Using hedge funds in your portfolio

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The investments discussed have varying degrees of risk, and there is always the potential of losing money when you invest in securities, and future prospects may not be realized. 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. Investments focused in a certain industry may pose additional risk due to lack of diversification, industry volatility, economic turmoil, susceptibility to economic, political or regulatory risks and other sector concentration risks. Bonds are subject to interest rate, inflation and credit risks. Income from investments, if any, may fluctuate. 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.

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Alternative investments are speculative and involve a high degree of risk. There generally are no readily available secondary markets, none are expected to develop and there may be restrictions on transferring fund investments. Alternative investments may engage in leverage that can increase risk of loss, performance may be volatile and funds may have high fees and expenses that reduce returns. Alternative investments are not suitable for all investors. Investors may lose all or a portion of the capital invested.

There may be conflicts of interest relating to a mutual fund(s) or an alternative investment product(s) and its service providers, including Bank of America Corporation, and its affiliates, who are engaged in businesses and have clear interests other than that of managing, distributing and otherwise providing services to the mutual fund or alternative investment. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by the mutual fund or alternative investment, or in other investment vehicles that may purchase or sell such securities and instruments. These are considerations of which investors in the mutual fund or alternative investment should be aware.

Investors should bear in mind that the global financial markets are subject to periods of extraordinary disruption and distress. During the financial crisis of 2008–2009, many private investment funds incurred significant or even total losses, suspended redemptions, or otherwise severely restricted investor liquidity, including increasing the notice period required for redemptions, instituting gates on the percentage of fund interests that could be redeemed in any given period and creating side pockets and special-purpose vehicles to hold illiquid securities as they are liquidated. Other funds may take similar steps in the future to prevent forced liquidation of their portfolios into a distressed market. In addition, investment funds implementing alternative investment strategies are subject to the risk of ruin and may become illiquid under a variety of circumstances, irrespective of general market condition

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Investment products:

Are Not FDIC Insured	**Are Not Bank Guaranteed**	**May Lose Value**

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The Fund's investment manager and its affiliates may be subject to certain U.S. banking laws and to regulation by the Federal Reserve Board. Such banking laws, rules, regulations and guidelines, and the interpretation and administration thereof by the staff of the applicable regulatory agencies, restrict the transactions by the Fund, as well as the transactions between the Fund's investment manager and its affiliates and the Fund.

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Important risk information

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Certain risks associated with investing in alternative investments

- Alternative investments are speculative and involve a high degree of risk.
- Alternative investment trade on a leveraged basis which increases the risk of loss.
- Performance can be volatile.
- An investor could lose all or a substantial amount of his or her investment.
- The use of a single fund-of-funds manager applying one set of allocation procedures could mean lack of diversification and, consequently, higher risk.
- There is no secondary market for the investor's interest in the fund and none is expected to develop.
- There may be restrictions on transferring interests in the alternative investment.
- High fees and expenses may offset the underlying manager's trading profits.
- A substantial portion of the trades executed by the underlying managers may take place on non-U.S. exchanges.
- **Past performance is not indicative of future results.**
- Alternative investments may require tax reports on Schedule K-1 to be prepared. As a result, investors may be required to obtain extensions for filing federal, state, and local income tax returns each year.
- In addition to the foregoing risks, each alternative investment fund is subject to its own strategy-specific or other risks. Clients must carefully review the offering memorandum for any particular fund and consider their ability to bear these risks before any decision to invest.

Please keep the following general risks in mind when investing in hedge funds or non-traditional mutual funds (NTMF):

- An offer to purchase interests in any hedge fund referred to herein may be made only pursuant to the fund's private placement memorandum, which contains important information concerning risk factors, performance and other material aspects of the fund. This must be carefully read before any decision to invest is made. No additional written material may be provided. Failure to adhere to these restrictions will result in the violators being subject to severe sanctions, which may include fines and /or dismissal from the firm. Hedge funds are sold in private placements and may be offered only to individuals who are both Qualified Purchasers and Accredited Investors and for whom the investment is otherwise suitable.
- The risk characteristics of NTMFs can be similar to those for traditional hedge funds. They invest on a leveraged basis which increases risk of loss and performance can be volatile. Like any investment, an investor can lose all of a substantial amount of his or her investment.

Non-Traditional Mutual Funds ("NTMFs) are mutual funds and exchange-traded funds that are classified as alternative investments because their principal investment strategies utilize alternative investment strategies or provide for alternative asset exposure as the means to meet their investment objectives. Though the portfolio holdings of NTMFs are generally made up of stocks and bonds, NTMFs may also hold other asset classes and may use short selling, leverage and derivatives. While the strategies employed by NTMFs are often used by hedge funds and other alternative investment vehicles, unlike hedge funds, NTMFs are registered with the SEC and thus subject to a more structured regulatory regime and offer lower initial and subsequent investment minimums, along with daily pricing and liquidity. While these investment vehicles can offer diversification within a relatively liquid and accessible structure, it is absolutely essential to understand that because of this structure, NTMFs may not have the same type of non-market returns as other investments classified as alternative investments (such as hedge funds) and thus may serve as an imperfect substitute for such other investment vehicles. The risk characteristics of NTMFs can be similar to those generally associated with traditional alternative investment products (such as hedge funds). No assurance can be given that the investment objectives of any particular alternative investment will be achieved. Like any investment, an investor can lose all or a substantial amount of his or her investment. In addition to the foregoing risks, each alternative investment vehicle is subject to its own varying degrees of strategy-specific or other risks. Whether a particular investment meets the investment objectives and risk parameters of any particular client must be determined case by case. You must carefully review the prospectus or offering materials for any particular fund/pooled vehicle and consider your ability to bear these risks before any decision to invest.

Hedge funds can help stabilize portfolio performance

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Traditional portfolios

only include access to **Asset Appreciation** & **Income** from **stocks** and **bonds**.

Hedge funds

can help to provide downside protection and assist with capital preservation. They have flexible investment approaches and employ trading strategies not available to traditional asset managers. This enables them to pursue results that do not depend on market direction through **Active Management** of their investment portfolios.

What are hedge funds?

Hedge funds are actively managed, flexible investment strategies that…

Pursue opportunities in both up and down markets.

Derive returns from asset selection, market timing and other active strategies.

Seek to reduce portfolio risk over time by providing diversification.[1]

Unlike traditional mutual funds, hedge funds can:

- Employ leverage
- Take concentrated positions
- Invest in less-liquid markets
- Use short selling to profit from price declines

[1] Asset allocation and diversification do not ensure a profit or protect against loss in declining markets.

Hedge funds have provided better risk adjusted returns than equities

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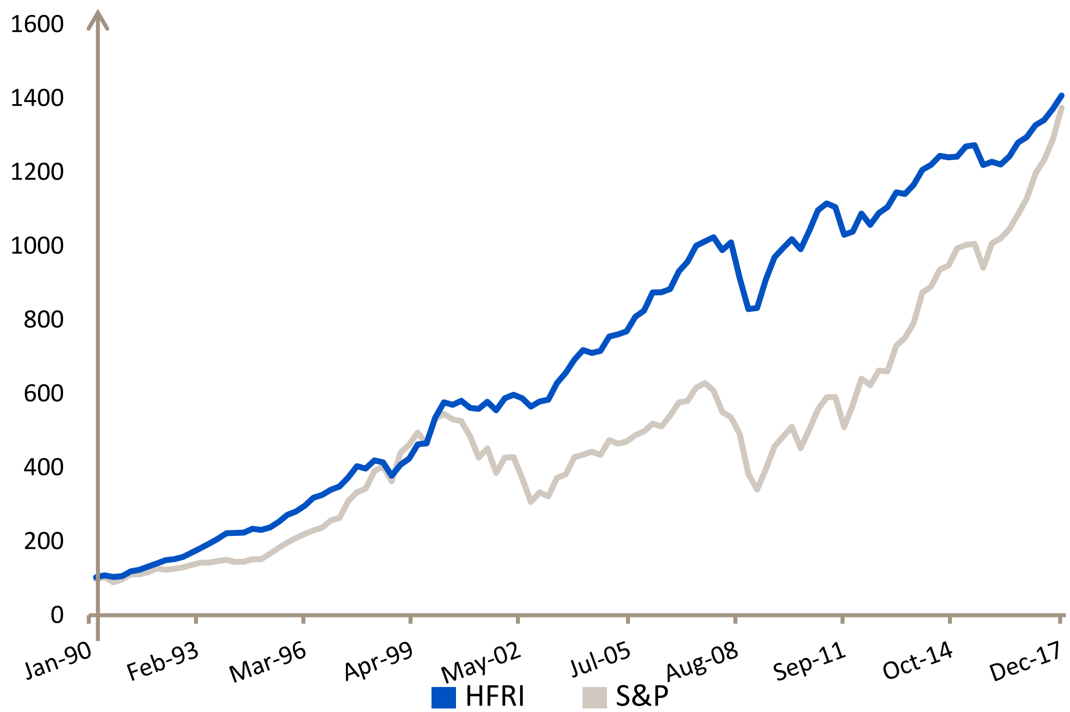
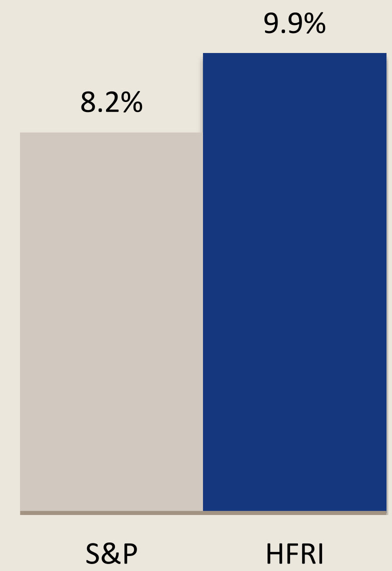
Cumulative Growth of $100: 1990-2017



Past performance not indicative of future results. Based on HFRI Fund Weighted Composite Index and S&P 500 data from January 1, 1990 to December 31, 2017. Uses indexes and other data for illustrative purposes only. **See appendix at the end of this presentation for index definitions and additional information.**

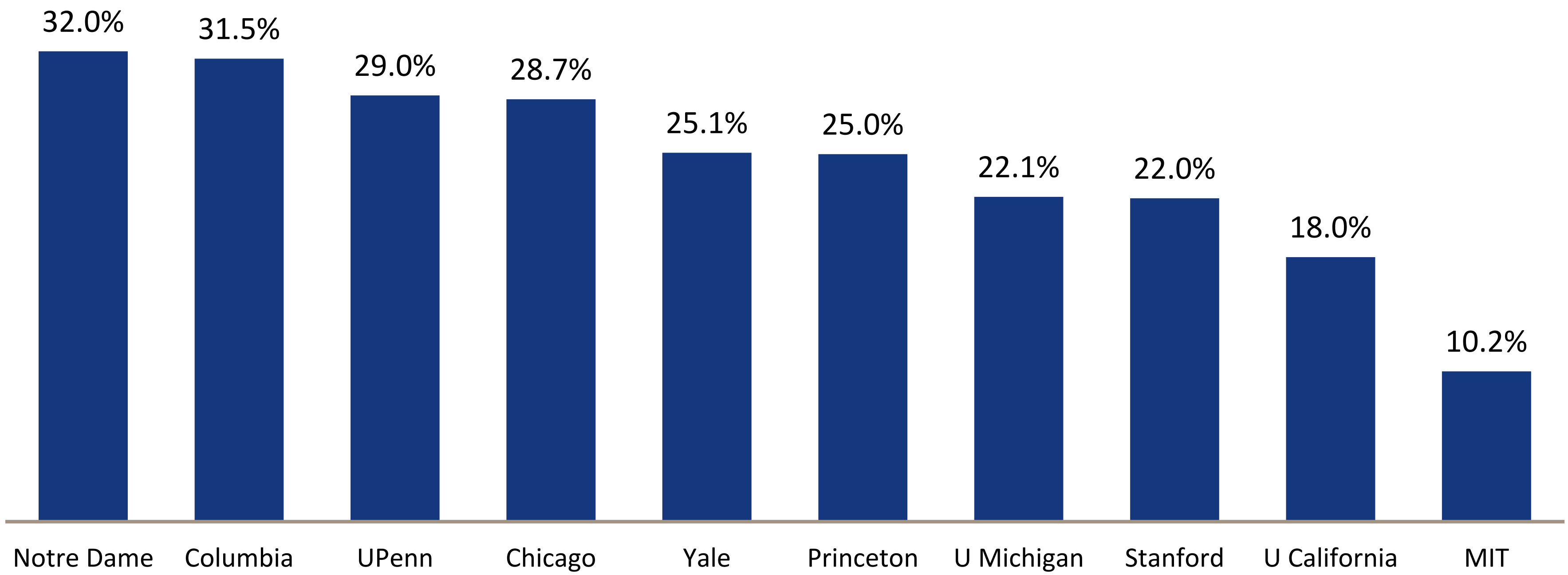
Annualized Return: 1990-2017



Volatility	**15.2%**	**8.1%**

Hedge funds successfully limited losses during bear markets in 2002 and 2008

Top endowments allocate significantly to hedge funds



Major endowments average 24% allocation to hedge fund strategies

Note: Allocations represent fiscal year 2017 actuals. **Past performance not indicative of future results.** Based on data available from endowment websites, Bloomberg, and various web based sources. See sources and disclosures regarding endowments at the end of this presentation.

Hedge funds come in a range of strategies with different outcomes

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- **Equity Hedge – Equity Long/Short** funds invest in stocks of publicly traded companies, both on the long and short side
- **Event Driven – Distressed** Invest around corporate events such as mergers, spin-offs or bankruptcies
- **Relative Value** Seek to profit from the spreads in price between similar securities, including stocks, bonds, options and commodities
- **Macro – Global Macro and Managed Futures** Seek to capitalize on trends across a wide range of asset classes and geographies using macroeconomic data and quantitative models

- **Growth AI Strategies:** Pursue growth and capital appreciation
- **Defensive AI Strategies:** Seek stability and consistency of return
- **Diversifying AI Strategies:** May provide diversification benefits due to historically low correlation to traditional equity and fixed income

Utilize a mix of hedge fund strategies "Multi-strategy", to maximize benefit over multiple market cycles

Investing in hedge funds

Hedge funds are structured as private partnerships

Organized as limited partnerships, with the investment manager as general partner

Investors must meet net worth requirements and investment minimums

Investors can redeem capital only at certain times, typically monthly or quarterly

This structure provides maximum flexibility to hedge fund managers to engage in active management and provide value to your portfolio

Some hedge fund managers offer their strategies through a mutual fund structure

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These funds are called **non-traditional mutual funds** or NTMFs.

- Offer daily liquidity and greater transparency than traditional hedge funds
- Typically do not charge a performance fee
- May employ leverage, use short selling, and trade futures and options
- Offer simplified tax reporting and regulatory oversight

Depending on your situation, NTMFs may allow you to access hedge fund strategies in a more flexible way that better supports your goals

Comparing hedge funds, NTMFs, and traditional investments

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		Traditional mutual funds	NTMFs	Hedge funds
Investment mandate	Investment style	Typically long-only	Typically opportunistic and flexible	Typically opportunistic and flexible
	Return objective	Returns relative to benchmark	Absolute returns	Absolute returns
	Leverage use	Typically do not use leverage	Typically use some leverage	May use substantial leverage
	Derivatives use	Limited use of derivatives	Frequent use of derivatives based on strategy	Frequent use of derivatives based on strategy
	Liquidity of investments	Generally invest in highly liquid securities	Generally invest in highly liquid securities	Portfolios may contain private securities or other illiquid investments
Structural considerations	Redemptions	Daily liquidity (early redemption fees may apply); suspension of redemptions possible in certain circumstances	Daily liquidity (early redemption fees may apply); suspension of redemptions possible in certain circumstances	Based on individual fund terms (monthly, quarterly, yearly); suspension of redemptions/gating possible
	Transparency	Holdings available at least quarterly	Holdings available at least quarterly	Holdings available at the manager's discretion
	Tax reporting mechanism	1099	1099	Typically K-1
	Fees[1]	Management fees[1]	Management fees[1]	Combination of management and incentive fees[1]
	Investment minimum/ qualifications	Low minimums, no qualification restrictions	Low minimums, no qualification restrictions	High minimums and qualification restrictions
Regulatory constraints	Leverage	Require a 300% asset coverage ratio and/or segregation of assets	Require a 300% asset coverage ratio and/or segregation of assets	Some regulatory limits, but managers may use substantial leverage, depending on strategy
	Liquidity of investments	No more than 15% of total assets in illiquid securities	No more than 15% of total assets in illiquid securities	Managers may use private securities and other illiquid investments
	Diversification	Minimum diversification requirements (limitations on position size, sector exposure)	Minimum diversification requirements (limitations on position size, sector exposure)	No preset diversification requirements

[1] Under 1940 Act and Internal Revenue Code. Both mutual funds and hedge funds are subject to other fees and expenses. Generally, mutual funds don't charge performance fees.

For illustrative purposes only. These are typical characteristics — individual funds may vary. Hedge funds generally use more aggressive strategies than traditional funds and entail a higher level of risk. Please see additional information regarding risks associated with hedge funds at the beginning of this presentation.

How to allocate to hedge funds

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1 Think about allocation to hedge funds as part of your **overall strategy** → How much of my overall portfolio should be invested in hedge funds to help meet my goals?

2 Evaluate your **risk tolerance, liquidity needs, asset levels** and **time horizon** → Based on my specific profile, what is the right way to access hedge fund strategies?

3 **Diversify** your hedge fund portfolio across **strategy types** and **managers** → What is the best way to diversify my hedge fund portfolio?

Asset allocation and diversification does not ensure a profit or protect against loss in a declining market.

Building your hedge fund portfolio

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Let us do it

- Choose a professionally built and managed **Merrill Lynch Alternative Investments Portfolio** featuring a diversified mix of non-traditional mutual funds

Utilize external expertise

- Invest in a **multi-strategy solution** from our select platform providing access across hedge fund strategies in a single fund
- For larger clients, create a **customized hedge fund portfolio** expertly managed by a leading third-party manager

Do it yourself

- Select a diversified range of **individual hedge funds** leveraging the advice and guidance of the Chief Investment Office

Incorporating alternative investments into your asset mix

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	Cons	Mod Cons	Mod	Mod Agg.	Agg.
Stocks	17%	32%	47%	60%	73%
Bonds	55%	51%	34%	18%	3%
Cash	15%	2%	2%	2%	2%
Alternative investments	13%	15%	17%	20%	22%
Hedge Funds	6%	8%	9%	10%	11%
Private Equity	2%	3%	4%	6%	7%
Real Assets*	5%	4%	4%	4%	4%

The recommended weights are generated by the Research Investment Committee ("RIC") Report.

Strategic allocations are hypothetical and are not intended to indicate specific investment recommendations or advice. Asset allocation cannot eliminate the risk of fluctuating prices, uncertain returns, or involves substantial risk, and should not constitute a complete investment program.

* "Real Assets" defined to include commodities and private real estate.
Recommended AI weights are for investors with moderate liquidity preferences, following CIO Tier 2 Liquidity – Low tax Sensitivity guidelines (moderate liquidity; up to 30% of the portfolio may be unavailable for 3-5 years). CIO, March 2018.

Carefully weigh the benefits and risk considerations before investing

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Potential Benefits

- Can employ sophisticated investment strategies in pursuit of your personal goals
- Have historically demonstrated lower standard deviation than equities
- Potential to generate returns with lower correlation to traditional stock and bond markets
- Seek better risk-adjusted returns through increased portfolio diversification
- A range of options are available with different minimum investment levels

Risk Considerations

- May offer limited liquidity and may restrict the timing of withdrawals
- Provide reduced transparency relative to other managed portfolios
- High fees and expenses may offset fund profits
- May employ leverage, which can increase the risk of loss
- Alternative Investments are speculative and involve a high degree of risk
- It is possible to lose your entire investment

Asset allocation and diversification does not ensure a profit or protect against loss in a declining market.
Past performance is no guarantee of future results.

Hedge funds at Merrill Lynch

Experienced hedge fund approach

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Access to leading third party hedge fund offerings across different strategies including credit, equity, macro, managed futures/CTAs and multi-strategy funds

Leverage extensive fund manager relationships to obtain **exclusive** retail access to premier hedge fund offerings

$12.0 billion of AUM in hedge funds, managed futures and fund-of-funds across **over 65 different products**[1]

Detailed diligence approach to manager selection. The team is dedicated to providing a **premier** suite of products for GWIM clients

Rigorous Manager Selection Process

Hedge fund universe
11,000+

Initial screening/fund pitchbook review
500-750

Calls and in-person manager meetings
200-300

Funds considered
25-50

Funds launched per year
5-15

[1] Source: Bank of America. The Investment Solutions Group Alternative Investments group is part of Global Wealth and Investment Management (GWIM), the wealth and investment management division of Bank of America Corporation. As of March 31, 2018, GWIM clients had client balances (Client Balances) of approximately $48.57 billion in their GWIM accounts invested in alternative investment products. Alternative investment products include hedge funds, managed futures funds, private equity funds, nontraditional mutual funds and real assets. Client Balances includes assets invested (i) in funds or accounts under the discretionary management of GWIM entities (Assets Under Management);(ii) in products sponsored but not advised by GWIM entities; and (iii) in products sponsored or managed by unaffiliated third-party investment managers. Client balances invested in private equity funds include total committed but uncalled capital for funds in their initial commitment period. **This reflects a change in calculation methodology effective June 30, 2013, to include nontraditional mutual fund assets.**

Appendix

Terms and index definitions

The indexes shown are provided for illustrative purposes only. They do not represent benchmarks or proxies for the return of any particular investable hedge fund product. The hedge fund universe from which the components of the indexes are selected is based on funds which have continued to report results for a minimum period of time. This prerequisite for fund selection interjects a significant element of —survivor bias into the reported levels of the indexes, as generally only successful funds will continue to report for the required period, so that the funds from which the statistical analysis or the performance of the indexes to date is derived necessarily tend to have been successful. There can, however, be no assurance that such funds will continue to be successful in the future. ISG AI group assumes no responsibility for any of the foregoing performance information, which has been provided by the index sponsor. Neither ISG AI group nor the index sponsor can verify the validity or accuracy of the self-reported returns of the managers used to calculate the index returns. ISG AI group does not guarantee the accuracy of the index returns and does not recommend any investment or other decision based on the results presented. Reference to indexes or other measures of relative market performance over a specified period of time (each, an index) are provided for illustrative purposes only and do not imply that any Bank of America account, fund or portfolio will achieve returns or volatility results similar to the index. The figures for the index reflect the reinvestment of dividends but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indexes. We strongly recommend that these factors be taken into consideration before an investment decision is made.

Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. They are included here for illustrative purposes. Performance represented by a hedge fund index is subject to a variety of material distortions, and investments in individual hedge funds involve material risks that are not typically reflected by an index, including the “risk of ruin.” The indices referred to herein do not reflect the performance of any account or fund managed by Bank of America Corporation or its affiliates, or of any other specific fund or account, are unmanaged and do not reflect the deduction of any management or performance fees or expenses. One cannot invest directly in an index.

S&P 500 (Standard & Poor’s 500): A market-capitalization-weighted index that measures the market value of 400 industrial stocks, 60 transportation and utility company stocks and 40 financial issues.

The HFRI Fund Weighted Composite Index is an equal weighted index that includes over 2000 constituent funds, both domestic and offshore. All funds report assets in USD, net of all fees, on a monthly basis and have at least $50 Million under management or have been actively trading for at least twelve (12) months. No fund of funds are included in the index.

Important sources

Sources for endowments allocations and returns :

Investors should bear in mind that these university endowments are highly sophisticated investors with vast resources, long time horizons and very limited need for liquidity in the short term. The universe of investment opportunities available to these endowments is much larger than that available to individual investors. Many endowments have access to managers who are not open to other investors. The funds available through the respective university endowments does not mirror the portfolio of any particular university endowment or approach the depth of opportunities available to them. There is a wide range of target asset allocations among university endowments and these allocations are subject to change at any time. For example, during the financial crisis many endowments reduced allocations to alternative investments, particularly private equity, only to later increase those allocations.

Yale University	https://news.yale.edu/2017/10/10/investment-return-113-brings-yale-endowment-value-272-billion https://www.barrons.com/articles/yales-endowment-learns-hard-diversification-lesson-1510867491 https://static1.squarespace.com/static/55db7b87e4b0dca22fba2438/t/5ac5890e758d4611a98edd15/1522895146491/Yale_Endowment_17.pdf
Princeton University	https://finance.princeton.edu/princeton-financial-overv/report-of-the-treasurer/2016-2017.pdf
University of Pennsylvania	http://www.thedp.com/article/2017/12/university-finances-tax-plan-endowment-upenn-philadelphia-year-2017 http://www.finance.upenn.edu/vpfinance/AnnualRpt/Financial_Report_FY17.pdf
Columbia University	http://finance.columbia.edu/files/gateway/content/reports/financials2017.pdf http://www.columbiaspectator.com/news/2017/10/18/columbia-university-endowment-increases-to-over-10-billion-reports-134-percent-return/ https://www.bloomberg.com/news/articles/2017-10-17/columbia-university-posts-13-7-return-with-ceo-holland-at-helm
Stanford University	http://www.smc.stanford.edu/sites/default/files/site_files/Report%20from%20SMC%202017.pdf
Massachusetts Institute of Technology	https://vpf.mit.edu/sites/default/files/downloads/TreasurersReport/MITTreasurersReport2017.pdf
University of Michigan	https://publicaffairs.vpcomm.umich.edu/wp-content/uploads/sites/19/2018/02/2017-Endowment-Profile.pdf
The University of California	http://invest.universityofcalifornia.edu/opportunity.html
University of Notre Dame	https://controller.nd.edu/assets/260907/annual_report_2017.pdf
The University of Chicago	http://finserv.uchicago.edu/sites/finserv.uchicago.edu/files/uploads/Documents/doc/F_666275_RESTRICTED_17_TheUniversityofChicago_FS.pdf
NACUBO-Commonfund Study of Endowments 2017	http://www.nacubo.org/Research/NACUBO-Commonfund_Study_of_Endowments/Public_NCSE_Tables.html