

# Risk Disclosures for Interactive Advisors Socially Responsible Investing Portfolios

You have elected to invest in a Socially Responsible Investing Portfolio managed by Covestor Limited. Covestor Limited is doing business as Interactive Advisors and will be referred to throughout this disclosure as “Interactive Advisors.” Please read and acknowledge the following disclosure of the potential risks of investing in these portfolios.

## Overview

Socially Responsible Investing Portfolios are proprietary portfolios designed and managed by Interactive Advisors. Each Socially Responsible Investing Portfolio seeks, as its investment objective, to invest in a basket of stocks with the favorable Socially Responsible Investing characteristics and criteria laid out in the Research section of each portfolio page by relying on systematic rules-based investment strategies that do not use conventional market capitalization weights. In addition to financial criteria, these portfolios are constructed using Socially Responsible Investing criteria when selecting investments..

To provide these portfolios, Interactive Advisors initially funds and trades a fixed amount of its funds in separate proprietary brokerage accounts associated with each Socially Responsible Investing Portfolio. After the initial investments, Interactive Advisors reserves the discretion to add additional funds to the initial investment amounts in order to manage these firm-owned accounts with a higher investment amount and more efficiently manage investments in these portfolios. Interactive Advisors then replicates the trading in these proprietary brokerage accounts in the accounts of clients investing in each specific Socially Responsible Investing Portfolio in order to implement its mirroring procedures. Interactive Advisors will rebalance these portfolios on a quarterly or annual basis. The exact rebalance date may be randomized. This will result in numerous transactions in many or all of the stocks in which the Socially Responsible Investing Portfolios (and your account) are invested. Whenever Interactive Advisors buys and sells securities in the Socially Responsible Investing Portfolios, you will incur transaction costs, such as commissions payable to Interactive Brokers LLC (Interactive Advisors affiliated broker-dealer), which is a conflict of interest.

The Socially Responsible Investing Portfolios may invest in a large number of stocks and there will be trades in many of these stocks whenever Interactive Advisors rebalances the portfolios or you add to your investment. You will need to report some (or all) of these trades on your tax forms. Interactive Advisors cannot provide tax advice or prepare tax documents for you. Please consult an accountant or tax attorney to determine the tax-related obligations associated with investing in these portfolios. Please note that Interactive Brokers LLC provides certain tools to assist you with your tax filings, but these tools may only be able to support a limited number of trades.

As with any other portfolio on its platform, Interactive Advisors only allows you to invest in a Socially Responsible Investing Portfolio if it is suitable for you in light of your financial situation and the investment objectives that you have described to Interactive Advisors in response to our risk questionnaire.

You may restrict the stocks traded in your account at any time and Interactive Advisors will honor these restrictions when mirroring the trading in any of our portfolios you choose to invest in. Please be aware that imposing restrictions on future investments and selling any existing holdings in your Socially Responsible Investing Portfolio may affect the performance of your account and lead to your account performing differently, better or worse than the Interactive Advisors account underlying the portfolio.

At least annually, Interactive Advisors will contact you to determine whether there have been any changes in your financial situation or investment objectives and whether you want to impose new or revise existing restrictions on the trading in your account. Also, at least quarterly, Interactive Advisors will ask you in writing to contact us if there have been any changes in your financial situation or investment objectives or you wish to impose any restrictions on the trading in your account.

You should keep Interactive Advisors informed of any changes in your financial situation or investment objectives and should periodically review and update your answers to Interactive Advisors risk questionnaire and the list of securities you specified should not be traded in your Interactive Advisors account.

You will receive periodic statements and trade confirmations detailing all transactions in your account, all contributions and withdrawals, all fees and expenses charged, and the value of your account at the beginning and end of the period, including any fractional share holdings and transactions.

Interactive Advisors client service representatives are available to discuss and explain investment decisions made for your Socially Responsible Investing Portfolio investments and may be contacted by telephone at 1-866-825-3005 and by email at [support@interactiveadvisors.com](mailto:support@interactiveadvisors.com)

In the future, Interactive Advisors may construct and offer to its Clients other Socially Responsible Investing Portfolios than those offered at this time.

You can find additional information on Interactive Advisors Socially Responsible Investing Portfolio construction process, actual trading results, and other disclosures on the Interactive Advisors website at <https://interactiveadvisors.com/>.

## **Risks of investing in the Socially Responsible Investing Portfolios and the stock market generally**

As with any investment, there are a number of risks associated with investing in a Socially Responsible Investing Portfolio. These include the following:

- You may lose all or part of your investment in the portfolios, or your investment may not perform as well as other investments or may fluctuate significantly due to short-term or long-term market movements;
- There is no assurance that these portfolios and strategies will meet their investment objectives, work as intended or perform as well as other investment strategies; and
- Socially Responsible Investing Portfolios may not be suitable for all investors.

Investments in these portfolios are subject to the risks discussed here and in Interactive Advisors Informational Brochure (i.e., Form ADV Part 2 filing) on the Forms & Agreements page on the Interactive Advisors website, any of which may adversely affect the portfolios' yield, total return, and ability to meet their investment objectives.

We provide additional information on the principal risks of investing in these Socially Responsible Investing Portfolios below.

**Equity securities risks** - These portfolios are primarily invested in stocks and therefore bear the risks of the general stock market. In particular, the portfolios:

- Entail greater risk of loss and volatility than some other asset classes, such as bonds;
- Are primarily composed of US stocks, so may be particularly affected by certain changes in the US economy that do not affect the global economy; and
- Include large-, medium-, and small-capitalization stocks, each of which carries its own risks and may gain or lose value in a different proportion than the stock market overall.

**New portfolio risk** - Interactive Advisors started trading some of the Socially Responsible Investing Portfolios in November 2019 and others in July 2020. Therefore, these portfolios have no operating or actual performance history before the date each of them started being traded on the date specified on each corresponding portfolio page. Clients investing in these portfolios also bear the risk that Interactive Advisors may not be successful in implementing its investment strategy.

**Sector and concentration risks** - A portfolio may carry higher risk to the extent it is significantly composed of assets in a particular sector, issuer, group of issuers, country, group of countries, region, market, industry, or asset class.

**Regulatory risk** - The portfolios are subject to the risk that a change in US law and related regulations will impact the way Interactive Advisors manages these Portfolios, increase the particular costs of their operation and/or change the competitive landscape. This may result in Interactive Advisors deciding to cease offering these portfolios.

**Socially Responsible Investment Portfolio-specific risks** - In addition, the Socially Responsible Investing Portfolios carry additional, specific risks, which may lead them to lose or gain money out of proportion with the stock market as a whole.

- **Less diversification** - By definition, Socially Responsible Investing Portfolios are less diversified than comparable broad market portfolios because they are constructed to exclude investments in certain companies or industries, which could lead to these portfolios being more or less volatile than a broader market portfolio.
- **Equal weighting risk** - Due to the use of half equal weighting in some portfolios like the Clean Technology Portfolio, ESG Broad Market Portfolio, Clean Energy Portfolio, Low Greenhouse Emissions Portfolio, Fair Labor Portfolio and Workforce Diversity Portfolio and the resulting higher proportion of medium-capitalization company stocks, these portfolios may underperform other segments of the market or the market as a whole.
- **ESG (Environment, Social and Governance) investment strategy risk** - The Socially Responsible Investing Portfolios use an ESG investment strategy, which limits the types and number of investment opportunities available to these portfolios and could lead the portfolios to underperform other portfolios without an ESG focus, whether they are other portfolios on the Interactive Advisors platform or elsewhere. The ESG investment strategy could result in these portfolios investing in securities, industries or sectors that underperform the market as a whole, foregoing opportunities to invest in securities, industries or sectors that might otherwise be advantageous to invest in, and underperforming other portfolios or investments screened for different ESG standards. Interactive Advisors could also be unsuccessful in creating portfolios composed of companies that exhibit positive or favorable ESG characteristics. The performance of these portfolios is compared against a broad market investable ETF benchmark without an ESG focus, which limits the comparability of the portfolio returns to the benchmark's performance. Basically, the application of socially responsible investment criteria may affect clients' exposure to certain sectors or types of investments and may impact the clients' relative investment performance – positively or negatively – depending on whether such sectors or investments are in or out of favor in the market.
- **Reduction not elimination of investments in companies investors may consider undesirable** - The construction of the Socially Responsible Investing Portfolios reduces but does not eliminate exposure to companies that investors interested in socially responsible investing may consider to be undesirable.
- **Subjective and qualitative nature of socially responsible investing and data limitation** - Socially Responsible Investing is qualitative and subjective by nature, and there is no guarantee that the criteria utilized, or judgment exercised, by Interactive Advisors will reflect the beliefs or values of any one particular investor. Information regarding the Socially Responsible Investing practices of companies these portfolios invest is obtained through voluntary or third-party reporting, which may not be accurate or complete, and Interactive Advisors is dependent on this information to determine the inclusion of a company in a portfolio (based on its commitment to, or implementation of, socially responsible practices). Socially responsible norms also differ by region. And there is no assurance that the socially responsible investing criteria employed will be successful. There is no guarantee that these portfolios will produce returns similar to traditional investments.
- **Reliance on third-party data to construct and rebalance these portfolios** - The Socially Responsible Investing Portfolios are constructed on the basis of data and information licensed from unaffiliated third-party data providers. We generally use detailed business classification and ESG metrics provided by these data providers in our portfolio screening and construction processes. We rely on one third-party data provider to evaluate company-disclosed data in annual reports, exchange filings and company websites, and we rely on a second data provider to glean information parsed from trade blogs, industry publications and social media using natural language processing and artificial intelligence algorithms. While these data providers are reputable providers of ESG and SRI data and are generally thought to provide reliable information, we did not fully audit or validate this data, which may contain errors. Although we evaluate all such information and data and sometimes seek independent corroboration when it

is considered appropriate and reasonably available, we are not in a position to confirm the quality, completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available. Errors in respect of the quality, completeness, genuineness and accuracy of the information and data used to construct the Socially Responsible Investing Portfolios may occur from time to time and may not be identified and corrected by the third-party data providers for a period of time or at all, particularly where the information and data are less commonly reviewed, used or cited. Such errors could negatively or positively impact these portfolios. The information provided by these third-party data providers does not constitute a solicitation, offer, opinion or recommendation by them to buy or sell any security, or to provide legal, tax, accounting, or investment advice or services regarding the profitability or suitability of any security or investment.

## **Socially Responsible Investing Portfolio investment limitations**

In accordance with applicable regulatory requirements, Interactive Advisors will not allow clients to make any initial, additional or recurring investments in a Socially Responsible Investing Portfolio 3 business days prior to the date of a quarterly or annual rebalance. If you request such a transaction during this period, it will be sent for execution on the first trading day after the rebalance. You may redeem some or all of your investment in any Socially Responsible Investing Portfolio at any time. But, if you have a cash (rather than margin) brokerage account and engage in redemptions less than 3 business days after the annual rebalance, Interactive Brokers LLC may require you to pay for purchases in your account on the date of each trade for the next 90 days.

To avoid price swings around market open and close, client requests to invest in or redeem any investments in the Socially Responsible Investing Portfolios will be processed in the order in which they are received between 9:35 am and 3:50 pm ET.

**Not a bank deposit** - Your investment in one of the Socially Responsible Investing Portfolios is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

## **Conflict of interest risks and disclosures**

As we explained above, Interactive Advisors will trade its own funds alongside the assets of the clients who invest in the Socially Responsible Investing Portfolios. Interactive Advisors has therefore imposed on itself protections against potential front-running which are described in the Investment Management Agreement you signed, and such other protections determined necessary given Interactive Advisors' fiduciary duty to its clients.

## **Mechanics of the Socially Responsible Investing Portfolios**

### **Management fees and commissions**

Interactive Advisors will charge investing clients an annual management fee of **11 basis points (0.11%)** of the gross market value of the assets invested in each Socially Responsible Investing Portfolio.

In addition, Interactive Brokers LLC will charge you commissions on trades in your account. Interactive Brokers LLC has agreed to modify its standard tiered commission structure for Socially Responsible Investing Portfolio clients in a manner we believe will facilitate efficient investing in these portfolios. Under this commission structure, you will pay, for example, estimated annual brokerage fees (i.e., commissions, exchange, regulatory and clearing fees) of 2-3 basis points of the investment amount (or \$20-\$30 on a \$100,000 investment in a Socially Responsible Investing Portfolio). The brokerage fees will vary depending on the amount you choose to invest in a portfolio and the specific Socially Responsible Investing Portfolio you invest in.

Please also note that, under certain circumstances, Interactive Brokers LLC will charge you a minimum monthly commission charge of up to \$10. Specifically, whenever the overall monthly commissions paid by all Interactive Advisors client accounts do not amount to at least \$10 in commissions per account per month, Interactive Brokers LLC will collectively charge Interactive Advisors clients any difference between the actual commissions and the \$10 minimum, on a pro rata basis.

You may find additional information on Interactive Brokers LLC's commissions on the Interactive Advisors and Interactive Brokers LLC websites, including at these locations: <https://interactiveadvisors.com/low-fees> and <https://interactiveadvisors.com/forms-and-agreements/disclosures>.

## **Fractional share trading and related agency cross trades**

Interactive Advisors is able to offer the Socially Responsible Investing Portfolios and the extensive diversification they are designed to achieve for even relatively small investments by providing Interactive Advisors clients the ability to trade fractional shares. You will receive payments or value commensurate to your fractional ownership in the case of stock dividends, stock splits, mergers or other mandatory corporate actions (including cash dividends).

Stocks cannot be traded in fractions on public exchanges, so Interactive Brokers LLC, Interactive Advisors' affiliated broker-dealer, facilitates trading in Socially Responsible Investing Portfolios brokering all fractional share orders on behalf of Interactive Advisors clients against one or more liquidity providers. These liquidity providers will sell or buy fractional shares that Interactive Advisors clients would not otherwise be able to trade in the open market. These trades will occur either at the execution price the liquidity provider gets on the market for stocks it sells to Interactive Advisors clients or, if the fractional shares are provided from the provider's inventory, at the National Best Bid or Offer ("NBBO") at the time of the order.

There is a potential conflict of interest in connection with these fractional transactions as Interactive Brokers LLC will act as broker for both Interactive Advisors clients and the liquidity provider counterparty to these transactions that you have consented to in the Investment Management Agreement. You may revoke your written consent to such transactions at any time by written notice to Interactive Advisors or Interactive Brokers LLC, as discussed in our Investment Management Agreement, but you will no longer be able to invest in these portfolios as they rely on fractional share investments.

Interactive Advisors has determined that the benefits of offering fractional shares outweigh the negative effects of investing in them, but you should be aware of their unique features, risks and costs.

Please note that you own the shares held in your Interactive Advisors account, including fractional shares acquired as a result of your investment in a Socially Responsible Investing Portfolio. No aspect of Interactive Advisors management or operation of the Socially Responsible Investing Portfolios should be deemed as an attempt by Interactive Advisors to restrict in any way any rights you would otherwise have over the securities and funds in your account, including any fractional share holdings.

Stocks cannot be traded in fractions on public exchanges and fractional shares are typically unrecognized and illiquid outside of the Interactive Advisors platform. So, if you want to liquidate your Socially Responsible Investing Portfolio investments, you will need to fully redeem your investment in which case Interactive Brokers LLC will sell any fractional shares to the liquidity provider and any whole shares to the market. If you want to transfer your Socially Responsible Investing holdings to another brokerage firm, you will first need to sell your fractional shares to the liquidity provider through Interactive Brokers LLC. You will incur commissions on all of these trades.

Please note that Interactive Brokers LLC cannot facilitate clients voting proxies on fractional share holdings, does not provide a mechanism to make voluntary elections on your fractional holdings, and cannot provide you with any shareholder documentation for any holdings of less than one share.