Dynamic Tax Loss Harvesting Term Sheet

Dynamic Tax Loss Harvesting (DTLH) is a tax efficient management overlay service that seeks to harvest losses in eligible Chief Investment Office (CIO) strategies. The goal of DTLH is to increase the after-tax value of accounts by systematically analyzing account holdings on a regular basis and opportunistically harvesting losses within eligible strategies.

Key terms of the DTLH service

Fee: There is no separate fee for the selection of DTLH.

Eligible investments: The taxable account must be enrolled in the Merrill Lynch Investment Advisory Program and invested in one or more eligible CIO strategies that consist solely of exchange traded funds (ETFs). Once selected, DTLH will be applied to the eligible CIO strategies in the designated account. DTLH will not be applied to any other strategies in the account that are not eligible strategies.

Consult with your advisor for a list of eligible strategies.

Account minimum: CIO strategies have minimum investment requirements. Applicable minimum investment requirements must be met in order to select DTLH.

Frequency of service: DTLH is applied on an ongoing basis, based on a rules-based approach that incorporates information about real-time changes in the underlying security and market conditions, including the inherent volatility of a particular ETF investment.

Treatment of proceeds from loss harvesting action: Proceeds are invested in one or more replacement ETFs with the goal of maintaining the strategy’s asset allocation and risk tolerance. Replacement ETFs are held in the account until additional losses can be harvested or other events occur, after which proceeds are re-invested in the ETF selected for the strategy.

Wash sale protection: Account-level wash sale protection will be applied to securities harvested for a loss.

Approach to harvested losses: Not all losses may be realized due to security eligibility, client-imposed and other restrictions, the portfolio turnover threshold level or size of the unrealized loss.

Treatment of newly invested funds: If you add funds to your account within 30 days of a loss being harvested, the contribution will be invested proportionally across the holdings of the strategy and any replacement securities, subject to internal rules and implementation practices.

DTLH may not protect against the disallowance of losses under the wash sale rules.

DTLH operates on a per-account basis only. 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 DTLH, are discussed in more detail in the Letter of Authorization that you must sign and return in connection with the selection of a Tax Efficient Management Overlay Service.

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

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.
An example of Dynamic Tax Loss Harvesting

To demonstrate how DTLH works, consider an account with a position that has losses that can be harvested.

Assumptions for this example:

- In January, ETF “AB” has a value of $1,000 and is invested in only one tax lot.
- In February, “AB” drops in value to $940, which meets the quantitative loss threshold in DTLH. “AB” is sold to harvest the loss and a replacement security, “CD,” is purchased.
- In April, “CD” drops in value to $900, which meets the quantitative loss threshold in DTLH and triggers another loss harvesting event, and “AB” is bought back.

For illustration only.

Additional resources

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