

MERRILL LYNCH INVESTMENT ADVISORY PROGRAM

# Tax Efficient Transition Service Term Sheet

The Tax Efficient Transition Service (Service) is a service that allows you to transition assets into a Managed Strategy or Custom Managed Strategy (referred to collectively in this Term Sheet as Investment Strategy) in the Merrill Lynch Investment Advisory Program (IAP or Program) with the goal of spreading out the realization of capital gains over time.

## Service Approach

### Treatment of Account Assets in the Service

- Depending on your investment objective, the Service generally can be used to seek to manage the realization of capital gains when transitioning assets from a brokerage or other account to an Investment Strategy or to transition existing IAP assets to a new Investment Strategy in an IAP account enrolled in the Service (Account).
- Assets will be invested in the Investment Strategy (which can consist of Style Manager Strategies, mutual funds, and exchange traded funds (ETFs)) in accordance with an annual net capital gains transition budget (Annual Transition Budget) that you select pursuant to the terms of the Service and in the manner set forth below.
  - Assets will be transferred in kind to the Investment Strategy, where appropriate.
  - Assets that cannot be held in IAP-enrolled accounts (Program ineligible assets or, as referred to in the Brochure, Excluded Assets) will be sold and the proceeds will be invested in the Investment Strategy. Program ineligible assets include, for example, Bank of America and Affiliate securities and certain mutual funds and ETFs.
  - Individual equity securities and eligible mutual funds and ETFs (Service eligible assets) in your Account will be sold over time in accordance with your Annual Transition Budget, and the proceeds will be invested in the Investment Strategy.
- Securities that are not invested in the Investment Strategy and Service eligible assets that you add to the Account after enrollment in the Service are referred to as Transition Assets. Transition Assets will be held in the Account but separated from the assets that are invested in the Investment Strategy.
- Fixed income assets (excluding mutual funds and ETFs) are not considered Transition Assets. Fixed income assets that cannot be transferred in kind will be sold and the proceeds will be invested in the Investment Strategy.
- For Trust Management Accounts (TMA), cash designated as income cash should not be considered for the Service.
- The Service operates on a per-Account basis only. It does not consider securities held in other accounts at Merrill (including other IAP accounts) or other firms.

**The estimated tax impacts or any insight provided are not guaranteed and should not be viewed as tax advice. Bank of America, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill), Managed Account Advisors, LLC (MAA), their affiliates, and advisors do not provide legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions. You should also consult with your tax advisor whether the wash sale rules, the straddle rules, or other special tax rules could apply to your situation.**

The terms, risks, and limitations with respect to the Service outlined in this Term Sheet, the IAP client agreement and IAP Brochure will apply to your Account. Terms not defined in this Term Sheet are used as defined in the IAP Brochure. The current version of the IAP Brochure is accessible at [mymerill.com/ADV/materials](http://mymerill.com/ADV/materials) or from your Advisor.

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<b>Are Not FDIC Insured</b>	<b>Are Not Bank Guaranteed</b>	<b>May Lose Value</b>
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# Service Approach

Let’s examine the potential realization of net capital gains in an account without the Service and with the Service. The information below is shown for illustrative purposes only and is not indicative of any investment or actual client account.

## Investing in the Strategy Without the Service:

- Asset value \$500K
- Transitioning from brokerage to an eligible Investment Strategy
- \$100K of unrealized capital gains
- Long term capital gains rate of 23.8%
- 100% of assets are invested in the Investment Strategy

### Investing in the Strategy Without the Service:

Assets are invested into the Investment Strategy without consideration of any net capital gains impact.

Holdings Value	Embedded Gains
\$500,000	\$100,000

100% of assets are invested in the Investment Strategy.



Gains Realized in Year 1
\$100,000

This approach results in full tax liability of \$23,800 for the single tax year.

## Investing in the Strategy With the Service:

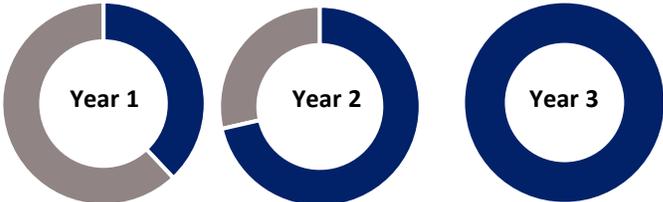
- Asset value \$500K
- Transitioning from brokerage to an eligible Investment Strategy
- \$100K of unrealized capital gains
- Long term capital gains rate of 23.8%
- Annual Transition Budget of \$40K set by client
- Assets are transitioned over time to the Investment Strategy based on the Annual Transition Budget above

### Investing in the Strategy With the Service:

Assets are transitioned by MAA into the Investment Strategy based on the Annual Transition Budget set by the client.

Holdings Value	Embedded Gains
\$500,000	\$100,000

Assets are sold and/or transitioned over time, until the Account assets are 100% invested in the Investment Strategy.



Gains Realized in Year 1	Gains Realized in Year 2	Gains Realized in Year 3
\$40,000	\$40,000	\$20,000

Instead of incurring the full tax liability in a single year, the Service spreads the tax liability over three years. Loss harvesting opportunities and tax-neutral transitions may provide additional benefits.

The illustration above shows how the Service can spread out the realization of capital gains over time. The illustration does not consider asset value fluctuation over time, other tax management strategies, or any other potential account activity (e.g., contributions or withdrawals). It assumes the applicability of a long-term capital gains rate of 20% and a 3.8% net investment income tax. **Please review the Risk of Loss section to understand the Service’s risks and limitations.**

## Service Approach

### Setting your Annual Net Capital Gains Budget

- With information you provide to your Advisor, Merrill will produce a Service Analysis (Analysis), which is a point-in-time illustration of the potential impact of the Service using various Annual Transition Budget scenarios.
- Capital gains rates will be provided by you and could change in the future.
- Although fixed income assets are not part of the Service, the Analysis will show you the maximum amount of potential unrealized capital gains on these assets by assuming that all of your fixed income assets will be sold at or near enrollment in the Service. The Analysis will not offset any capital gains with capital losses for fixed income assets.
- With the help of the Analysis, you will set an Annual Transition Budget to manage the realization of net capital gains relating to transitioning assets to an Investment Strategy. The Annual Transition Budget will include an annual net-long-term capital gains transition budget that you specify and an annual net-short-term capital gains transition budget of \$0 unless you specify a specific budget for this purpose. Your Annual Transition Budget will be confirmed to you in a Program Report you receive.
- The Annual Transition Budget sets an upper limit for how many net capital gains may be realized through the application of the Service for a single tax year but may not be exhausted in all situations.
- You should consult your tax and/or legal advisor on an ongoing basis to determine whether the Annual Transition Budget you established is appropriate for your personal tax situation and whether net investment income tax should be considered.
- **Fixed income assets, capital gains resulting from trading activity within the Investment Strategy, net capital gains or losses incurred prior to enrollment, and carryover capital losses are not included in the methodology that underlies the Service and do not count towards the Annual Transition Budget.**

### Role of MAA in Implementing the Service

- The Service will be implemented by MAA using a transition methodology developed by the Chief Investment Office.
- By enrolling in the Service, you grant MAA discretion to sell Account assets and invest the proceeds in the Investment Strategy at or near enrollment in the Service and on an ongoing basis. MAA will implement the Service in a manner designed to meet your Annual Transition Budget and pursuant to the terms of the Service and as described in the Program Agreement and Brochure.
- You authorize MAA to effect securities transactions in connection with the Service on an ongoing basis without making any additional contact with you. This authority will remain in effect until you change or cancel the Service or terminate the associated Account.

- MAA and Merrill will have no trading discretion over the Transition Assets in your Account other than taking action to transition the assets to the Investment Strategy as part of the Service. Any other transactions relating to Transition Assets will require your authorization through your Advisor as you retain investment and trading authority.
- As described in the IAP Agreement and Brochure, MAA has authority to make certain investment and trading decisions related to assets invested in the Investment Strategy in addition to the implementation of the Service.
- When possible, MAA will seek to move Transition Assets to the Investment Strategy in kind to avoid unnecessary purchases. There is no guarantee that MAA will always be able to transfer Transition Assets in kind. Unless you select an annual net-short-term capital gains transition budget, MAA will seek to avoid the realization of net short-term capital gains in connection with the transition of assets to the Investment Strategy.
- Once MAA has exhausted the Annual Transition Budget, MAA will periodically review the Account for additional opportunities to invest Transition Assets in the Investment Strategy throughout the remainder of the tax year.

### Changes to your Annual Transition Budget

- You may increase your Annual Transition Budget at any time. If you do not make any adjustments, your Annual Transition Budget will remain in place for subsequent years while enrolled in the Service. Generally, you cannot decrease your Annual Transition Budget during the current tax year but can decrease it for subsequent years.
- You should contact your Advisor to make any changes to your Annual Transition Budget. Unless otherwise required, you may provide us with verbal instructions regarding any such changes. You will receive a confirmation of any changes to your Annual Transition Budget.
- Adjusting your Annual Transition Budget, adding or withdrawing assets, and other client activity can impact the Service, including the realization of additional net capital gains or other tax events and a shorter or longer transition period.

### Activity that can Cause you to Exceed your Annual Transition Budget or Incur Additional Realized Capital Gains in the Account

- The following activity will count towards and can cause you to exceed your Annual Transition Budget:
  - Sales of Program ineligible assets, including any sales from any Reasonable Investment Restrictions on your Account, which are not removed from your Account at enrollment in the Service or which are added afterwards.
  - Sales of Service eligible assets to meet the Investment Strategy's minimum investment amount or to generate funds for withdrawals or to pay the monthly Program Fee.

- The following activity will **not** count towards your Annual Transition Budget but can cause you to incur additional net capital gains outside of the Service.
  - Sale of fixed income assets not removed from your Account at or after enrollment in the Service.
  - Ongoing trading activity within the Investment Strategy.
  - Other activity in your Account such as certain dividends, mutual fund capital gains distributions, and withdrawals.
  - Sales of assets resulting from a change to your Investment Strategy.
  - Sales of Investment Strategy assets caused by disabling certain tax management services.
  - Activity in other accounts at Merrill (including other IAP Accounts) or other firms.
  - Transactions related to Reasonable Investment Restrictions you request as outlined in the IAP Brochure.
  - Any client directed activity (e.g., loss harvesting initiated by the client).

### Program Fee Charged in Connection with the Service

- For Transition Assets (those separately identified by MAA from assets invested in the Investment Strategy), you will be charged the Merrill Lynch Fee that you have agreed upon with your Advisor for the Account. You will be charged the Merrill Lynch Fee on the Transition Assets even if the transitioning of these assets causes you not to exhaust or to exceed your Annual Transition Budget.
- For the assets invested in the Investment Strategy, you will be charged the Program Fee Rate, which consists of the Merrill Lynch Fee Rate and the Style Manager Fee Rate, if applicable. If the Investment Strategy includes a Related Style Manager Strategy, Merrill or its Affiliate will receive the Style Manager Fee component of the Program Fee.

### Program Services to the Account

- You will receive Program services for the Transition Assets and the assets invested in the Investment Strategy as described in the IAP Agreement and Brochure. Please note that Target Asset Allocation monitoring in your Account as part of the Program services will only consider assets invested in the Investment Strategy and will not consider Transition Assets.
- Your Advisor will provide ongoing advice and guidance with respect to the assets in your Account, including the Transition Assets.
- As part of the periodic client review, Service reporting will be included in your Program Report and sent to you directly. A status report can also be generated at any time by requesting it from your advisor.
- While enrolled in the Service, certain elections like those related to periodic rebalancing activities that you have made for your Account with regards to the Investment Strategy may function on a different schedule than they would on

accounts not enrolled in the Service. See Account Activity and Transactions below for additional information.

## Important Information about the Service

### Account Eligibility for the Service

- The Service is available for domestic, taxable IAP-enrolled accounts that have selected an eligible Investment Strategy.
- Certain Investment Strategies, such as Direct Indexing Strategies, are not covered by the Service.
- Merrill and MAA reserve the right to reject enrollments for the Service for a particular account and update eligibility for the Service at their discretion.

### Service Minimums

- Merrill has certain thresholds relating to the minimum level of the Annual Transition Budget. Merrill has the authority under the IAP Agreement to automatically adjust your Annual Transition Budget if it falls below minimum amounts as determined by Merrill.
- Investment Strategies have minimum investment requirements that must be met to enroll in the Service.

### Account Activity and Transactions

- The Service relies on cost basis for any securities subject to the Service. Upon initial enrollment in the Service, securities without a cost basis will not be eligible for the Service and any securities with an inaccurate cost basis will impact the Service. Any securities added to your Account after enrollment in the Service that have an inaccurate or missing cost basis will impact the Service and the timing of the Transition. If requested, you agree to provide us with an accurate cost basis.
- You may add or remove securities from your Account at any time while you are enrolled in the Service, with the understanding that this may shorten or lengthen the period of time that you are in the Service and may cause you to exceed your Annual Transition Budget.
- If you want to take any action with respect to any securities that are part of the Transition Assets, you will be required to remove the particular securities from the Account or change your Annual Transition Budget. Please discuss such changes with your Advisor.
- Periodic rebalancing scheduled for the assets invested in the Investment Strategy that are part of your Account may be paused in the beginning of the year to prevent any rebalancing activities during the time MAA is taking action to transition the Transition Assets in accordance with your Annual Transition Budget and will resume following such transition.
- Voluntary corporate actions relating to Transition Assets will be reviewed and managed by MAA according to the IAP Agreement and Brochure.

## Reasonable Investment Restrictions

- Any Reasonable Investment Restrictions on your Account related to individual securities will be monitored as part of the Service. If a security is subject to a Reasonable Investment Restriction, it may be sold, which can cause you to incur additional net capital gains and/or exceed your Annual Transition Budget.
- Sector and social restrictions will apply only to assets invested in the Investment Strategy and not to Transition Assets.

## Changes to your Investment Strategy while enrolled in the Service

- If you or Merrill, at its discretion, change your Investment Strategy and it is eligible for the Service, the Service and your Annual Transition Budget will continue to apply to your Account.
- Generally, where appropriate, securities in your existing Investment Strategy or applicable Transition Assets will be transferred in kind to the new Investment Strategy. Any remaining assets in your existing Investment Strategy will be sold and invested in the new Investment Strategy.
- Changing your Investment Strategy can cause you to incur additional net capital gains outside of the Service.
- Typically, Transition Assets will not be sold unless a sale is required to meet the new Investment Strategy's minimum. Any such sales may create realized capital gains that are outside of your Annual Transition Budget and not part of the Service.
- If you or Merrill, at its discretion, change your Investment Strategy and it is not eligible for the Service, the remainder of your Transition Assets will be sold or transferred in kind to the Investment Strategy without regard to your Annual Transition Budget. This can cause you to incur additional net capital gains outside of the Service.

## Inclusion of Tax Efficient Management (TEM) Overlay Services

- As part of the Service, unless you notify your Advisor otherwise, the Tax Efficient Rebalancing overlay service (TER) will be applied to the assets invested in the Investment Strategy. For additional details on TER, see the TER term sheet available at [mymerrill.com/ADV/materials](http://mymerrill.com/ADV/materials).
- The Quarterly Loss Harvesting (QLH) overlay service may be applied to the assets invested in the Investment Strategy. If applied to an account while enrolled in the Service, the timing of the QLH analysis and harvesting action and that of the Annual Transition Budget exhaustion may be impacted. See the QLH Term Sheet available at [mymerrill.com/ADV/materials](http://mymerrill.com/ADV/materials) for additional details.

- The Dynamic Tax Loss Harvesting (DTLH) overlay service is not available while enrolled in the Service and will be removed, if applied, for the Account. See the DTLH Term Sheet available at [mymerrill.com/ADV/materials](http://mymerrill.com/ADV/materials) for additional details.
- If replacement ETFs are held in your Account as a result of DTLH, enrolling in the Service will cause the replacement ETFs to be sold and reinvested in the ETFs designated in the Investment Strategy. This can cause you to incur additional net capital gains outside of the Service and may result in wash sales but will not impact your Annual Transition Budget. You should consult with your legal and/or tax advisors regarding applicable wash sale rules.

## Risk of Loss

- There is no guarantee that the Service will reduce your total tax liability or produce the desired tax results. For example, while spreading tax liability over multiple years may reduce the tax liability in a single year, it will generally only reduce the total tax liability to the extent that gains realized in a single year qualify for a lower tax rate or the client has more losses that are available for tax offsetting as compared to if the tax liability had not been spread over multiple years.
- Although the Service may provide tax-related benefits, there are risks associated with investing Transition Assets into the Investment Strategy over time, rather than all at once, that could negate these benefits. Those risks include the potential risk of loss on the Transition Assets, a decrease in the value of the Transition Assets during the transition period, and missing, in whole or in part, any potential gains (realized or unrealized) derived from being invested in the Investment Strategy.
- The Transition Assets could consist of a concentrated position in a security or sector. You understand that when an Account is invested in a concentrated number of securities, a decline in the value of these securities would cause the value of the Account to decline to a greater degree than that of a less concentrated portfolio.

## Terminating the Service

- The Service on your Account will automatically end when all your Transition Assets are invested in the Investment Strategy.
- We may amend these terms and conditions or terminate the Service with respect to your Account, by giving written notice to you, at any time and for any reason.
- You may terminate the Service at any time and for any reason. Based upon the instructions provided by you, this could result in the immediate investment of the remaining Transition Assets into the Investment Strategy, which can cause you to incur additional net capital gains.

**Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.**

All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance.

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