Market Quarterly

CIO REPORTS

Q1 2013

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Merrill Lynch Wealth Management®

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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%), Preferreds (+2.8%), Municipals (+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

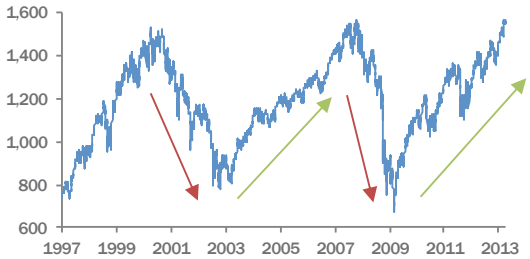
Gross Domestic Product (%)	2013E	2014 E
Global	3.1	3.9
US	1.8	2.6
Euro Area	-0.5	0.8
Emerging Markets	5.2	5.7

US Interest Rates (%)	Jun 2013 E	Sept 2013 E
Fed Funds	0-0.25	0-0.25
10-Yr T-Note	1.75	2.00

Currencies	Jun 2013E	Sept 2013 E
EUR/USD	1.28	1.26
USD/JPY	93	94
USD/CAD	1.02	1.01

E = Estimate

S&P 500 INDEX AT RECORD HIGH



Source: Bloomberg, IMG.

HOUSING RECOVERY

Source: National Association of Realtors, Haver Analytics, IMG.

YEN'S WEAKNESS INCREASES JAPANESE COMPETITIVENESS

Source: Bloomberg, IMG.

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*

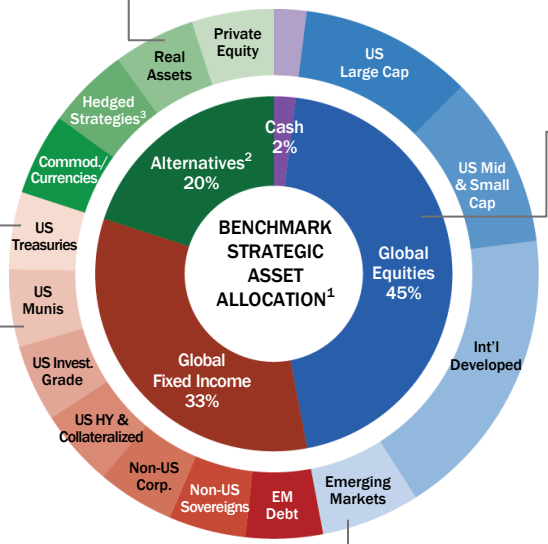
Recently upgraded on improved global growth outlook. Prefer direct real estate and REITs.

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*

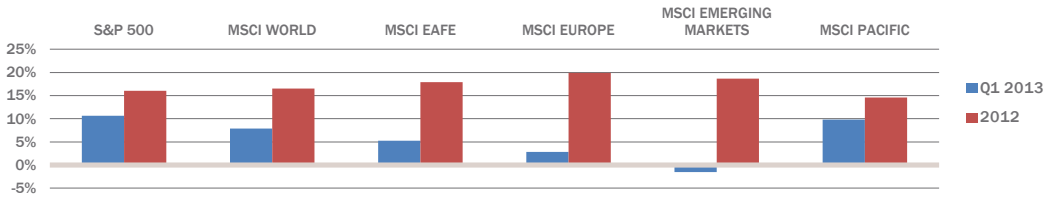
Focus on regional opportunities in Asia and LATAM

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

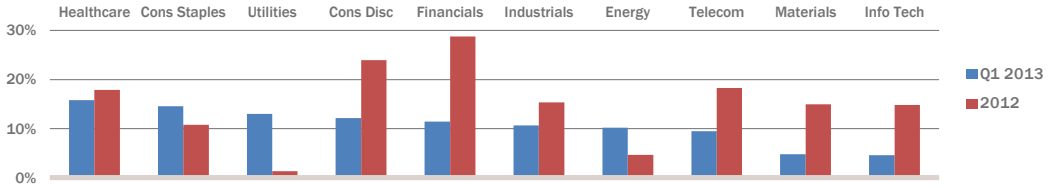
The Strategic Profile Asset Allocation Models with Alternative Assets were developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management and are designed to serve as guidelines for a 20-30 year investment horizon. 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

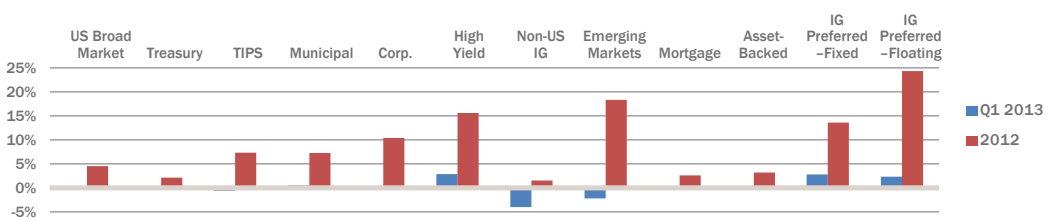
WORLD BY REGION



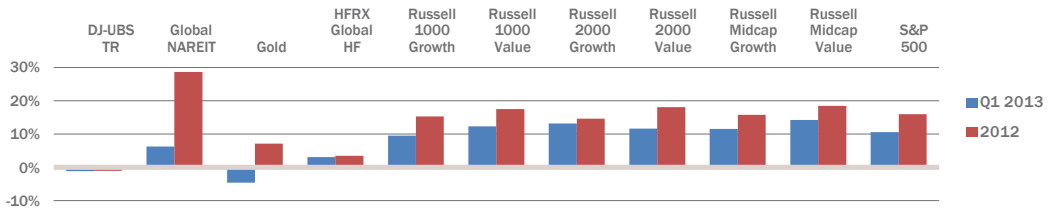
S&P 500 SECTOR RETURNS



BOND MARKET RETURNS



CROSS ASSET RETURNS



STOCKS

	As of 3.29.13	Quarterly % Chg	2012 % Chg
DJIA	14,578.5	11.9%	10.2%
NASDAQ	3,267.5	8.5%	17.5%
S&P 500	1,569.2	10.6%	16.0%
S&P 400 Mid Cap	1,153.7	13.5%	17.9%
Russell 2000	951.5	12.4%	16.3%
MSCI World	1,434.5	7.9%	16.5%
MSCI EAFE	1,674.3	5.2%	17.9%
MSCI Emerging Mkts	1,034.9	-1.6%	18.6%

BONDS

	As of 3.29.13	Quarterly % Chg	2012 % Chg
ML US Broad Market Master	261.6	-0.1%	4.5%
ML US Treasury Master	1487.0	-0.3%	2.2%
ML Agency Master	179.5	0.1%	2.5%
ML Muni Master	477.5	0.5%	7.3%
ML US Corp Master	2450.8	0.1%	10.4%
ML High Yield	979.5	2.9%	15.6%

COMMODITIES

	As of 3.29.13	Quarterly % Chg	2012 % Chg
DJ-UBS Total Return	276.7	-1.1%	-1.1%
Gold Spot*	1598.8	-4.6%	7.1%
Silver Spot*	28.3	-6.1%	8.2%
Copper Spot*	340.2	-6.9%	6.3%
WTI Crude $/Barrel*	97.2	5.9%	-7.1%

CURRENCIES*

	As of 3.29.13	Quarterly % Chg	2012 % Chg
EUR/USD	1.2819	-2.8%	1.8%
USD/JPY	94.22	8.6%	12.8%
GBP/USD	1.5198	-6.5%	4.6%
USD/CHF	0.9492	3.7%	-2.4%

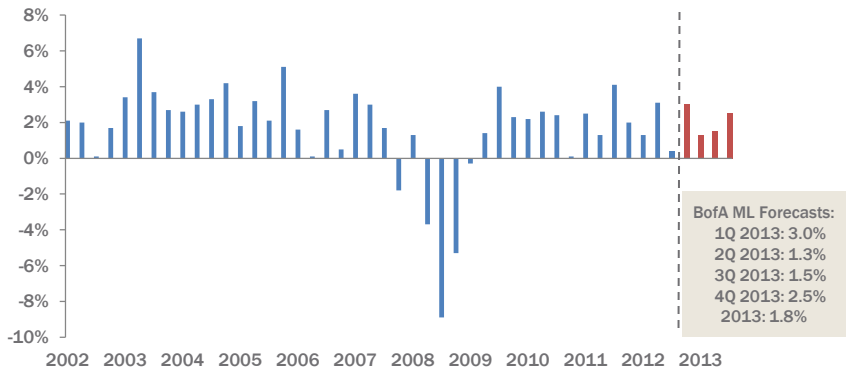
ALTERNATIVES

	As of 3.29.13	Quarterly % Chg	2012 % Chg
Global NAREIT	2117.0	6.3%	28.7%
US NAREIT	2,525.4	7.1%	18.2%
Alerian MLP	454.5	19.7%	4.8%
HFRX Global Hedge Fund	1184.3	3.1%	3.5%

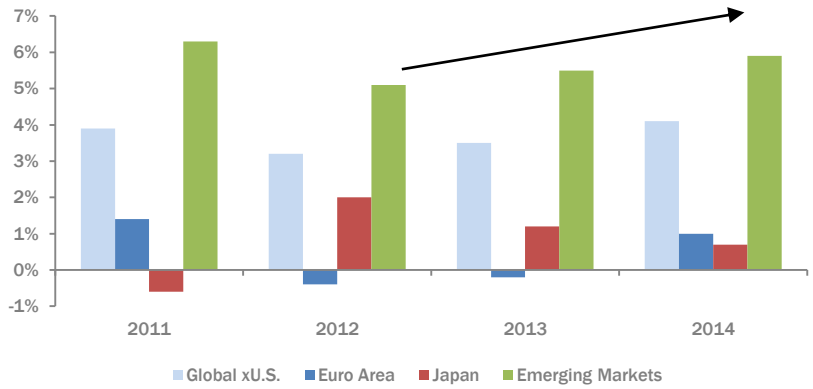
Returns calculated are total returns unless otherwise stated (*indicates spot returns). All bond indexes represented by BofA Merrill Lynch Global Bond Indexes.

Economic conditions around the world are improving

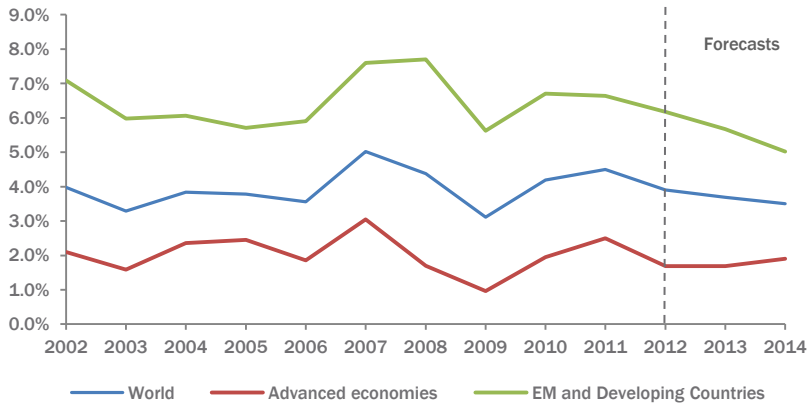
US REAL GDP GROWTH, QoQ ANNUALIZED



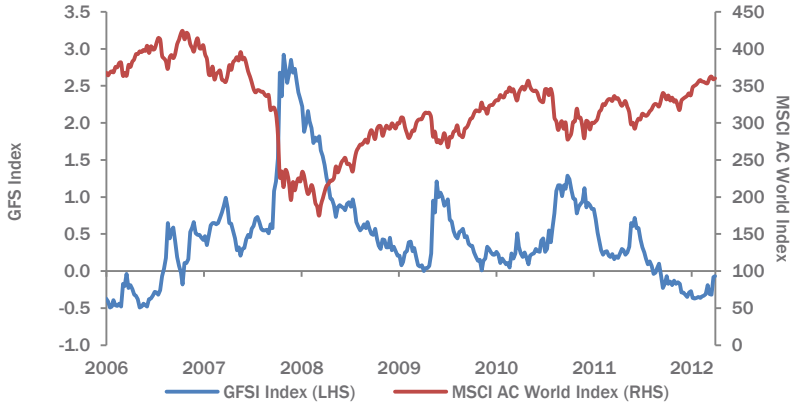
EMERGING MARKET GROWTH TO RISE IN 2013 AND 2014



INFLATION IS UNDER CONTROL GLOBALLY



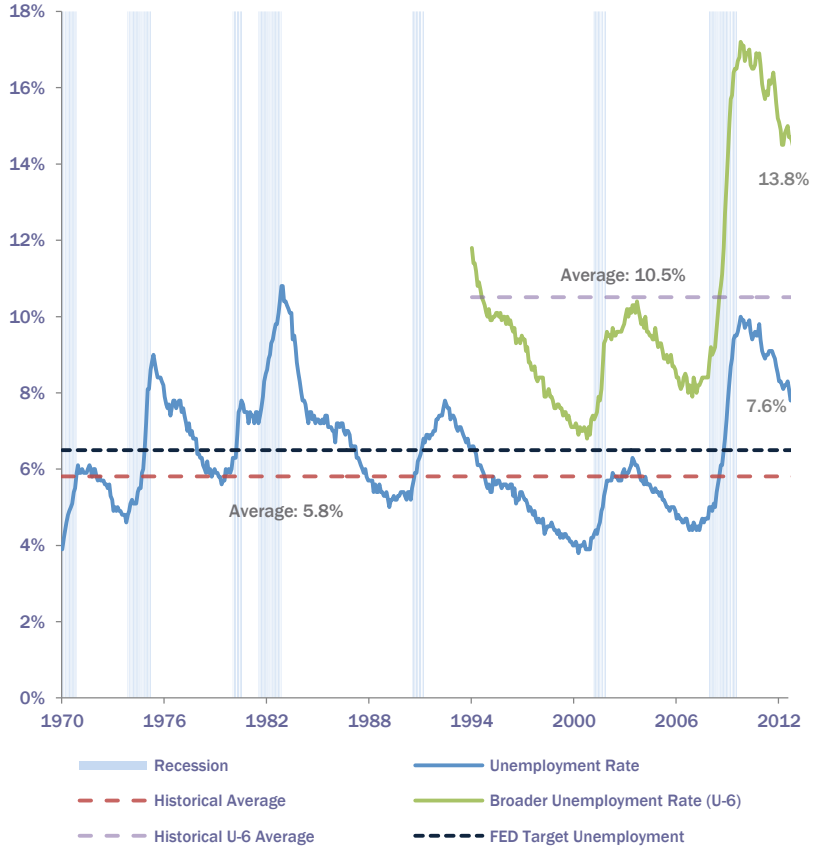
BofA ML GLOBAL FINANCIAL STRESS INDEX AT LOWEST SINCE 2007



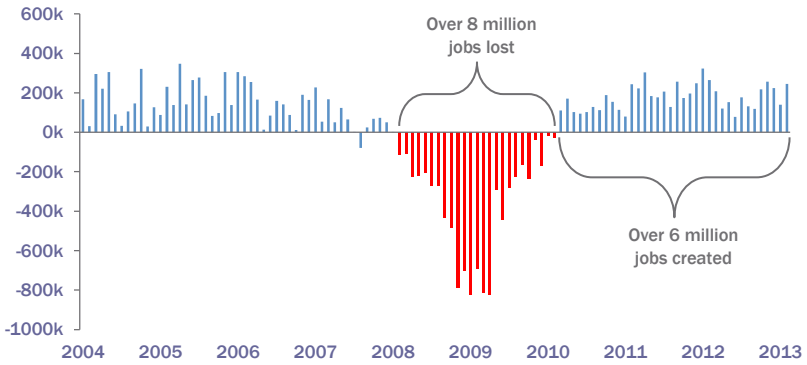
Source: (Top left) BEA, BofA ML Global Research. (Top right and bottom left) IMF, IMG. (Bottom right) BofA ML Global Research, IMG.

US unemployment rate remains elevated, but improving

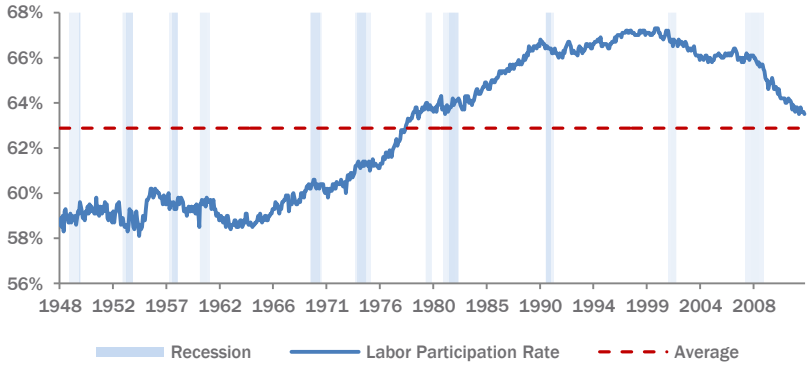
UNEMPLOYMENT RATE



TOTAL PRIVATE PAYROLL



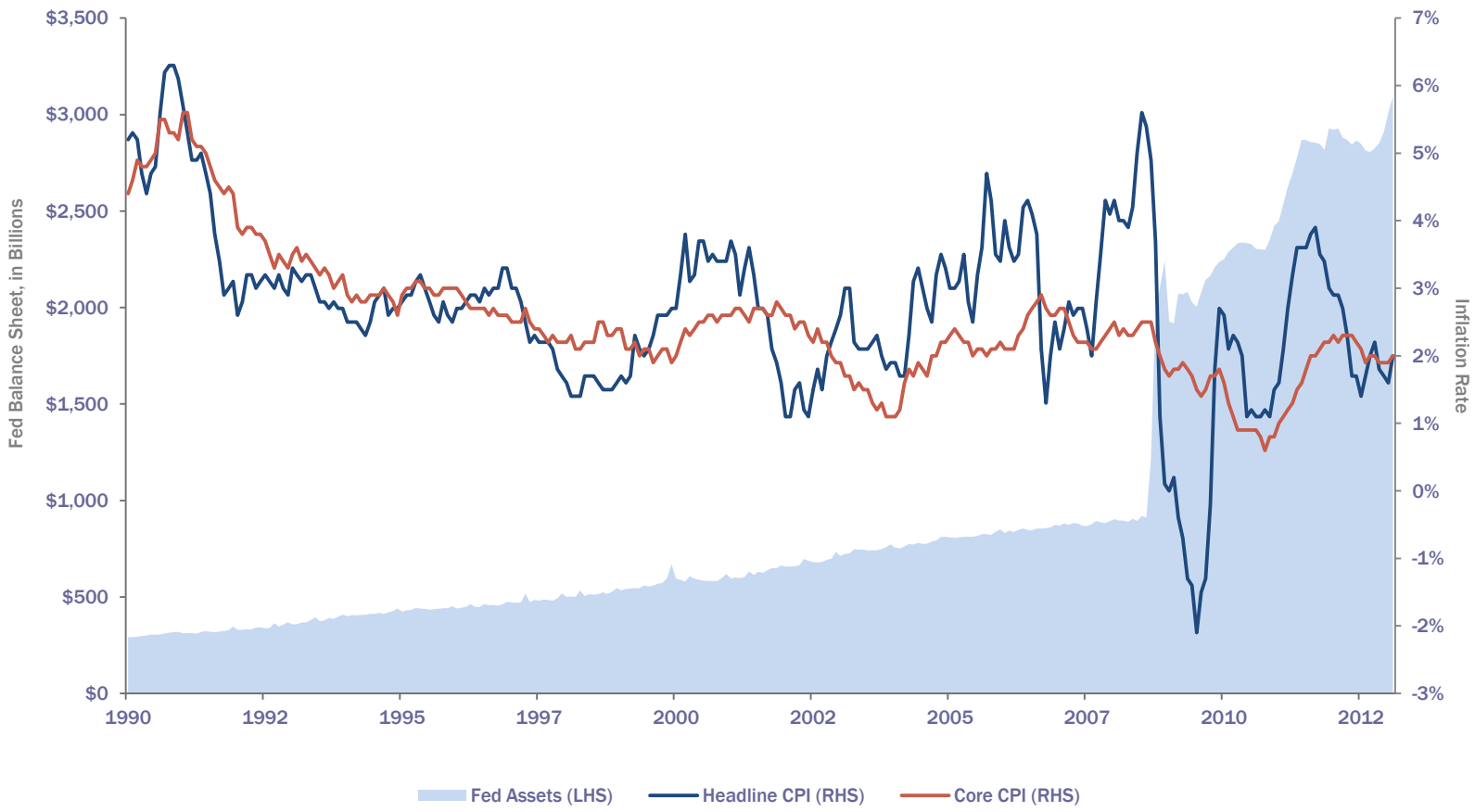
PARTICIPATION RATE LOWEST SINCE MAY 1979



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…

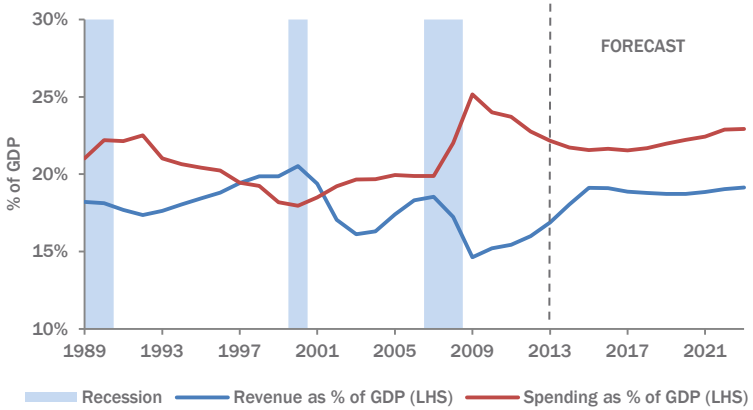
INFLATION RATE VS FED BALANCE SHEET



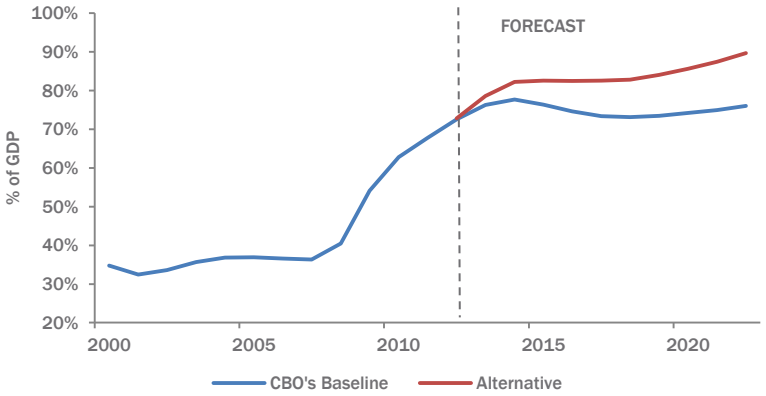
Source: Federal Reserve Board, Bureau of Labor Statistics, Haver Analytics, IMG. CPI figures reflect year-over-year % change.

But US fiscal challenges remain absent a comprehensive plan to increase revenue and rein in spending

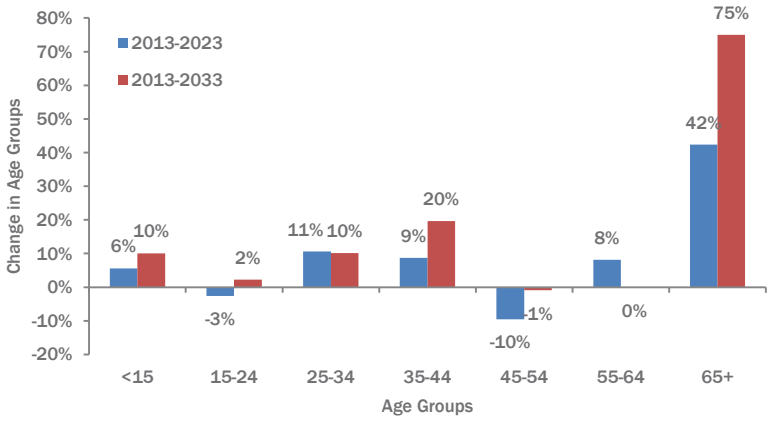
FEDERAL SPENDING AND REVENUE AS % of GDP



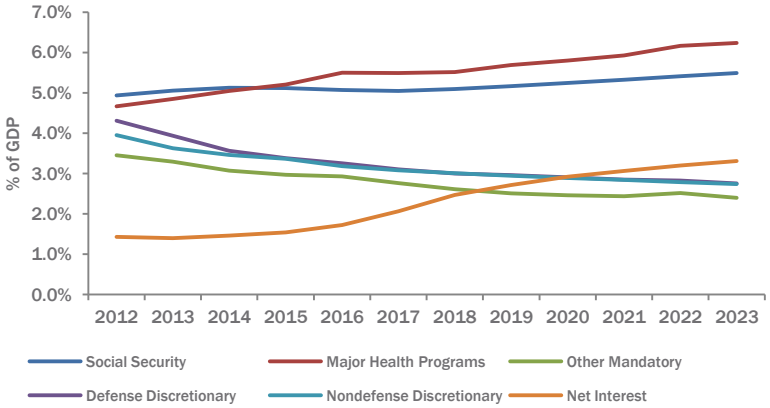
PUBLIC DEBT AS % OF GDP



POPULATION GROWTH THE NEXT 10-20 YEARS



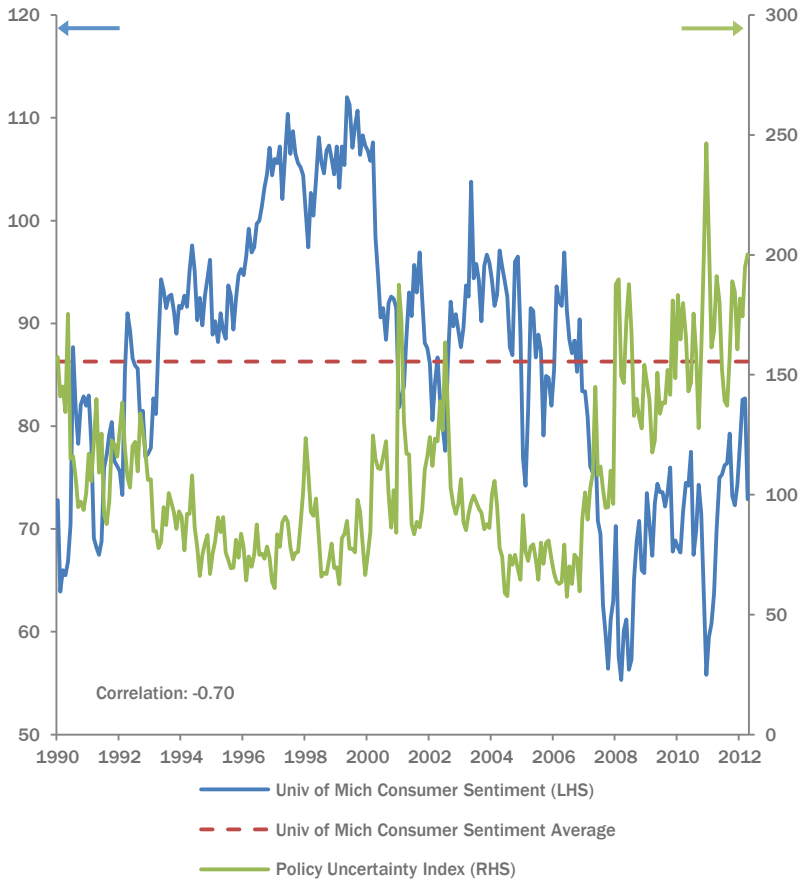
DRIVERS OF SPENDING



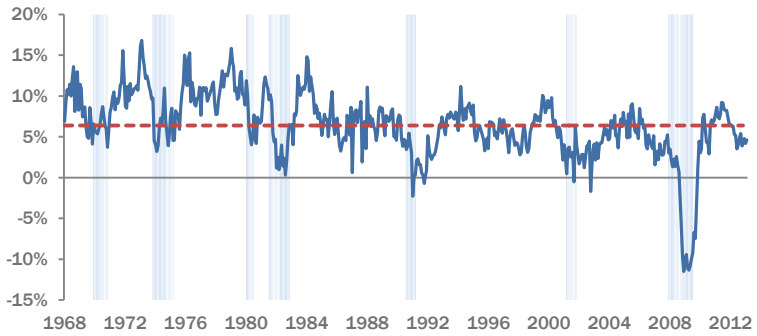
Source: (Top Left) CBO, IMG (Bottom Left) Age Wave, Inc, IMG. (Top Right/Bottom Right) CBO, IMG.

Despite political gridlock in Washington, consumers show resilience

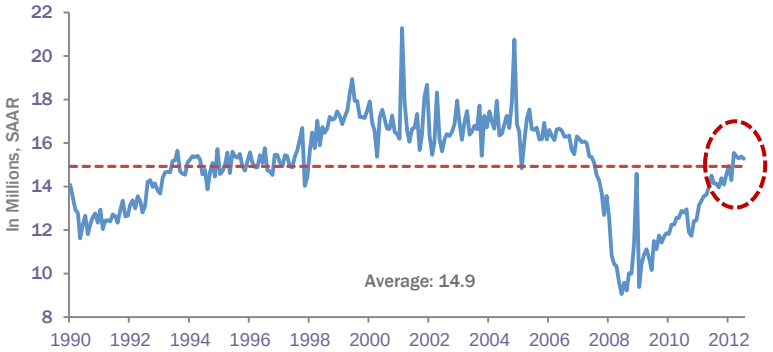
CONSUMER SENTIMENT INDEX VS. POLICY UNCERTAINTY INDEX



RETAIL SALES CONTINUE TO STABILIZE (YoY %)



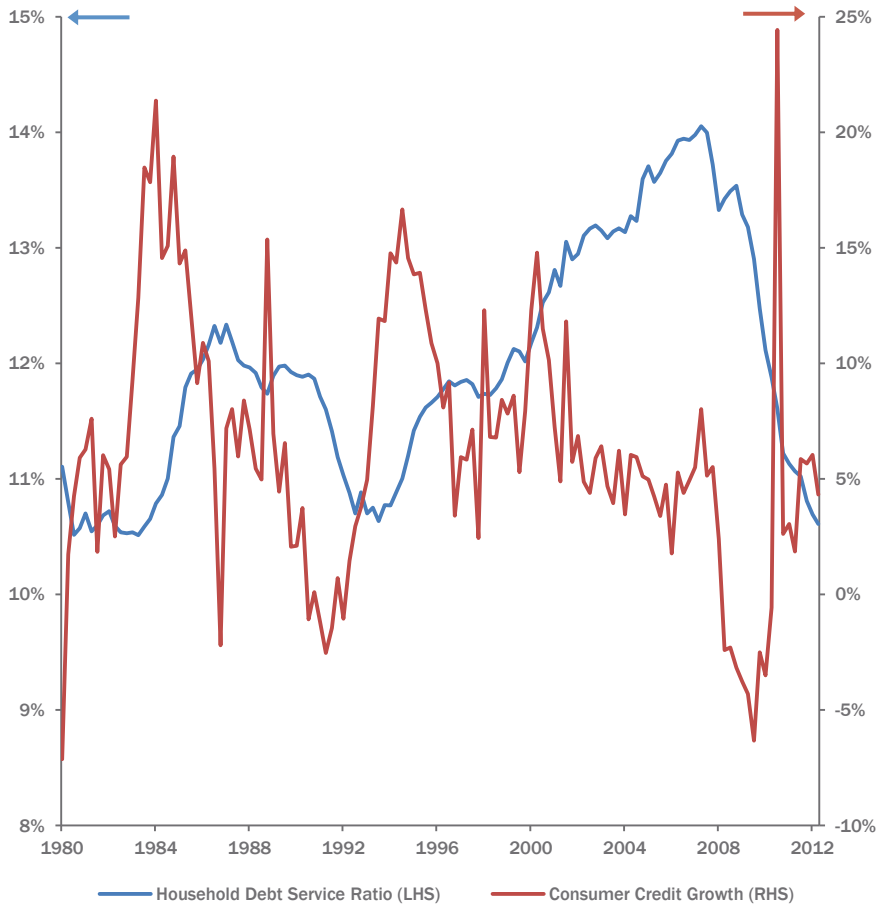
MOTOR VEHICLE SALES IMPROVING



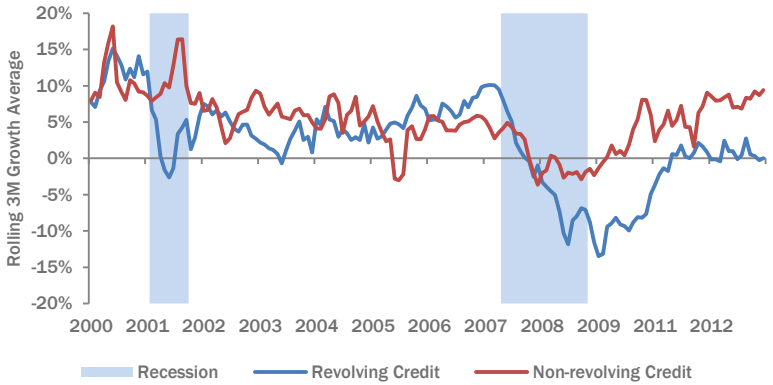
Source: (Top Right) Census Bureau, Haver Analytics, IMG. (Bottom Right) Autodata, Haver Analytics, IMG.. (Left) University of Michigan, www.policyuncertainty.com, Haver Analytics, IMG. Policy Uncertainty Index measures policy-related economic uncertainty constructed from three types of underlying components: 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)

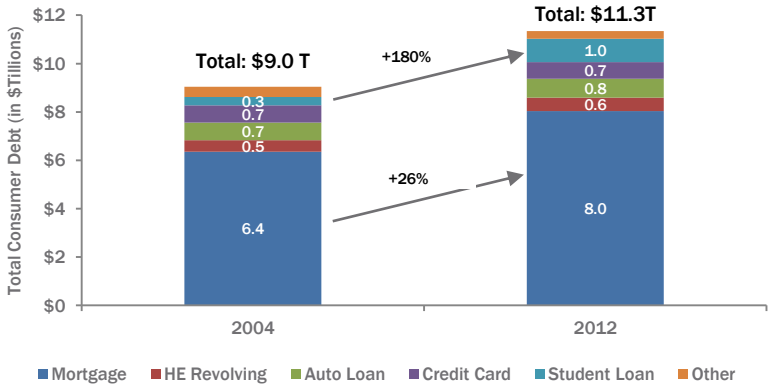
CONSUMER CREDIT VS. HOUSEHOLD DEBT SERVICE RATIO



GROWTH OF REVOLVING DEBT VS. NON-REVOLVING DEBT



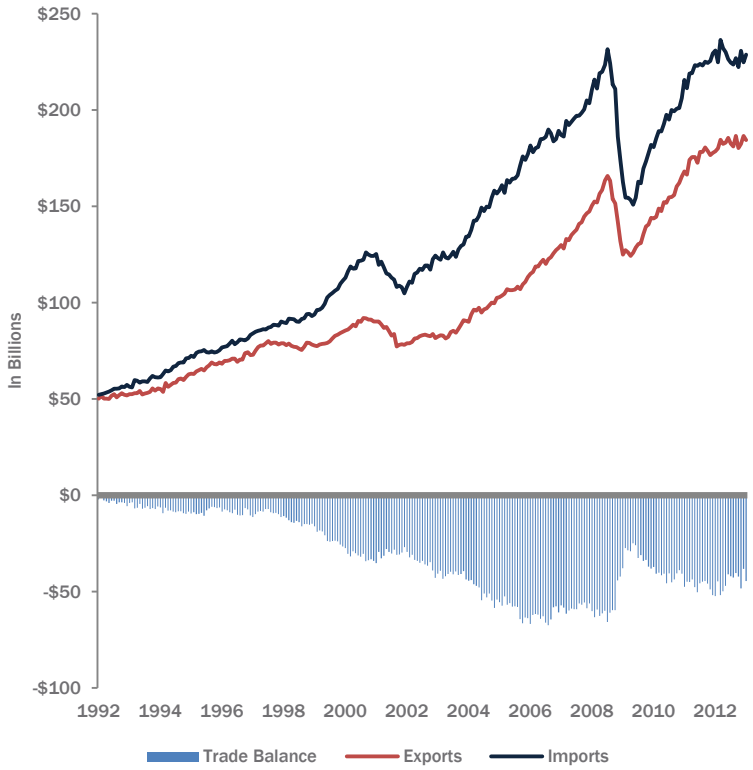
STUDENT LOANS DRIVE NON-REVOLVING DEBT



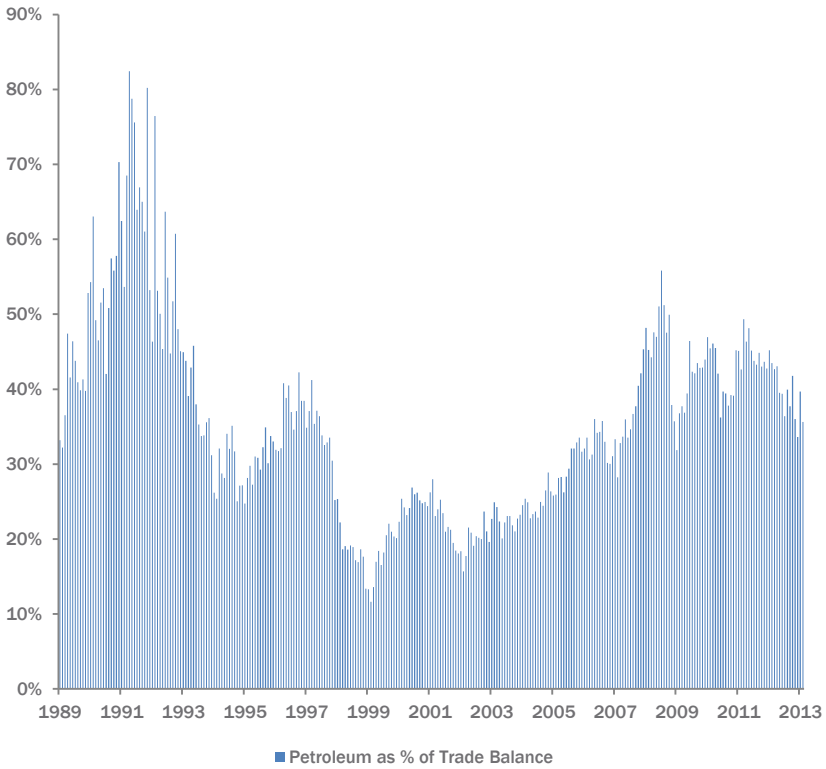
Source: (Left) Federal Reserve Board, Haver Analytics, IMG. Household debt service ratio is an estimate of debt payments to disposable income. Consumer credit is an annualized quarter-over-quarter calculation. (Top Right) Federal Reserve, Haver Analytics, IMG. (Bottom Right) FRBNY Consumer Credit Panel/Equifax, IMG. Non-revolving debt includes auto loans, student loans, mortages, 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



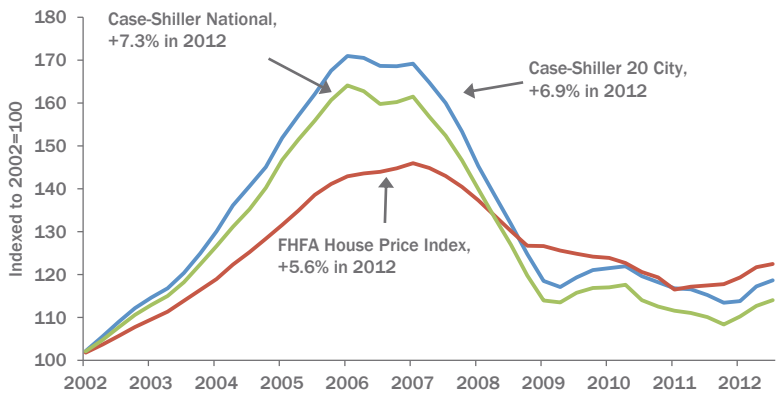
PETROLEUM ACCOUNTS FOR 35% OF TRADE BALANCE



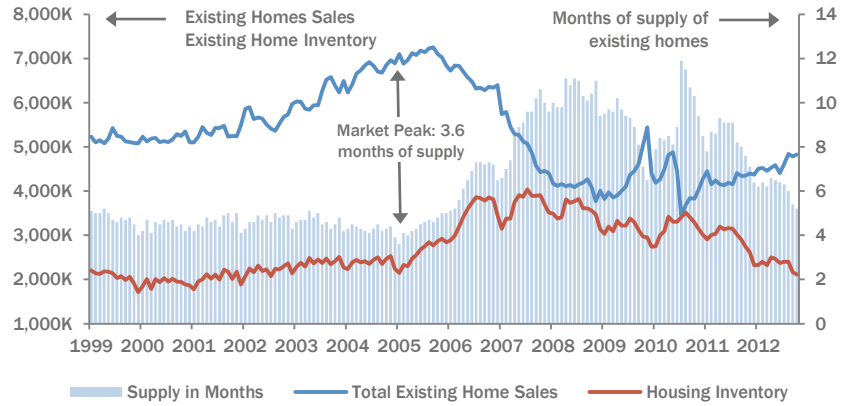
Source: (Left) BEA, Federal Reserve, Haver Analytics, IMG. (Right) US Census Bureau, Haver Analytics, IMG

Housing recovery in progress

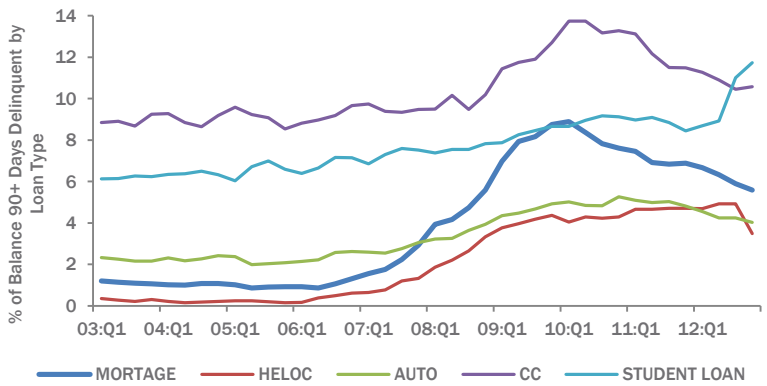
HOME PRICES TRENDING UPWARD



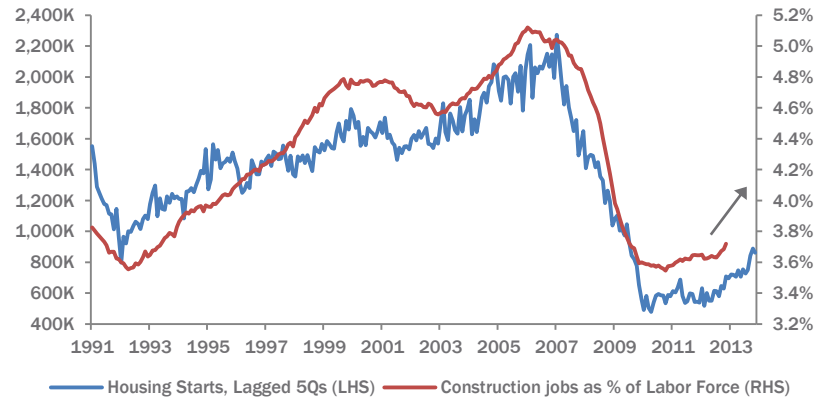
EXISTING HOME SALES AND INVENTORY



MORTGAGE DELINQUENCIES IMPROVING



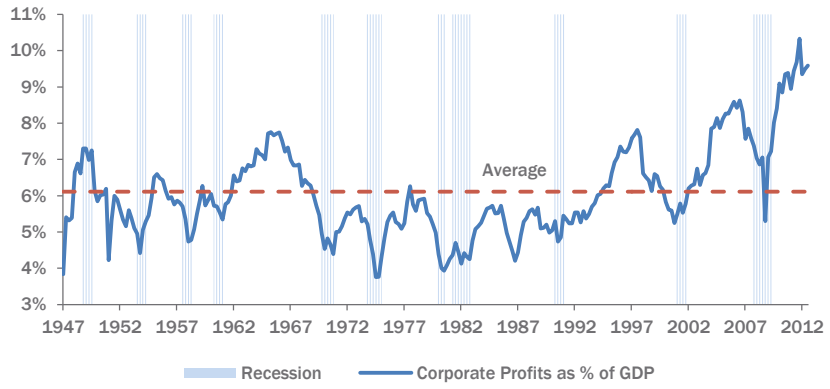
CONSTRUCTION JOBS LAG HOUSING STARTS



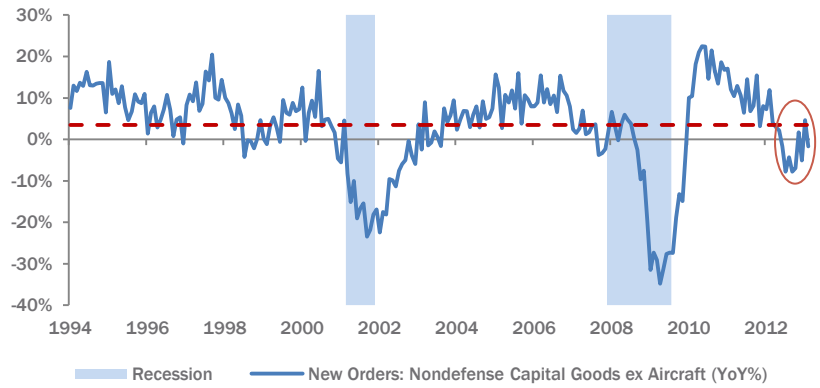
Source: (Top Left) Federal Housing Finance Agency, S&P, Haver Analytics, IMG. (Top Right) Census Bureau, Haver Analytics, IMG. (Bottom Left) FRBNY Consumer Credit Panel/Equifax, IMG. (Bottom Right) National Association of Realtors, Haver Analytics, IMG.

Corporations, with large cash balances and healthy balance sheets are beginning to spend

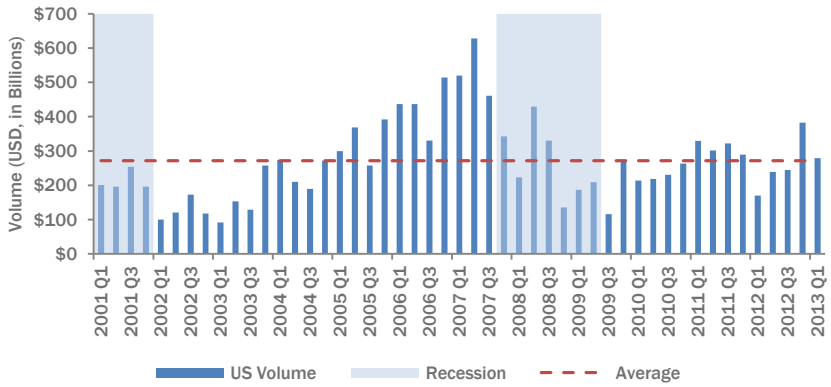
CORPORATE PROFITS SOAR



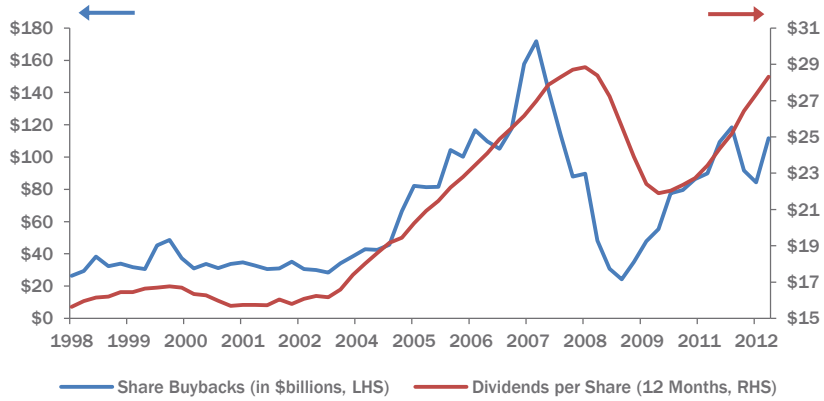
CAPEX SPENDING HAS NOT KEPT PACE



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.

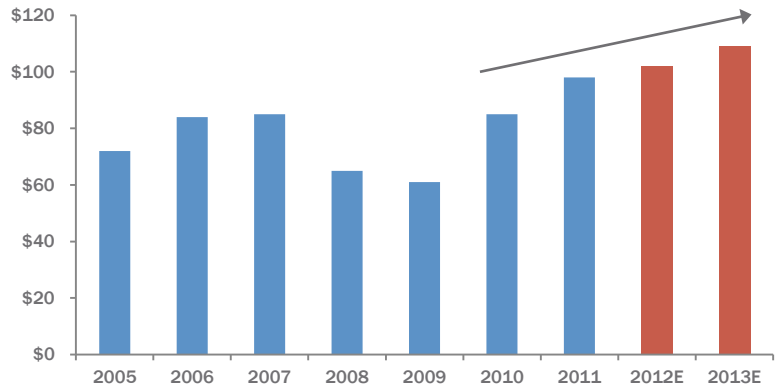
US Equity Market Performance: S&P 500 Index closes out 1Q at an all-time high of 1,569

S&P 500 INDEX(Jan 1997 – Mar 2013)

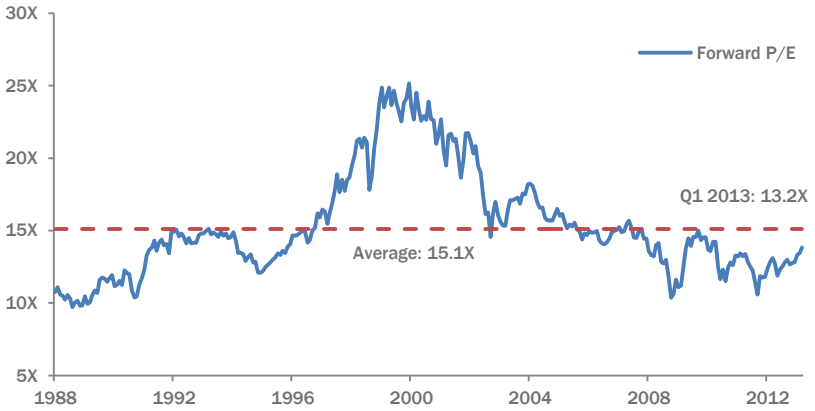
Source: Bloomberg, IMG

As earnings surge and fundamentals remain strong, the S&P 500 is still relatively undervalued

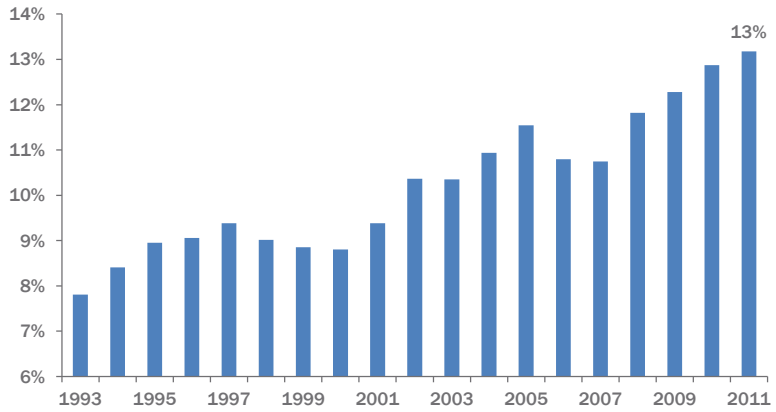
S&P 500 EARNINGS PER SHARE FORECAST TO GROW



S&P 500 INDEX: FORWARD PRICE TO EARNINGS RATIO[1]



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



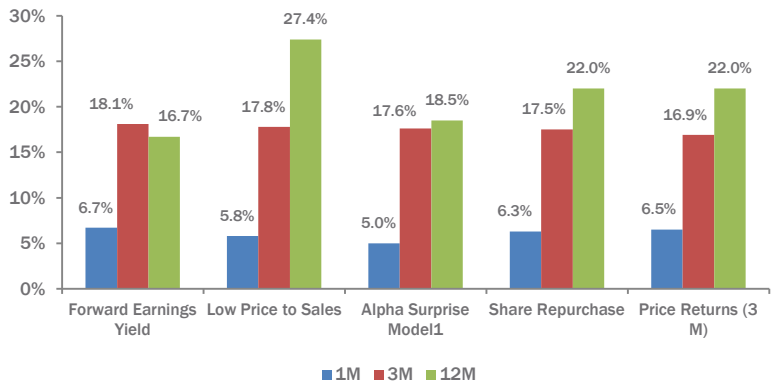
IMPROVING FUNDAMENTALS (DEC 1994 – MAR 2013)

	% Weight	ROE LTM (%)	Average	Net Margin (%)	Average	Financial Leverage	Average
S&P 500	**100.00**	**14.87**	**14.79**	**9.06**	**7.15**	**4.64**	**5.19**
Consumer Disc	11.62	21.46	13.29	7.86	4.17	3.14	3.68
Consumer Staples	10.96	24.32	27.15	6.13	6.36	2.73	3.01
Energy	10.92	15.62	16.86	8.24	7.10	2.09	2.31
Financials	15.93	7.93	12.21	13.30	10.28	8.5	12.51
Health Care	12.53	18.03	21.97	8.56	10.26	2.39	2.49
Industrials	10.11	18.33	16.73	8.48	6.95	3.87	4.01
Information Technology	18.02	22.17	16.55	16.26	9.63	1.95	2.04
Materials	3.43	15.49	13.62	6.65	6.04	2.8	2.89
Telecom	2.97	7.58	13.04	3.76	8.29	3.79	3.15
Utilities	3.51	9.02	11.06	8.28	7.60	3.72	3.74

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

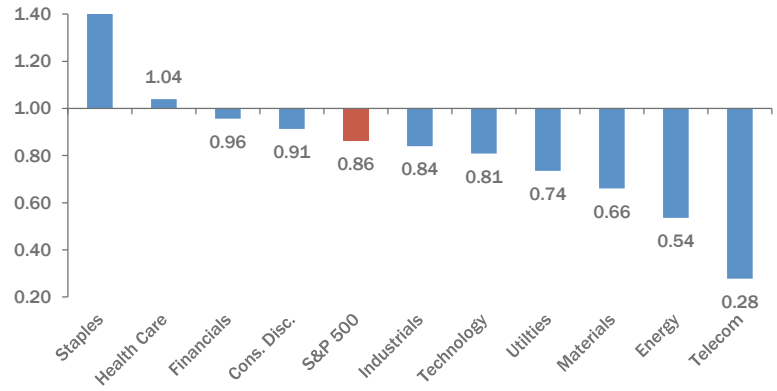
VALUATION BASED STRATEGIES PERFORMED BEST IN 1Q13



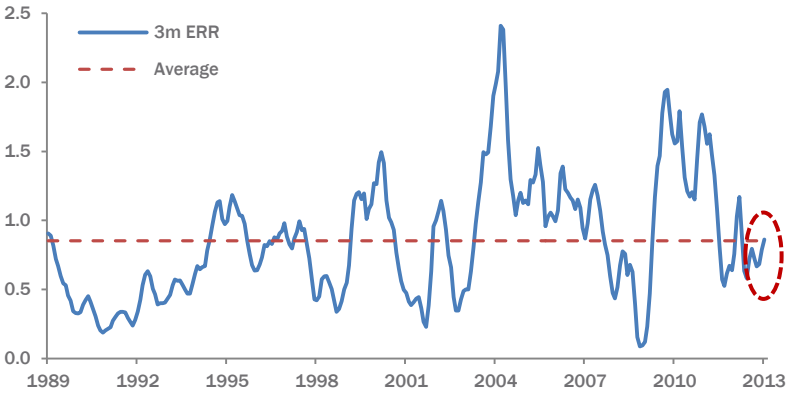
4Q12 EPS AND SALES BEATS BY SECTOR

	% EPS beat	% Sales beat	Both EPS & Sales beat
Cons. Disc	60%	53%	39%
Staples	62%	50%	33%
Energy	53%	65%	40%
Financials	56%	64%	43%
Health Care	62%	69%	42%
Industrials	57%	65%	38%
Technology	70%	59%	51%
Materials	47%	63%	30%
Telecom	13%	50%	13%
Utilities	52%	29%	23%
S&P 500	58%	59%	39%

S&P 500 3 MONTH EARNINGS ESTIMATE REVISION RATIO (MAR 2013)



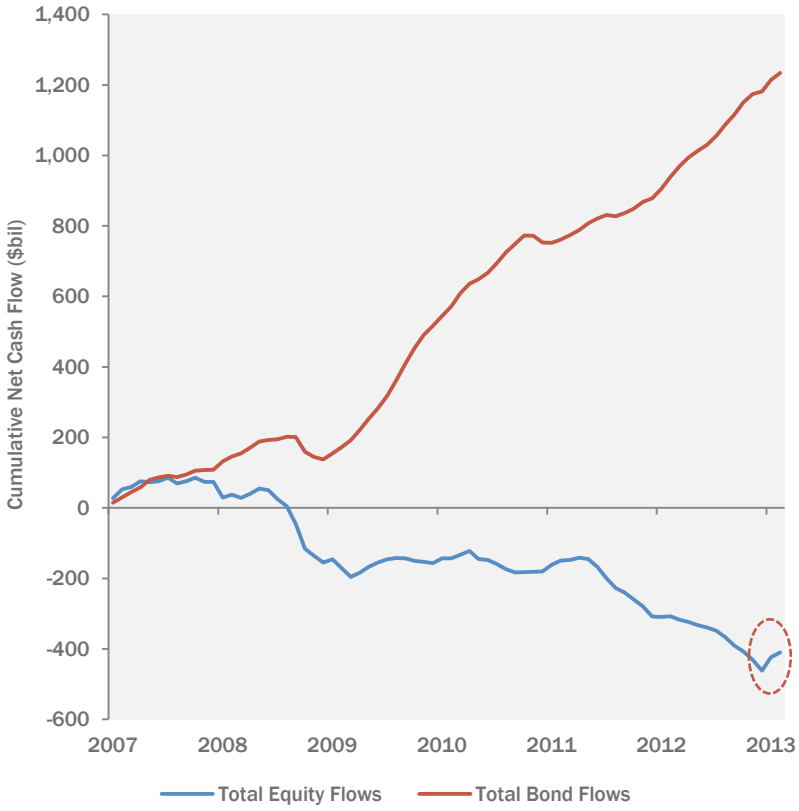
HISTORICAL S&P 500 3-MONTH EARNINGS ESTIMATE REVISION RATIO



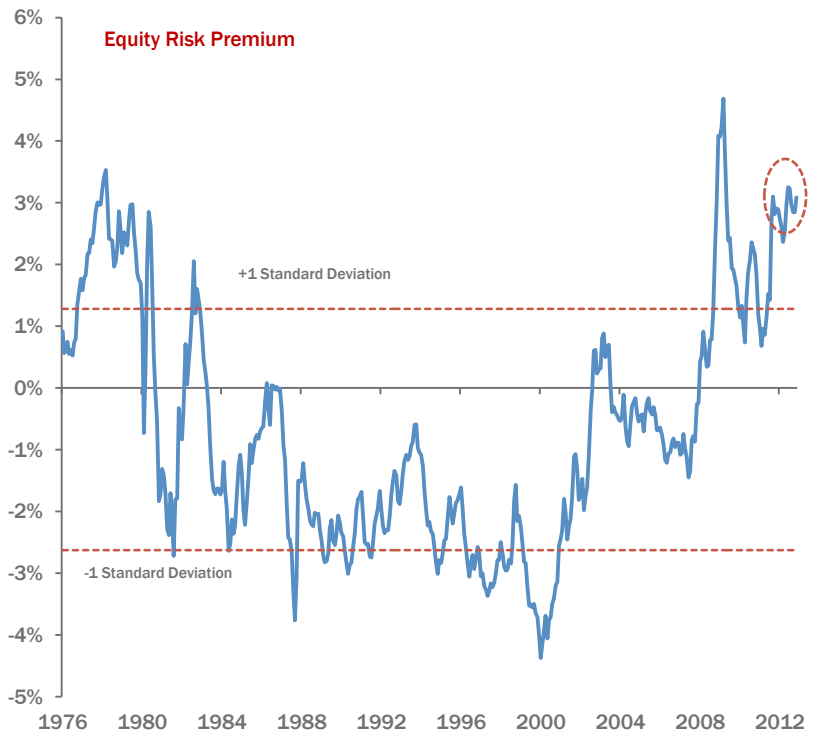
Source: BofA ML Global Research, IMG. Earnings Revision Ratio measures the total number of earnings estimate increases divided by total number of earnings-estimate decreases during the past three months.

With the "Great Rotation" setting in, equity inflows are set to rise

RECORD INVESTOR FLOWS INTO BOND FUNDS SINCE 2007



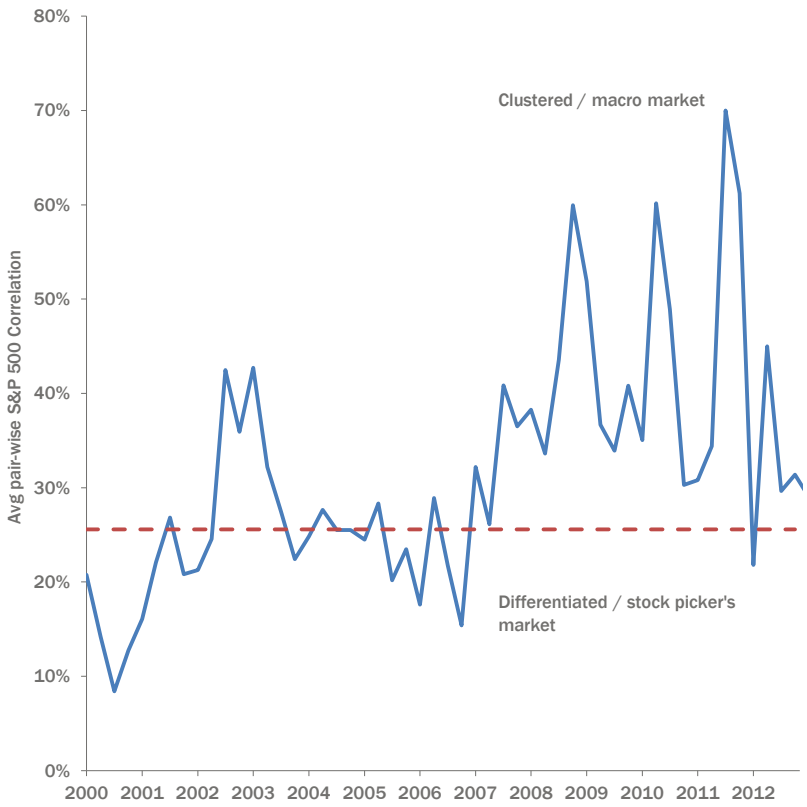
STOCKS ATTRACTIVELY PRICED RELATIVE TO BONDS



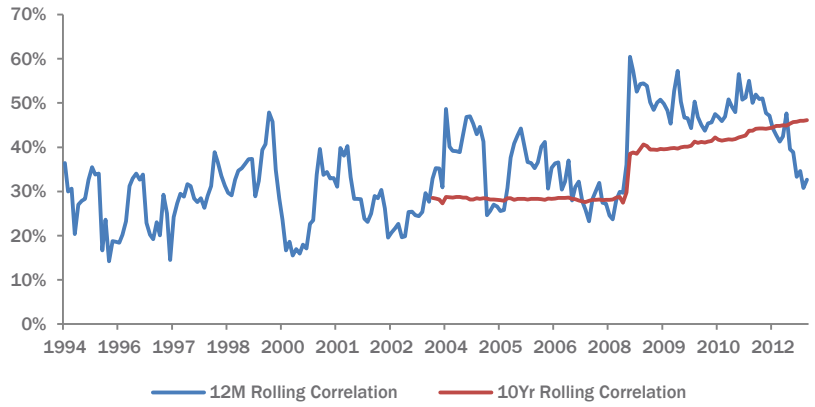
Source: (Left) Investment Company Institute, IMG. (Right) S&P, Haver Analytics, IMG. Equity risk premium is defined as the difference between the earnings yield and the 10 Yr US Treasury yield.

Active managers continue to struggle despite decreasing correlations

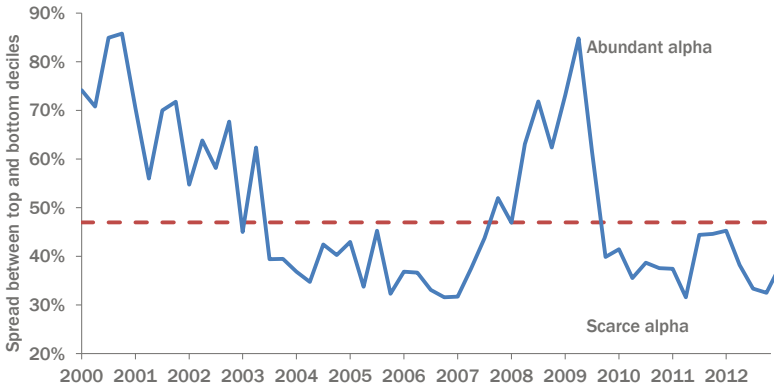
S&P 500 PAIRWISE CORRELATION (Q1 2000 – Q1 2013)



CROSS-ASSET CORRELATION BEGINS TO NORMALIZE



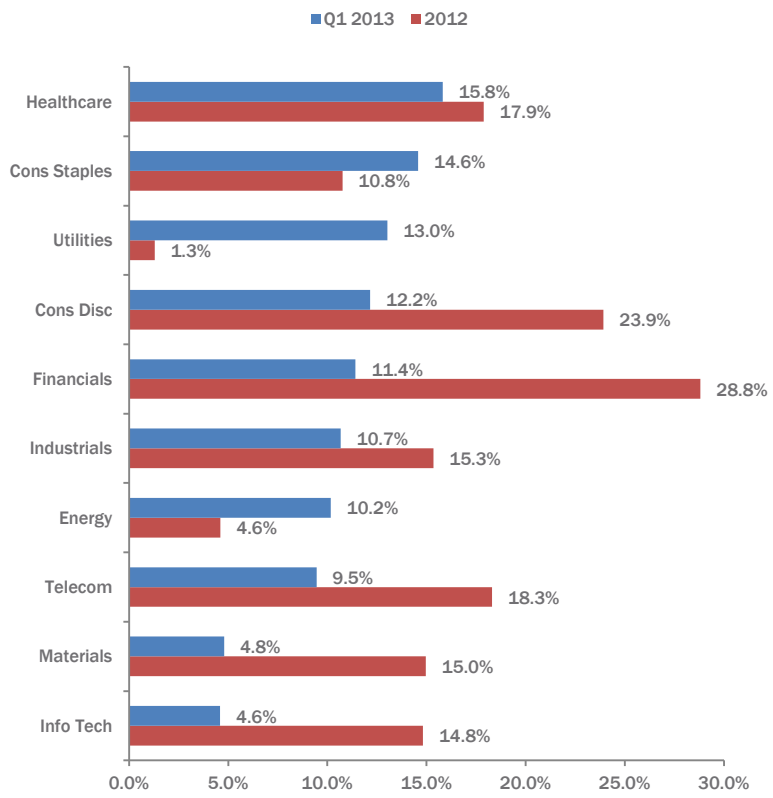
S&P 500 PERFORMANCE DISPERSION (Q1 2000 – Q1 2013)



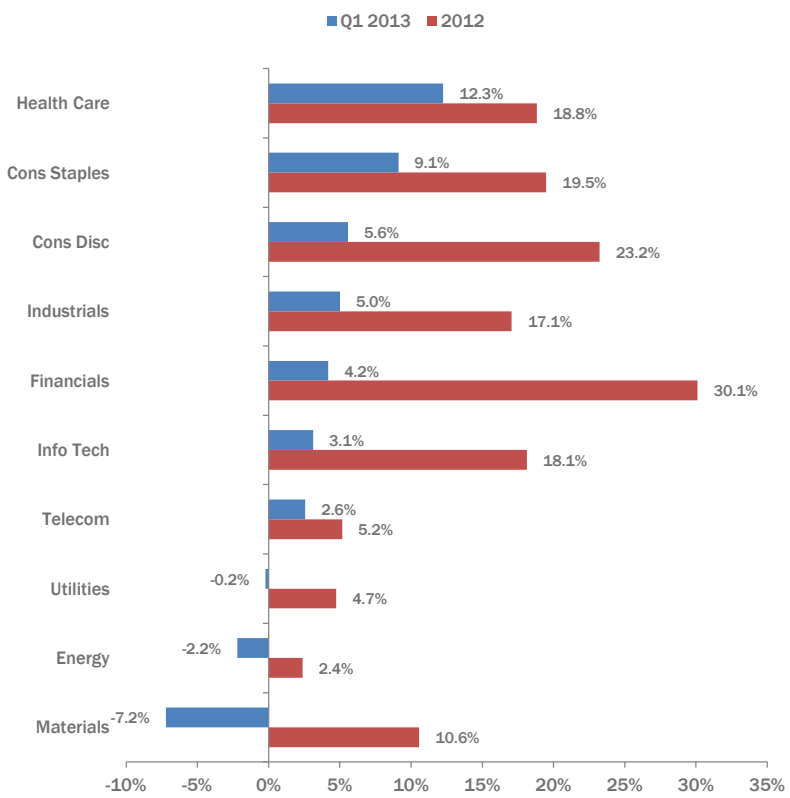
Source: BofA ML Global Research, IMG. Cross-asset represented by S&P 500 Index, Russell 2000 Index, MSCI EAFE Index, MSCI Emerging Markets Index, HFRI FoF Composite, LPX50, FTSE NAREIT Composite Index, Dow Jones-UBS Commodity Index , and US 30 Day Tbill TR Index.

Equity sector performance: Defensive sectors lead the way in Q1 2013

S&P 500 INDEX



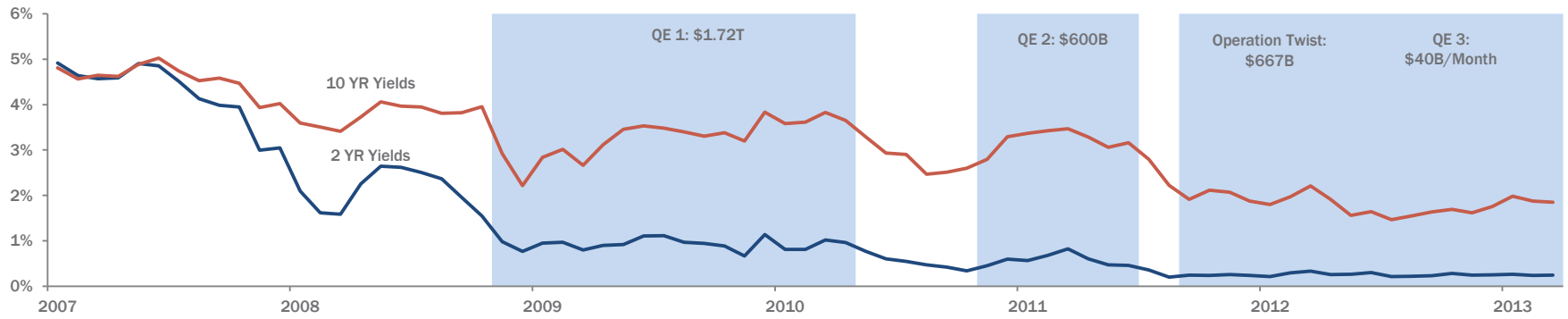
MSCI ALL-COUNTRY WORLD INDEX Ex US



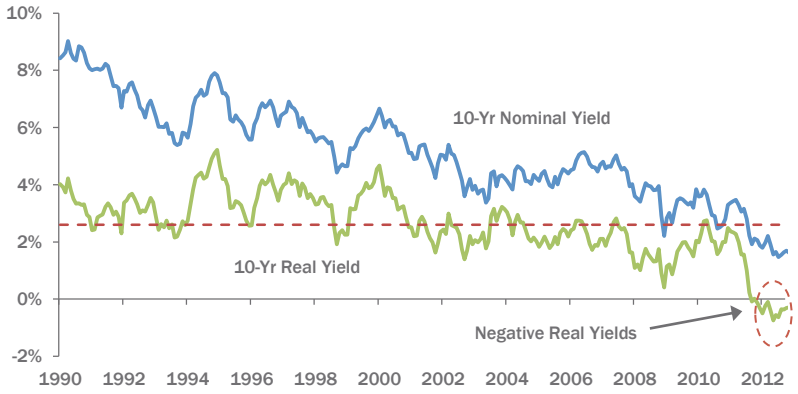
Source: Bloomberg, IMG. Returns calculated are total returns.

Fixed Income: Despite a modest rise in rates, a low yield environment is likely to persist as the Fed remains a major buyer

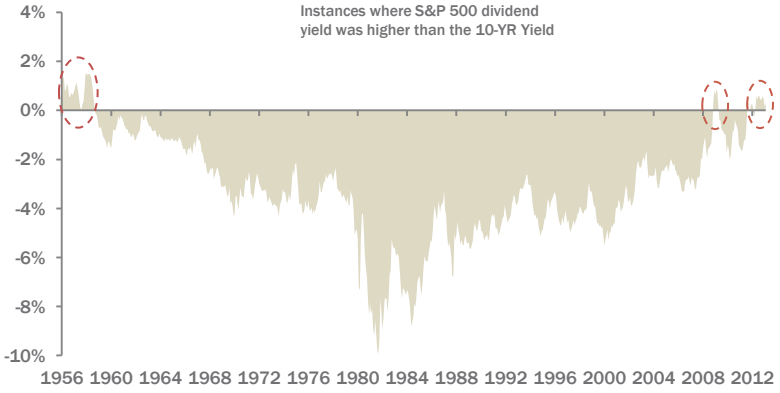
2-YR, 10-YR YIELDS ON US TREASURIES



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



S&P 500 DIVIDEND YIELD MINUS 10YR YIELD



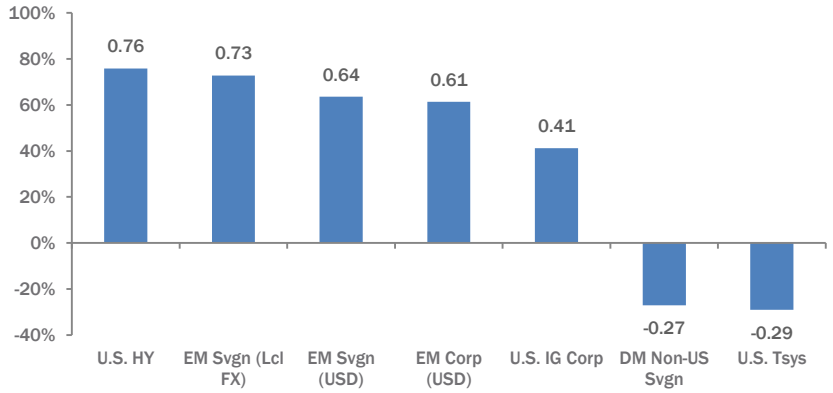
Source: (Top) BofA ML Global Research, IMG. (Bottom Left) Bloomberg, BofA ML Global Research, IMG. (Bottom Right) Bloomberg, BofA ML Global Research, IMG. Real yields are calculated using monthly nominal 10-year US Treasury yield minus core inflation.

Taking on credit risk over duration risk

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

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

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



BENEFITS OF DIVERSIFICATION IN A RISING RATE ENVIRONMENT

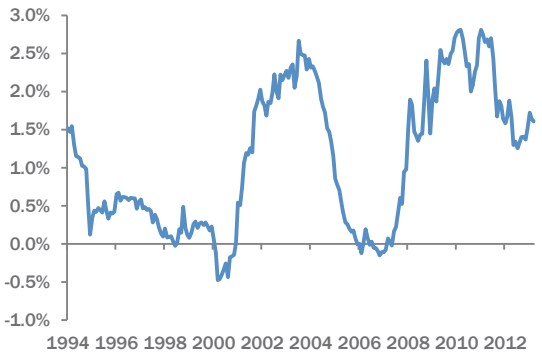
	Moderate Recommended Allocation	Par Weighted Coupon*	Effective Duration*	25 BPS Change	50 BPS Change	75 BPS Change	100 BPS Change
U.S. Treasuries							
Treasuries	11%	2.5%	6.0	-1.5%	-3.0%	-4.5%	-6.0%
TIPS	2%	1.4%	6.2	-1.5%	-3.1%	-4.6%	-6.2%
U.S. Municipals	58%	4.7%	7.5	-1.9%	-3.8%	-5.6%	-7.5%
U.S. Investment Grade	11%	4.9%	6.8	-1.7%	-3.4%	-5.1%	-6.8%
U.S. High Yield & Collateralized							
High Yield	3%	7.7%	4.2	-1.1%	-2.1%	-3.2%	-4.2%
Mortgage Backed Sec's	10%	4.2%	3.2	-0.8%	-1.6%	-2.4%	-3.2%
Preferreds	1%	6.8%	6.4	-1.6%	-3.2%	-4.8%	-6.4%
Non-U.S. Sovereigns	1%	2.8%	7.5	-1.9%	-3.8%	-5.7%	-7.5%
Emerging Market Debt							
Emerging Market: USD	1%	6.9%	7.3	-1.8%	-3.7%	-5.5%	-7.3%
Emerging Markets: Local	2%	6.4%	5.2	-1.3%	-2.6%	-3.9%	-5.2%
Price Return				-1.7%	-3.3%	-5.0%	-6.6%
Total Return		4.5%		2.9%	1.2%	-0.5%	-2.1%

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

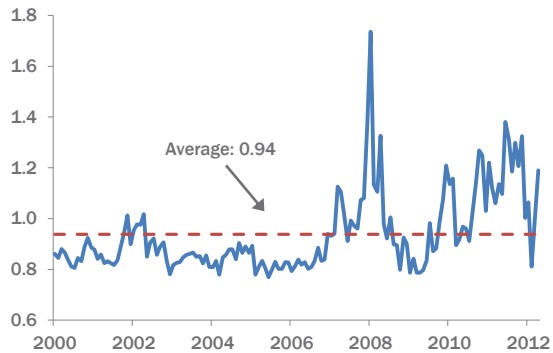
Source: Bloomberg, IMG. * Par weighted coupon = The average of the index constituent security coupons, weighted by face value. Effective Duration is a metric that accounts for the sensitivity of a bond's price to changes in interest rate after adjusting for the possibility that bonds can be called before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

Fixed income market update

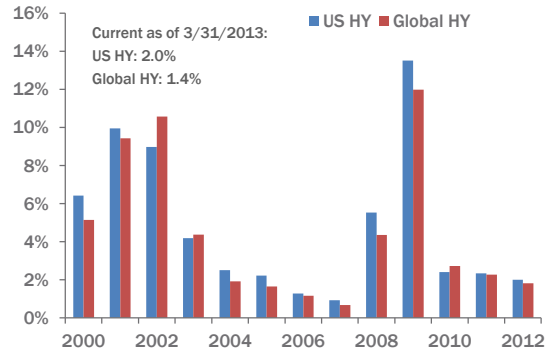
2-YR/10-YR TREASURY SPREAD



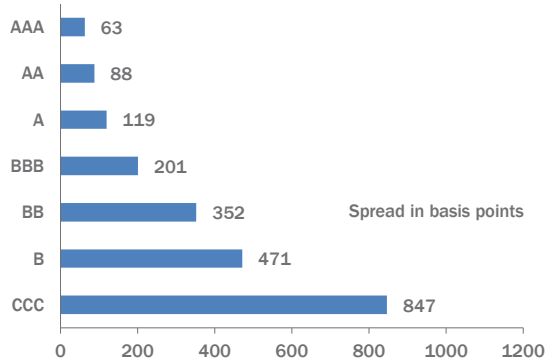
MUNI/TREASURY RATIO[1]



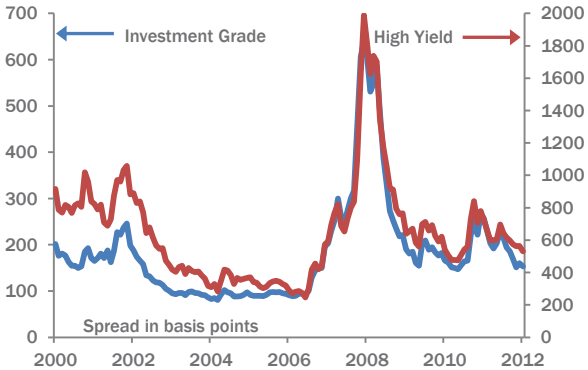
LOW DEFAULT RATES IN HIGH YIELD SECTOR



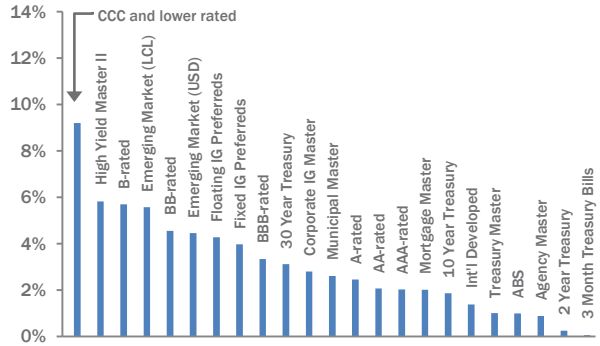
CORPORATE SPREADS (OAS)



CREDIT SPREADS TIGHTEN



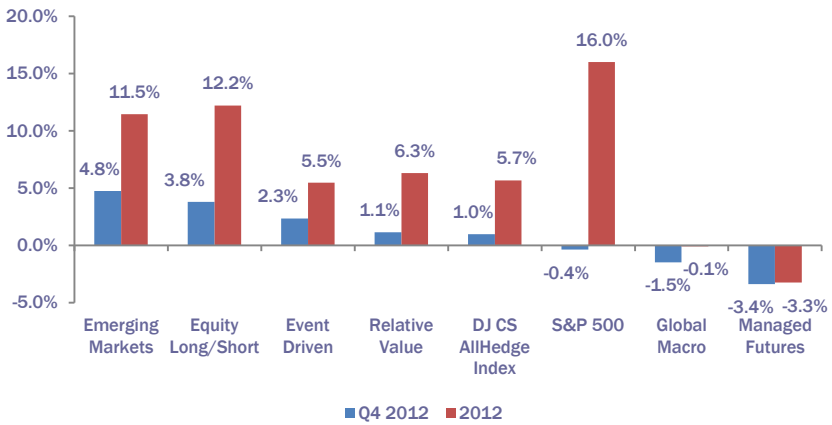
YIELDS



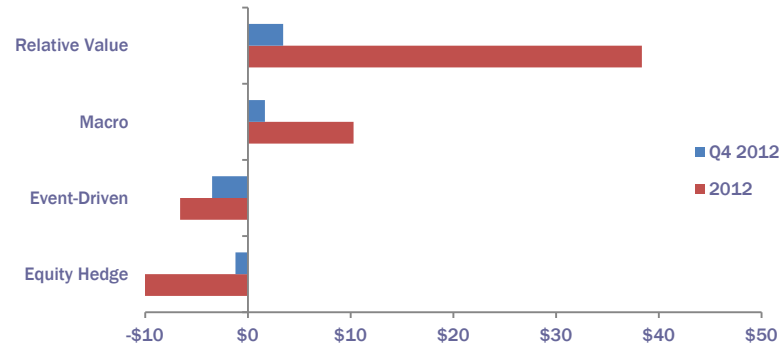
Source: Bloomberg, BofA ML Global Research, IMG; Yields represented by BofA Merrill Lynch Global Bond Indexes. Default rates based on BofA ML High Yield Index.
[1]Ratio of Moody's AAA Municipal Bond yield to 10-Year Treasury

Hedge Funds Strategies Underperform the S&P 500 Index

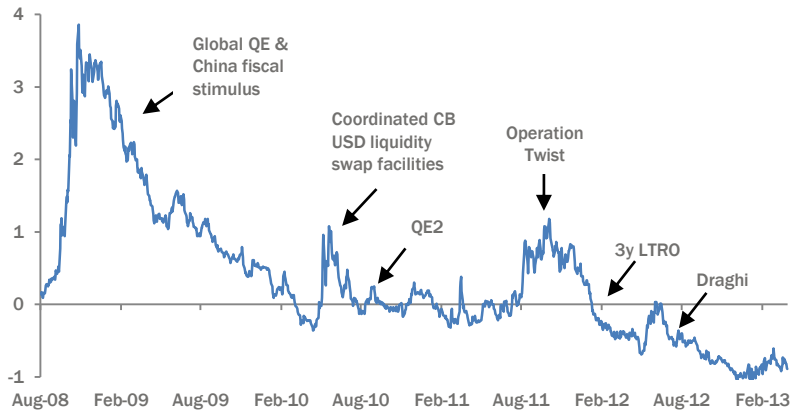
HEDGE FUND STRATEGIES PERFORMANCE IN 2012



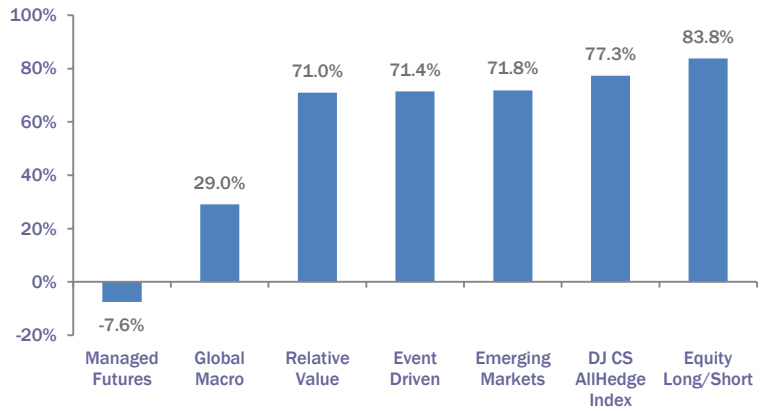
RELATIVE VALUE AND GLOBAL MACRO STRATEGY ATTRACTS NET INFLOWS[1]



CROSS ASSET CLASS VOLATILITY REMAINS LOW[1]



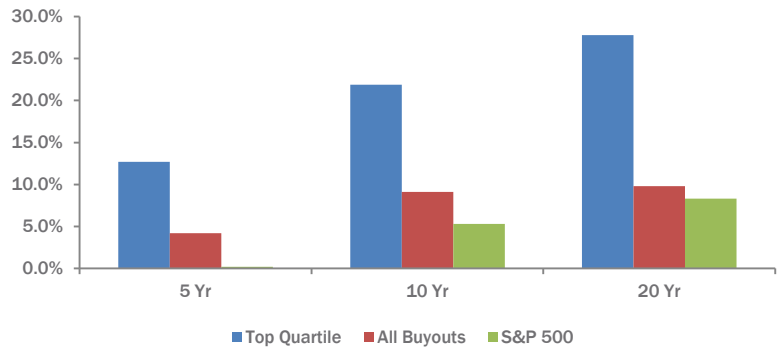
CORRELATION TO S&P 500 (OCT 2004 – FEB 2013)



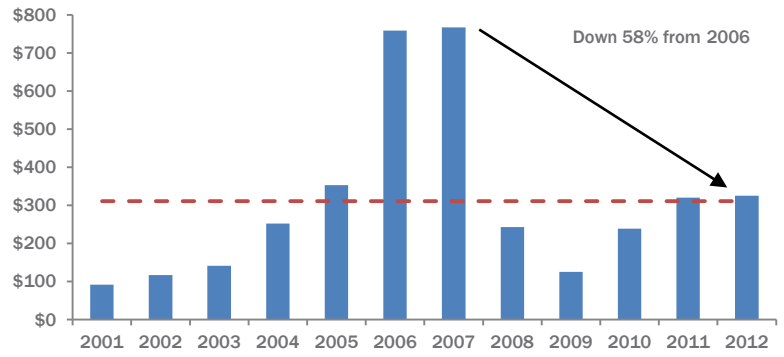
Source: Hedge fund indexes represented by Dow Jones Credit Suisse AllHedge Indexes as of 12/31/2012. Net inflows based on HFR Global Hedge Fund Industry Report as of 12/31/2012. [3]Cross asset volatility represented by BofA Merrill Lynch IMktRisk Index. 1. Macro category includes Global Macro and Managed Futures. Emerging Markets strategy involves equity and fixed income investing and is included in equity hedge and relative value categories.

Private equity deal volume down compared to peak years

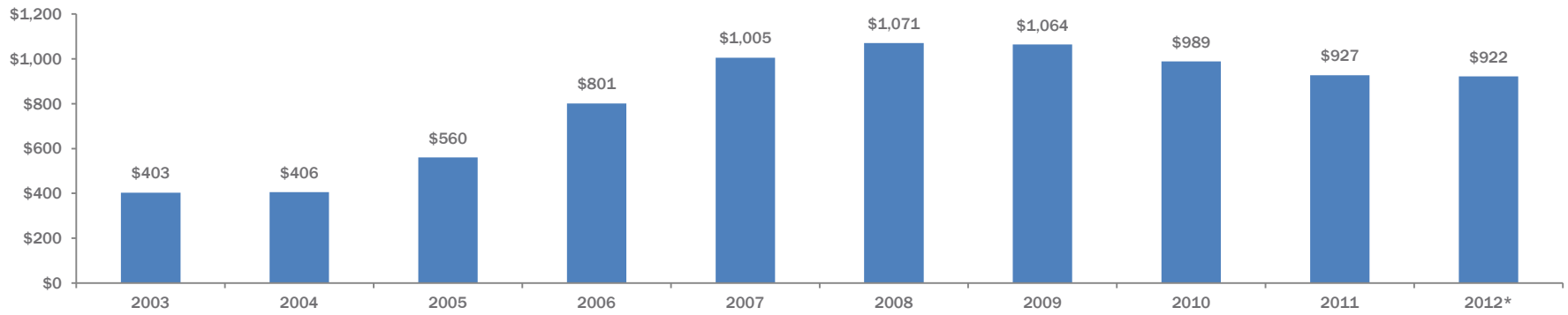
PRIVATE EQUITY HAS OUTPERFORMED PUBLIC EQUITIES[1]



GLOBAL DEAL VOLUME DOWN 58% FROM 2006 PEAK



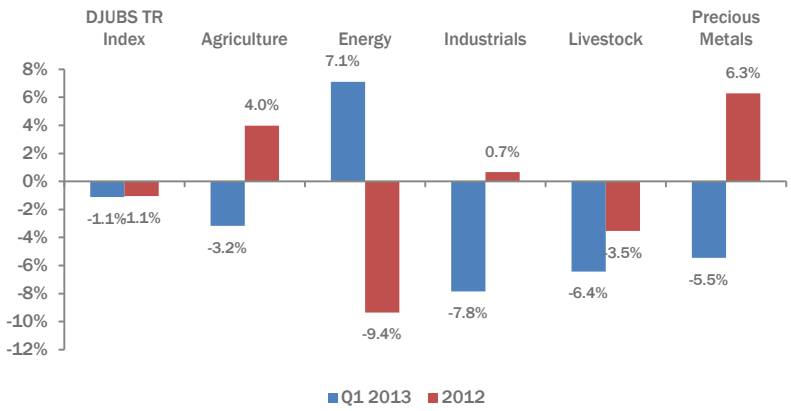
GLOBAL PE FIRMS HAVE CLOSE TO $1 TRILLION OF UNDEPLOYED CASH



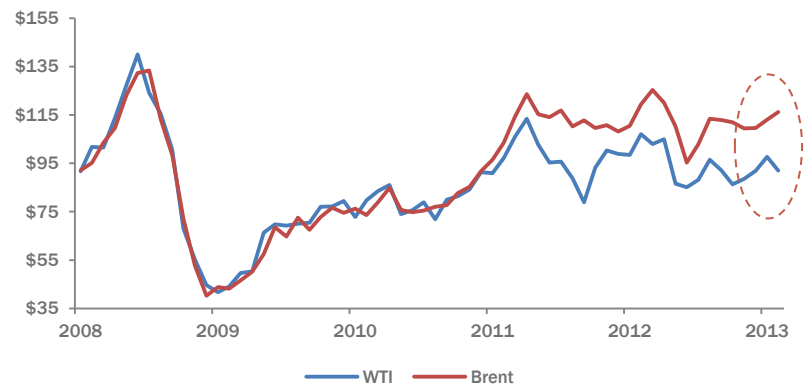
Source: (Top Left) Cambridge Assoicates, data as of 6/30/12. (Top Right) Thomson Reuters. (Bottom) Preqin.

Commodities continue to struggle in 2013 as the global economic recovery remains tepid

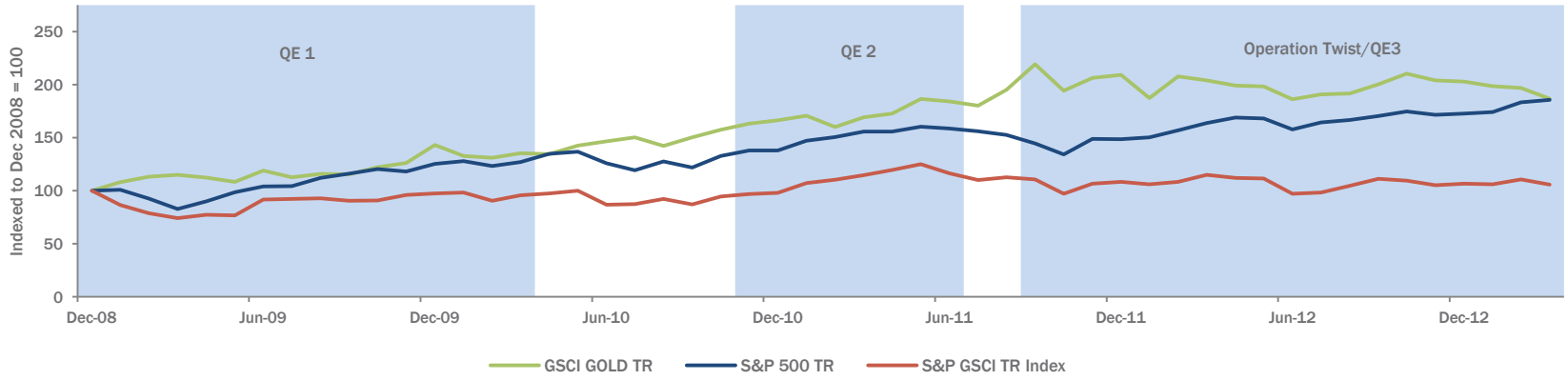
ENERGY SECTOR POSTS POSTIVE RETURNS



PRICE OF OIL: BRENT VS WEST TEXAS INTERMEDIATE (WTI)



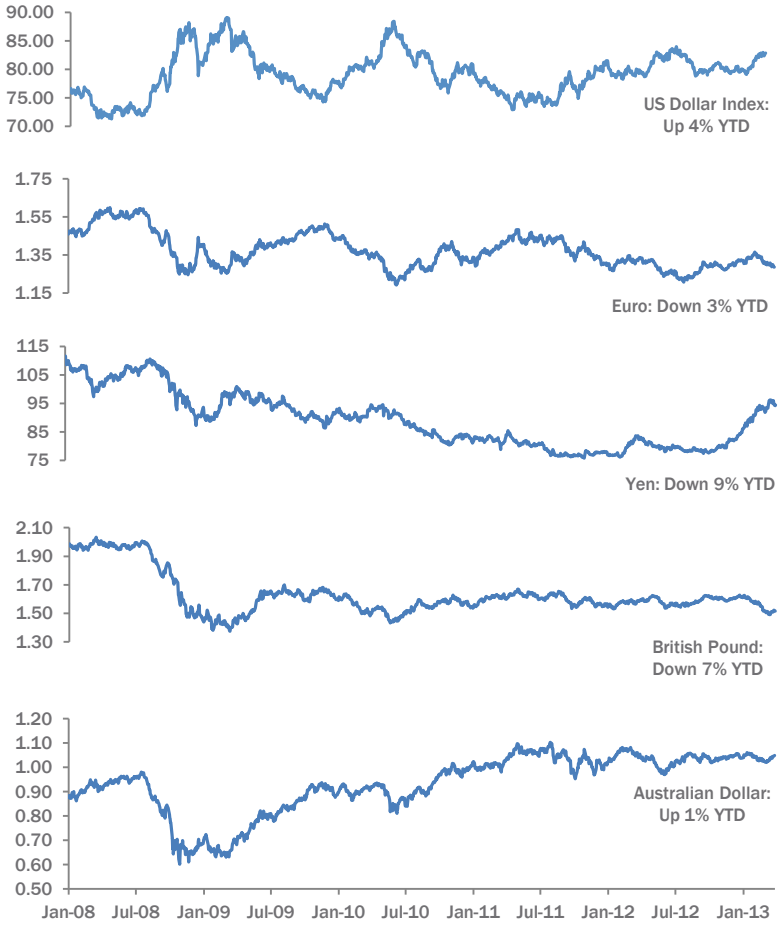
AFTER MULTI-YEAR RALLY, GOLD PRICES REMAIN RANGE BOUND



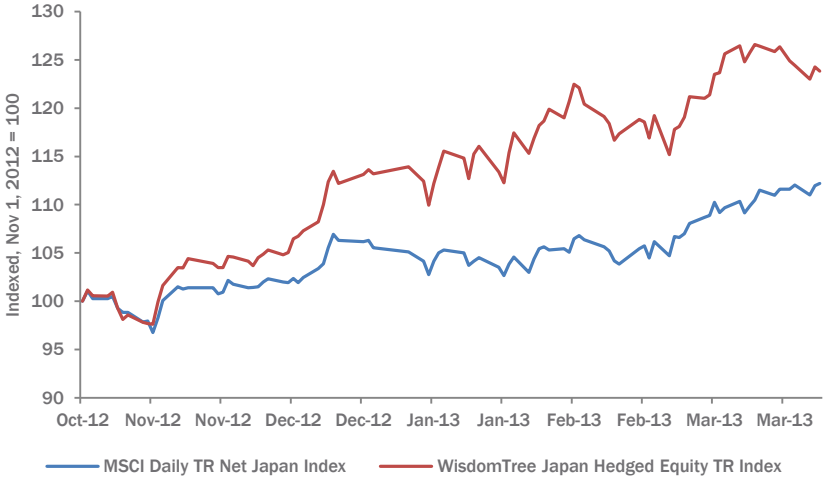
Source: Commodity indexes represented by DJ-UBS Commodity Indexes.

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)

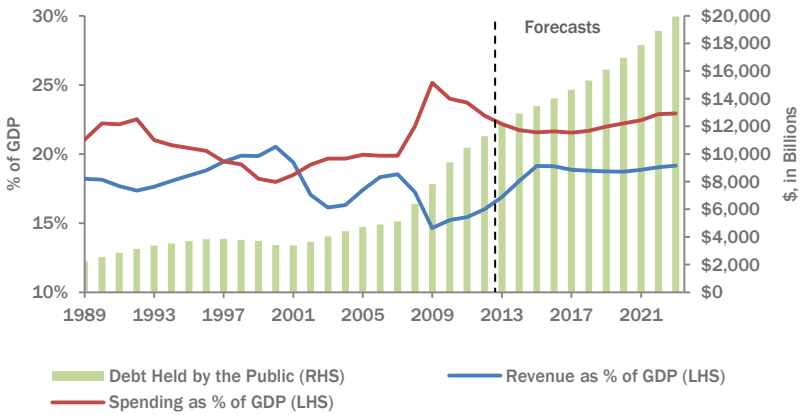
	Dollar Index	Euro	Japanese Yen	British Pound	Australian Dollar	Swiss Franc	Canadian Dollar
S&P 500	-0.36	0.34	0.04	0.27	0.59	-0.17	-0.60
Euro Stoxx 500	-0.21	0.20	0.19	0.15	0.43	-0.04	-0.49
Nikkei 225	-0.18	0.18	0.30	0.18	0.45	-0.07	-0.44
FTSE 100	-0.28	0.27	0.08	0.09	0.53	-0.13	-0.52
Swiss Market Index	-0.06	0.05	0.16	0.05	0.31	0.11	-0.31
S&P/TSX Composite	-0.32	0.29	0.07	0.27	0.57	-0.16	-0.57
S&P/ASX 200	-0.28	0.27	0.19	0.21	0.51	-0.12	-0.50
MSCI ACWI	-0.51	0.48	0.02	0.39	0.72	-0.32	-0.68

Source: Bloomberg, IMG..

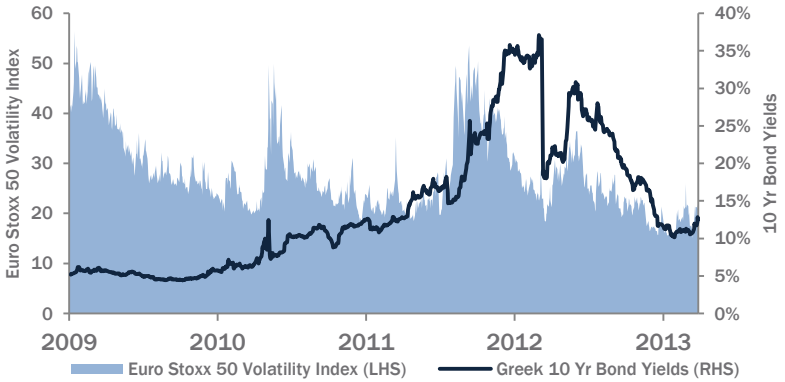
Potential Risks to Capital Markets

- 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

GETTING U.S. FISCAL HOUSE IN ORDER



EUROPEAN CONTAGION RISKS REMAIN DESPITE CALM



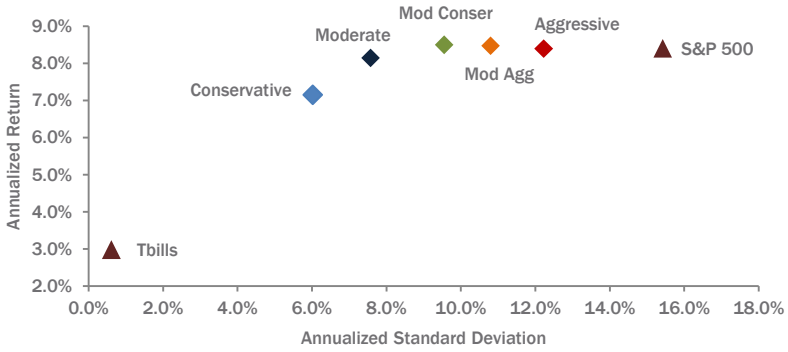
Source: (Top) Haver Analytics, CBO, IMG

Merrill Lynch Strategic Asset Allocation (Tier 0 - High Liquidity, Jan 1994- Feb 2013)

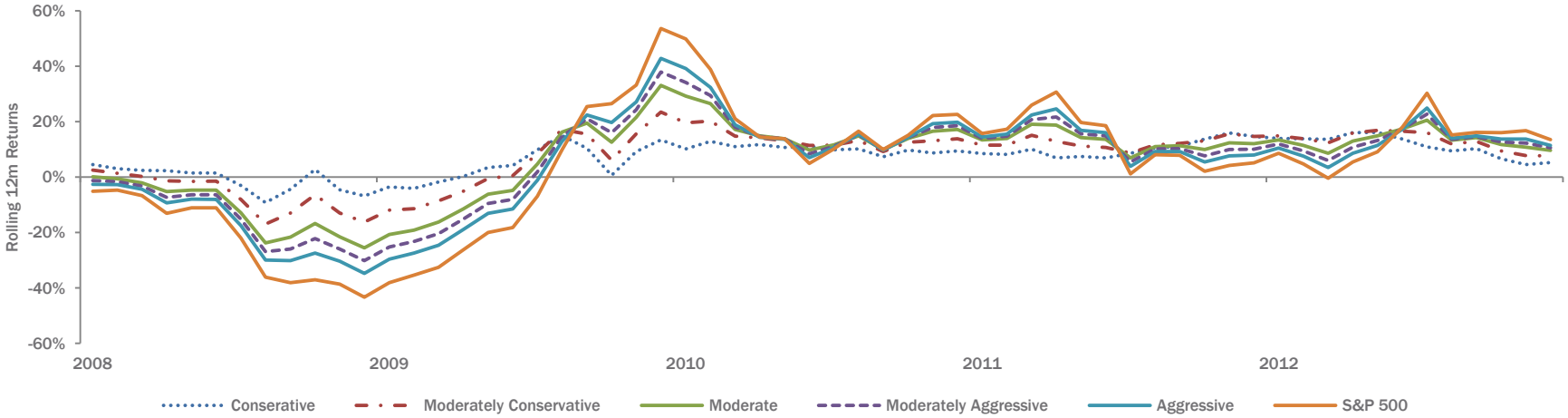
STATISTICS

	Conservative	Mod Conservative	Moderate	Mod Aggressive	Aggressive	S&P 500
Annualized Returns	7.2%	8.1%	8.5%	8.5%	8.4%	8.4%
Annualized Volatility	6.0%	7.6%	9.5%	10.8%	12.2%	15.4%
Sharpe Ratio	0.69	0.69	0.60	0.54	0.48	0.41
Max Drawdown	-10.2%	-19.0%	-30.5%	-36.1%	-41.4%	-50.9%
Num of Pos Months	150	154	150	148	147	148
Num of Neg Months	80	76	80	82	83	82
Avg Pos Months	1.5%	1.8%	2.3%	2.5%	2.8%	3.4%
Avg Neg Months	-1.1%	-1.7%	-2.2%	-2.5%	-2.9%	-3.9%

RISK & RETURN



ROLLING 12 MONTH RETURNS



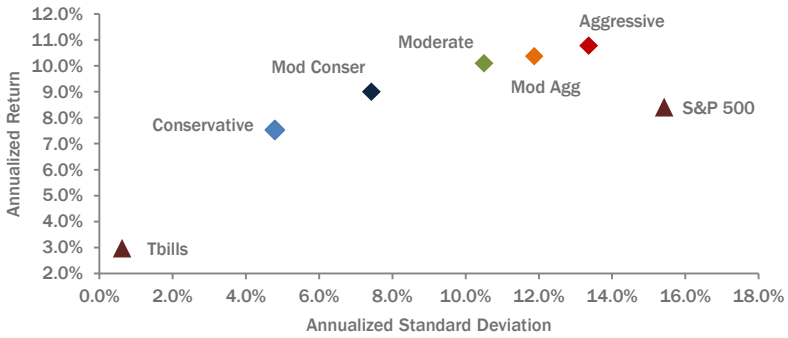
Source: Bloomberg, IMG. **Past performance is no guarantee of future results**. Risk profiles based on Tier 0 (highest liquidity). Conservative (Stocks = 20%, Bonds = 55%, Cash=25%), Moderately Conservative (Stocks = 40%, Bonds = 50%, Cash = 10%), Moderate (Stocks = 60%, Bonds = 35%, Cash = 5%), Moderately 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]

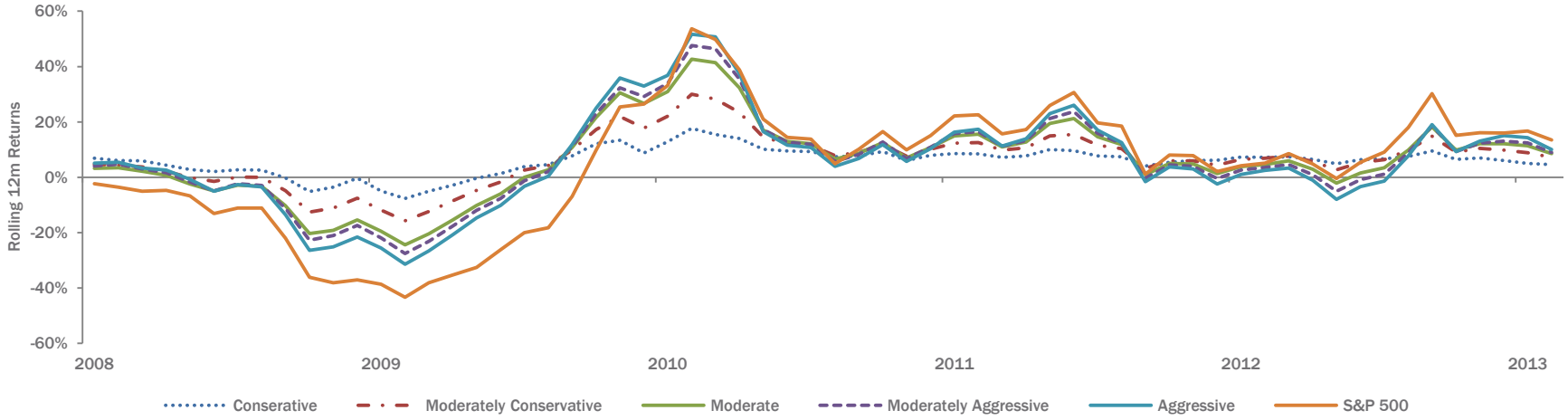
STATISTICS

	Conservative	Mod Conservative	Moderate	Mod Aggressive	Aggressive	S&P 500
Annualized Returns	7.5%	9.0%	10.1%	10.4%	10.8%	8.4%
Annualized Volatility	4.8%	7.4%	10.5%	11.9%	13.4%	15.4%
Sharpe Ratio	0.93	0.81	0.69	0.65	0.62	0.41
Max Drawdown	-8.2%	-17.8%	-28.7%	-32.2%	-36.5%	-50.9%
Num of Pos Months	163	157	151	150	146	148
Num of Neg Months	67	73	79	80	84	82
Avg Pos Months	1.3%	1.9%	2.6%	2.8%	3.2%	3.4%
Avg Neg Months	-1.0%	-1.7%	-2.4%	-2.8%	-3.0%	-3.9%

RISK & RETURN



ROLLING 12 MONTH RETURNS



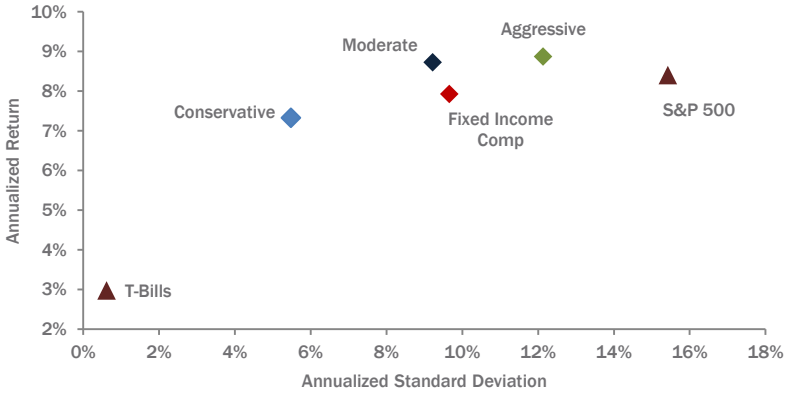
Source: Bloomberg, IMG. **Past performance is no guarantee of future results.** [1]Dynamic asset allocation (DAA) is a systematic process for navigating shorter-term investment opportunities while maintaining a view toward longer-term financial goals. Unlike Strategic Asset Allocation which develops 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)

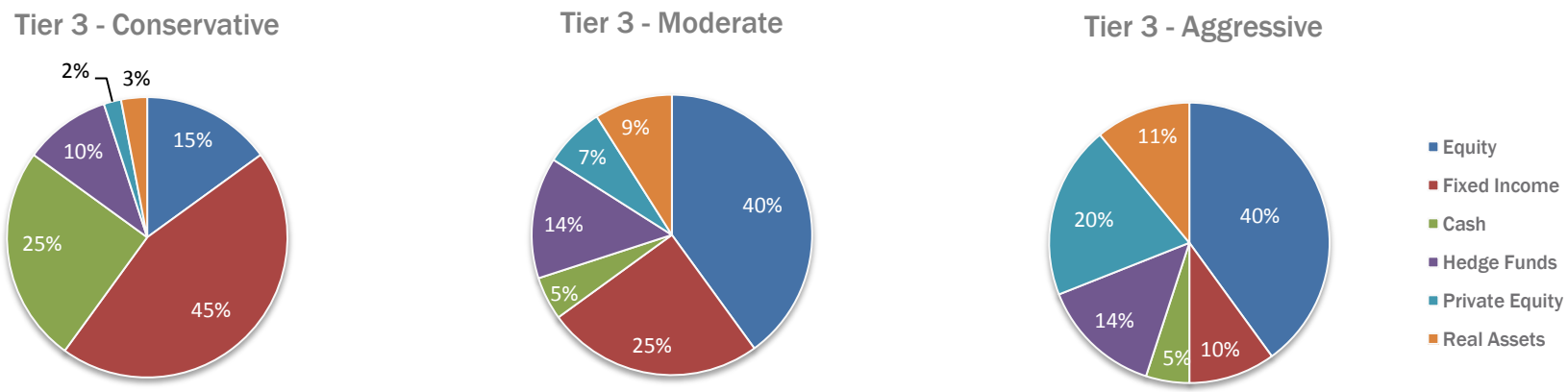
STATISTICS

	Conservative	Moderate	Aggressive	S&P 500	Fixed Income Composite
Annualized Returns	7.3%	8.7%	8.9%	8.4%	7.9%
Annualized Volatility	5.5%	9.2%	12.1%	15.4%	9.7%
Sharpe Ratio	0.8	0.6	0.5	0.4	0.5
Max Drawdown	-11.6%	-34.7%	-48.1%	-50.9%	-12.3%
Num of Pos Months	157	155	153	148	138
Num of Neg Months	73	75	77	82	92
Avg Pos Months	1.4%	2.2%	2.7%	3.4%	2.4%
Avg Neg Months	-1.1%	-2.2%	-3.0%	-3.9%	-1.9%

RISK & RETURN



ASSET ALLOCATION FOR TIER 3 (LOW LIQUIDITY)



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 Tbills 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

Asset Class	Index Proxies	Annualized Expected Return	Annualized . Expected Volatility
US Large Cap Growth	Russell 1000 Growth TR	9.9%	20.5%
US Large Cap Value	Russell 1000 Value TR	9.2%	16.5%
US Small Cap Growth	Russell 2000 Growth TR	11.5%	28.8%
US Small Cap Value	Russell 2000 Value TR	9.8%	20.4%
International Equity	MSCI Daily TR Net EAFE USD*	10.0%	21.2%
Emerging Markets	MSCI Daily TR Net EM USD*	12.2%	31.5%
Taxable FI Short Term (1-3 Year)	ML US Treasuries TR 1-3yr	4.2%	3.6%
Taxable FI Int. Term (3-10 Year)	ML US Treasuries TR 3-10yr	5.3%	6.1%
Taxable FI Long Term (10+)	ML US Treasuries TR 10yr+	5.6%	12.2%
High Yield	ML High Yield Master (Cash Pay) TR	6.9%	10.4%
International Fixed Income	ML Global Broad Market TR ex USD	5.0%	11.3%
Cash/Near Cash	Ibbotson's 30–Day T-Bill TR Index	3.0%	0.9%
Hedge Funds	CS-Tremont Hedge Funds	7.2%	9.7%
Private Equity	LPX 50 (USD) TR	11.0%	23.0%
Real Assets	Real Assets Composite (i)	6.2%	14.1%

	US Large Cap Growth	US Large Cap Value	US Small Cap Growth	US Small Cap Value	International Equity	Emerging Markets	Taxable FI Short Term (1-3 Year)	Taxable FI Int. Term (3-10 Year)	Taxable FI Long Term (10+)	High Yield	International Fixed Income	Cash/Near Cash	Hedge Funds	Private Equity	Real Assets
US Large Cap Growth	1.00														
US Large Cap Value	0.84	1.00													
US Small Cap Growth	0.83	0.70	1.00												
US Small Cap Value	0.71	0.81	0.87	1.00											
International Equity	0.58	0.59	0.52	0.51	1.00										
Emerging Markets	0.59	0.60	0.62	0.61	0.59	1.00									
Taxable FI Short Term (1-3 Year)	0.10	0.14	0.00	0.06	0.07	-0.01	1.00								
Taxable FI Int. Term (3-10 Year)	0.10	0.15	-0.01	0.05	0.06	-0.04	0.91	1.00							
Taxable FI Long Term (10+)	0.15	0.19	0.04	0.09	0.09	0.01	0.76	0.92	1.00						
High Yield	0.51	0.55	0.49	0.56	0.45	0.48	0.35	0.33	0.36	1.00					
International Fixed Income	0.14	0.16	0.06	0.06	0.45	0.10	0.50	0.55	0.50	0.29	1.00				
Cash/Near Cash	-0.01	0.00	-0.04	-0.03	-0.03	-0.03	0.33	0.14	0.06	-0.06	-0.10	1.00			
Hedge Funds	0.41	0.41	0.46	0.44	0.46	0.58	0.19	0.18	0.19	0.41	0.06	0.13	1.00		
Private Equity	0.48	0.44	0.55	0.51	0.60	0.43	-0.25	-0.26	-0.22	0.28	0.05	-0.06	0.38	1.00	
Real Assets	0.45	0.56	0.48	0.57	0.66	0.62	0.20	0.21	0.20	0.56	0.42	-0.09	0.51	0.56	1.00

Source: IMG Investment Analytics

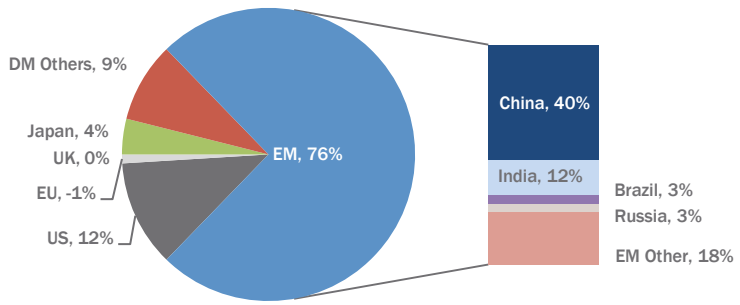
Historical Asset Class Performance

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Commodities 31.8%	Hedge funds 8.7%	Commodities 25.9%	MSCI EM 56.3%	REITS 32.0%	MSCI EM 34.5%	REITS 37.5%	MSCI EM 39.8%	US Treasuries 14.0%	MSCI EM 79.0%	Gold 29.5%	Gold 10.1%	REITS 28.3%
Hedge funds 14.3%	US Fixed Inc 8.3%	Gold 24.8%	MSCI EAFE 39.2%	MSCI EM 26.0%	Commodities 21.4%	MSCI EM 32.6%	Gold 31.0%	Gold 5.8%	MSCI EAFE 32.5%	REITS 19.5%	US Treasuries 9.8%	MSCI EM 18.6%
US Treasuries 13.4%	US Treasuries 6.7%	US Treasuries 11.6%	MSCI World 33.8%	MSCI EAFE 20.7%	Gold 17.9%	MSCI EAFE 26.9%	Commodities 16.2%	US Fixed Inc 4.5%	REITS 31.7%	MSCI EM 19.2%	US Fixed Inc 7.8%	MSCI EAFE 17.9%
US Fixed Inc 11.7%	Cash 4.4%	US Fixed Inc 10.3%	REITS 33.5%	MSCI World 15.2%	MSCI EAFE 14.0%	Gold 23.2%	MSCI EAFE 11.6%	Cash 2.1%	MSCI World -30.8%	Commodities 16.8%	S&P 500 2.1%	MSCI World 16.5%
REITS 8.5%	Gold 2.5%	Hedge funds 4.7%	S&P 500 28.7%	S&P 500 10.9%	REITS 10.7%	MSCI World 20.7%	MSCI World 9.6%	Hedge funds -23.3%	S&P 500 26.5%	S&P 500 15.1%	Cash 0.1%	S&P 500 16.0%
Cash 6.2%	MSCI EM -2.4%	Cash 1.8%	Commodities 23.9%	Commodities 9.1%	MSCI World 10.0%	S&P 500 15.8%	US Treasuries 9.1%	Commodities -35.6%	Gold 24.4%	MSCI World 12.3%	MSCI World -5.0%	Gold 7.1%
Gold -5.9%	REITS -7.8%	REITS -2.4%	Gold 19.4%	Gold 5.5%	S&P 500 4.9%	Hedge funds 9.3%	US Fixed Inc 7.0%	S&P 500 -37.0%	Commodities 18.9%	MSCI EAFE 8.2%	REITS -5.7%	US Fixed Inc 4.5%
S&P 500 -9.1%	S&P 500 -11.9%	MSCI EM -6.0%	Hedge funds 13.4%	US Fixed Inc 4.3%	Cash 3.1%	Cash 4.9%	S&P 500 5.5%	MSCI World -40.3%	Hedge funds 13.4%	US Fixed Inc 6.8%	Hedge funds -8.9%	Hedge funds 3.5%
MSCI World -12.9%	MSCI World -16.5%	MSCI EAFE -15.7%	US Fixed Inc 4.1%	US Treasuries 3.5%	US Treasuries 2.8%	US Fixed Inc 4.4%	Cash 5.0%	MSCI EAFE -43.1%	US Fixed Inc 6.1%	US Treasuries 5.9%	MSCI EAFE -11.7%	US Treasuries 2.2%
MSCI EAFE -14.0%	Commodities 19.5%	MSCI World -19.5%	US Treasuries 2.3%	Hedge funds 2.7%	Hedge funds 2.7%	US Treasuries 3.1%	Hedge funds 4.2%	REITS -50.2%	Cash 0.2%	Hedge funds 5.2%	Commodities -13.3%	Cash 0.1%
MSCI EM -30.9%	MSCI EAFE -21.2%	S&P 500 -22.1%	Cash 1.1%	Cash 1.3%	US Fixed Inc 2.6%	Commodities 2.1%	REITS -10.0%	MSCI EM -53.2%	US Treasuries -3.7%	Cash 0.1%	MSCI EM -18.2%	Commodities -1.1%

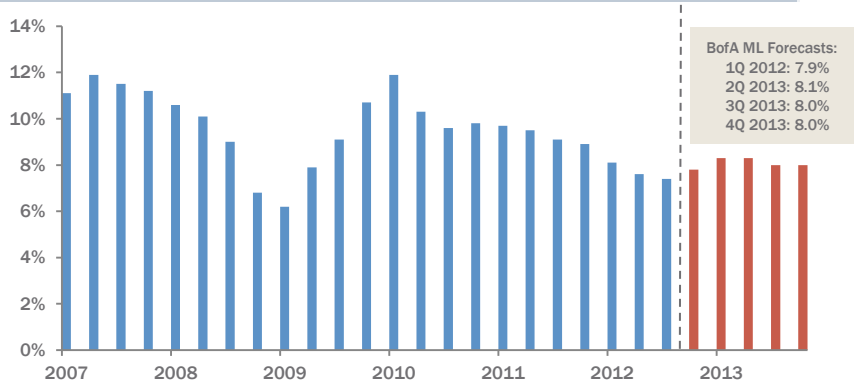
Source: Bloomberg, IMG. Cash, Commodities, Gold, Hedge Funds, Reits, US Fixed Income, and US Treasuries represented by the BofA ML 3-Month Treasury Bills Index, DJUBS Commodity Total Return Index, GOLDS Index, HFRX Global Hedge Fund Index, UNGL Index, BofA ML Broad Market Bond Index, and BofaML Treasury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

In Focus: Chinese Rebound

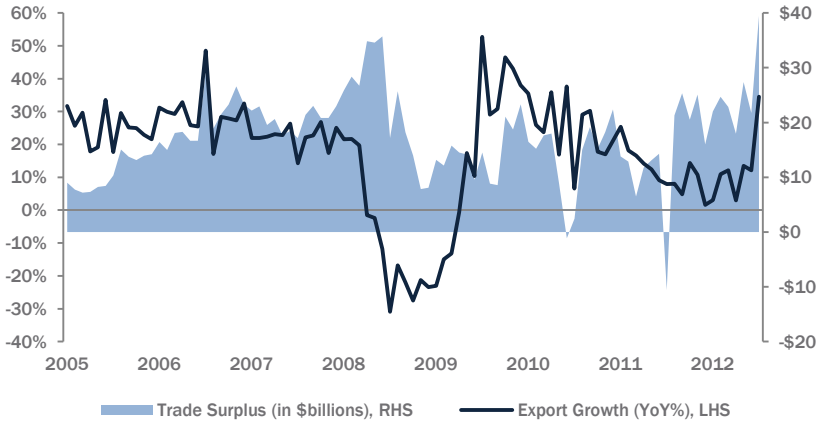
ESTIMATED CONTRIBUTION TO GLOBAL GROWTH BY REGION*



CHINA REAL GDP FORECASTS (%, YoY)



EXPORTS EXPECTED TO INCREASE 12.1 % YoY IN 2013

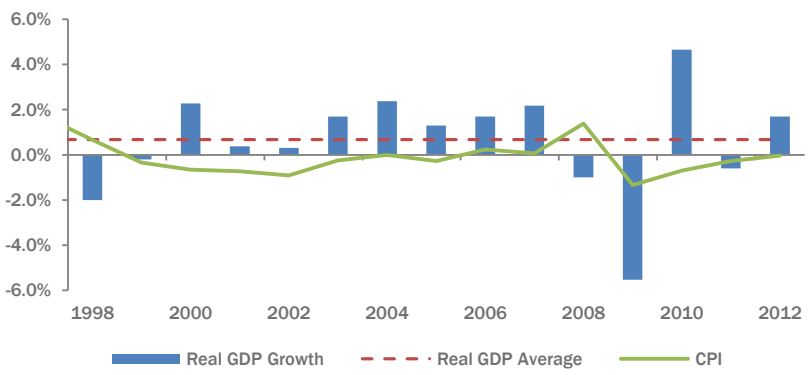


CONSUMPTION EXPECTED TO LEAD CHINESE GROWTH

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

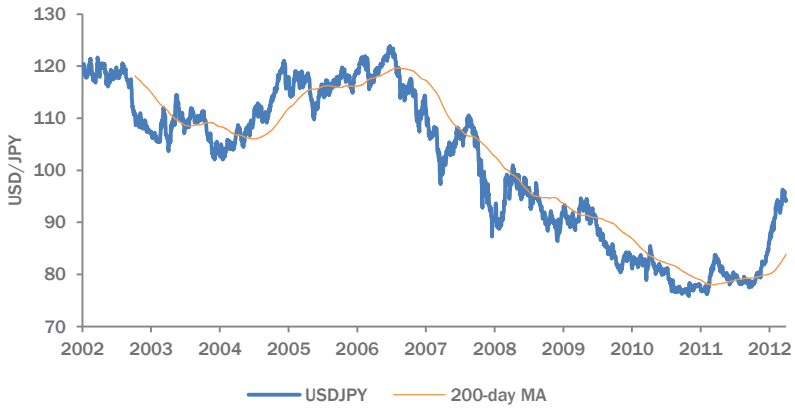
In Focus: Reflating Japan's Economy

JAPAN LAST 15 YEARS: LOW GROWTH AND DEFLATION

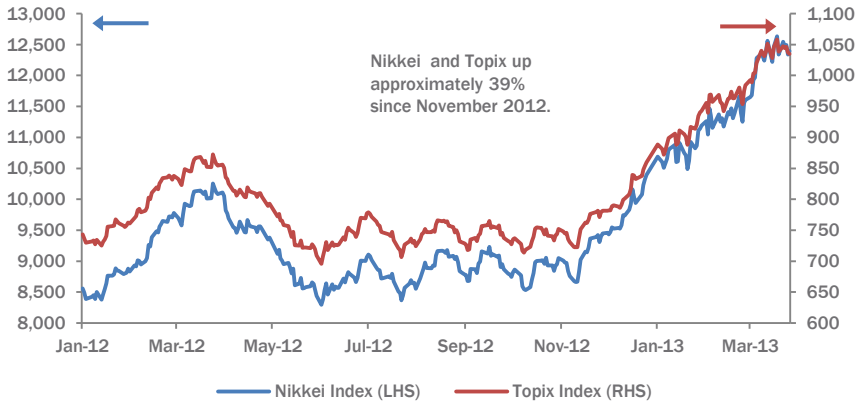


BANK OF JAPAN PLANS TO ADOPT STIMULUS POLICIES

YEN'S WEAKNESS INCREASES JAPANESE COMPETITIVENESS



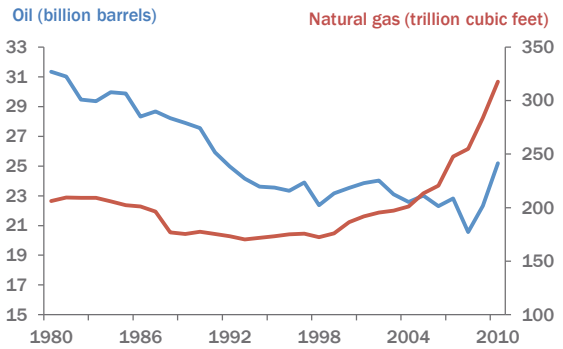
JAPANESE EQUITIES SURGE: UP 20% IN 1Q 2013



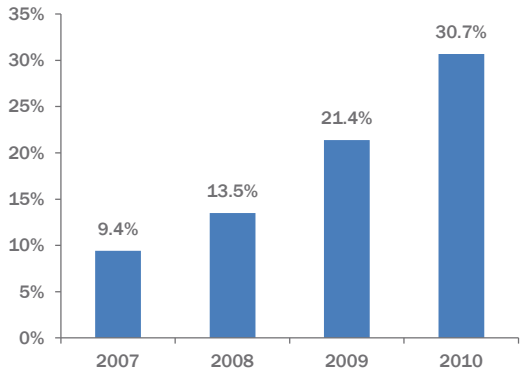
Source: (Top Left) Bloomberg, BofA ML Global Research,. (Top Right) Bloomberg, IMG. (Bottom Left) Bloomberg, IMG. (Bottom Right) BofA ML Global Research, IMG.

In Focus: US Energy Independence

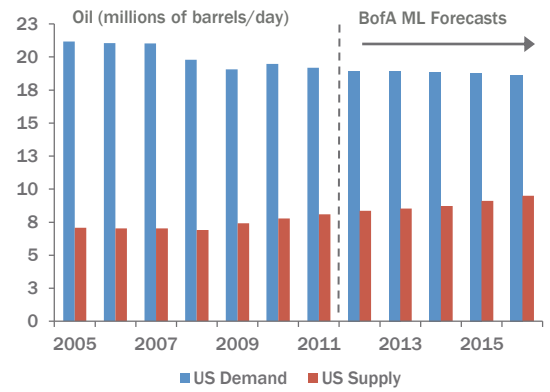
ADVANCEMENT IN TECHNOLOGY BOOSTS US OIL AND NATURAL GAS PROVED RESERVES



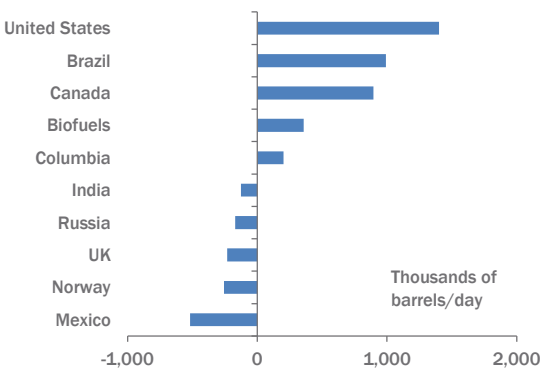
SHALE AS A % OF NATURAL GAS RESERVES



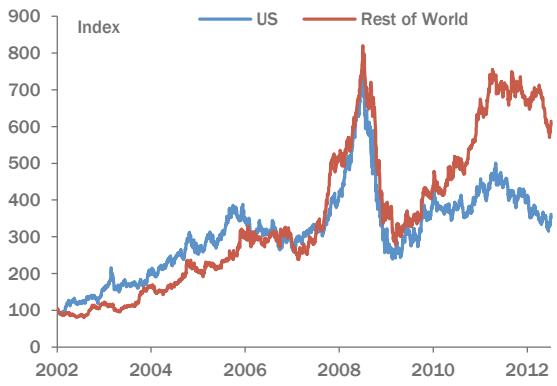
FLAT DEMAND COUPLED WITH RISING SUPPLY



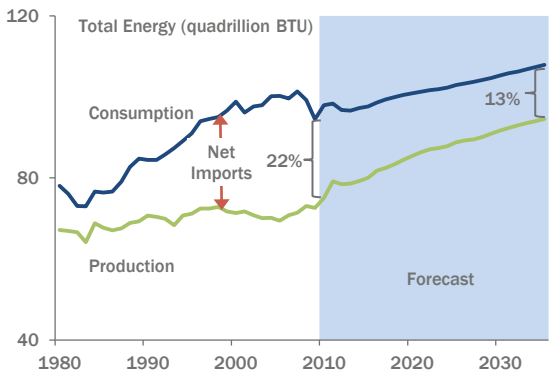
US TO SUPPLY A LARGE PORTION OF NON-OPEC SUPPLY GROWTH BETWEEN 2011-2016



ENERGY COST ADVANTAGE



NET ENERGY IMPORTS FORECAST TO DECLINE

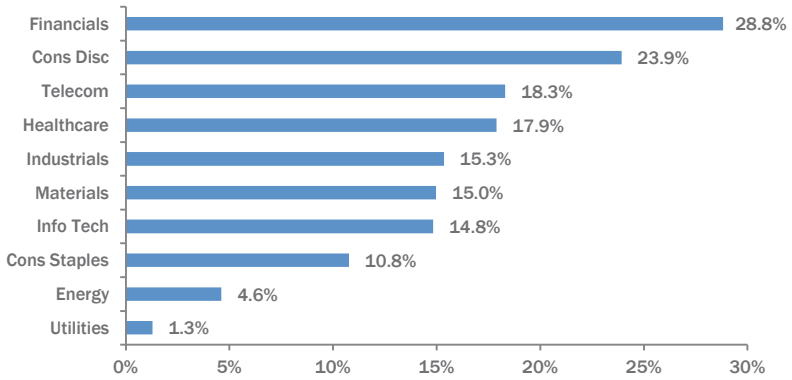


Source: US Energy Information Administration, BofA ML Global Research, IMG.

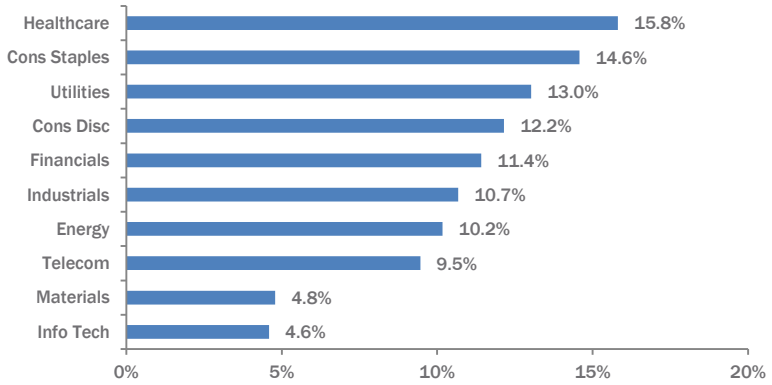
Appendix

US Equity Sector Performance (S&P 500)

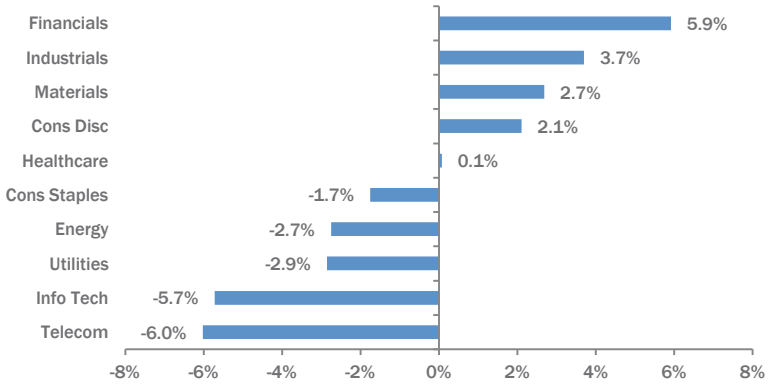
2012



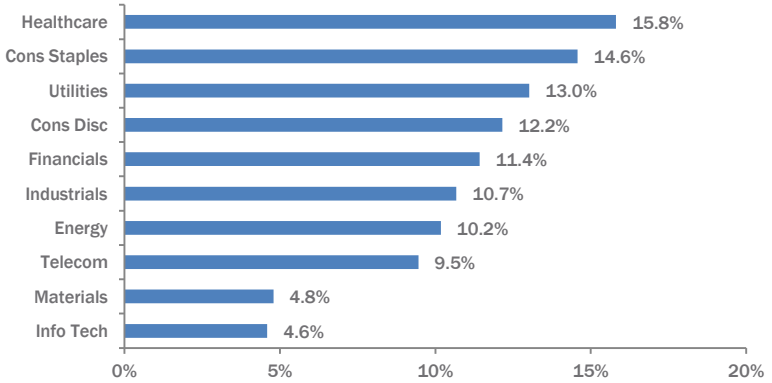
2013



Q4 2012



Q1 2013



Source: Bloomberg, IMG. US Equities represented by the S&P 500 Index. Returns calculated are total returns.

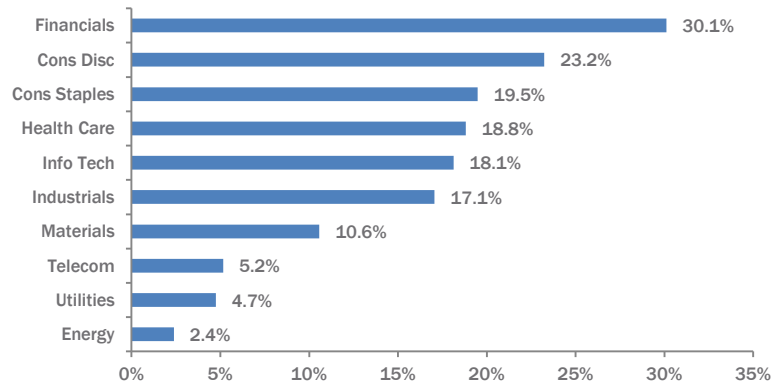
US Equities: Historical Sector Performance

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Utilities 57.2%	Materials 3.5%	Cons Staples -4.3%	Info Tech 47.2%	Energy 31.5%	Energy 31.4%	Telecom 36.8%	Energy 34.4%	Cons Staples -15.4%	Info Tech 61.7%	Cons Disc 27.7%	Utilities 19.9%	Financials 28.8%
Healthcare 37.1%	Cons Disc 2.8%	Materials -5.5%	Materials 38.2%	Utilities 24.3%	Utilities 16.8%	Energy 24.2%	Materials 22.5%	Healthcare -22.8%	Materials 48.6%	Industrials 26.7%	Cons Staples 14.0%	Cons Disc 23.9%
Financials 25.7%	Industrials -5.7%	Energy -11.1%	Cons Disc 37.4%	Telecom 19.9%	Financials 6.5%	Utilities 21.0%	Utilities 19.4%	Utilities -29.0%	Cons Disc 41.3%	Materials 22.2%	Healthcare 12.7%	Telecom 18.3%
Cons Staples 16.8%	Cons Staples -6.4%	Financials -14.6%	Industrials 32.2%	Industrials 18.0%	Healthcare 6.5%	Financials 19.2%	Info Tech 16.3%	Telecom -30.5%	Industrials 20.9%	Energy 20.5%	Telecom 6.3%	Healthcare 17.9%
Energy 15.7%	Financials -9.0%	Healthcare -18.8%	Financials 31.0%	Cons Disc 13.2%	Materials 4.4%	Cons Disc 18.6%	Cons Staples 14.2%	Cons Disc -33.5%	Healthcare 19.7%	Telecom 19.0%	Cons Disc 6.1%	Industrials 15.3%
Industrials 5.9%	Energy -10.4%	Cons Disc -23.8%	Utilities 26.3%	Materials 13.2%	Cons Staples 3.6%	Materials 18.6%	Industrials 12.0%	Energy -34.9%	Financials 17.2%	Cons Staples 14.1%	Energy 4.7%	Materials 15.0%
Materials -15.7%	Healthcare -11.9%	Industrials -26.3%	Energy 25.6%	Financials 10.9%	Industrials 2.3%	Cons Staples 14.4%	Telecom 11.9%	Industrials -39.9%	Cons Staples 14.9%	Financials 12.1%	Info Tech 2.4%	Info Tech 14.8%
Cons Disc -20.0%	Telecom -12.2%	Utilities -30.0	Healthcare 15.1%	Cons Staples 8.2%	Info Tech 1.0%	Industrials 13.3%	Healthcare 7.2%	Info Tech -43.1%	Energy 13.8%	Info Tech 10.2%	Industrials -0.6%	Cons Staples 10.8%
Telecom -38.8%	Info Tech -25.9%	Telecom -34.1%	Cons Staples 11.6%	Info Tech 2.6%	Telecom -5.6%	Info Tech 8.4%	Cons Disc -13.2%	Materials -45.7%	Utilities 11.9%	Utilities 5.5%	Materials -9.8%	Energy 4.6%
Info Tech -40.9%	Utilities -30.4%	Info Tech -37.4%	Telecom 7.1%	Healthcare 1.7%	Cons Disc -6.4%	Healthcare 7.5%	Financials -18.6%	Financials -55.3%	Telecom 8.9%	Healthcare 2.9%	Financials -17.1%	Utilities 1.3%

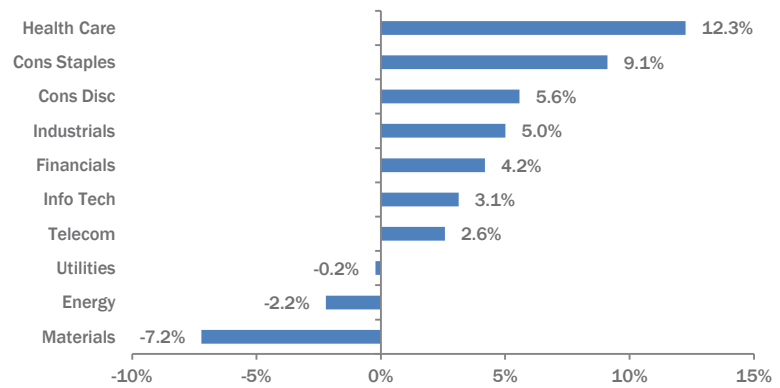
Source: Bloomberg, IMG. US Equities represented by the S&P 500 Index. Returns calculated are total returns.

International Equities: Sector Performance (MSCI ACWI ex US)

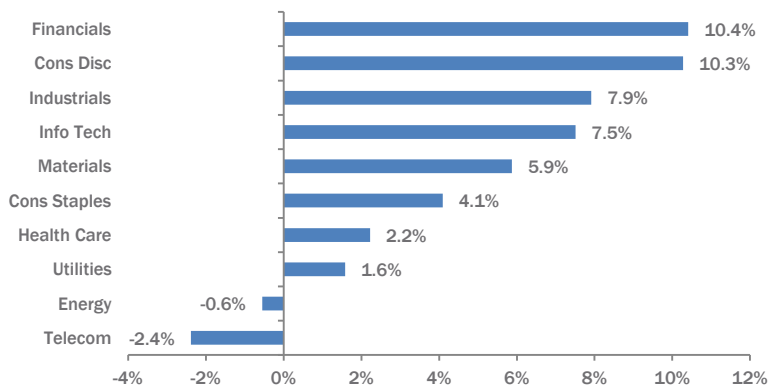
2012



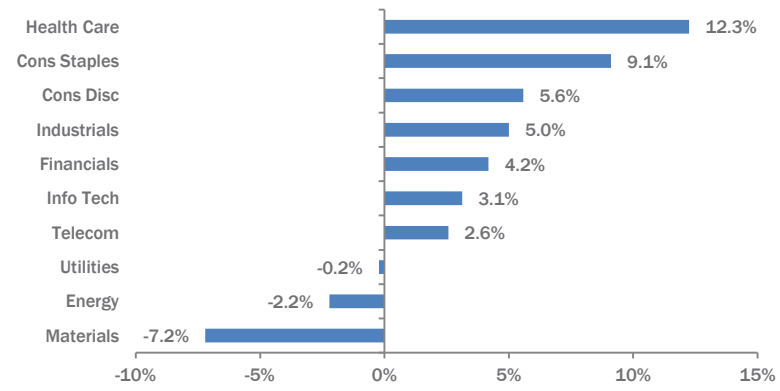
2013



Q4 2012



Q1 2013



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

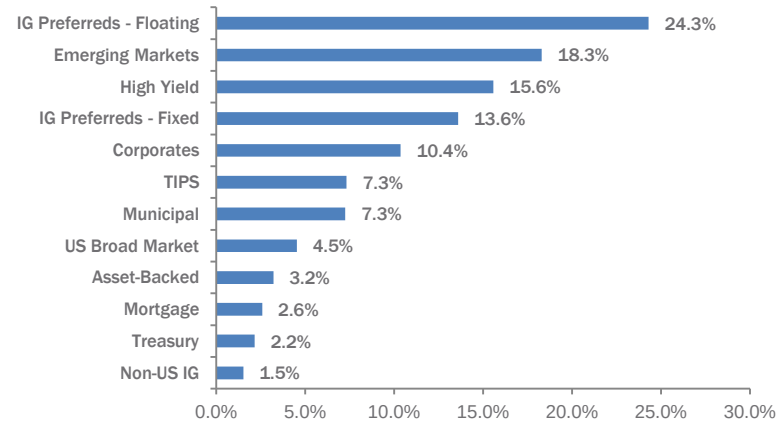
International Equities: Historical Sector Performance

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Healthcare 14.8%	Energy -4.9%	Materials 3.5%	Materials 52.7%	Utilities 32.0%	Energy 31.5%	Utilities 49.5%	Materials 40.9%	Healthcare -18.6%	Materials 76.3%	Cons Disc 22.1%	Healthcare 5.7%	Financials 30.1%
Cons Staples 3.8%	Materials -7.5%	Energy 0.8%	Industrials 50.0%	Energy 26.5%	Materials 27.4%	Materials 35.1%	Telecom 41.0%	Utilities -29.7%	Info Tech 51.4%	Industrials 22.0%	Cons Staples 4.1%	Cons Disc 23.2%
Financials -1.5%	Cons Staples -10.0%	Utilities -0.2%	Info Tech 49.5%	Financials 25.8%	Industrials 25.3%	Telecom 33.0%	Energy 32.3%	Cons Staples -31.2%	Energy 51.2%	Materials 21.9%	Telecom -0.9%	Cons Staples 19.5%
Utilities -1.6%	Utilities -12.8%	Cons Staples -0.8%	Financials 48.9%	Industrials 22.9%	Financials 18.3%	Cons Staples 30.2%	Utilities 25.6%	Telecom -35.7%	Financials 48.6%	Cons Staples 16.0%	Energy -7.7%	Healthcare 18.8%
Energy -4.7%	Healthcare -15.1%	Financials -12.6%	Telecom 40.4%	Materials 20.8%	Info Tech 13.9%	Financials 29.8%	Cons Staples 24.4%	Cons Disc -46.0%	Cons Disc 45.4%	Info Tech 14.7%	Cons Disc -13.5%	Info Tech 18.1%
Industrials -11.3%	Cons Disc -17.2%	Healthcare -14.4%	Cons Disc 39.1%	Telecom 20.6%	Healthcare 13.8%	Industrials 26.5%	Industrials 23.7%	Industrials -46.9%	Cons Staples 36.4%	Telecom 10.4%	Industrials -16.3%	Industrials 17.1%
Materials -16.5%	Financials -21.9%	Cons Disc -14.8%	Utilities 35.4%	Cons Staples 19.3%	Utilities 13.7%	Cons Disc 23.9%	Info Tech 8.3%	Energy -46.9%	Industrials 35.6%	Energy 6.7%	Utilities -16.5%	Materials 10.6%
Cons Disc -23.7%	Industrials -24.0%	Industrials -17.8%	Energy 34.0%	Cons Disc 18.9%	Cons Disc 12.5%	Energy 20.3%	Cons Disc 6.2%	Info Tech -47.9%	Healthcare 19.9%	Financials 4.5%	Info Tech -17.8%	Telecom 5.2%
Info Tech -37.6%	Telecom -30.1%	Telecom -21.1%	Healthcare 28.9%	Healthcare 14.0%	Cons Staples 11.4%	Healthcare 17.0%	Financials 3.8%	Materials -52.6%	Telecom 19.4%	Healthcare 3.8%	Financials -19.4%	Utilities 4.7%
Telecom -41.3%	Info Tech -38.9%	Info Tech -22.5%	Cons Staples 24.7%	Info Tech 6.8%	Telecom -5.0%	Info Tech 13.0%	Healthcare 2.6%	Financials -54.0%	Utilities 10.9%	Utilities -1.4%	Materials -23.9%	Energy 2.4%

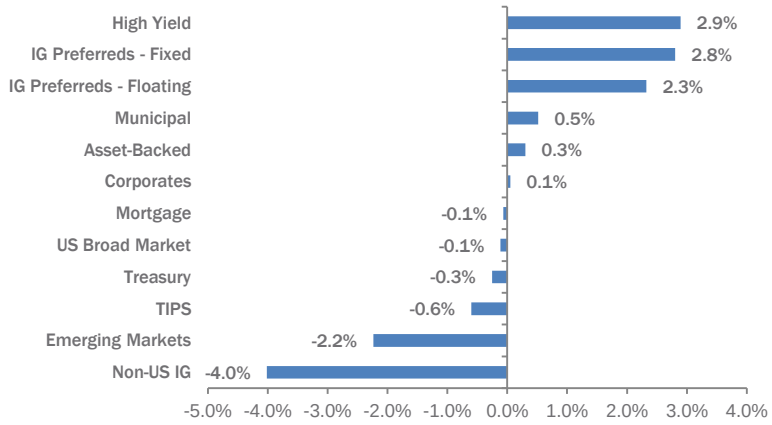
Source: Bloomberg, IMG. Global equities represented by MSCI ACWI ex US. Returns calculated are total returns.

Fixed Income Returns

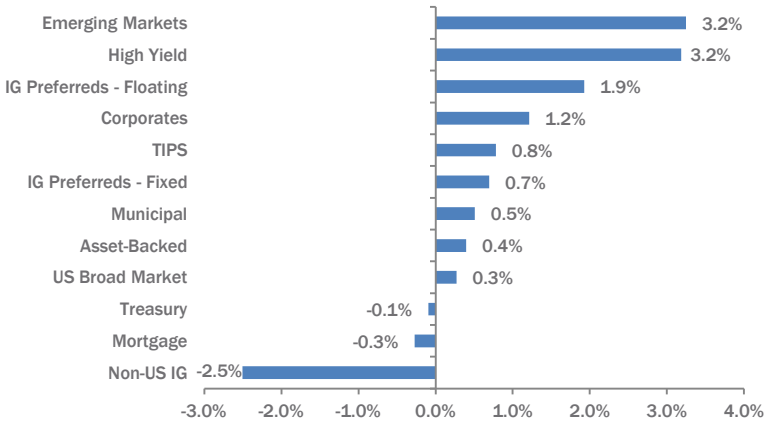
2012



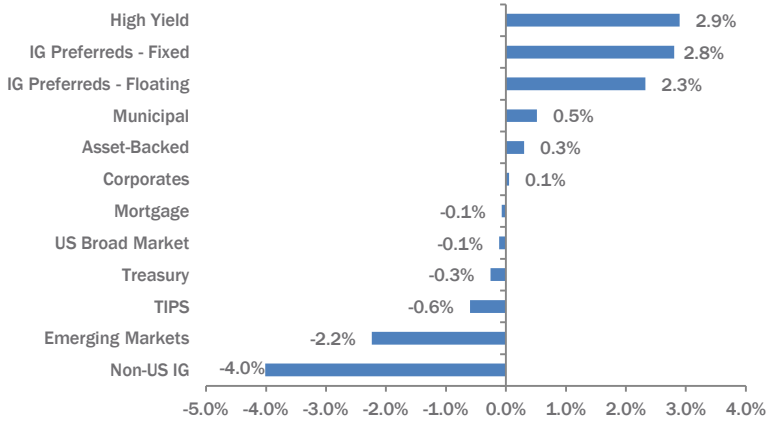
2013



Q4 2012



Q1 2013



Source: Bloomberg, BofA ML Global Research, IMG; All indexes represented by BofA Merrill Lynch Global Bond Indexes and calculated using total returns.

Glossary

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. Mangers 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 manger'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.

The opinions expressed herein are those of the Merrill Lynch GWM Investment Management & Guidance as of December 31, 2012 and are subject to change. It is provided as general market commentary only, and it does not consider the specific investment objectives, financial situation or particular needs of any one client. It should not be considered a recommendation or solicitation to purchase or sell any security. There is no guarantee that any future event discussed herein will come to pass. When reading this commentary, you should consider that investments in securities involve risk and you could lose some or all of the amounts you have invested. The information herein was obtained from various sources, which we believe to be reliable, but we do not guarantee its accuracy or completeness. The indexes referenced herein are unmanaged and are not available for direct investment; returns assume no management, transaction or other expenses and also assume reinvestment of dividends, interest and/or capital gains. Past performance does not guarantee or indicate future results.

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The investments discussed have varying degrees of risk. Some of the risks involved with equities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Bonds are subject to interest rate, inflation and credit risks. Investments in high-yield bonds may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. 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. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. 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.

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.

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