BANK OF AMERICA

Leveraging CIO Due Diligence to Help Clients Pursue Their Investment Goals

April 2019

The scope and complexity of the investment universe makes it difficult to select a set of optimal investment strategies across different client goals. The Due Diligence professionals at the Chief Investment Office (CIO) seek to help advisors deliver strong investment results for clients by creating a pool of high-quality managers from which advisors can construct their clients' investment portfolios.

Consisting of approximately 60 analysts, the Due Diligence team screens thousands of traditional and alternative investment strategies, winnowing the universe of asset management firms to a more workable group of managers the team believes is best positioned to pursue the following important goals for clients:

- To deliver strong risk-adjusted performance by trying to identify investment strategies with a high probability of meeting or outperforming their performance objectives over a market cycle at an appropriate level of risk
- To create a pool of strategies bridging multiple asset classes, investment styles and risk profiles for use across multiple market environments
- To help advisors ensure their clients' investment portfolios reflect the insights and forward-looking views of the CIO
- To avoid adverse outcomes by trying to identify weak asset managers

The Due Diligence team's evaluation process incorporates analyses of both quantitative inputs—absolute and relative return, style adherence and risk metrics, for example—and of qualitative factors, such as organizational stability and product structure and terms. To be placed on the investment platform, an investment manager must be well positioned to meet the Due Diligence team's performance expectations. During the Due Diligence monitoring process, if a manager fails to meet our expectations, the Due Diligence analyst may present the strategy to the CIO Due Diligence Investment Committee (DDIC) to determine if a change in the investment opinion is warranted.

In the pages below, we highlight the value the Due Diligence team creates by detailing the screening process we apply to each of the investment vehicles covered by Due Diligence analysts.

[1] **Alternative investments, such as hedge funds and private equity funds, are speculative and involve a high degree of risk. Generally, there are no readily available secondary markets; none is 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.**

AUTHORED BY:

Anna Snider
Head of Due Diligence,
Chief Investment Office

KEY POINTS

CIO Due Diligence

- **The Chief Investment Office (CIO)** conducts extensive due diligence on diverse investment managers and strategies, including mutual funds, separately managed accounts, and alternative investments[1], to identify those that have a high probability of meeting or outperforming their investment objectives over a market cycle at an appropriate level of risk.
- **Global Institutional Consulting Advisors (Advisors)** benefit from the expertise and insights of approximately 60 analysts on the CIO Due Diligence team; the team members' specialization in diverse asset classes and investment strategies; and rigorous governance and oversight functions.
- **The CIO Due Diligence team** employs a common evaluation process across asset classes and security types, with some elements of the process customized to each asset class or investment vehicle.
- **The CIO Due Diligence team** is increasing coverage by leveraging Morningstar® Manager Research Services to conduct analysis on some various investment cycles.

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DUE DILIGENCE CUSTOMIZED TO EACH ASSET CLASS

The CIO Due Diligence team employs quantitative and qualitative analysis to evaluate and select investment strategies. Elements of the core screening process are customized to each of the following investment types:

Traditional Investments: Mutual Funds and Separately Managed Accounts

The Due Diligence professionals responsible for vetting traditional investments cover:

- Equities, including both U.S. and non-U.S. equity strategies
- Fixed income, both taxable and non-taxable strategies
- Exchange-traded funds (ETFs)
- Impact investing

When we conduct a search for active strategies, we rely on both quantitative and qualitative analysis to determine our level of conviction for each manager under consideration.

Step 1: Quantitative Screen We apply a quantitative screen to filter out managers whose performance does not meet our standards. The screen analyzes elements, such as manager tenure, assets under management (AUM), asset growth or outflows, performance consistency, risk-adjusted returns, volatility and downside risk. The quantitative screen helps us weed out those strategies that we believe are unlikely to meet their investment objectives.

Step 2: Eight Factor Analysis To further narrow the field, we apply our “Eight Factor Analysis,” which makes both quantitative and qualitative assessments of managers. Eight Factor Analysis assesses potential additions to our platform on the basis of important manager fundamentals, such as the stability of the portfolio management team and of the organization as a whole; the strength of its investment processes, including its risk management processes; liquidity profile; and both inflows and outflows of assets. This in-depth qualitative analysis review helps us develop a view on the likelihood of a given manager meeting its investment goals. The qualitative, forward-looking research complements the data-driven quantitative screen, which, by its nature, focuses on past performance and other historical inputs. (For more on our Eight Factor analysis, model please see **Looking Beyond the Numbers** on page 3.)

Step 3: Monitoring We provide ongoing and consistent monitoring of all covered strategies. On both a weekly and quarterly basis, we review performance reports to determine whether performance is in line with our expectations. It is our policy to meet investment managers at least once a year often through onsite visits, but in practice, we typically meet with many managers more than once a year. The goal of our monitoring process is to continually reaffirm that the rationale for our investment conviction remains valid and/or to ensure that we stay abreast of any issues that warrant heightened monitoring. If our monitoring process reveals a potential issue, such as unexpected performance or a portfolio manager change, the advisors are then notified.

In rare cases, immediate action is needed to help protect client assets. This could occur if a covered manager faces a material regulatory issue; loses key executives or portfolio managers; or experiences a sudden drop in its liquidity levels, for example. If immediate action were warranted, the Due Diligence team may then notify those associates that are impacted to address any risks. A description of the governance process through which this would happen is on **page 11**.

LOOKING BEYOND THE NUMBERS

The CIO Due Diligence team augments the quantitative screening process used to evaluate mutual funds and separately managed accounts with our Eight Factor analysis, which drills into the details of a manager's investment approach, business practices and operations. Designed to provide a 360-degree view of any manager being considered for the platform, the process seeks answers to a number of important questions categorized as follows:

Firm

Organization: What is the ownership profile of the company? What is its organizational structure? Is it stable? How much support is senior management providing the investment teams? How diverse is its client base?

Process: What is the profitability of the firm? How have changing revenue drivers or asset flows changed the firm's strategy? How well does the company adapt to a shifting marketplace? What kind of growth is the company experiencing? Is it facing any regulatory issues?

Methodology

Process: Is the company's investment process clear, effective and repeatable? What data sources does it use? Does the manager's performance reflect the investment process articulated by the manager?

Philosophy: What is the manager's core investment philosophy? What is its risk/return philosophy? What kind of value does the investment strategy seek to create in a portfolio? How does the manager invest when the investment strategy is out of favor? Is the investment approach the same when the strategy is in favor?

Resources

People: Has the core investment team been relatively stable both recently and since it was founded? Who are the key decision makers? Are members of the team empowered to influence decisions? How are they compensated?

Product: What is the strategy's capacity and liquidity level? Is the structure of the product appropriate? Does the manager have a history of closing vehicles that are at capacity? What kind of clients does this strategy attract?

Investment Results

Portfolio: Are the investment characteristics consistent with the investment objective over time? How is the portfolio constructed? What is its risk management process, and is it effective?

Performance: Can we quantitatively verify that the manager's performance is in keeping with its stated investment objectives and processes? Has the manager balanced performance and risk in ways it says it does? When has performance not met the analysts' expectations? Is this performance explainable and repeatable? In what type of market environments does the strategy do well and in which does it underperform?

Traditional investments: exchange-traded funds

Our due diligence process for exchange-traded funds (ETFs) seeks to accurately determine the likelihood that a fund will meet our return expectations. With index-based ETFs, the performance of the ETF should closely follow that of the underlying index. We carefully review each ETF using qualitative and quantitative analysis, and we monitor the fund's performance on an ongoing basis:

Step 1: Qualitative analysis of the ETF sponsor We seek to ensure that the sponsor firm of the ETF is capable of creating funds that perform within our expectations. As such, we carefully assess the sponsor's ability to run a fund efficiently. This review covers the sponsor's portfolio management team, capital markets resources, index partners, and other resources. Additionally, the index construction methodology must efficiently capture the desired exposure of the fund. After this analysis, we employ quantitative measures to ensure the fund is performing within our expectations.

Step 2: Quantitative review We look at quantitative metrics to ensure an ETF is providing an efficient means of gaining the intended exposure and to compare it to peer funds. To make this assessment, we answer the following questions:

- **Tracking**: How well does the ETF track the underlying index? This is the most important metric to consider when assessing index-based ETFs. Our ETF Due Diligence analysts determine how closely the fund tracks its benchmark index.
- **Liquidity**: Is there sufficient liquidity in the market for the ETF at both entry and exit? Is there an imbalance between the liquidity of the underlying issues and the ETF itself?
- **Expenses**: What are the explicit costs (expense ratio) of the ETF relative to other funds? Are there significant implicit costs to the fund, such as high trading spreads or high turnover? Expenses can increase tracking error, so we prefer funds with lower expenses than their peers'.

Step 3: Ongoing monitoring We monitor ETFs using real-time quantitative tools to identify changes to key metrics that might detract from the fund's ability to efficiently track its benchmark index. We carefully monitor and report any significant changes:

- To the firm itself or to the index construction methodology
- To expenses, liquidity, or fund tracking

If we identify significant changes to any of the metrics above, we conduct additional research to determine whether there is a reasonable explanation for those changes or

Due Diligence Differentiator

Jim Peters
Head of Global Equity
Due Diligence, CIO

Leveraging our Industry Perspective

At the end of our meetings with managers, we typically offer to answer any questions they might have about industry trends, client preferences, etc. This provides a great opportunity to discuss industry advancements, such as enhanced risk management methodologies; initiatives to incentivize research staff; and the evolution of investment structures and management fees. We believe the Due Diligence team's perspective on the factors that contribute to the success of an investment strategy can be beneficial for the investment managers we evaluate and, by extension, for the clients these managers serve.

whether they signal a systemic deterioration of the fund managers' ability to deliver expected returns. Depending on the extent of the changes and the cause of them, we might subject the fund to heightened scrutiny; change the status of the fund; or recommend that it be dropped from the platform.

Alternative Investments: Hedge Funds

Our process for identifying and monitoring hedge funds on the investment platform incorporates three steps: sourcing, due diligence, and monitoring. The Due Diligence analysts that cover hedge funds consist of generalist analysts paired with specialized strategy heads covering the major hedge fund strategies, including equity hedge, event-driven, relative-value, macro, and multi-strategy. Liquid alternatives, or what we refer to as non-traditional mutual funds, are covered by Due Diligence analysts with knowledge of these complex strategies.

While the evaluation process for hedge funds is similar to the process used for traditional investments, hedge funds' distinctive features and risk factors—including but not limited to leverage; illiquidity; concentration; the use of shorting and derivatives; and a wider investment mandate—requires a team that is capable of assessing whether investors are likely to receive sufficient compensation for these additional risks.

Step 1: Sourcing Reporting of performance to hedge fund databases is voluntary. As such, successful hedge funds generally are sourced through relationships in the investor and hedge fund communities. Therefore, it is critically important that our team be connected to these communities. Our sourcing effort leverages our strong connections with hedge fund managers; buy-side and sell-side contacts; other sophisticated hedge fund investors; ultra-high-net-worth clients; and prime brokerage teams. Our sourcing also includes industry publications.

Step 2: Initial Investment Due Diligence Our investment due diligence process for hedge funds focuses on assessing the competency of the investment professionals and the consistency of the application of investment and risk management processes, so we can be confident that the manager reasonably could be expected to reliably generate alpha and/or provide downside protection. The hedge fund due diligence process has four steps:

Due Diligence Case Study[2]

Jeff Miller
Team Lead for
Traditional Fixed Income
Due Diligence, CIO

In response to the departure of a high-profile portfolio manager, CIO Due Diligence initiated a series of reviews and corresponding communications addressing several issues with the firm. Initially, we focused on the impact of the portfolio manager's departure by taking advantage of our access to the investment firm's leadership team to properly assess the situation. In these meetings, we developed comfort with the new senior leadership team and elected to maintain exposure to the strategy, despite this being a contrarian view across the industry. In our communications to advisors, we highlighted short-term concerns around possible additional departures, although we stressed our confidence in the new team structure, which was instrumental in maintaining continuity at the portfolio management level. The Due Diligence team also addressed advisor concerns related to the outflows likely to follow the portfolio manager's departure by continuously monitoring outflows both at the firm and the strategy level. In assessing the firm's ability to manage outflows, we closely evaluated the strategy's liquidity profile and concluded that the firm could adequately manage large-scale withdrawals, which proved to be correct. Performance in the year following the departure was strong, and, we concluded that the firm's organizational strength and successful business strategy had addressed our initial concerns about the viability of the strategy.

[2] See the last page of this report for a disclosure relating to its case studies.

- **Initial screening**: We evaluate a manager's pedigree; experience and talent; strategy and business model.
- **Qualitative review/on-site visit**: We evaluate the manager's team; its philosophy and process; including its risk management process. We are required to perform an on-site visit before onboarding and approximately once a year thereafter.
- **Quantitative review**: Our goal here is to analyze the consistency of returns and review the exposure to market factors, with a focus on identifying risk exposures that appear inconsistent with the manager's stated strategy.
- **Additional qualitative analysis** A key component of the process is to interview key members of the investment team—which may include portfolio managers, analysts and traders—looking for consistency of approach and philosophy across the organization. We assess the depth, quality and originality of the manager's research. We also triangulate with investors and people who have worked with the individuals managing money to learn about their experience with the manager.

Step 3: Ongoing Monitoring Through our hedge fund monitoring process, we:

- Conduct monitoring via telephone calls, interviews and on-site visits with key investment professionals.
- Evaluate the information provided to identify any incremental changes to the fund's people or processes and to assess the impact of any changes,
- Evaluate performance to ensure it is consistent with our understanding of the strategy and with market conditions and to ensure risk factor exposures are intentional and understandable.

During the monitoring process, we pay special attention to the lifecycle of hedge fund managers. At the start of their careers, managers typically strive to deliver excellent performance, knowing they will be handsomely compensated if they perform well. Over time, however, some highly successful managers delegate important responsibilities to their teams or become hesitant to risk their "nest egg." They may take fewer risks, thereby lowering their potential returns. If we believe a manager is delegating responsibility to less talented investment professionals; dialing back risk in a way that is not consistent with its stated investment strategy or beginning to take excessive risk (which we have seen during peak markets), we may subject the strategy to heightened monitoring and, if necessary, work with our committees to consider actions that could help protect client assets in these cases.

Due Diligence Differentiator

Scott A. Zavack
Managing Director, Head of Hedge Fund Investment Due Diligence, CIO

Looking over the Manager's Shoulder

Like most due diligence teams, we will sit down with hedge fund managers in a conference room and listen to their "pitches." They'll tell us about their most successful holdings, for instance, or a well-rehearsed story about their largest position. But unlike many other due diligence teams, we may ask to join them at their work desk. We let them know we'll put our pens down and just observe how they operate for an hour or two. By doing this, we get to see their work processes up close and how they put their information to use. This approach generally is far more instructive than sitting in a conference room listening to a manager's standard firm presentation.

Alternative Investments: Private Equity and Real Assets

The Due Diligence team's private equity (PE) and real assets specialists research potential new investment opportunities, including both fund-of-funds and single-manager offerings. They cover private equity and real estate strategies globally and monitor existing private equity and real asset investments for our platform. The team's due diligence process incorporates three steps: sourcing, due diligence, and ongoing monitoring. As with hedge funds, the review process for private equity and real estate is similar to the one we employ for traditional investments, but the idiosyncrasies of the private markets and the illiquid and long-term structure of these vehicles demands a due diligence process customized to private asset classes.

Step 1: Sourcing The team identifies potential additions to the platform by drawing upon industry sources similar to those referenced in the hedge fund section above, but with an emphasis on identifying highly regarded managers that will be accepting new assets over the coming quarters. Our information sources include:

- Network of fund managers, institutional investors, intermediaries and other industry professionals.
- Relationships with leading private equity and real asset firms
- Industry conferences and events

Due Diligence Differentiator

Govind Kilambi
Managing Director,
Alternative Investments
Due Diligence, CIO

People and Process

What distinguishes CIO due diligence, in my opinion, is a combination of the people and the process. Most of the people on the alternative investments Due Diligence team have had significant experience in due diligence on private funds. At the end of the day, we make many judgment calls, so having the perspective that comes with years of experience is important. Our analysts have the experience to ask the right questions and get the information we need to make sound decisions. They understand how to analyze underlying holdings of hedge funds or private equity funds. They also are able to attribute fund returns to the right managers and to keep track of their continued engagement at the fund. As for our process, we have a long history of due diligence for private equity funds and other alternative investments at Bank of America Private Bank, and we have experienced many investment cycles. Of course, we've refined the process over those many cycles, and the end result is something that is detailed and insightful.

Due Diligence Case Study[3]

Scott A. Zavack
Managing Director,
Head of Hedge
Fund Investment
Due Diligence, CIO

Our monitoring process is designed to help us identify emerging risks. For instance, a strategy might have a strong track record, but its performance might result from the manager taking inappropriate liquidity risks, which could increase the risk to our investors. We started to see this practice more frequently, so we sharpened our focus on liquidity risk, as well as on the manager's experience and expertise in managing this type of strategy. This is one of the issues associated with hedge fund investing, and a reason the Due Diligence team scrutinizes the performance of a strategy even when the performance is strong.

[3] See the last page of this report for a disclosure relating to its case studies.

Step 2: Initial Investment Analysis Because each private equity fund investment requires investors to make a long-term commitment, our focus during upfront due diligence is on understanding the factors that have contributed to a given manager's past successes and failures.

This understanding, along with our evaluation of the quality of the investment team, helps us develop an opinion on the likely performance of the fund in the future.

- **Identification**: We look for firms with a history of creating value; a consistent and repeatable investment strategy; an investment team with quality depth and tenure; and a sound business model and operations.
- **Qualitative review**: We review the manager's investment professionals and their contribution to value creation, as well as the manager's deal sourcing; investment philosophy and process; portfolio construction; and operational and post-investment value-add.
- **Quantitative review**: We analyze and seek to understand a manager's history of value creation. We require a high level of manager transparency and typically obtain detailed information on deals in which a firm has participated. This sometimes includes deal-by-deal cash flows with which we conduct an attribution analysis of the manager's past performance.
- **Additional qualitative work**: We review key partnership terms and organizational structure, looking for alignment of interests between investors and fund management. We also determine whether the firm's investment professionals are incentivized to focus on the fund we're reviewing (versus other funds at the firm) and to remain with the firm. We take our review of prior portfolio investments beyond detailed attribution analysis, however. We sometimes speak with portfolio company management, other limited partners, or industry players in our network.

Step 3: Ongoing monitoring As part of our continual evaluation of funds on the platform, we review each fund on a semi-annual basis. In our private equity and real asset monitoring, we:

- Assess the manager's execution of the investment strategy
- Monitor performance relative to the fund's peer group
- Review any organizational changes
- Maintain open lines of communication with the investment manager

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BUSINESS DUE DILIGENCE

The separation of investment due diligence and business due diligence for alternative investments is a fairly recent development. Not too long ago, it was common practice for one individual to conduct due diligence on a fund's investment capabilities and its business operations. The tendency of many in the industry was to discount the importance of operational flaws if the investment results were solid.

With the rising popularity of hedge funds and other complex investments, however, operational issues began to eclipse poor investment performance as the cause of hedge fund blow-ups. Investment management companies soon concluded that operations needed to go under the microscope. As a result, the dual approach, with separate due diligence processes for investments and operations, became standard industry practice.

The alternative investments business Due Diligence team consists of professionals with primarily legal, public accounting and operations backgrounds. The team covers about 50 hedge fund managers, 15 hedge-fund-of-funds managers, and multiple private equity funds and real estate funds. It also covers three options-overlay registered-investment advisers.

The team conducts a process-driven evaluation of an alternative asset manager's entire business and operational platform, using a "double coverage" model that includes a separate due diligence process for the operational and investment platforms. This approach helps mitigate investment risk, as well as identify opportunities for managers to strengthen their operational infrastructure.

The business due diligence process incorporates four steps: document review, on-site visits, administrator and background checks, and ongoing monitoring.

Step 1: Document Review A comprehensive review of a range of documents:

- Articles of association and offering memorandums. We examine the legal structure and governance framework; evaluate investment terms and determine whether there are sufficient investor rights and protections; and identify and assess potential conflicts of interest.
- Key disclosure documents. We review due diligence questionnaires, regulatory filings, audited financial statements, and marketing materials.
- Legal due diligence review. We engage counsel to conduct a legal review of fund-governing documents.

Due Diligence Case Study[4]

Lance B. Fraser
Alternative Investments
Due Diligence Executive,
CIO

Prior to the 2008 financial crisis, we were considering adding a particular manager to our platform. The manager had invested in structured securities, such as collateralized debt obligations. As we looked deeper, we became concerned that the manager's valuations for these products presented a considerable risk. We asked the manager to articulate the rationale for its pricing, but it couldn't because, rather than developing its own estimates and having them verified by an independent third party, it had been using single-broker quotes from the underwriters of the specific securities which we felt were potentially subject to manipulation. On that basis, we declined to include the manager on the platform.

[4] See the last page of this report for a disclosure relating to its case studies.

Step 2: On-site evaluation of key business and operational risks we review:

- Culture and governance, which covers organizational structure; staffing, retention and compensation; governance and conflicts; leadership and management style; transparency and attitude towards investors.
- Operations and control environment. This captures regulatory registrations; legal and compliance environment; segregation of duties; trade operations; valuation; custody and counterparty risk; cash controls and reconciliations; and technology and business continuity.
- Fund terms. Fees and expenses; liquidity profile versus redemption terms; and side letters.

Step 3: Independent review of administrator and background checks

- **Administrator**: We independently contact the administrator to verify the administration relationship; the scope of services provided; and details concerning valuation and net asset value (NAV) calculation procedures.
- **Background checks**: We conduct formal background checks on key investment and non-investment personnel.

Step 4: Ongoing monitoring Our initial due diligence is followed by active monitoring, which can include:

- Periodic calls or meetings with the manager as required
- Mandatory annual on-site visit for hedge fund managers
- Annual reconfirmation of the administrator's roles and responsibilities
- Review of updated fund governing hedge fund documents
- Review of the fund's annual audited financial statements

The extensive research conducted by business due diligence analysts has helped us address the operational and reputational risks that have been problematic for hedge fund investors in recent years.

Due Diligence Differentiator

Lance B. Fraser
Alternative Investments Due Diligence Executive, CIO

Hiring Practices

A typical staffing model at many investment companies is to have one or two senior people who run the due diligence team, with support from a group of junior people with perhaps a couple of years of experience in the business. The senior leadership makes virtually all of the decisions regarding the suitability of a manager for the firm's clients. Our model is different. We tend to hire mid-level and senior staff, avoiding the more typical senior/junior model. This gives us more flexibility in terms of staffing engagements. We have analysts with enough experience in the field to make decisions themselves. Our model may also promote better decision making because the conclusions of any of our analysts can be challenged by equally knowledgeable team members. Finally, having a team of experienced analysts helps to mitigate the risk that the departure of a single analyst will impair the ability of the team to support the platform.

DUE DILIGENCE GOVERNANCE PROCESS

The overarching goal of the Due Diligence team's analysts, working closely with the CIO thought leadership team under the GWIM Investment Strategy Committee (GWIM ISC), is to deliver excellent investment outcomes for clients by sourcing high-quality investment strategies and, if warranted, recommending changes to our investment platform. Those changes might include:

- Adding an investment strategy to the platforms
- Closing a strategy to new investment
- Opening a strategy to new investments
- Eliminating a strategy from the platforms

Before any of the proposed changes are implemented, however, the analysts' recommendations are closely reviewed by multiple oversight committees both within and external to the Due Diligence function.

The oversight process begins with the DDIC. Consisting of senior members of the Due Diligence team, CIO investment professionals and support partners in legal, risk and compliance, the DDIC considers every analyst recommendation and decides whether to ratify or reject it. The DDIC's determination is then channeled to the Product & Management Investment Committees (PMICs), which are charged with determining the appropriateness of a given investment for clients. These committees consider the DDIC's recommended actions and decide whether to implement them by making the corresponding changes to their respective platforms. Both the DDIC and the GWIM ISC escalate into the Investment Oversight Committee (IOC), the most senior of the Investment oversight committee. The IOC is responsible for overseeing the activities of these committees and serves as an escalation point for material issues. The IOC receives routine updates and approves the framework under which they operate.

By providing multiple checks and balances and senior-level oversight, the structure described above ensures a thorough review and discussion of any proposal to change the menu of investment strategies offered to clients. It also ensures that investment professionals throughout the CIO thought leadership team and other internal wealth mangement professionals receive timely and informed updates relating to the industry and market intelligence uncovered by Due Diligence analysts. This information flow is facilitated by Due Diligence's representation on the GWIM ISC, which incorporates insights from the Due Diligence team into its tactical and strategic investment guidance. At the same time, Due Diligence representation on the GWIM ISC ensures the team is well-versed in the GWIM ISC's forward-looking views, helping it source strategies that can help advisors and their clients benefit from the GWIM ISC's insights.

Adding Value by Expanding Coverage

In 2018 CIO extended analyst coverage by approximately 1,100 long-only mutual funds not previously screened by CIO Due Diligence analysts. To make this expansion possible, we leveraged a third-party vendor—the ~115-person Morningstar® Manager Research Services team (Morningstar®)—in an effort to ensure that every mutual fund available to clients is covered. For those funds covered by Morningstar®, the CIO provides additional oversight and governance to ensure Morningstar's® research process remains consistent and reliable.

Morningstar's® primary focus is on long-only mutual funds not covered by the internal Due Diligence analysts (we have chosen to maintain coverage of all non-traditional mutual funds inside the CIO Due Diligence team). CIO Due Diligence analysts will focus on "high-conviction" investment strategies (those in which the Due Diligence analysts have great confidence); strategies with significant client assets; and strategies with a high level of market or idiosyncratic risk (risks specific to either a particular investment manager or market), such as emerging markets equity and debt, high yield debt and bank loans. In addition, the team will continue to cover areas the CIO office has deemed strategically important to the firm, including, but not limited to, various income strategies, thematic investments and impact investments. Finally, CIO Due Diligence analysts will continue to cover alternative investments while also expanding our coverage on separately managed accounts, offshore funds, active ETFs, target date funds and other investment vehicles in part by further leveraging our relationship with Morningstar.

DUE DILIGENCE ROLE IN THE CIO INVESTMENT PROCESS

Our due diligence process is continually enhanced to better serve our advisors and clients. Similarly, the CIO office has enhanced its investment process by more closely aligning macroeconomic and asset class views with the firm's portfolio management strategies and by integrating the Due Diligence team's rigorous vetting processes into the creation of client portfolios. We work closely with the CIO Global Portfolio Solutions (GPS) team to source active and passive investment strategies for both strategic and tactical asset allocation implementation. Our sourcing effort benefits from our familiarity with the CIO's forward-looking investment views, which we receive early on as a voting member of the GWIM ISC. Additionally, the input from our monitoring of approved managers is central to GPS's monitoring process for both active and passive portfolios. Finally, the CIO Due Diligence team plays an important role in achieving clients' goals by executing a sophisticated due diligence process that helps limit undue fund- or manager-specific risk, increasing the probability that the strategies on our platform will help clients achieve their financial goals.

We hope this white paper provides the information you need to understand the CIO Due Diligence team's contribution to the investment process and the role we play in helping our clients address their investment goals. If you would like to learn more about the processes the Due Diligence team employ on behalf of our clients, please contact Melissa Perel, Due Diligence Strategy, Analytics & Operations Team Lead, at **melissa.c.perel@bankofamerica.com**.

Anna Snider
Head of Due Diligence,
Chief Investment Office

Anna Snider is the head of the Due Diligence team within the Chief Investment Office. The Due Diligence team is comprised of a highly experienced group of investment analysts who conduct investment manager research to source and monitor high-quality investment opportunities for clients. The depth and breadth of the offerings covered by Due Diligence enable advisors to deliver diversified solutions that can help clients pursue their financial goals.

Important Disclosures

This material was prepared by the Chief Investment Office (CIO) and is not a publication of BofA Merrill Lynch Global Research. The views expressed are those of the CIO only and are subject to change. This information should not be construed as investment advice. It is presented for information purposes only and is not intended to be either a specific offer by any Bank of America entity to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

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The GWIM Investment Strategy Committee (GWIM ISC) is responsible for developing and coordinating recommendations for short-term and long-term investment strategy and market views encompassing markets, economic indicators, asset classes and other market-related projections affecting GWIM.

Bank of America, their affiliates and advisors do not provide legal, tax, or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

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. Not all recommendations will be suitable for all investors. Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

In reference to Footnotes 2-4: The case studies are for illustrative purposes only and intended to demonstrate the capabilities of the CIO Due Diligence team. These case studies do not necessarily indicate future results or outcomes.

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 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.

Exchange-Traded Funds (ETFs) – ETFs are subject to risks similar to those of stocks. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. You should carefully consider the investment objectives, risks, charges, and expenses before investing in this product.

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