MEMORANDUM

To: File Nos. S7-07-18, S7-08-18, S7-09-18

From: Eric Diamond, Senior Advisor to Chairman Jay Clayton

Re: Standards of Conduct for Investment Professionals

Date: July 26, 2018

On July 24, 2018, Chairman Jay Clayton and Eric Diamond (Senior Advisor to Chairman Clayton) met with the following representatives of Insured Retirement Institute (IRI):

- Robert DeChellis (President & Chief Strategist, Allianz Exchange; Chairman, IRI Board)
- Bill Morrissey (Managing Director & Division President, Independent Advisor Services, LPL Financial; Vice Chairman, IRI Board)
- Ben Huneke (Managing Director, Head of Investment Solutions, Morgan Stanley Wealth Management; Treasurer/Secretary, IRI Board)
- Bill Lowe (President, Sammons Institutional Group)
- Paula Nelson (President & Managing Director – Retirement, Global Atlantic Financial Co.)
- Drew Bowden (SVP, General Counsel, Jackson National Life Insurance Company)
- Catherine Weatherford (President & CEO, IRI)
- Lee Covington (Senior Vice President &General Counsel, IRI)
- Jason Berkowitz (Vice President &Counsel, Regulatory Affairs, IRI)

The meeting participants discussed, among other things, the SEC's proposed rules and interpretation relating to standards of conduct for investment professionals. At the meeting, the IRI representatives distributed the attached document.

Sample Investor Profiles by Account Type

Firms and advisors consider a variety of factors when determining the appropriate account type for particular clients, including the following:

A. Client circumstances in general:

a. Aggregate value of assets and investable assets

b. Complexity and composition of assets (listed vs. illiquid investment assets, interests in privately held businesses, personal assets, etc.)

c. Non-investment assets and degree of integration with overall financial objectives (fixed life, LTD, or other insurance, potential monetization of interests in closely-held businesses, non-qualified deferred compensation, etc.)

d. Investing experience and level of sophistication

e. Financial obligations and timing – Sources and uses of investment funds and time horizon. Life event status and prospective requirements for funds and need for predictability of results. (Funding of educational expenses, capital investments in closely-held businesses, care of parents or other family members, philanthropic activity, etc.)

f. Desired frequency of contact with advisor

g. Level of advice desired with respect to non-investment assets

B. Account specific circumstances:

a. Time horizon

b. Expected level of transaction activity

c. Current investment holdings

d. Volatility of investment assets

e. Desire or need for frequent communication

f. Desire/willingness of client to delegate investment discretion

g. Expected use of assets that do not typically offer NAV share class offerings (VAs, alternatives, fixed life insurance, etc.)

The following are samples of investor profiles intended to illustrate the importance of preserving consumers' ability to choose whether a fee-based or commission-based solution will best suit their unique needs, objectives and circumstances.

Profile #1 – "Buy and Hold" Investor

Financial Situation and Objectives: Annie's primary objective is saving for retirement or other typical life events. She may have a need for alternative investment assets (guaranteed income, illiquid or non-correlated alternatives). Annie is looking at a long (10+ years) investment time horizon, with a limited amount of transaction activity expected. She does not require a high level of communication regarding investment assets and does not generally seek advice about other financial issues. She is not inclined to delegate investment authority to her advisor.

Investment Solution and Rationale: Annie is probably best suited to a brokerage account with a transaction-based compensation (commissions or other sales charge) arrangement. Disclosure of conflicts and compensation arrangements by her advisor should be sufficient to satisfy a best interest standard, even if that is higher than the current FINRA suitability standard.

Profile #2 – "Hands-off" Investor

Financial Situation and Objectives: George wishes to delegate substantial responsibility for management of assets to his advisor. Most of his assets are listed securities or mutual funds, and he expects a steady level of transaction activity in the account. He is focused mostly on his longer-term investment horizon, but he is also thinking about more immediate funding needs (such as care for parent or special needs child). George is looking for advice about all of his financial matters, not just his investments.

Investment Solution and Rationale: George is probably best suited to fee-based advisory account (based on AUM, flat or hourly fee, or some combination). Discretionary trading authority and ongoing duty to monitor investments makes the current fiduciary standard under the Advisers Act appropriate.

Profile #3 – "Hybrid" Investor

Financial Situation and Objectives: Brenda has a substantial portion of her investment assets in listed securities or mutual funds, but she also holds or has need for non-traditional assets such as annuities, alternative investments, or fixed life insurance. Brenda wants to delegate substantial responsibility for management of her investments to her advisor, but she also wants to have regular or frequent contact regarding investment performance or changing financial needs based on life events. She may also seek advice regarding non-financial assets or other financial matters, such as tax or estate planning, funding for other business ventures, etc.

Investment Solution and Rationale: Brenda may be best suited to simultaneously maintain both a fee-based advisory account and a transaction-based brokerage arrangement. Her advisor should explain that different standards and fees may apply to each account.

Profile #4 – "Small to Medium" Investor

Financial Situation and Objectives: Charlie is 25 years old. He recently earned a Masters Degree in Social Work and has started working at a veterans' hospital earning about $50,000. He has opened his first retirement account, contributing 5% per paycheck. His only other investable asset is a $10,000 inheritance from his recently-deceased great-grandmother. While he lacks investment experience, he understands the benefits of starting early. He also understands that he has the flexibility to take more risks with his investments now than he will in the future. He is looking for a financial professional to help him decide how to invest his money.

Investment Solution and Rationale: Given his relatively low amount of investable assets, Charlie may not have many options when it comes to choosing an advisor. He will not meet the minimum balance requirements for the vast majority of advisory accounts. He is not interested in using a robo-advisor, as he really values the opportunity to speak with – and learn from – a human financial advisor. Charlie will be best served by the lower-cost, non-fiduciary level of service provided through commission-based brokerage accounts. Fortunately, the recent decision by the 5th Circuit Court of Appeals to vacate the DOL rule will ensure that low balance account holders like Charlie can continue to work with commission-based financial professionals.

If advice becomes available only on a fee basis, these investors will be able to find only a limited number of advisors willing to provide customized investment plans and ongoing advice given the costs and risks associated with serving the accounts, and the costs of such advice would likely become more expensive. A 2011 Oliver Wyman study found that 98% of investor accounts with less than $25,000 were in a brokerage relationship. A 2016 study by A.T. Kearney on the impact of the DOL fiduciary rule found that, by 2020, the rule would have caused broker-dealer firms to stop providing advice to retirement savers with low-balance accounts containing the majority of the $400 billion currently in such accounts. And a 2017 survey by the National Association of Insurance and Financial Advisors found that nearly 90% of financial professionals believed consumers would pay more for professional advice services, and 75% had already seen or expected to see increases in minimum account balances for the clients they serve.

Profile #5 – "Limited Advice/Single Purchase" Investors

Financial Situation and Objectives: Andrea is an experienced investor who has been working with the same advisor for many years. As she gets into her mid-50s, she starts thinking about how to make sure she doesn't outlive her savings. Her regular advisor, however, doesn't offer annuities. After speaking with a few friends and family members, Andrea finds a financial professional who can help her with this specific transaction. She fully understands this will be a one-time, an arm's length transaction and is not expecting to receive ongoing, fiduciary-level services.

Investment Solution and Rationale: Andrea will be best served by a commission-based advisor. In this type of situation, both the cost to the consumer and the cumulative compensation to the advisors is significantly higher under a fee-based model. This ongoing fee structure makes sense when the advisor is providing ongoing fiduciary advice but does not make sense when a consumer has sought assistance with a one-time transaction.

<u>Sample Investor Profiles by Product Type – Annuities</u>

Annuity solutions provide guaranteed income streams in retirement with options to help protect and grow retirement savings. Annuity product offerings are focused on addressing consumer needs that generally fall into three categories:

- <u>Accumulation</u> – includes fixed, variable and indexed investment options, rebalancing strategies, asset allocation strategies, principal guarantee features
- <u>Distribution</u> - includes fixed and variable annuity payout options (with or without liquidity), living benefit distributions, COLA features
- <u>Protection</u> –includes death benefits, long-term care benefits, spousal protection features (on both living benefits and death benefits)

Variations of these products appeal to different client risk profiles. For example, a fixed annuity is targeted to a consumer that prefers conservative accumulation with no market risk. Indexed annuities are targeted towards accumulation-oriented clients willing to accept some risk that their contract won't receive interest credits in certain years in exchange for more upside potential.

For distribution-oriented products, SPIA and DIA products are targeted towards clients that want the maximum amount of lifetime income and do not want market risk and aren't worried about the lack of liquidity those products provide. Variable annuities are designed for clients that want liquidity and the potential for the income to grow with the markets in exchange for a lower guaranteed amount than a SPIA or DIA, generally speaking.

Annuity products are long-term investments traditionally sold on a commission basis, especially in the case of annuities offering living and/or death benefit guarantees. As long-term investments, most commissionable annuity products – where the insurer "fronts" the commission instead of deducting it from the purchase payment – include a declining surrender charge schedule. The surrender charge allows the insurer to recoup the cost of any commission paid to the financial advisor when the annuity is purchased if the purchaser surrenders the annuity or makes significant withdrawals during the surrender charge period. If a commissionable annuity product had no surrender fee, the insurer would likely need to cover the commission paid to the financial advisor through an up-front deduction from the purchase payment (reducing the amount then invested in the annuity) or higher ongoing charges (such as higher mortality and expense risk charges). Some insurers have started offering fee-based annuities that align with the requirements of fee-based compensation models. The fee-based annuities typically do not have surrender fees and thus offer full access to the account value at any time without the imposition of a surrender fee. These annuities typically offer a lower level of guarantees and potentially lower mortality and expense risk charges but are more likely to be held in an advisory account that is subject to advisory fees imposed by an investment adviser, in addition to the fees embedded in the annuity. For a long-term investor, the overall costs for the investor associated with traditional commission-based variable annuities may be less than the overall costs for variable annuities in an advisory account.

The following are samples of investor profiles intended to illustrate the importance of preserving consumers' ability to choose the particular types of annuities that will best suit their unique needs, objectives and circumstances.

Profile #1 – Variable Annuity with Optional Living Benefit Rider

Financial Situation and Objectives: When he retires, Phil wants to start taking withdrawals from retirement savings. He's concerned because his IRA doesn't cover his wife, Sue.

Investment Solution and Rationale: By rolling over his IRA into a variable annuity with an optional living benefit rider available for an additional charge – Phil and Sue now have a known source of income that will last for both of their lives. At age 65, Phil rolls over his IRA into a variable annuity with a living benefit rider. He's still working, so he's going to let the account grow until he's ready to take income. The account value has the potential to grow, tax-deferred, based on a portfolio constructed from a lineup of asset managers. At age 70, Phil and Sue are ready to start taking retirement income from the annuity. 5.25% joint lifetime income is guaranteed to last for both of their lifetimes and will satisfy RMD requirements. At age 85, Phil has to enter a nursing home. A 10% nursing home enhancement is included with the annuity contract, nearly doubling their annual withdrawals to help cover qualified nursing home expenses, beginning at age 70.

Profile #2 – Variable Annuity with an Enhanced Guaranteed Minimum Death Benefit (EGMDB)

Financial Situation and Objectives: Jim and Loretta's income plan is sufficient to get them through retirement, but they would like to leave their beneficiaries as much as they can. Their initial investment is $100,000.

Investment Solution and Rationale: A variable annuity with an enhanced guaranteed minimum death benefit (EGMDB), available for an additional charge, ensures that their principal and growth is passed on. If they just wanted to preserve their principal, they could elect the guarantee of principal (GOP) death benefit for no additional charge. They retain flexibility and control over their assets; they are assured a death benefit but can also take income for retirement or another need.

Profile #3 – Variable Annuity with Optional Enhanced Death Benefit

Financial Situation and Objectives: James is in a high tax bracket and is looking for strategies to make sure his current assets and the legacy he leaves to his children are as streamlined and tax-efficient as possible. His initial investment is $100,000.

Investment Solution and Rationale: Some variable annuities offer optional enhanced death benefits for an additional charge that can help offset the expected estate tax by adding 40% of any earnings to the current contract value at time of death. In the worst-case scenario, his beneficiaries would receive the principal back, adjusted for withdrawals. James retains flexibility and control over his assets: he is assured a death benefit to help protect his estate but can also take income for retirement or another need.

Profile #4 – Variable Annuity with Optional Living Benefit Rider

Financial Situation and Objectives: Jim and Sandy have $2,000,000 earmarked for retirement income. They sold a successful business at a relatively young age and are ready to retire at age 50. They have several options for a lifetime income stream, but they want to make sure they retain control over their money, just in case.

Investment Solution and Rationale: Working with their advisor, Jim and Sandy decide to put about 25% of their nest egg into a variable annuity with an optional living benefit rider, which will provide a lifetime income stream through annuitization. For nonqualified assets, a portion of the principal is returned (untaxed) with each payment (an exclusion ratio), meaning Jim and Sandy will receive tax-efficient annual lifetime income payments with growth potential. They will pay regular income taxes only on the portion of gains in each payment, rather than as a lump sum. Their payments will fluctuate and may grow based on the investment results, and they can take additional withdrawals – penalty-free, under some annuity contracts – at any age.

Profile #5 – Variable Annuity with Optional Living Benefit Rider

Financial Situation and Objectives: The Example Foundation has $100 million in assets and wants to grow and generate a guaranteed income.

Investment Solution and Rationale: The Example Foundation's board decides to use $15 million to purchase three variable annuity contracts for $5 million each. A different board member is named as annuitant for each contract, thereby minimizing the risk that all three contracts will end before they are ready to start taking income. It also allows room for growth within the maximum income base of $10 million per annuitant. (Note: Annuitants cannot be changed.) The contracts have unlimited growth potential but at a minimum; the income base for each contract increases by 5% per year for 10 years to $8.14 million ($24.43 million total for all three contracts). After 10 years, the board decides to start taking the 5% lifetime annual withdrawals from each contract (all annuitants meet the minimum age requirement). At this time, 5% of the income base equals $1,221,000 ($407,000 per contract). These withdrawals will last for the rest of the annuitants' lives, and as each annuitant passes away, any death benefit payable is returned to the Foundation.

Profile #6 – Variable Annuity with Optional Living Benefit Rider

Financial Situation and Objectives: Ken, age 70, recently had $1 million of his $3 million portfolio of long-term maturity bonds called. He's concerned about reinvesting this money in fixed income because current bond rates are so low. He knows that diversifying his portfolio into the equities market could provide opportunities for growth, but he also wants to protect his income from volatility while keeping pace with inflation. Now that Ken is no longer working, he's concerned about the steady, reliable stream of income he needs to maintain his retirement lifestyle. He thought he had a good plan in place, but recent events made him rethink his retirement income strategy. By applying the same approach to his retirement income strategy as he does to his health, Ken realizes his portfolio needs to strike a better balance.

Investment Solution and Rationale: With guidance from his financial advisor, Ken used $1 million of after-tax money to purchase a variable annuity with an optional living benefit rider such as a guaranteed minimum withdrawal benefit (GMWB). Living benefit riders seek to capture upside potential while minimizing potential losses. Some annuity providers offer GMWB riders with withdrawal rates in excess of 7% depending on what age the client begins taking income. Alternatively (or in conjunction with a GMWB), some annuities can also provide flexibility to take withdrawals through systematic withdrawals or even partial annuitization, which could be of benefit if they have invested nonqualified money (exclusion ratio tax treatment).

Profile #7 – Variable Annuity with Guaranteed Minimum Withdrawal Benefit

Financial Situation and Objectives: Don is a 68 year old recent retiree. He is still paying off his mortgage and has a number of other fixed expenses (e.g., Medicare premiums). While he is looking for something that will provide a source of guaranteed income, he would prefer a low-cost solution. He also wants the ability to access to his money in case of an emergency and the flexibility to adjust his income stream down the road to handle any unforeseen changes in his circumstances.

Investment Solution and Rationale: Don's needs would be best met through a variable annuity with a guaranteed minimum withdrawal benefit (GMWB) rider. To address his concern about cost, he could select a rider that provides a lower withdrawal rate (e.g., 5% rather than 7%) and/or has a longer deferral period (i.e., withdrawals start at a later age). In addition, he could choose an annuity with a partial annuitization option that would allow him to flip an "income switch," turning a portion of his contract into a guaranteed income stream at no additional cost (and since this comes at no additional cost, Don would not be obligated in any way to utilize this feature if the need does not arise).

Profile #8 – Variable Annuity Funded with Qualified (Rollover) Assets

Financial Situation and Objectives: Charlene and Stephen are a 64 year old couple with no children and $2M saved in Stephen's 401(k) account. Stephen is getting ready to retire, and the couple is looking for a source of guaranteed income to cover their essential expenses during retirement, while also retaining some market exposure for the upside potential.

Investment Solution and Rationale: A variable annuity purchased with one-quarter of the couple's nest egg ($500,000) can provide the future guaranteed lifetime income they seek. Their advisor recommends an annuity that provides a joint lifetime income stream of 5.25% for the rest of their lives. The couple plans to start taking income in two years, with a minimum joint lifetime income stream of approximately $29,000 a year. Depending on the performance of the underlying investments, the lifetime income stream could be substantially higher. For an additional cost, the annuity also provides a guaranteed income benefit growth of 5%. Finally, the annuity includes a return of principal death benefit that pays to beneficiaries the greater of the current account value or purchase payments, adjusted for withdrawals, upon the second death.

Profile #9 – Single Premium Immediate Annuity (SPIA) Funded with Qualified (Rollover) Assets

Financial Situation and Objectives: Thomas is a single 65 year old male in good health, retiring with a $450,000 defined contribution plan, and $300,000 in his checking and savings accounts. His employer did not offer a pension. He is looking for a guaranteed lifetime income stream to pay for immediate essential expenses (approximately $1,000 per month) in retirement.

Investment Solution and Rationale: A single premium immediate annuity (SPIA), using a portion ($200,000) of the $450,000 IRA rollover will provide Thomas with a 6.04% payout rate ($1,007 per month) for the rest of his life. If Thomas lives to age 90, the total income paid from age 65 to 90 would be over $300,000. Thomas also chose a "Life with Installment Refund" option to assure that his beneficiaries would continue to receive income payments up to the premium paid ($200,000) if the cumulative income received prior to his death was less than that amount.

Profile #10 – Fixed Index Annuity for Accumulation with Downside Protection

Financial Situation and Objectives: Ben is 55. He had an aggressive growth strategy for his investments when he was younger, but as he approaches retirement, he has become more cautious. He has a mutual fund investment portfolio that he's considering adjusting to a more moderate strategy.

Investment Solution and Rationale: Ben worked closely with his financial advisor to explore all his options. He considers adjusting his current mutual fund investments to a more moderate strategy, but there's still the very real possibility of market losses which he may not have time to recover from. He also considers investing in more conservative vehicles such as CDs, but he would prefer something with more opportunity for growth. A third option they discuss is a fixed index annuity (FIA). With an FIA, Ben won't experience market-based losses, but a variety of crediting methodologies – some tied to well-known indices like the S&P 500, give him an opportunity for growth up to a cap. The FIA also grows tax deferred.

Ben and his advisor determine that an FIA product may be in-line with Ben's needs since it offers protection from market declines as well as an opportunity for growth with fixed rate and index-linked crediting strategies.

Profile #11 – Fixed Index Annuity for Income

Financial Situation and Objectives: Naomi is a 57-year-old professional who expects to use social security to cover her basic retirement expenses like utilities and groceries, but she knows it won't be enough. She's looking at options that will allow her to supplement social security to ensure that she can cover those essential expenses and not worry about running out of money.

Investment Solution and Rationale: Naomi and her advisor discuss multiple options. One of those is to draw money from her mutual fund portfolio to cover those expenses when she retires. Her concern is that those investment returns aren't guaranteed so there's no way for her to be sure her money will grow enough between now and retirement to cover those monthly withdrawals once she retires. Plus, once she does start withdrawing money, she doesn't have a way to ensure that she doesn't outlive the money she's saved. She needs a way to predictably build a source of income for her basic retirement expenses and that income will need to last as long as she does.

The other option they discuss is a fixed index annuity (FIA) that's designed to give her guaranteed growth through a deferral bonus while she waits to take income and then provides a Guaranteed Lifetime Withdrawal Benefit to help meet her need for predictable lifetime income in retirement. It also offers tax-deferred growth and she will never experience any market-based losses.

Naomi and her advisor determine that the FIA may be in-line with her needs since it offers the opportunity for growth (and possibly guaranteed growth if Naomi selects a GLWB with a roll-up or bonus feature) while she's preparing for retirement and then guaranteed income for life utilizing the GLWB once she retires. This gives her the certainty she's looking for as she plans to take care of those things she can't be without once she retires.

Profile #12 – Fixed Annuity with Long-Term Care Benefit

Financial Situation and Objectives: Clara and Wade have been married 45 years. The made a vow to be there for one another no matter what, but now that they're both 70, they are thinking about the complexities of the aging process and realize they may need some help should one of them suffer from an illness, injury or physical or mental disability. They are evaluating their options to pay for long-term care if something should happen.

Investment Solution and Rationale: Clara and Wade work with their financial advisor to evaluate multiple options.

- They could rely on their retirement savings to cover the cost, but then saw how expensive care can be and realized they could exhaust their savings quickly.
- They looked into using their existing health insurance and researched Medicare and Medicaid coverage, but found that their long-term care (LTC) needs might not be covered.
- Another option would be to buy traditional long-term care insurance, but they found that it was likely that unused LTC coverage wouldn't be available to pass on to their children and the cost at their age was not feasible.
- Finally, they reviewed a fixed annuity with a long-term care benefit. It would maximize their savings for LTC needs – potentially offering 2-3x their contract value for qualified LTC needs. Any withdrawals for LTC needs would typically be federal income tax-free. Plus if they don't use their contract value for long-term care benefits, they don't lose the money. Any remaining contract value would pass to their beneficiaries as a death benefit.

Clara and Wade determine with their advisor that the fixed annuity with LTC benefit offers just the combination they need – knowing they have a plan in place to maximize their savings for LTC needs, but also having some flexibility should they not need to use the money.

Profile #13 – Fixed Annuity

Financial Situation and Objectives: Margot, 69, is a very conservative saver. She has some money for which she doesn't have an immediate need, but she isn't comfortable investing it. Her savings account at the bank isn't offering much interest and CD rates aren't very attractive. She and her advisor discuss options to make her money work for her without going outside her comfort zone.

Investment Solution and Rationale: Margot and her advisor evaluate several options.

- She can leave it in her savings account which is paying no interest currently.

- She can buy a CD.
- Finally, she can buy a fixed annuity which offers a fixed rate for a fixed period of time – in this case she can select from 3, 5, or 7–year durations. The fixed annuity offers a slightly higher rate than the CD and tax-deferred growth, though Margot will have to pay a surrender charge if she withdraws money from the annuity during her selected duration.

Margot decides to move forward with the purchase of a fixed annuity with a 3-year duration. It doesn't tie her to an interest rate for too long a duration, but it offers a better rate than she could get from a traditional deposit product.

Sample Investor Profiles by Product Type – Other Investments

The following are samples of investor profiles intended to illustrate the importance of preserving consumers' ability to choose the investment strategies best suited to their unique needs, objectives and circumstances.

Profile #1 – Concentrated Stock Position

Financial Situation and Objectives: Jane is a recently retired long time former executive from a small manufacturing company in the Midwest who owns several thousand shares of concentrated stock that make up approximately 60% of her net worth.

Investment Solution and Rationale: Jane worked closely with her financial advisor to formulate a multi-year diversification and liquidation strategy for this concentrated stock position that will both manage her tax liability as well as ensure that there is not significant downward pressure on her former company's stock given the limited float.

Jane and her financial advisor have agreed that holding the stock in a brokerage account is in her best interest so that commissions are only generated on the sale of these securities and she is not being charged an annual advisory fee unnecessarily given the limited trading that has been discussed.

Profile #2 – Syndicate

Financial Situation and Objectives: Richard volunteers his time working for a not for profit focused on funding the development of new wells that provide clean water to both save lives and grow communities throughout Africa. Richard recently inherited a large sum of money from his family's successful retail business in New Mexico and is looking for advice on how to invest these assets while meeting his goals of philanthropic investing and providing for his children and future generations. Jim is interested in socially-responsible investments that further his philanthropic interests.

Investment Solution and Rationale: Richard worked closely with his financial advisor over the past few years to develop a comprehensive financial plan that utilizes a non-discretionary advisory account with a diversified portfolio of exchange traded funds and mutual funds as well as a brokerage account that holds both equity and fixed income securities.

Jim has invested in several recent primary and secondary offerings of companies developing new devices in the clear water industry. Since principal transactions are generally not permitted in advisory accounts absent compliance with administratively difficult conditions, Richard must maintain a brokerage account in order to participate in underwritten primary and secondary offerings.

Profile #3 – Municipal Bond Ladder

Financial Situation and Objectives: Diane is a senior executive of an internet startup company in California who is looking for a predictable and tax-efficient income stream that will last her well into her retirement.

Investment Solution and Rationale: Diane worked with her financial advisor to develop a municipal bond ladder portfolio where maturing bonds and coupon payments are typically reinvested in bonds at the ladder's longest rung, which usually offers higher yields in a rising rate environment. The portfolio primarily consists of investment grade municipal bonds that mature every three years and whose longest duration is 24 years which works well for Diane and her family as it provides them with a predictable and tax-efficient income stream that will last them well into her retirement.

Diane's financial advisor has recommended that they set up this portfolio in a brokerage account rather than an advisory account so she will not be charged an annual advisory fee unnecessarily given the limited trading that occurs in this type of strategy.