Tax Efficient Rebalancing Term Sheet

Tax Efficient Rebalancing (TER) is a passive tax efficient management overlay service that applies a systematic rules-based approach to the trading activity that occurs in an Account enrolled in the Merrill Lynch Investment Advisory Program (an enrolled account). The goal of TER is to improve the after-tax value of accounts by managing investment activities in a more tax-efficient manner.

Key terms of the TER service

Fee: There is no separate or additional fee for the selection of TER.

Service approach: TER includes, but is not limited to, the following features:

- Best Tax Lot Selection
- Account-Level Wash Sale Protection
- Short-Term Gain Deferral
- Tax Prioritized Withdrawals

Each of these is explained in more detail on page 2 of this Term Sheet. While all features will be considered, not all features may be applied in every scenario.

Eligible investments: Taxable, domestic client accounts must be enrolled in a Managed Strategy or a Custom Managed Strategy within the Merrill Lynch Investment Advisory Program and invested in an eligible investment strategy. Eligible investment strategies include the following:

- Style Manager Strategies invested in individual equity securities and/or certain preferred securities
- Exchange traded funds (ETFs)
- Mutual funds

Once selected, TER will be applied to any eligible investment strategy in an enrolled account. TER will not be applied to any fixed income securities held in a designated account, including those held as part of an otherwise eligible Style Manager Strategy. Certain Style Manager Strategies are not eligible for TER. As such, TER may not apply to all investments that are part of a Custom Managed Strategy. Consult with your advisor for a list of eligible Style Manager Strategies.

Frequency of service: Applied on an ongoing basis whenever investment activity occurs within an enrolled account.

TER will only apply to eligible investments within the Account for which it was selected and will only take into consideration the trading activity that occurs in that enrolled Account. It will not take into consideration securities held in other accounts at Merrill or other firms.

The risks and limitations of Tax Efficient Management Overlay Services, including TER, are discussed in more detail in the Merrill Lynch Investment Advisory Program Brochure in the Tax Matters section.

Depending on your goals and the holdings in your account, this service may be used in conjunction with other Tax Efficient Management Overlay Services.

Selecting TER will supersede any tax lot relief instructions previously provided to your Advisor for your account.

You should consult your tax and/or legal advisor prior to enrolling in any tax efficient management service, as well as on an ongoing basis to determine whether the wash sale rules, the straddle rules or other special tax rules could apply to your trading activity.

TER approaches

TER leverages several tax efficient management features that seek to enhance the after-tax performance of eligible investments. Certain TER features may not be applied in every scenario. TER includes, but is not limited to, the following:

Best Tax Lot Selection	Under default tax lot accounting, sales are reported on a First-In, First-Out (FIFO) basis. When determining which individual tax lots to sell, best tax lot selection incorporates an analysis of expected long- and short-term capital gains taxes. This process engages in tax lot management by prioritizing sales of securities that result in the lowest expected tax cost per share.
Account-Level Wash Sale Protection	A wash sale occurs when an investor sells a security at a loss, and either 30 days before or after the date of sale, buys the same (or a substantially identical) security. In an effort to avoid wash sales, the purchase of certain securities sold at a loss may be temporarily restricted. In limited situations where wash sale restrictions result in excess cash accumulating in your account, this excess cash may be temporarily invested in a sector ETF replacement during the wash sale period. Sector ETF replacements are only available for certain Style Manager Strategies invested in individual equity securities.
Short-Term Gain Deferral	The tax laws generally tax short-term capital gains — the profits on capital assets held for one year or less — at a higher marginal rate than long-term capital gains. Short-term gain deferral attempts to minimize this impact by deferring sales of individual tax lots with sizable unrealized gains that are within 31 days of achieving long-term holdings status. Once the individual tax lot has reached a holding period longer than one year any eventual sale would be treated as a long-term capital gain for tax purposes.
Tax Prioritized Withdrawals	When engaging in tax efficient cash management by realigning the portfolio to underlying strategy weights, the sale of positions with the largest percentage of unrealized losses are prioritized first to fulfill cash needs.

An example of TER

When Best Tax Lot Selection rules are applied, sell priority is ranked based on lowest expected tax cost per share, as shown in the example below.

								Non-tax managed	Tax managed
Lot	**Holding Period**	**Quantity held**	**Acquisition cost**	**Realized gain or loss $**	**Unrealized gain or loss %**	**Tax cost**	**Tax cost per share**	**Sell priority**	**Sell priority**
A	1,383 days	500	$ 8,570.90	$ 1,891.60	22.07%	$ 450.2	0.90	1	4
B	990 days	450	$ 9,256.83	$ (1,007.14)	-10.88%	$ (239.7)	(0.53)	2	1
C	435 days	600	$ 9,773.91	$ 410.50	4.20%	$ 97.7	0.16	3	2
D	275 days	550	$ 9,333.00	$349.99	3.75%	$ 142.79	0.26	4	3

For illustration only. Assumptions: 1) For illustrative purposes only. Examples do not take into account any trade corrections or adjustments that may have occurred after the trade date of the security sale. 2) Federal tax rates used are 40.8% for short-term capital gains and 23.8% for long-term capital gains, which includes the 3.8% net investment income surtax that may apply on net investment income. 3) Tax rates are subject to change over time. If your actual tax rates differ from the tax rates used, then the conclusions above may change.

Additional resources

- Guide to Tax Efficient Management Offerings
- Merrill Lynch Investment Advisory Program Brochure