORECASTS (% YoY)**

- 2012: 7.9%
- 2Q 2013: 8.1%
- 3Q 2013: 8.0%
- 4Q 2013: 8.0%

**EXPORTS EXPECTED TO INCREASE 12.1 % YoY IN 2013**

**CONSUMPTION EXPECTED TO LEAD CHINESE GROWTH**

Source: BofA-ML Research, Bloomberg, Haver Analytics, IMG. *For 2012

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**Executive Summary**  |  **Macroeconomic Update**  |  **Equities**  |  **Fixed Income**  |  **Alternative Investments**  |  **Portfolio Management**  |  **In Focus**  |  **Appendix**
In Focus: Reflating Japan’s Economy

JAPAN LAST 15 YEARS: LOW GROWTH AND DEFLATION

YEN’S WEAKNESS INCREASES JAPANESE COMPETITIVENESS

BANK OF JAPAN PLANS TO ADOPT STIMULUS POLICIES

JAPANESE EQUITIES SURGE: UP 20% IN 1Q 2013

Source: (Top Left) Bloomberg, BofA ML Global Research. (Top Right) Bloomberg, IMG. (Bottom Left) Bloomberg, IMG. (Bottom Right) BofA ML Global Research, IMG.
In Focus: US Energy Independence

ADVANCEMENT IN TECHNOLOGY BOOSTS US OIL AND NATURAL GAS PROVED RESERVES

SHALE AS A % OF NATURAL GAS RESERVES

FLAT DEMAND COUPLED WITH RISING SUPPLY

US TO SUPPLY A LARGE PORTION OF NON-OPEC SUPPLY GROWTH BETWEEN 2011-2016

ENERGY COST ADVANTAGE

NET ENERGY IMPORTS FORECAST TO DECLINE

Source: US Energy Information Administration, BofA ML Global Research, IMG.
US Equity Sector Performance (S&P 500)

2012

- Financials: 28.8%
- Cons Disc: 23.9%
- Telecom: 18.3%
- Healthcare: 17.9%
- Industrials: 15.3%
- Materials: 15.0%
- Info Tech: 14.8%
- Cons Staples: 10.8%
- Energy: 4.6%
- Utilities: 1.3%

Q4 2012

- Financials: 5.9%
- Industrials: 3.7%
- Materials: 2.7%
- Cons Disc: 2.1%
- Healthcare: 0.1%
- Cons Staples: -1.7%
- Energy: -2.7%
- Utilities: -2.9%
- Info Tech: -5.7%
- Telecom: -6.0%

2013

- Healthcare: 15.8%
- Cons Staples: 14.6%
- Utilities: 13.0%
- Cons Disc: 12.2%
- Financials: 11.4%
- Industrials: 10.7%
- Energy: 10.2%
- Telecom: 9.5%
- Materials: 4.8%
- Info Tech: 4.6%

Q1 2013

- Healthcare: 15.8%
- Cons Staples: 14.6%
- Utilities: 13.0%
- Cons Disc: 12.2%
- Financials: 11.4%
- Industrials: 10.7%
- Energy: 10.2%
- Telecom: 9.5%
- Materials: 4.8%
- Info Tech: 4.6%

Source: Bloomberg, IMG. US Equities represented by the S&P 500 Index. Returns calculated are total returns.
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Source: Bloomberg, IMG. US Equities represented by the S&P 500 Index. Returns calculated are total returns.
International Equities: Sector Performance (MSCI ACWI ex US)

**2012**

- Financials: 30.1%
- Cons Disc: 23.2%
- Cons Staples: 19.5%
- Health Care: 18.8%
- Info Tech: 18.1%
- Industrials: 17.1%
- Materials: 10.6%
- Telecom: 5.2%
- Utilities: 4.7%
- Energy: 2.4%

**2013**

- Health Care: 12.3%
- Cons Staples: 9.1%
- Cons Disc: 5.6%
- Industrials: 5.0%
- Financials: 4.2%
- Info Tech: 3.1%
- Telecom: 2.6%
- Utilities: -0.2%
- Energy: -7.2%
- Materials: -2.2%

**Q4 2012**

- Financials: 10.4%
- Cons Disc: 10.3%
- Industrials: 7.9%
- Info Tech: 7.5%
- Materials: 5.9%
- Cons Staples: 4.1%
- Health Care: 2.2%
- Utilities: 1.6%
- Energy: -0.6%
- Telecom: -2.4%

**Q1 2013**

- Health Care: 12.3%
- Cons Staples: 9.1%
- Cons Disc: 5.6%
- Industrials: 5.0%
- Financials: 4.2%
- Info Tech: 3.1%
- Telecom: 2.6%
- Utilities: -0.2%
- Energy: -7.2%
- Materials: -2.2%

Source: Bloomberg, IMG. Global equities represented by MSCI ACWI ex US. Returns calculated are total returns.
### International Equities: Historical Sector Performance

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</tr>
<tr>
<td>2005</td>
<td>Cons Disc</td>
<td>Financials</td>
<td>Cons Staples</td>
<td>39.1%</td>
<td>Telecom</td>
<td>20.6%</td>
<td>Cons Disc</td>
<td>26.5%</td>
<td>Industrials</td>
<td>23.7%</td>
<td>Industrials</td>
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<tr>
<td>2006</td>
<td>Financials</td>
<td>Financials</td>
<td>Utilities</td>
<td>Cons Staples</td>
<td>13.7%</td>
<td>Utilities</td>
<td>13.7%</td>
<td>Info Tech</td>
<td>8.3%</td>
<td>Energy</td>
<td>-46.9%</td>
</tr>
<tr>
<td>2007</td>
<td>Materials</td>
<td>Cons Disc</td>
<td>Cons Disc</td>
<td>19.3%</td>
<td>Cons Disc</td>
<td>23.9%</td>
<td>Info Tech</td>
<td>8.3%</td>
<td>Energy</td>
<td>-46.9%</td>
<td>Industrials</td>
</tr>
<tr>
<td>2008</td>
<td>Cons Disc</td>
<td>Industrials</td>
<td>Industrials</td>
<td>26.5%</td>
<td>Industrials</td>
<td>23.7%</td>
<td>Industrials</td>
<td>46.9%</td>
<td>Cons Staples</td>
<td>36.4%</td>
<td>Financials</td>
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<tr>
<td>2009</td>
<td>Communication Services</td>
<td>Information Technology</td>
<td>51.4%</td>
<td>Industrials</td>
<td>10.4%</td>
<td>Cons Disc</td>
<td>45.4%</td>
<td>Info Tech</td>
<td>14.7%</td>
<td>Cons Disc</td>
<td>-13.5%</td>
</tr>
<tr>
<td>2010</td>
<td>Energy</td>
<td>Financials</td>
<td>Financials</td>
<td>14.0%</td>
<td>Cons Disc</td>
<td>12.5%</td>
<td>Energy</td>
<td>6.7%</td>
<td>Utilities</td>
<td>-16.5%</td>
<td>Materials</td>
</tr>
<tr>
<td>2011</td>
<td>Financials</td>
<td>Cons Disc</td>
<td>Cons Disc</td>
<td>-23.7%</td>
<td>Industrials</td>
<td>-17.8%</td>
<td>Energy</td>
<td>34.0%</td>
<td>Cons Disc</td>
<td>18.9%</td>
<td>Cons Disc</td>
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<tr>
<td>2012</td>
<td>Financials</td>
<td>Telecom</td>
<td>Telecom</td>
<td>30.1%</td>
<td>Telecom</td>
<td>-21.1%</td>
<td>Healthcare</td>
<td>28.9%</td>
<td>Cons Staples</td>
<td>11.4%</td>
<td>Financials</td>
</tr>
</tbody>
</table>

Source: Bloomberg, IMG. Global equities represented by MSCI ACWI ex US. Returns calculated are total returns.

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**Executive Summary**

**Macroeconomic Update**

**Equities**

**Fixed Income**

**Alternative Investments**

**Portfolio Management**

**In Focus**

**Appendix**
Fixed Income Returns

### 2012

- **IG Prefereds - Floating**
  - 24.3%
- **Emerging Markets**
  - 18.3%
- **High Yield**
  - 15.6%
- **IG Prefereds - Fixed**
  - 13.6%
- **Corporates**
  - 10.4%
- **TIPS**
  - 7.3%
- **Municipal**
  - 7.3%
- **US Broad Market**
  - 4.5%
- **Asset-Backed**
  - 3.2%
- **Mortgage**
  - 2.6%
- **Treasury**
  - 2.2%
- **Non-US IG**
  - 1.5%

### 2013

- **High Yield**
  - 2.9%
- **IG Prefereds - Floating**
  - 2.8%
- **IG Prefereds - Fixed**
  - 2.3%
- **Municipal**
  - 0.5%
- **Asset-Backed**
  - 0.3%
- **Corporates**
  - 0.1%
- **Mortgage**
  - 0.1%
- **TIPS**
  - 0.0%
- **US Broad Market**
  - 1.0%
- **TIPS**
  - 0.0%
- **Assets Markets**
  - -2.2%
- **Non-US IG**
  - -4.0%

### Q4 2012

- **Emerging Markets**
  - 3.2%
- **High Yield**
  - 1.9%
- **IG Prefereds - Floating**
  - 1.2%
- **Corporates**
  - 0.8%
- **TIPS**
  - 0.7%
- **IG Prefereds - Fixed**
  - 0.5%
- **Municipal**
  - 0.1%
- **Asset-Backed**
  - 0.4%
- **US Broad Market**
  - 0.3%
- **Treasury**
  - -0.1%
- **Mortgage**
  - -0.3%
- **Non-US IG**
  - -2.5%

### Q1 2013

- **Emerging Markets**
  - 3.2%
- **High Yield**
  - 1.9%
- **IG Prefereds - Floating**
  - 1.2%
- **Corporates**
  - 0.8%
- **TIPS**
  - 0.7%
- **IG Prefereds - Fixed**
  - 0.5%
- **Municipal**
  - 0.1%
- **Asset-Backed**
  - 0.4%
- **US Broad Market**
  - 0.3%
- **Treasury**
  - -0.1%
- **Mortgage**
  - -0.3%
- **Non-US IG**
  - -4.0%

Source: Bloomberg, BofA ML Global Research, IMG; All indexes represented by BofA Merrill Lynch Global Bond Indexes and calculated using total returns.
**Consumer Price Index (CPI) Level:** Base Year 1982-84: 100. The CPI represents changes in prices of all good and services purchased for consumption by urban households. User fees and sales and excised taxes paid by the consumer are also included. Income taxes and investment items are not included.

**CPI Core Index Level:** Base year 1982-84; it excludes food and energy items from the Consumer Price Index Level.

**Current Account Deficit:** Occurs when a country’s total import of goods, services and transfers is greater than the country’s total export of goods, services and transfers; this situation makes a country a net debtor to the rest of the world.

**GDP Nominal:** Gross Domestic Product (GDP) equals the total income of everyone in the economy or the total expenditure on the economy’s good and services. GDP includes only the value of final goods and services. Nominal GDP measures the value of goods and services at current dollar prices.

**GDP Real:** The chain weighted GDP measure of good and services at constant dollar prices. The base year changes continuously over time (e.g., 1995, process measures real growth from 1995-1996). The figures are then linked to a chain that can compare goods and services in any two years. Chain weighted figures never let prices get too far out of date.

**Jobless Claims:** Average weekly initial claims for unemployment insurance: measures the average number of new claims for unemployment compensation per week.

**US Employees Non-Farm Private Payrolls:** A statistic that represents the total number of paid US workers except for farm workers, general government employees, employees of nonprofit organizations that provide assistance to individuals, and private household employees. The Non-Farm Private Payroll represents about 80% of the workers who produce the US Gross Domestic Product.
Index Definitions

**Alerian MLP Index** is a composite of the 50 most prominent energy master limited partnerships and will be calculated by Standard & Poor’s using a float-adjusted, market capitalization-weighted methodology. The total return index is calculated on an end-of-day basis and will be disseminated daily through its ticker symbol, “AMZX” on the New York Stock Exchange.

**Barclays Capital US Aggregate Index** is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed rated and hybrid ARM passthroughs), ABS, and CMBS.

**Barclays Capital US Treasury Index** includes public obligations of the US Treasury. Treasury bills are excluded by the maturity constraint.

**Barclays Capital US Agency Index** includes native currency agency debentures from issuers such as Fannie Mae, Freddie Mac, and Federal Home Loan Bank.

Copper reflects the copper spot price and is quoted in USD per pound.

Corn reflects the USDA Grain Export-Chicago No. 2 Yellow Corn Spot Price. The price is quoted in USD per bushel and is traded intraday.

**Dow Jones/Credit Suisse Hedge Fund Indexes:**

- **Aggregate Index**: The methodology utilized in the Dow Jones/Credit Suisse Hedge Fund Index starts by defining the universe it is measuring. The Index Universe is defined as funds with: a minimum of US $50 million assets under management, a minimum one-year track record, and, current audited financial statements. Funds are separated into ten primary subcategories based on their investment style. The Index in all cases represents at least 85% of the AUM in each respective category of the Index Universe.

- **Global Macro Index**: Global macro managers carry long and short positions in any of the world’s major capital or derivative markets.

- **Distressed Index**: Fund managers in this non-traditional strategy invest in the debt, equity or trade claims of companies in financial distress or already in default.

- **Long-Short Equity Index**: The directional strategy involves equity-oriented investing on both the long and short sides of the market. The objective is not to be market neutral. Managers have the ability to shift form Value to Growth, from Small to Mid to Large Cap stocks, and form a net long position to a net short position. Managers may use futures and options to hedge. The manager’s focus may be regional or sector specific.

- **Dedicated Short Bias Index**: The strategy is to maintain net short, as opposed to pure short, exposure. Short-biased managers take short positions mostly in equities and derivatives. The short bias of a manager’s portfolio must be greater than zero to be classified in this category.

- **Convertible Arbitrage Index**: The strategy is identified in the convertible securities of a company. Positions are designed to generate profits from the fixed income security as well as the short sale of stock, while protecting principle from market moves.

**Dow Jones Industrial Average (DJIA)** measures the performance of 30 leading US blue-chip companies.

**Dow Jones – UBS Commodity Indexes:**

- **DJ Agriculture is the Dow Jones - UBS Agriculture Total Return Sub-Index** reflects exposure to coffee, corn, cotton, soybeans, soybean oil, sugar, and wheat. The total return index is calculated on an end-of-day basis and is quoted in USD.

- **DJ Energy is the Dow Jones - UBS Energy Total Return Index** reflects exposure to crude oil, heating oil, natural gas and unleaded gas. The total return index is calculated on an end-of-day basis and is quoted in USD.

- **DJ Grain Index is the Dow Jones - UBS Grains Total Return Index** reflects exposure to corn, soybeans and wheat. The total return index is calculated on an end-of-day basis and is quoted in USD.

- **DJ Industrial Metals is the Dow Jones - UBS Industrial Metals Total Return Index** reflects exposure to aluminum, copper, nickel and zinc. The total return index is calculated on an end-of-day basis and is quoted in USD.

- **DJ Livestock is the Dow Jones - UBS Livestock Sub-Index Total Return Index** reflects exposure to lean hogs and live cattle. The total return index is calculated on an end-of-day basis and is quoted in USD.
Index Definitions

**DJ Petroleum Index** is the Dow Jones - UBS Commodity Index Petroleum Sector Sub-Index Total Return Index reflects exposure to crude oil, heating oil and unleaded gasoline commodities traded on US exchange. The total return index is calculated on an end-of-day basis and is quoted in USD.

**DJ Precious Metals is the Dow Jones - UBS Precious Metal Sub-Index Total Return** reflects exposure to gold and silver. The total return index is calculated on an end-of-day basis and is quoted in USD.

**DJ Softs Index is the Dow Jones - UBS Softs Sub-index Total Return Index** reflects exposure to coffee, cotton, and sugar. The total return index is calculated on an end-of-day basis and is quoted in USD.

**Dow Jones - UBS Commodity Total Return Index** is a broadly diversified index that allows investors to track a diversified set of commodity futures through a single, simple measure. The total return index reflects the return on fully collateralized positions in the underlying commodity futures.

**FTSE NAREIT US Real Estate Index** is a performance index based on publicly traded real estate investment trusts (REITs), that span commercial real estate space across the US economy. The index series provides investors with exposure to all investment and property sectors. A REIT is a company that owns, and in most cases, operates income-producing real estate such as apartments, shopping centers, offices, hotels and warehouses. Some REITs also engage in financing real estate. To qualify as a REIT, a company must distribute at least 90 percent of its taxable income to its shareholders annually. A company that qualifies as a REIT is permitted to deduct dividends paid to its shareholders from its corporate taxable income. As a result, most REITs remit at least 100 percent of their taxable income to their shareholders and therefore owe no corporate tax.

**FTSE®EPRA®/NAREIT® Global Index** is a free float, market capitalization-weighted real estate index designed to represent publicly traded equity REITs and listed property companies globally.

**Gold** reflects the gold spot price and is quoted in USD per Troy Ounce.

**HFRX Global Hedge Fund Index** is an asset-weighted index that includes over 55 constituent funds. All funds must be open to new investments, have at least $50 Million under management and have a 24-month track record. The index is rebalanced quarterly. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe.

**ML US Broad Market Index** tracks the performance of US dollar denominated investment grade Government and Corporate public debt issued in the US Domestic bond market, including collateralized products such as Mortgage Pass-Through and Asset Backed securities.

**ML US Corporate Master Index** tracks the performance of US dollar-denominated investment grade corporate public debt issued in the US domestic bond market. Qualifying bonds must have at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of $150 million. Bonds must be rated investment grade based on a composite of Moody’s and S&P.

**ML Municipal Masters Index** tracks the performance of the investment grade US tax-exempt bond market.

**ML Global Sovereign Broad Market Index** tracks the performance of local currency denominated debt of investment grade rated Sovereign issuers.

**ML Global Emerging Markets Sovereign and Corporate Index** tracks the performance of US dollar denominated debt of sovereign and corporate issuers domiciled in countries with a BB or lower foreign currency long-term sovereign debt rating.

**ML High Yield Master Index** tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market. “Yankee” bonds (debt of foreign issuers issued in the US domestic market) are included in the Index provided the issuer is domiciled in a country having an investment grade foreign currency long-term debt rating (based on a composite of Moody’s and S&P).

**ML Mortgage Master Index** tracks the performance of US dollar denominated 30-year, 15-year and balloon pass-through mortgage securities having at least $150 million outstanding per generic production year.

**ML 91-Day T-Bill Index** is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Index Definitions

**MSCI World Index** is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of July 2009 the MSCI World Index consisted of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

**MSCI EAFE (Europe, Australasia, and Far East) Index** comprises 21 MSCI country indexes, representing the developed markets outside of North America.

**MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of July 2009, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

**MSCI Europe non-UK Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of July 2009, the MSCI Europe Index consisted of the following 15 developed market country indexes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

**MSCI Pacific non Japan Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region. As of July 2009, the MSCI Pacific Index consisted of the following 4 Developed Market countries: Australia, Hong Kong, New Zealand, and Singapore.

**Muni Yields** uses the Moody’s Municipal Bond Yield Average AAA 10 Year. Derived from pricing data on unenhanced newly issued general obligation bonds each observation is an unweighted average.

**NCREIF Property Index** is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment.

**Oil** reflects the Bloomberg West Texas Intermediate Crushing Crude Oil Spot Price. The price is derived by adding spot market spreads to the NYMEX contract. Units are in USD per barrel and is traded intraday.

**Russell 1000 Growth Index®** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000 Value Index®** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 2000 Index®** measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

**Russell 2000 Growth Index.** The index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values

**Russell 2000 Value Index.** The index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

**Silver** reflects the silver spot price and is quoted in USD per Troy Ounce.

**S&P 500 Index** is widely regarded as the best single gauge of the US equities market, this world-renowned index includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large-cap segment of the market, with approximately 75% coverage of US equities, it is also an ideal proxy for the total market. An investor cannot invest directly in an index.

**S&P 400 Mid Cap Index** is representative of 400 stocks in the mid-range sector of the domestic stock market, representing all major industries

**Ten-Year Treasury** relates the yield on a security to its time to maturity and is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

**VIX Index** is the Chicago Board Options Exchange Standard and Poor’s Volatility Index reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes.
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Alternative Investments are speculative and subject to a high degree of risk. Although risk management policies and procedures can be effective in reducing or mitigating the effects of certain risks, no risk management policy can completely eliminate the possibility of sudden and severe losses, illiquidity and the occurrence of other material adverse effects. Some or all alternative investment programs may not be suitable for certain investors. Many alternative investment products, specifically private equity and most hedge funds, require purchasers to be “qualified purchasers” within the meaning of the federal securities laws (generally, individuals who own at least $5 million in “investments” and institutional investors who own at least $25 million in “investments,” as such term is defined in the federal securities laws). 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.