Callable security procedure

Callable securities provide an issuer (the corporation that issued the debt instrument) with the option to call back or redeem bonds prior to maturity. In some cases, a security may be partially called rather than fully called. To assure that all shareholders are treated fairly in a partial call event, the determination of which holder's securities are called is made in two random selection processes. First, the number of shares or bonds to be called from each broker dealer that holds the security is randomly selected by a clearing agency such as the Depository Trust & Clearing Corporation (DTCC). Once each broker dealer is informed by the clearing agency of the quantity that will be called, the firm conducts a lottery that randomly selects the client accounts from which the positions are to be called.

Favorable redemptions

Occurs when a redemption of callable securities is made on terms that are **favorable** to the called parties. The broker dealer will not allocate the called securities to any account in which it or its associated persons have an interest until all other customers' positions in such securities have been satisfied.

Unfavorable redemptions

Occurs when a redemption of callable securities is made on terms that are **unfavorable** to the called parties. The broker dealer will not exclude its positions or those of its associated persons (including those persons performing solely clerical and ministerial functions) from the pool of the securities eligible to be called.

This process is intended to assure there is no bias in the selection of accounts from which shares or bonds are called. If you own a security that has been called, you cannot opt out of the call. The security will be called or redeemed, a confirmation of the call or redemption transaction will be sent to you at your address of record, and the proceeds will be deposited as cash in your account upon settlement.