

# **Informational Brochure**

**(Part 2A and 2B, Form ADV)**

**Covestor Limited doing business as**

**“Interactive Advisors”, “Interactive Advisers,” “Interactive Brokers Asset Management”, “IB Asset Management”, and “IBKR Asset Management”**

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**August 27, 2021**

**This brochure provides information about the qualifications and business practices of Covestor Ltd. If you have any questions about the contents of this brochure, please contact us at (866) 825-3005 or [clientservices@interactiveadvisors.com](mailto:clientservices@interactiveadvisors.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. This brochure is for informational purposes only. It does not convey an offer of any type and it is not intended to be, and should not be construed as an offer to sell, or solicitation of an offer to buy, any interest in any entity, investment, or investment vehicle.**

**Additional information about Covestor Ltd is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with Covestor who are registered as investment adviser representatives of Covestor. Covestor’s registration as an investment adviser with the SEC does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information, which can help you determine whether to hire or retain an adviser.**

## Item 2: Summary of Material Changes

The following material changes have been made to this Informational Brochure since the annual amendment filed on March 30, 2020.

Date	Description of Material Changes Since the Last Annual Amendment on March 30, 2020
June 30, 2020	<p>Added discussions of six newly launched portfolios esgAGG.IB™, esgAGG.IRA.IB™, esgMOD.IB™, esgMOD.IRA.IB™, esgCNS.IB™, and esgCNS.IRA.IB™ in Item 4.</p> <p>Revised the minimum investment amount to \$100 for all Interactive Advisors Portfolios throughout the brochure.</p> <p>Revised the description of the Goal Tracker tool to reflect its application to all portfolios on the platform not just the Asset Allocation ones.</p>
March 26, 2021	<p>Updated assets under management (AUM) figures throughout the brochure.</p> <p>Added platform limitations in Item 4.</p> <p>Clarified that Interactive Advisors does not recommend portfolios to clients residing in India in Item 4.</p> <p>Updated Interactive Advisors' trading rules and Client-Specified investment restrictions in Item 4.</p> <p>Updated description of Socially Responsible Investing portfolios in Item 4.</p> <p>Added description of 13 newly launched Socially Responsible Investing portfolios: Clean Air, Company Transparency, Customer Safety, Ethical Leadership, Fair Labor &amp; Thriving Communities, Gender Equality, LGBTQ Inclusion, Land Health, Mindful Business Models, Ocean Life, Pure Water, Racial Equality and Sustainable Product Lifecycle in Item 4.</p> <p>Added description of The Russell 1000 Telecommunications Managed Portfolio in Item 4.</p> <p>Updated account minimums for Manager Portfolios in Item 7.</p> <p>Added risk disclosures to General Risks Associated with Investments in Any Portfolios Offered by Interactive Advisors: Model Risk, risks of Monte Carlo Simulation, Cash Drag Risk, Pattern Day Trader Classification Risk and Infectious Disease Risk in Item 8.</p> <p>Added Telecommunications Section risk to Risks Specific to Investments in Interactive Advisors Portfolios in Item 8.</p> <p>Slightly revised the discussion of benchmark comparisons in Item 8 to clarify that benchmark comparisons display only upon client selection.</p> <p>Added risk disclosures associated with Fractional Share Transactions in Item 11.</p> <p>Added discussions of proxy voting procedures in Item 17.</p> <p>Added Jennifer Mitton as a firm representative in Form ADV Part 2B.</p>
August 27, 2021	<p>Inserted references throughout the brochure to the newly implemented IBKR-LITE commissions structure in Items 5 and 12.</p> <p>Inserted discussion of "Allocation to cash and associated conflict of interest" in Item 10.</p>

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## Part 2A: Brochure

### Item 4: Advisory Business - Covestor Limited (“Covestor”)

#### Advisory Firm Background and Principal Owner

Covestor Limited (“Covestor Ltd” or “Covestor”) doing business as (“dba”) Interactive Advisors, Interactive Advisers, Interactive Brokers Asset Management, IB Asset Management, and IBKR Asset Management, an investment adviser registered with the United States Securities and Exchange Commission (“SEC”), is a private limited company incorporated in the United Kingdom and established on May 15, 2006. Covestor Ltd is not registered to conduct investment advisory business in any jurisdiction outside the United States. Covestor Ltd is incorporated as a private limited company, but is not registered to provide investment management or advice in the United Kingdom or anywhere outside of the United States.

Covestor Ltd is owned by Covestor Inc., a privately held firm whose principal owner is Interactive Brokers Group, Inc. Interactive Brokers Group, Inc., together with its subsidiaries (the “Interactive Brokers Group”), is an automated global electronic broker. Interactive Brokers Group, Inc. is a Delaware corporation whose common stock is publicly traded on Nasdaq. Additional information about Interactive Brokers Group is available at <https://www.interactivebrokers.com>

Our registration does not imply any level of skill or training. The oral and written communications we provide to you, including this brochure, are for you to evaluate us and our services, determine whether the advisory services we offer are right for you, and disclose the potential conflicts of interest associated with our services.

Covestor primarily conducts its advisory business over the Internet under one of the above-mentioned business names, which are different from its legal name. The Firm’s website is located at <https://interactiveadvisors.com>. For brevity and convenience, Covestor will be referred to as “Interactive Advisors” throughout this brochure.

As of July 20, 2021, Interactive Advisors manages approximately \$119 million in assets on a discretionary basis. Interactive Advisors does not manage any assets on a non-discretionary basis.

#### Advisory Services

##### General Overview

Interactive Advisors offers an online investment platform through which its Clients can invest in two types of portfolios: (1) trading strategies managed by third-party portfolio managers (“Manager Portfolios”) and (2) proprietary investment portfolios designed and managed by Interactive Advisors itself (“Interactive Advisors Portfolios”). Covestor allows Clients to invest in these strategies by simultaneously mirroring or replicating the activity in a Manager- or Interactive Advisors-owned and managed account underlying the specific Portfolio into investing Clients’ accounts.

Our services to Clients are generally limited to the discretionary management of their assets and do not include financial planning or any other services, but we may provide Clients free of charge certain software-based financial planning tools or features. Interactive Advisors offers a software tool, the Goal Tracker, which allows logged-in clients to estimate the likelihood of achieving goals they specify within a set period of time using an asset allocation strategy. This tool uses various assumptions and its output has various limitations discussed in this white paper on our website: <https://interactiveadvisors.com/learn-more/goal-tracker>. Additional information on the assumptions, limitations and risks associated with the Goal Tracker tool is available in Item 8.

##### Principal considerations for potential investors

Interactive Advisors’ platform is a primarily online investment platform designed for investors who want to have access to a wide variety of investment choices (including but not limited to Smart Beta, asset allocation, index tracking, model ETF portfolios, Socially Responsible Investing and various actively-managed investment strategies) and investors who generally have a longer time horizon. Before opening an account with Interactive Advisors, Clients should consider among other

things: the costs and potential benefits of investing in such a platform that charges a management fee in addition to commissions charged separately by our affiliated broker-dealer, Interactive Brokers LLC (“IB LLC”); the need and desire for professional money management services; whether the client is comfortable granting investment discretion to an investment adviser like Interactive Advisors; the client’s objectives, risk tolerance, time horizon, and financial circumstances; whether the client prefers a primarily in-person rather than digital (online) and telephonic client experience; and whether the client can receive documents electronically. Before investing with Interactive Advisors or any other investment adviser, Clients should consider paying off their high-interest debt and using workplace savings options.

#### Distinction from traditional advisory services

Clients interested in using Interactive Advisors’ services should be aware of the fact that Interactive Advisors provides its investment services primarily online, although it does make client support staff available for consultation as needed by Clients on servicing and investment management issues. Clients should be able and willing to conduct most of their interactions with Interactive Advisors using electronic methods. In the Investment Management Agreement they execute with Interactive Advisors, Clients agree to receive all documents, notices, and updates electronically by email or through their access to the Firm’s website accompanied by an email notice.

#### Platform Limitations

While we have designed our platform to be broadly applicable to many clients, it may not be appropriate for you if you:

- desire more frequent account reviews for trading opportunities;
- have a very short or a very long investment horizon, a high tolerance for market risk, or a desire to invest significantly in alternative asset classes; or
- have especially complex investment objectives and needs as your current investments consist of illiquid securities, annuities, and/or extremely low basis securities.

Because our platform is an online advisory service, it is not appropriate for you if you have limited or no access to technology.

Should you determine that our platform is appropriate for you notwithstanding the above considerations, you must keep in mind that it is meant to be a component of your overall investment strategy and not your sole investment strategy. The platform’s projections and decisions are limited in scope to the risk questions we ask you through the website before allowing you to invest with us and the information that you supply to us. As the platform does not provide comprehensive financial planning, there may be additional relevant information or other financial circumstances that the platform does not consider (e.g., your debt load or other financial obligations) that could inform your investment decisions. We urge you to carefully consider the platform’s costs and benefits before opening an advisory account and beginning to invest.

#### Interactive Advisors’ risk scoring methodology

Interactive Advisors analyzes each strategy on the platform to determine a risk score for the associated Portfolio. Interactive Advisors then assigns a risk score between 1 (least risky) and 5 (most risky) to each Portfolio. The purpose of the risk score is to ensure that the Portfolio risk is in line with Client expectations and meets Interactive Advisors’ fiduciary obligation to recommend suitable investments for Clients.

To ensure that Interactive Advisors Clients have access only to Portfolios that are suitable for their ability to take on risk and risk tolerance, Interactive Advisors profiles Clients using a risk questionnaire to ascertain their risk tolerance, using the same scale of 1 to 5. The risk assessment/suitability questionnaire takes into consideration Clients’ financial situation, annual net income, estimated liquid net worth, age, investing knowledge, investment horizon, tolerance for stock market drops, and attitude towards the trade-off between risk and return in connection with Interactive Advisors investments. Interactive Advisors calculates risk scores for Clients based on Clients’ answers to this questionnaire. In determining the risk score of Clients investing in an Interactive Advisors portfolio through their existing investment advisor, Interactive Advisors will take into account the answers the Client’s existing advisor provides in response to the Interactive Advisors risk questionnaire based on a separate authorization provided by the Client to the advisor (discussed in Item 7). Advisors also have the option to use a general risk scoring tool offered by our affiliate IB LLC to design their own risk questionnaire and risk scoring

formula and generate risk scores for their clients. To ensure consistency between the risk scores generated by its own risk assessment questionnaire and the IB LLC risk scoring tool, for purposes of investments with Interactive Advisors, the IB LLC tool uses a risk questionnaire framework and formula that Interactive Advisors' Investment Management Team has deemed equivalent to its own risk scoring framework.

Interactive Advisors matches up Clients' assigned risk scores with Portfolio risk scores in accordance with a proprietary risk scoring methodology, i.e., **Clients may only invest in Portfolios with a risk score equal to or lower than their risk score.** Based on the risk score assigned by Interactive Advisors, Clients may invest in one or more of the Portfolios or strategies that have risk scores equal to or lower than the Client either on their own or with the assistance of Interactive Advisors' client service representatives (who are appropriately registered as Investment Adviser Representatives). Interactive Advisors does not take into account a Client's personal tax situation when recommending and managing portfolios. Interactive Advisors recommends that Clients consult with their tax advisor on such matters.

Clients can update their responses to the risk assessment questionnaire on Interactive Advisors' website at any time to reflect changes in their personal circumstances (e.g., financial situation, investment objectives, and risk tolerance). Changes to these responses could (but do not necessarily have to) result in a change in a Client's risk score and thus the Portfolios that the Client may be able to invest in. If a Client's updated risk score is lower than the risk score of any of his then existing portfolio investments, Interactive Advisors will prompt the Client to invest in portfolios with risk scores consistent with the Client's new risk score and Interactive Advisors will divest the Client from the higher-risk-score portfolios after 30 days. Interactive Advisors provides detailed definitions of all portfolio and Client risk scores in the Learn more section of its website, under the Risk scores tab (<https://interactiveadvisors.com/learn-more/risk-scores>).

**Interactive Advisors Clients are and remain responsible at all times for advising Interactive Advisors of any changes in their financial situation, investment objectives, risk tolerance and investment restrictions.**

Annually, Interactive Advisors will contact clients to determine whether there have been any changes in their financial situation or investment objectives and whether clients want to impose new or revise existing restrictions on the trading in their accounts. Also, at least quarterly, Interactive Advisors will notify Clients in writing to contact it if there have been any changes in their financial situation or investment objectives or they wish to impose any restrictions on the trading in their account. Clients will generally receive periodic statements and trade confirmations setting forth all transactions in their accounts, all contributions and withdrawals, all fees and expenses charged, and the value of their account at the beginning and end of the period (including any fractional share holdings and transactions) from Interactive Advisors' affiliated broker-dealer, IB LLC. Interactive Advisors' client service representatives are available to discuss and explain investment decisions made for their Interactive Advisors Portfolio investments and may be contacted by telephone at 1-866-825-3005 and by email at [support@interactiveadvisors.com](mailto:support@interactiveadvisors.com).

Interactive Advisors provides Clients with individual, password-protected, login credentials to its website, <https://interactiveadvisors.com/> where Clients can view their holdings and account history as well as get access to account-related documents, and revise their answers to the risk assessment questionnaire to reflect changes in their circumstances.

#### Interactive Advisors' co-trading technology

Once an Interactive Advisors Client invests in a specific strategy, Interactive Advisors simultaneously mirrors or replicates into investing Clients' accounts the activity in the Portfolio Manager or Interactive Advisors-owned and traded account underlying that Portfolio. Clients and Portfolio Managers have to enter into agreements with Interactive Advisors and with Interactive Advisors' affiliated broker-dealer Interactive Brokers LLC ("Broker-Dealer" or "Custodian" or "IB LLC") and have to open brokerage accounts with IB LLC.

A central piece of Interactive Advisors' trading process is the aggregation of all Portfolio Manager or Interactive Advisors trades (depending on whether the Portfolio is a Manager or Interactive Advisors Portfolio) and investing Client orders into a single order. To ensure pricing and execution fairness and to prevent any potential front-running by Portfolio Managers or Interactive Advisors of Client trades following them, Interactive Advisors places a single order that combines the Portfolio Manager's (or Interactive Advisors') order with the number of shares that need to be transacted in order to replicate the

Manager's or Interactive Advisors' strategy into all investing Clients' accounts, a process referenced as "co-trading". Interactive Advisors then allocates the share to the Portfolio Manager (or Interactive Advisors) and Clients' accounts on a pro rata basis at the average share price with transaction costs shared pro rata.

#### Interactive Advisors' trading rules and Client-specified investment restrictions

Interactive Advisors **does not automatically replicate all trades** in the Portfolio Managers' or Interactive Advisors' accounts. For instance, Clients may specify that certain securities not be traded in their accounts, and Interactive Advisors will block trading in these securities even if a Manager (or Interactive Advisors) in whose Portfolio the Client invests trades that security. Additionally, Interactive Advisors may also disallow certain portfolio trades altogether or simply block them from replication or mirroring into Client accounts based on its trading rules. For instance, Interactive Advisors does not allow Manager or Interactive Advisors Portfolios to trade certain securities, including those with a market capitalization of less than \$50 million or an average daily volume of less than \$100,000. Trades that violate any of Interactive Advisors' trading rules are blocked from replication in Client accounts.

#### No guaranteed availability of Portfolios

For various reasons, Interactive Advisors may not be able to continue offering a specific portfolio. For instance, Interactive Advisors may need to close a Manager Portfolio because the Portfolio Manager has decided to no longer make his trading data available and terminate his participation on the platform. Portfolio Managers can close a Portfolio upon providing a 30-day notice to Interactive Advisors at any time. When a closure occurs, Interactive Advisors will attempt to provide Clients with a selection of Portfolios with similar strategies wherever possible. Interactive Advisors may need to close one of the Interactive Advisors Portfolios because it can no longer obtain the data from a third-party data provider (which may have terminated the relevant data licensing agreement) or for another reason. Should that occur, Interactive Advisors will inform Clients investing in such portfolios that the portfolio is no longer available and Clients need to invest in different portfolios or convert their existing investments in such portfolios into cash. Interactive Advisors will provide Clients with as much advance notice as practicable under these circumstances but no less than 30 days. Clients should be aware that in certain cases Interactive Advisors depends on the Portfolio Managers or a third-party data provider to provide it with advance notice of such decisions.

Interactive Advisors cannot ensure that a comparable portfolio will be available, and, whether or not alternative portfolios exist on the platform or elsewhere.

Clients are under no obligation to maintain an account with Interactive Advisors or, if they maintain an account, to invest in any Portfolios. Please note that, after the closure of a portfolio, Clients can choose to maintain the integer investments in that closing portfolio in an IB LLC brokerage account distinct from the one managed by Interactive Advisors or an external brokerage account outside of IB LLC, but Clients will be responsible for managing those investments themselves, including periodically rebalancing the assets. Fractional holdings in a closed portfolio cannot be transferred and must be sold prior to the transfer of any integer holdings. Please note that, if you choose to remain invested with Interactive Advisors after the closure of a portfolio, you will incur transaction fees in connection with liquidating your investment in a closed portfolio and investing in a new portfolio. You may also incur federal and state tax liabilities if liquidation results in long and/or short-term gains.

## **Manager Portfolios**

Manager Portfolios generally simultaneously replicate (mirror) the trading by third-party Portfolio Managers. Interactive Advisors assigns risk scores to the Portfolio Manager strategies on its platform and allows Interactive Advisors Clients with commensurate risk scores to invest in those strategies.

Managers on the Interactive Advisors platform may be either registered investment advisors or advisors exempt from registration. Registered Portfolio Managers must be federal or state-registered investment advisers, including hedge fund managers. While Non-Registered Portfolio Managers may be hedge fund managers exempt from registration, Interactive Advisors only allows such Non-Registered Portfolio Managers meeting certain trading experience and portfolio size criteria to participate. Portfolio Managers participating on the Interactive Advisors platform represent to Interactive Advisors that

they are appropriately registered or licensed or exempt from such licensing or registration requirements in light of the business they conduct both on and outside the Interactive Advisors platform. Portfolio Managers registered as investment advisers with the SEC or a U.S. state also confirm to Interactive Advisors they are in good standing, will provide their current Form ADV 2A and 2B filing to Interactive Advisors, and they and their access persons comply with all applicable regulatory requirements. Portfolio Managers must also notify Interactive Advisors of changes in their registration or regulatory status. **At this time, only registered Portfolio Managers participate on the Interactive Advisors platform.**

Portfolio Managers share their personal investment history by providing Interactive Advisors with access to their trade data in an IB LLC brokerage account in real-time through a data feed. Portfolio Managers deploy their investment strategy by trading in that IB LLC brokerage account, which is owned by the Portfolio Managers or their investment advisory firms.

Portfolio Managers license their portfolio holdings and trading record (“Historical Trade Data”) to Interactive Advisors for publication and analysis. Historical Trade Data provided by Portfolio Managers may be related to the Portfolio Manager’s trading in Client, model (based on aggregate performance of all client assets invested in a given strategy) and/or proprietary accounts. Some Portfolio Managers also provide additional content including their investment strategy, profile, portfolio market reports and analysis. (Collectively, this additional content along with Historical Trade Data are referred to as “Manager Content.”) Managers may run multiple Portfolios on the Interactive Advisors platform. **All Manager Content represents the opinions of that Manager, should not be construed as personalized investment advice to you or any other Interactive Advisors Client, and is subject to change without notice.**

Interactive Advisors generally offers the following services to its Clients in connection with Portfolio Manager Portfolios on the platform:

- It screens, selects, and assesses the riskiness of Manager Portfolios;
- It assesses the risk tolerance of Clients by assigning them a risk score based on responses to a risk assessment questionnaire;
- It allows Clients to invest (by following the trading) in a Manager Portfolio that is in line with (i.e., a risk score equal to or lower than) their assigned risk score;
- It replicates the trades in the Portfolio Manager account into the accounts of investing Clients, while retaining the discretion to block certain manager trades that violate Interactive Advisors’ present trading rules or are subject to investment restrictions specified by Clients;
- It corrects any discrepancies between the expected positions in Client accounts based on their portfolio investments and the actual positions in Client accounts after the replication process by executing small trades in Client accounts; and
- It reevaluates the risk scores assigned to Portfolio Manager strategies (at least annually) and prompts Clients to review their answers to the risk assessment questionnaire (at least quarterly) to ensure Clients are invested in strategies suitable for their risk appetite and ability to withstand investment losses. Annually Interactive Advisors attempts to contact all direct Clients to determine whether there have been any changes in their financial situation or investment objectives warranting a revision of their prior answers to the risk assessment questionnaire and whether they want to impose new or revise existing restrictions on the trading of their account.

**Interactive Advisors’ Clients do not invest directly with the Portfolio Managers and the Managers do not have discretionary trading authority over Interactive Advisors Client accounts. The Portfolio Managers simply license their trade data to Interactive Advisors, which then allows its Clients to have Interactive Advisors mirror the same strategy and trading decisions in their accounts if the Portfolio is in line with their risk score. Portfolio Managers implement their trading philosophy and strategy without knowing the identity of Interactive Advisors’ Clients or taking into account Interactive Advisors Clients’ individualized circumstances. Interactive Advisors’ offering of Manager Portfolios to its Clients does not imply that these strategies have been tested elsewhere, or have been successful for the Portfolio Manager’s clients or the Portfolio Manager himself.**



Information on Manager Portfolios, their strategies, applicable fees, and minimum investment amounts may be found on the individual portfolio pages on the <https://interactiveadvisors.com> website, accessible from the portfolio webpage: <https://interactiveadvisors.com/portfolios>

## Interactive Advisors Portfolios

In addition to Manager Portfolios, Interactive Advisors allows its Clients to invest in certain portfolios that Interactive Advisors itself constructs and manages. These portfolios (referred throughout this Brochure as “Interactive Advisors Portfolios”) are proprietary investment portfolios designed and managed by Interactive Advisors itself. At this time, these in-house constructed portfolios include the Smart Beta Portfolios, the Asset Allocation Portfolios, the Index-Tracking Portfolios, the model ETF portfolios (e.g., the WisdomTree, State Street/SSGA, Legg Mason, and Global X ETF Portfolios), and the Socially Responsible Investing Portfolios. Interactive Advisors may launch additional in-house portfolios in the future and will update this disclosure as needed to discuss their features and associated risks.

To provide the Interactive Advisors Portfolios, Interactive Advisors initially funds and trades a fixed amount of its funds in separate proprietary brokerage accounts associated with each portfolio. 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 that specific portfolio in order to implement its mirroring procedures. Subsequently, any periodic (e.g., annually, quarterly, monthly or more frequent) rebalancing trades placed by Interactive Advisors in these portfolios are proportionally replicated in Client accounts investing in one or more of these portfolios via Interactive Advisors’ co-trading technology.

**Prior to investing in any of the Interactive Advisors Portfolios discussed below, Clients are prompted and required to review and acknowledge a separate portfolio-line-specific risk disclosure specifically laying out the risks and conflicts of interest, the applicable fees and commissions, and the brokerage arrangements associated with investments in each portfolio line. These portfolio-line-specific risk disclosure documents are available on the Forms and Agreements webpage: <https://interactiveadvisors.com/forms-and-agreements>**

### Smart Beta Portfolios

At this time, Interactive Advisors offers 15 Smart Beta Portfolios, briefly discussed below. In the future, Interactive Advisors may construct and offer to its Clients other Smart Beta portfolios. Each Smart Beta portfolio seeks, as its investment objective, to achieve total returns that exceed the total returns of certain market-capitalization-weighted indices, such as the S&P 500, by relying on systematic rules-based investment strategies that do not use conventional market capitalization weights. They are designed to provide systematic exposure to a fundamental factor or combination of factors, and employ alternative weighting schemes based on measures such as value, growth, quality, and dividend yield.

In July 2019, Interactive Advisors launched ESG equivalents for 4 of the Smart Beta portfolios discussed in **Item 8** of this Brochure: **esgGRW.IB<sup>TM</sup>**, **esgBRM.IB<sup>TM</sup>**, **esgVAL.IB<sup>TM</sup>**, **esgQUAL.IB<sup>TM</sup>**, and **esgDIV.IB<sup>TM</sup>**.

Additional information on the Smart Beta Portfolio construction process, actual trading results of the Firm-owned accounts managing these portfolios, and other information on the general features of these portfolios may be found in this white paper: <https://interactiveadvisors.com/learn-more/smart-beta> (also accessible from the Learn more tab on our webpage) and on the individual portfolio pages (accessible from the Pick a Portfolio webpage: <https://interactiveadvisors.com/portfolios>).

### Asset Allocation Portfolios

Upon Clients’ taking the risk assessment questionnaire and obtaining a risk score, Interactive Advisors recommends one of the Asset Allocation Portfolios. Clients may accept or disregard this recommendation and proceed to select their own portfolio investments based on their risk scores. Aside from the Asset Allocation Portfolios, Interactive Advisors recommends no other portfolios on its platform at this time, allowing Clients to select portfolios on their own as long as in line with their risk score. Interactive Advisors does not recommend any portfolios (including the Asset Allocation

Portfolios) to clients residing in India selecting to invest on the platform pursuant to business arrangements with Indian broker dealers.

Interactive Advisors offers three different types of Asset Allocation Portfolios, which Interactive Advisors recommends to Clients based on their responses to the risk questionnaire. Depending on the risk score Interactive Advisors assigns to them based on their answers to a risk questionnaire, Clients will be able to invest in a **Conservative** (minimum risk score: 1), **Moderate** (minimum risk score: 2) or **Aggressive** (minimum risk score: 3) Asset Allocation portfolio. Furthermore, these three types of portfolios are managed differently depending on whether a Client wants to invest in a retirement savings type account (IRA accounts) or a non-retirement investment account. These portfolios bear the following names: **AGG.IB™** (Aggressive portfolio for a regular account), **AGGIRA.IB™** (Aggressive portfolio for an IRA account), **MOD.IB™** (Moderate portfolio for a regular account), **MODIRA.IB™** (Moderate portfolio for an IRA account), **CNS.IB™** (Conservative Portfolio for a regular account), and **CNSIRA.IB™** (Conservative portfolio for an IRA account).

In addition to the above variants, Interactive Advisors also recommends six ESG-focused Asset Allocation portfolios that the client may or may not decide to invest in. The six ESG variants of the above-discussed Asset Allocation Portfolios (launched in June 2019) are: **esgAGG.IB™**, **esgAGG.IRA.IB™**, **esgMOD.IB™**, **esgMOD.IRA.IB™**, **esgCNS.IB™**, and **esgCNS.IRA.IB™**.

The Asset Allocation Portfolios generally invest in 10-14 Exchange Traded Funds (“ETFs”). Interactive Advisors generally selects the ETFs in each Asset Allocation Portfolio to best represent the target asset class while having relatively low management fees and being relatively liquid.

Information on the general features of the Asset Allocation Portfolios may be found in this white paper: <https://interactiveadvisors.com/learn-more/asset-allocation> (also accessible from the Learn more tab on the webpage: <https://interactiveadvisors.com>).

#### Socially Responsible Investing Portfolios

Interactive Advisors offers 13 Socially Responsible Investing Portfolios, launched in July 2020, briefly discussed below. In the future, Interactive Advisors may construct and offer to its Clients other Socially Responsible Investing portfolios. Each Socially Responsible Investing portfolio seeks, as its investment objective, to invest in a basket of stocks with 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.

Additional information on the Socially Responsible Investing Portfolio construction process, actual trading results of the Firm-owned accounts managing these portfolios, and other information on the general features of these portfolios may be found in this white paper: <https://interactiveadvisors.com/esg> and on the individual portfolio pages (accessible from the Pick a Portfolio webpage: <https://interactiveadvisors.com/portfolios>).

#### Index Tracking Portfolios

At this time, Interactive Advisors offers 14 Index Tracking Portfolios. Each Index Tracking Portfolio is designed to follow certain predefined rules so that the portfolio can track the specified basket of underlying investments of the reference index. Each of the Index Tracking Portfolios aims to track the performance of the underlying basket of the index, and is a form of passive investing. Interactive Advisors constructs and manages the Index Tracking Portfolios based on data provided by the FTSE International Limited (“FTSE”) and the Frank Russell Company (“Russell”) under licensing agreements. The goal of these portfolios is to allow investors to track the performance of certain specified portions of the US Stock market as represented by the reference index. While based on data provided by the above two index providers, who calculate the reference indices, the Index Tracking Portfolios are not in any way sponsored, endorsed, sold, promoted, or recommended by these two index providers. Additionally, while these portfolios aim to track each corresponding reference index as closely as possible and mimic the performance of that index, Interactive Advisors cannot make any guarantee that these portfolios will succeed in doing so. Information on the general features of the Index Tracking portfolios may be found on the

individual portfolio pages, accessible through the Pick a Portfolio webpage: <https://interactiveadvisors.com/portfolios> (or through the Portfolios tab on the home page).

### WisdomTree ETF Portfolios

At this time, Interactive Advisors offers four WisdomTree ETF Portfolios. These portfolios are proprietary investment portfolios constructed and managed by Interactive Advisors based on data provided by WisdomTree Asset Management, Inc. (“WisdomTree”) pursuant to a model portfolio licensing agreement. These portfolios are based on WisdomTree’s Model Portfolios, implementing an index-centric approach seeking to add value through both asset allocation and ETF selection relative to composite cap-weighted benchmarks. While strategic in nature, these model portfolios also reflect tactical tilts based on market conditions. These portfolios are almost entirely composed of ETFs owned and managed by WisdomTree and its affiliates (“WisdomTree ETFs”). WisdomTree primarily uses WisdomTree ETFs in these portfolios unless there is no WisdomTree ETF consistent with the desired asset allocation or model portfolio strategy. There may be similar ETFs with higher ratings, lower fees and expenses, substantially better performance or more attractive yield/risk profiles in the market. Because WisdomTree and its affiliates earn fees for advisory, administrative and other services from most of the ETFs selected for these portfolios (and thus benefit from investments made in these portfolios), WisdomTree has an incentive to favor its own ETFs and to include higher cost ETFs in these portfolios. Additional information on the ETFs included in each of these portfolios, including their investment objectives, risks, charges and expenses, can be found in the prospectus for each ETF here <https://www.wisdomtree.com/resource-library/prospectus-regulatory-reports> (and <https://www.ishares.com/us/library/financial-legal-tax>) or can be obtained by calling 1-866-909-9473. While WisdomTree manages the model portfolios (deciding on their ETF composition, weighting, periodic reweighting and reallocation), it does not have discretionary authority over and cannot place trades in Interactive Advisors Client accounts. Interactive Advisors is responsible for placing trades in Client accounts invested in portfolios corresponding to each model portfolio and allowing investments in a specific portfolio deemed suitable for each Client based on the Client’s responses to a risk questionnaire. Additional information about each of the WisdomTree ETF Portfolios may be viewed on the individual portfolio pages on our website at: <https://interactiveadvisors.com/wisdomtree?portfolio=wisdomtree-aggressive> and <https://interactiveadvisors.com/wisdomtree?portfolio=wisdomtree-moderately-aggressive-with-alts>

### SSGA ETF Portfolios

At this time, Interactive Advisors offers two State Street ETF Portfolios. These portfolios are proprietary investment portfolios constructed and managed by Interactive Advisors based on data provided by SSGA Funds Management, Inc. (“SSGA”) pursuant to a model portfolio licensing agreement. These portfolios are based on SSGA’s Global Tactical Asset Allocation ETF Model Portfolios, implementing a tactical asset allocation decision-making process, which includes evaluation of global asset classes. These portfolios are almost entirely composed of ETFs owned and managed by SSGA and its affiliates (“SSGA ETFs”). There may be similar ETFs with higher ratings, lower fees and expenses, substantially better performance or more attractive yield/risk profiles in the market. Because SSGA and its affiliates earn fees for advisory, administrative and other services from most of the ETFs selected for these portfolios (and thus benefit from investments made in these portfolios), SSGA has an incentive to favor its own ETFs and to include higher cost ETFs in these portfolios. Additional information on the ETFs included in each of these portfolios, including their investment objectives, risks, charges and expenses, can be found in the prospectus for each ETF here: <https://us.spdrs.com/en/resources/materials/productLiteratureOverlay.seam>

While SSGA develops the model portfolios (deciding on their ETF composition, weighting, periodic reweighting and reallocation), it does not have discretionary authority over and cannot place trades in Interactive Advisors Client accounts. Interactive Advisors is responsible for placing trades in Client accounts invested in portfolios corresponding to each model portfolio and allowing investments in a specific portfolio deemed suitable for each Client based on the Client’s responses to a risk questionnaire. Additional information about each of the SSGA ETF Portfolios may be viewed on the individual portfolio pages on our website at: <https://interactiveadvisors.com/ssga?portfolio=ssga-growth> and <https://interactiveadvisors.com/ssga?portfolio=ssga-moderate>

### Legg Mason ETF Portfolios

In December 2018, Interactive Advisors entered into a model portfolio licensing agreement with Legg Mason Private Portfolio Group, LLC (“Legg Mason”). Pursuant to this agreement, Interactive Advisors launched a Growth and Income ETF portfolio in March 2019 and plans to launch an Environmental, Social and Governance-focused portfolio in the near future. This portfolio is based on Legg Mason model ETF portfolio data. As is the case with the WisdomTree and SSGA ETF Portfolios, Legg Mason merely provides data to Interactive Advisors, does not have discretionary trading authority over and cannot place trades in Interactive Advisors Client accounts. Information on the Growth and Income ETF Portfolio is available on the portfolio page at: <https://interactiveadvisors.com/legg-mason?portfolio=global-growth-income>

### Global X ETF Portfolios

In June 2019, Interactive Advisors entered into a model portfolio licensing agreement with Global X Management Company LLC (“Global X”) and, pursuant to this agreement launched two portfolios: the China Sector ETF Model Portfolio and the Equity Thematic Disruptors Model Portfolio. As is the case with the WisdomTree, SSGA, and Legg Mason ETF portfolios, these two portfolios are based on Global X model ETF portfolio data and Global X merely provides data to Interactive Advisors and does not have discretionary trading authority over and cannot place trades in Interactive Advisors Client accounts. Information on the Global X ETF Portfolios is available on the portfolio pages accessible from the Pick a Portfolio webpage here: <https://interactiveadvisors.com/portfolios> We are contemplating launching two new Global X ETF Portfolios in 2021.

The Global X China Sector ETF Model Portfolio (<https://interactiveadvisors.com/global-x?portfolio=china-sector>) provides exposure to China utilizing a segmented and processed approach with a tilt towards the growthier, “new” economy that is being driven by the shift to a consumer led economy. The portfolio is intended to be tilted toward the new, consumer-led economy and away from the more export-oriented sectors. This is a momentum-oriented strategy that takes into consideration the correlation between sectors as well as valuations, and seeks to take advantage of the dynamics within the Chinese market.

The Global X Equity Thematic Disruptors ETF Model Portfolio (<https://interactiveadvisors.com/global-x?portfolio=thematic-disruptors>) is a growth-focused equity allocation using Global X and third-party ETFs. The ETFs utilized are chosen to target structural themes that may be disrupting various segments and sectors in the broad market. The portfolio is constructed around these three key features:

- **Growth potential** - The ETFs used are chosen to target structural themes that may be disrupting various segments and sectors in the broad market.
- **Unconstrained approach** - Thematic ETFs tend to transcend classic sector, industry, and geographic classifications, providing exposures with low overlap and correlations with other growth-oriented strategies.
- **Structured approach** - Sectors and themes can be selected and weighted in an effort to tilt towards higher growth opportunities.

## **Interactive Advisors Clients and the Investment Management Agreement**

Clients must enter into one or more written agreements with Interactive Advisors setting forth the terms and conditions under which Interactive Advisors shall render its services (the “Investment Management Agreement” or “Client Agreement”) before they engage Interactive Advisors to provide its investment management services. This agreement provides Interactive Advisors with discretionary authority to initiate investment activities on behalf of the Client over the Client’s investment assets. A copy of Interactive Advisors’ form Client Agreement is available upon request, as well as via the Forms and Agreements page on our website in the Account Opening Agreements and Disclosures link (<https://interactiveadvisors.com/forms-and-agreements>). Pursuant to that agreement, Interactive Advisors uses its related custodian’s trading facilities to mirror or replicate trades in Manager or Interactive Advisors Portfolio accounts into the investing Clients’ accounts. Interactive Advisors uses its affiliated broker-dealer, IB LLC, to execute all trades on its platform.

Unless otherwise agreed upon, Clients are provided with transaction confirmation notices and regular summary account statements directly from IB LLC for their accounts (by mail, electronically on IB LLC’s website or through an IB LLC

window embedded on the client dashboard at <https://interactiveadvisors.com/>). Clients also receive online access to account activity reports from Interactive Advisors that include relevant account and/or market-related information such as an inventory of account holdings and account performance on a daily basis, and monthly updates of account balances and performance. However, Clients should review the information in their custodial statements for accuracy and compare that information to any report they receive from Interactive Advisors.

As of July 20, 2021, Interactive Advisors manages approximately \$119 million in assets on a discretionary basis. Clients should be aware that a significant shareholder of Interactive Brokers Group, Inc. is a significant client of Interactive Advisors.

#### Termination of the Investment Management Agreement

The agreement between Interactive Advisors and the Client will continue in effect until terminated by either party pursuant to the terms of that agreement. Clients receive a copy of Interactive Advisors' written disclosure statement or Informational Brochure (i.e., this document) at the time they execute the Client Agreement.

#### Interactive Advisors Website

The content of the Interactive Advisors website at <https://interactiveadvisors.com>, including Manager Content, performance analysis and rankings is provided as general and impersonalized investment information and commentary, and does not constitute a specific recommendation or solicitation that anyone should purchase or sell any particular security, investment advisory service, or portfolio. Interactive Advisors relies on information provided to it by Portfolio Managers and certain third parties in publishing Manager Content for the websites, and also provides internally-generated content. Interactive Advisors obtains Manager Content from sources believed to be reliable, but makes no representation as to the accuracy or completeness.

## **Item 5: Fees and Compensation**

Interactive Advisors advisory fees are calculated and charged to Clients on the following basis:

### **Annual Management Fees**

If engaged, Interactive Advisors charges an annual fee based upon a percentage of the market value of the assets being managed by Interactive Advisors, i.e., the assets that a Client chooses to invest in a Manager or Interactive Advisors Portfolio ("Management Fee").

Clients are able to invest in more than one portfolio available on <https://interactiveadvisors.com>. Interactive Advisors charges distinct Management Fees for investments in each portfolio. If Clients choose to invest in multiple portfolios, they will be charged the sum of the fees associated with each portfolio they invest in. Management Fees vary by Portfolio chosen and the level of assets invested in that Portfolio. No Management Fees are charged on assets that are not invested in a Portfolio.

- 1. For Manager Portfolios, the Management Fee consists of an annual management fee, quoted as an annual percentage of the market value of Client assets invested in a Manager Portfolio, ranging between 0.25% and 1.5% of the market value of Client assets invested in each Portfolio.**
  - a.** The Management Fee charged by Interactive Advisors for investments in each Manager Portfolio may be found on the Pick a Portfolio page on our website at <https://interactiveadvisors.com/portfolios>.
  - b.** For Manager Portfolios, Interactive Advisors retains 0.25% of any Management Fees charged to its Clients and pays any remaining portion of Management Fees collected from Clients to the Portfolio Managers.
  - c. Clients may be able to contract directly with the Portfolio Managers offering their strategies on the Interactive Advisors platform to obtain their advisory services outside of the platform at lower fees than they pay to Interactive Advisors.**

2. **For the Interactive Advisors Portfolios, Interactive Advisors charges investing Clients an annual Management Fee ranging between 0.08% and 0.20% of the market value of Client assets invested in each portfolio. The fee varies based on the Interactive Advisors Portfolio a Client invests in. For example:**
- a. For the Smart Beta Portfolios, Interactive Advisors charges investing clients the following Management Fees:**
    - i. An annual Management Fee of 0.08% (8 basis points) of the market value of Client assets invested in one or multiple large capitalization Smart Beta Portfolios, namely the Broad Market, Quality, Value, Growth and Dividend Portfolios.
    - ii. An annual Management Fee of 0.11% (11 basis points) of the market value of Client Assets invested in one or more of the small capitalization Smart Beta Portfolios, namely the Small Cap Broad Market, Quality, Value, Growth, and Dividend Portfolios and more specialized Smart Beta portfolios (e.g., **esgBRM.IB<sup>TM</sup>**, **esgGRW.IB<sup>TM</sup>**, **esgVAL.IB<sup>TM</sup>**, **esgQUAL.IB<sup>TM</sup>**, **esgDIV.IB<sup>TM</sup>**.)
  - b. For the Asset Allocation Portfolios, Interactive Advisors charges investing clients an annual Management Fee amounting to 0.12% (12 basis points) of the market value of Client assets invested in one or multiple Asset Allocation Portfolios.**
    - i. The Asset Allocation Portfolios are made up of ETFs. As explained throughout this Brochure, ETF issuers charge management fees and expenses, which are disclosed in the ETFs' prospectuses. Clients will be solely responsible, directly or indirectly, for these additional expenses. Interactive Advisors does not receive any portion of these commissions, fees, or costs, including but not limited to the fees or costs charged by ETF sponsors or issuers. **Clients may contact Interactive Advisors at any time to get information on the fees and expenses charged by the ETFs in which they are invested through their investment in one or more of the Interactive Advisors Portfolios (e.g., Asset Allocation Portfolios, SSGA, Legg Mason, Global X or WisdomTree Portfolios) or Manager Portfolios.**
    - ii. Because Interactive Advisors staff have constructed and manage the Smart Beta and Asset Allocation Portfolios without any involvement on the part of Portfolio Managers or a third party data provider, Interactive Advisors retains the entire fee charged to its Clients for investments in these portfolios and does not pay any portion of this fee to any Portfolio Managers.
  - c. For the Socially Responsible Investing Portfolios, Interactive Advisors charges investing Clients an annual Management Fee amounting to 0.11% (11 basis points) of the market value of Client assets invested in one or multiple Socially Responsible Investing Portfolios**
  - d. For the Index Tracking Portfolios, Interactive Advisors charges investing Clients an annual Management Fee amounting to 0.20% (20 basis points) of the market value of Client assets invested in one or multiple Index Tracking Portfolios.**
    - i. Interactive Advisors remits half of the 0.20% annual management fee collected from investing clients to FTSE International Limited or the Frank Russell Company, the index providers licensing data necessary to construct and rebalance these portfolios.
  - e. For the WisdomTree, SSGA, Legg Mason and Global X ETF Portfolios, Interactive Advisors charges investing Clients an annual Management Fee amounting to 0.10% (10 basis points) of the market value of Client assets invested in those portfolios. Interactive Advisors does not remit any of that fee revenue to WisdomTree, SSGA, Legg Mason or Global X.**
3. Interactive Advisors' Management Fee shall be computed daily, but prorated and charged monthly, in arrears or retroactively for the previous month (or in connection with a withdrawal from a portfolio), based upon the daily

market value of invested assets during the previous month. Thus, on a daily basis, the applicable fee rate associated with each Portfolio in which a Client has invested will be applied to the end-of-day market value of the Client's investment (i.e., assets in client account invested) into that Portfolio, with the resulting amount divided by 365. For purposes of calculating Interactive Advisors' Management Fee, the value of the investment will be the value on the day the fee is calculated (i.e., the initial value of the assets initially invested by the Client in the strategy and all intervening additions to or subtractions from that up to the date the fee is calculated). At the end of each month, the Client is charged a Management Fee made up of the sum of all daily fees calculated during that month for each investment.

4. For the initial month of investment management services, the first month's fees shall be calculated on a pro rata basis. Interactive Advisors' fee shall be prorated through the date of termination and any remaining balance shall be charged or refunded to the Client, as appropriate, in a timely manner.
5. The market value of an investment for purposes of calculating the Management Fee that a Client owes to Interactive Advisors is calculated based on data provided by IB LLC, Interactive Advisors' affiliated broker-dealer and custodian. IB LLC uses pricing data from independent third parties (SIX Financial, aka Telekurs for U.S. stocks and ETFs) to arrive at the asset pricing information used by Interactive Advisors to derive portfolio values for purposes of its Management Fee calculations.
6. Interactive Advisors automatically deducts its Management Fees from Client accounts, as authorized in the Client Agreement, using IB LLC's invoice billing process. Interactive Advisors calculates the fees owed to it by each Client every month and submits the invoice to IB LLC. IB LLC debits those fees from client accounts and pays them to Interactive Advisors. The fees calculated and invoiced by Interactive Advisors must be in accordance with the level of fees outlined for the various portfolios in the Client Agreement and at <https://interactiveadvisors.com/low-fees> Interactive Advisors does not charge its Clients fees in advance. Additional details on how Interactive Advisors calculates the Management Fees due to it by Clients investing in any of its portfolios are included in Appendix A of the Investment Management Agreement all Clients agree to before retaining Interactive Advisors as their investment advisor.

Interactive Advisors, in its sole discretion, may waive a portion of the Management Fee or charge a lower Management Fee based upon certain criteria, including but not limited to: the initial launch of a service line, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing Client, account retention, and pro bono activities. Interactive Advisors' fees are not generally negotiable by individual Clients. The fees applicable to each Manager Portfolio available on the platform are generally negotiated between Interactive Advisors and the Portfolio Manager offering the specific strategy.

## **Costs, Fees and Expenses Not Included in Interactive Advisors' Annual Management Fees**

**Interactive Advisors' fees only cover its investment advisory services and do not include brokerage commissions, custodial fees, transaction fees, exchange fees, ETF fees or other related costs and expenses incurred for the investment of Client assets in portfolios offered by Interactive Advisors.**

Unlike other robo advisor portfolio offerings, which charge a single wrap fee covering management fees and brokerage commissions, Interactive Advisors' management or advisory fee does not include the commissions associated with the trading in these portfolios. IB LLC commissions are also discussed in detail in Item 12: Brokerage Practices. You may also find additional information on IB LLC's commissions on the Interactive Advisors and IB LLC websites (including this location: <https://interactiveadvisors.com/low-fees>)

**In May 2021, Interactive Advisors elected to have all of its clients' brokerage accounts at IB LLC operate under the zero-commission "IBKR-LITE" fee model.** IBKR-LITE clients are charged zero commission for US exchange-listed stock and ETF trades. IBKR-LITE orders for NMS stocks are generally routed to select over-the-counter market-makers ("Market Makers") for handling. IB LLC's agreements with the Market Makers provide IB LLC with payment for order flow ("PFOF") from each Market Maker for trades executed with that Market Maker. IB LLC may also route IBKR-LITE orders

to another broker, ATS, or exchange (each an “Away Route”), in which case it may collect PFOF for trades executed at or through that Away Route. Although IB LLC’s receipt of PFOF may reduce the amount of price improvement that client accounts obtain on their stock and ETF trades (as compared to the price improvement available under IBKR’s IBKR-PRO fee model), Interactive Advisors believes that the amount that clients save by avoiding commissions (as compared to IBKR-PRO) generally more than compensates for any loss of price improvement. For more information about IBKR-LITE, please refer to Item 12: Brokerage Practices, found later in this Brochure and the IB LLC website (including this location: [ibkr.com/compare](http://ibkr.com/compare)).

IBKR-Lite clients are charged no brokerage account activity fees and no market data fees for US exchange-traded stocks and ETFs, but they may incur non-commission related fees such as market data fees for other products, service fees such as wire transfer fees, and fees to cover regulatory fees incurred by IB LLC when clients sell stocks. These fees are not intended to be a direct pass-through of exchange and third-party fees. Costs passed on to IBKR-Lite clients may be greater than the costs paid by IBKR to the relevant exchange, regulator, clearinghouse or third party. For products not entitled to zero-commission trading under IBKR-Lite, the same commission structure will apply to both IBKR-Lite and IBKR-Pro. Where applicable, a "Fixed" commission model will apply to IBKR-Lite clients for such products. For more information, see [ibkr.com/commissions](http://ibkr.com/commissions).

Interactive Advisors’ election of the IBKR-LITE service for its Client Accounts constitutes a conflict of interest in light of the corporate affiliation between Interactive Advisors and IB LLC and the fact that the payments IB LLC will receive from Market Makers and Away Routes on Client Account orders will benefit the parent company of both entities (IBG LLC) and thus Interactive Advisors indirectly, and the fact that IBKR-LITE executions may (but are not expected to) bring clients higher total cost of execution than IBKR-PRO executions (even after accounting for the commissions savings, as a result of missed opportunity for greater price improvement). This conflict of interest is disclosed to and acknowledged by Interactive Advisors clients at account opening through signing this Agreement and the provision of a separate disclosure. This conflict is mitigated by Interactive Advisors periodically reviewing Interactive Brokers’ execution quality statistics to confirm that IBKR-LITE’s total cost of execution (calculated as commissions and fees paid minus price improvement obtained) is generally equal to or better than IBKR-PRO’s total cost of execution after accounting for the commissions savings from IBKR-LITE. Interactive Advisors believes the benefits clients will receive from the IBKR-LITE commission structure outweigh the conflict of interest.

**By acknowledging that Interactive Advisors uses the IBKR-LITE service for all its client accounts, you understand that: (1) IB LLC will receive and retain all such payments from Market Makers and Away Routes, in whole or part, for its own account and not that of the client, in consideration for services provided by IB LLC to the client; and (2) you may have received better price improvement if IB LLC sent your orders to the market rather than the Market Makers.**

**In addition to the advisory fees you pay to Interactive Advisors, you will be charged other separate, distinct and additional fees and expenses by third parties, e.g., fees and expenses charged by mutual funds, REITs or ETFs.** For instance, ETF issuers charge management fees and expenses, which are disclosed in the ETFs’ prospectuses. ETFs typically include certain embedded expenses that reduce the fund’s net asset value, and indirectly the performance of your investment in a portfolio investing in ETFs. The embedded expenses of an ETF include ETF management fees, custodian fees, brokerage commissions, and legal and accounting fees. These expenses may change from time to time at the sole discretion of the ETF issuer. This means that you will pay more if you invest in portfolios made up of ETFs than if you purchased the ETFs directly. **Please note that Interactive Advisors does not benefit either directly or indirectly from these fees and expenses and does not receive any portion of these and Clients will be solely responsible, directly or indirectly, for paying these additional fees and expenses. Clients may contact Interactive Advisors at any time to get information on the fees and expenses separately charged by the ETFs in which they are invested through their investment in one or more of the Interactive Advisors Portfolios or Manager Portfolios. Clients are directed to review Item 12: Brokerage Practices, found later in this brochure.** In addition to the above fees, there may be other costs assessed to clients that are not included in Interactive Advisors’ Management Fees, such as costs associated with exchanging currencies, wire transfer fees or other fees required by law. No persons at Interactive Advisors or any supervised persons or representatives of



Interactive Advisors accept compensation or commissions for the sale of securities or other investment products (e.g., asset-based sales charges or service fees from the sale of mutual funds).

## **Performance-Based Fees Not Charged to Any Clients for Investments in Any Portfolios**

At this time, Interactive Advisors does not charge Performance-Based Fees to any Clients for investments in any portfolios on its platform.

## **Item 6: Performance-Based Fees and Side-by-Side Management of Client Accounts**

Interactive Advisors does not charge Performance-Based Fees to any Clients for investments in any portfolios on its platform. Therefore, no relevant side-by-side management conflict issues arise on the Interactive Advisors platform.

## **Item 7: Types of Clients**

Interactive Advisors' Clients include individuals, trusts, corporations and other legal entities.

Utilizing fractional trading, the majority of portfolios on our platform have an investment minimum of just \$100.

Interactive Advisors has established the following account minimums:

- **Manager Portfolios** - For most Manager Portfolios the investment minimums range between \$500 and \$50,000, with the majority of these portfolios having minimum required investments of \$20,000 and below; and
- **Interactive Advisors Portfolios** (e.g., Smart Beta, Asset Allocation, Socially Responsible Investing Portfolios, Index Tracking, WisdomTree ETF Portfolios, SSGA ETF Portfolios, Legg Mason ETF Portfolios, and Global X ETF Portfolios) - \$100 minimum investment.

Clients may become Interactive Advisors Clients and invest in one or more portfolios on the platform in one of two ways:

- By applying to open an Interactive Advisors account on the Interactive Advisors website; or
- By authorizing their investment advisor to open an Interactive Advisors account on their behalf on the Interactive Advisors website.

Under the first method, Clients sign Interactive Advisors' Investment Management Agreement and acknowledge all required documents and disclosures online directly.

Since July 2018, all new Clients have been opening a simplified robo advisor version of a brokerage account at IB LLC (with a streamlined account opening workflow), which they cannot use to self-trade. These Clients have the option to later upgrade their robo advisor account to a Universal Account at IB LLC if they wish to self-trade and make self-directed investments in the market outside of Interactive Advisors portfolios. Any information Interactive Advisors provides to Clients about the possibility and benefits of a brokerage account upgrade is provided by IB LLC and furnished by Interactive Advisors to Clients as a courtesy. **This information should not be construed as a recommendation by Interactive Advisors to upgrade to a fully enabled IB LLC brokerage account, to trade in any particular way, or to trade on margin.** These clients receive all relevant agreements and disclosures (including those provided by IB LLC) on the Interactive Advisors website at account opening, and on an ongoing basis get access to Interactive Advisors and IB LLC documents (e.g., statements, trade confirms, etc.) on the Interactive Advisors dashboard.

Under the second method, Clients' investment advisors may hire Interactive Advisors as a sub-advisor. The Client's investment advisor has responsibility to communicate with the Client and to determine the suitability of investments in Interactive Advisors portfolios based on the Client's financial circumstances, risk tolerance, liquidity needs, net worth, investment experience, and any other factors that may be relevant and appropriate for such a determination. Clients' investment advisors gather all information needed to open an Interactive Advisors account on behalf of their clients and invest Clients' assets in such portfolios as the advisor and the Client deem appropriate. These investment advisors are responsible for providing Clients with a current copy of Interactive Advisors' disclosure statement prepared in accordance

with Form ADV Part 2 (i.e., this Informational Brochure), and any other Interactive Advisors disclosures. Before Interactive Advisors allows an investment advisor to invest one of its clients in an Interactive Advisors portfolio, Interactive Advisors will conduct its own due diligence of the advisor and also obtain from advised clients a signed agreement allowing their advisor to invest their account in Interactive Advisors portfolios (“Client Authorization”) and more specifically: (a) open an account on their behalf, sign and acknowledge all required documents (including, but not limited to the Investment Management Agreement), provide all required consents, and receive on their behalf all disclosures that Interactive Advisors makes to its Clients (including, but not limited to the Form ADV Part 2 Informational Brochure), (b) provide information about their financial situation, investment objectives and risk appetite and tolerance to Investment Advisors to facilitate their investment in portfolios, (c) access their Interactive Advisors account and make all investment decisions, including which portfolios to invest in and the amount of those investments, and (d) specify any investment restrictions to Interactive Advisors on the Clients’ behalf. Clients agree to pay Interactive Advisors advisory fees applicable to the portfolios their Advisors invest in on their behalf and acknowledge that those fees are separate and in addition to any fees they agreed to pay their Advisor. Clients also acknowledge in the Client Authorization that all applicable agreements, disclosures, documents, and consents that the Advisors may sign, provide or acknowledge on their behalf are available for Clients’ review on the Interactive Advisors website at <https://interactiveadvisors.com/forms-and-agreements> or may be obtained by contacting the advisor or Interactive Advisors. Clients also are informed that they must notify Interactive Advisors immediately in writing if they want to revoke the Client Authorization or if any of their representations and warranties in that document become inaccurate.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

Interactive Advisors employs a variety of methods and strategies to make investment decisions and recommendations to Clients.

### **Manager Portfolios**

For Manager Portfolios, Interactive Advisors typically relies on the investment decisions of Portfolio Managers in its management of Client accounts. Interactive Advisors attempts to track the Portfolio Manager's trades as accurately as possible, but it does maintain discretion to modify the Portfolio Manager's trades or rebalance investing Client accounts in order to provide the best services to Clients.

Interactive Advisors selects the Manager Portfolios that it will offer on the platform using a variety of criteria. As part of its processes to ensure the quality of the Portfolio Managers on the Platform and to minimize the risk of Manager front-running, Interactive Advisors screens the Managers and may require that they meet certain minimum criteria (e.g., AUM, size of personal funds invested in the strategy). Interactive Advisors may also require that Portfolio Managers and their lead traders certify to Interactive Advisors that they will not trade ahead of Interactive Advisors Clients in their proprietary or personal accounts or systematically trade ahead of Interactive Advisors Clients in any non-Interactive Advisors client accounts using the same strategy. Before Portfolio Managers launch their strategy on the platform, Interactive Advisors monitors the performance of the strategy in the Manager’s IB LLC account in a live test environment. In this live test environment, the Managers make trades in their account and Interactive Advisors tracks the performance of their account. Interactive Advisors displays the performance of the Manager’s account on its public website, if and when the Manager’s strategy is ultimately approved to be listed on the platform. Interactive Advisors Clients are not allowed to invest in the Manager’s strategy during this live test period.

Managers complete a questionnaire in which they specify their parameters for portfolio construction, risk control and strategy guidelines. This questionnaire assists Interactive Advisors in gathering information about each Manager, including his or her investment philosophy, process, and strategy differentiators. Managers may then provide Interactive Advisors with historical trade data for their strategy for periods before the Manager joined the platform. Interactive Advisors analyzes this information to ensure consistency with the Manager’s responses to the questionnaire and other strategy-related materials. If the Portfolio demonstrates performance and risk characteristics consistent with the strategy and Interactive Advisors’ Investment Management team believes that the Manager has the skills and experience to consistently deliver the strategy

described, Interactive Advisors will open the Portfolio up for Client investments. Interactive Advisors does not impose specific performance requirements and views the consistency with which Portfolio Managers implement their strategy and ability to generate alpha as more important in selecting Portfolio Managers for its platform.

Portfolio Managers generally use the following types of investments in managing Portfolios on the Interactive Advisors platform:

- Equity Securities, including exchange-listed securities, certain over-the-counter securities, and American Depositary Receipts (“ADRs”); and
- Exchange-traded funds (“ETFs”).

## Interactive Advisors Portfolios

For the Interactive Advisors Portfolios (e.g., Smart Beta, Asset Allocation, Socially Responsible Investing, Index Tracking, WisdomTree, Global X, Legg Mason and SSGA ETF Portfolios), Interactive Advisors utilizes a proprietary computer algorithm or model developed in-house or licensed from a third-party data provider in order to select the stocks or ETFs included in the portfolios initially and during periodic rebalancings (e.g., annually, quarterly, monthly or more frequent). Interactive Advisors Portfolios generally trade in equity securities traded on U.S. exchanges and ETFs and the main sources of information for the transactions in these portfolios include data about US stocks and/or ETFs provided by third-party data vendors.

**Prior to investing in any of the Interactive Advisors Portfolios discussed below, Clients are prompted and required to review and acknowledge a separate portfolio-line-specific risk disclosure specifically laying out the risks and conflicts of interest, the applicable fees and commissions, and the brokerage arrangements associated with investments in each portfolio line. These portfolio-line-specific risk disclosure documents are available on the Forms and Agreements webpage: <https://interactiveadvisors.com/forms-and-agreements>**

## Smart Beta Portfolios

Interactive Advisors has undertaken research and back-testing to select the fundamental factors, rules, and/or weighting used to construct the ten Smart Beta Portfolios. These portfolios combine elements of automated (robo) investing with management oversight, and are auto-rebalanced quarterly to maintain their optimal strategic composition. Below are short descriptions of the ten Smart Beta Portfolios offered at this time.

The **Value Portfolio (VAL.IB™)** targets an allocation of 300 long positions, with stocks having attractive valuation ratios receiving higher allocations, and both trailing and forward price-earnings valuation ratios being considered when determining allocations. This contrarian approach to stock selection allows the Value Portfolio to allocate capital to companies that may be out of favor with the market, but poised for recovery. The **Value Portfolio** has a significant element of broad equity market risk, and is therefore exposed to stock market volatility and drawdowns. Due to this portfolio’s focus on value stocks, it will likely suffer greater losses if this segment of the market underperforms.

The **Growth Portfolio (GRO.IB™)** targets an allocation of 300 long positions, with stocks having attractive growth ratios receiving higher allocations, and both trailing and forward earnings growth measures being considered when determining allocations. Even if a company reports better than expected past results, the guidance given during the quarter is also important and considered by Interactive Advisors in determining the attractiveness of the stock. The **Growth Portfolio** has a significant element of broad equity market risk and is therefore exposed to stock market volatility and drawdowns. Due to this portfolio’s focus on growth stocks, it will likely suffer greater losses if this segment of the market underperforms.

The **Quality Portfolio (QAL.IB™)** targets an allocation of 300 long positions, with stocks having attractive quality ratios receiving higher allocations, and return on assets and other earnings quality measures being considered when determining allocations. This portfolio seeks securities with strong fundamentals that are not excessively overvalued. The **Quality Portfolio** has a significant element of broad equity market risk, and is therefore exposed to stock market volatility and

drawdowns. Due to this portfolio's focus on quality stocks, it will likely suffer greater losses if this segment of the market underperforms.

The **Dividend Portfolio (DIV.IB™)** targets an allocation of 300 long positions, with stocks having attractive dividend yields and stable payouts receiving higher allocations. This ensures that future dividend payouts are less likely to be at risk. One advantage of this portfolio is that it offers investors a stream of dividend income while also providing the potential for longer-term attractive returns.

The **Broad Market Portfolio (BRM.IB™)** targets an allocation of 1,000 long positions, with allocations being a blend of equal and capitalization weight. Because of the equal weight component, the portfolio has a larger proportion of smaller companies compared to a portfolio that is purely capitalization-weighted. During rebalancing of this portfolio, Interactive Advisors tends to buy securities that have shown a relative decline in value, and sell securities that have shown a relative increase in value. The portfolio is therefore less prone to having a concentration in bubble stocks that have experienced dramatic price appreciation. The **Broad Market Portfolio** has a significant element of broad equity market risk, and is therefore exposed to stock market volatility and drawdowns. Due to this portfolio's use of half equal weighting, it will likely underperform if small-, mid-cap or value stocks underperform.

Interactive Advisors also offers small-capitalization company versions of the above five portfolios: **smVAL.IB™**, **smGRO.IB™**, **smQAL.IB™**, **smDIV.IB™**, and **smBRM.IB™**.

In May 2019, Interactive Advisors launched the **ESG Broad Market Portfolio (esgBRM.IB™)**. Also, in July 2019, Interactive Advisors launched the following ESG versions of the above four portfolios: **ESG Growth Portfolio (esgGRW.IB™)**, **ESG Value Portfolio (esgVAL.IB™)**, **ESG Quality Portfolio (esgQAL.IB™)**, and **ESG Dividend Portfolio (esgDIV.IB™)**. These portfolios use an ESG (Environment, Social and Governance) investment strategy, which limits the types and number of investment opportunities available to this portfolio and could underperform portfolios without an ESG focus, be they the Smart Beta Broad Market Portfolio, other Smart Beta portfolios, or other portfolios on the Interactive Advisors platform or elsewhere. The ESG investment strategy of these portfolios could result in the 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 a portfolio 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.

Additional information on the Smart Beta Portfolio construction process, actual trading results of the Firm-owned account managing the portfolio, and other information on the general features of these portfolios may be found in this white paper: <https://interactiveadvisors.com/learn-more/smart-beta> (also accessible from the Learn more tab on our webpage), on the individual portfolio pages (accessible from the Pick a Portfolio webpage: <https://interactiveadvisors.com/portfolios>) and the relevant risk disclosure document at this location: <https://interactiveadvisors.com/forms-and-agreements>

## **Asset Allocation Portfolios**

Interactive Advisors has undertaken research to ensure that the diversified mix of asset classes for each Asset Allocation Portfolio is appropriate for the targeted investor profile and level of risk. Interactive Advisors Investment Management Team has looked for diversification not only across asset classes (e.g., equities versus bonds), but also within a single asset class (e.g., corporate bonds versus treasuries). Portfolio optimization techniques, weight and risk constraints were then considered to derive target allocations. Interactive Advisors has screened and selected specific ETFs to best represent the target asset class, while also having relatively low management fees and more liquidity. For taxable accounts, Interactive Advisors has selected tax-advantaged assets like municipal bonds. Each quarter, these portfolios are rebalanced to target allocations. The selection and weighting of the specific ETFs in each portfolio depends on their expected return characteristics, the degree of diversification that they provide within the portfolio, the management fees charged by each ETF, and their relative liquidity. Every quarter Interactive Advisors rebalances these portfolios to target weights.

At this time, Interactive Advisors offers twelve Asset Allocation Portfolios (corresponding to three distinct risk appetites - conservative, moderate and aggressive, IRA and non-IRA accounts, and using or not using an ESG strategy). Each Asset Allocation portfolio seeks, as its investment objective, to achieve growth as well as stability by combining different asset classes. Interactive Advisors tries to combine different asset classes in each portfolio to provide income, growth, and stability during different economic conditions while taking into account the various asset classes' historical performance.

These portfolios allocate capital to an equity component, a bond component, and an inflation-hedging component. Together these deliver good diversification, which leads to risk reduction and return stability. The capital allocation to each of these asset classes is dialed up or down depending on the targeted risk level. These portfolios' final allocations depend on the targeted level of risk, as well as on whether the capital is held in a tax-advantaged account like an IRA.

In June 2019, Interactive Advisors launched six ESG Asset Allocation portfolios. ESG-focused ETFs considered for inclusion in these portfolios tend to have higher expense ratios than their non-ESG equivalents, and therefore, the fees clients will pay to the ETF issuers when they invest in the ESG-focused ETFs and portfolios will be higher than those they pay for non-ESG-focused ETFs and portfolios.

Information on the general features of the Asset Allocation portfolios may be found in this white paper <https://interactiveadvisors.com/white-papers/asset-allocation> (also accessible from the Resources tab on the webpage: <https://interactiveadvisors.com>) and the relevant risk disclosure document at this location: <https://interactiveadvisors.com/forms-and-agreements>

## **Socially Responsible Investing Portfolios**

Interactive Advisors offers thirteen Socially Responsible Investing Portfolios. Interactive Advisors has undertaken research and back-testing to select the fundamental factors, rules, and/or weighting used to construct the thirteen Socially Responsible Investing Portfolios. These portfolios combine elements of automated (robo) investing with management oversight and are auto-rebalanced annually to maintain their optimal strategic composition. These portfolios are constructed using a rules-based algorithm to determine position allocations. Allocations are a blend of capitalization weights and equal weights. Due to the various filters employed, several of which do not relate to financial criteria, the name count may be lower, and sector concentration higher, than other broadly diversified portfolios. In order to reduce portfolio weight concentration in just a few names, we use allocations that are a blend of equal and capitalization weight. Every year these portfolios are rebalanced to target weights. Below are short descriptions of the six Socially Responsible Investing Portfolios offered at this time.

The **Clean Air Portfolio** is designed to invest in environmentally-conscious companies that are committed to reducing emissions, manage the sustainability of their energy consumption, and aim to have a low-carbon footprint.

The **Company Transparency Portfolio** is designed to invest in companies that make an effort to protect their customers. We include in this portfolio companies that care about customer welfare and data security, and follow best practices regarding product safety, quality and product labeling.

The **Customer Safety Portfolio** is designed to invest in companies that care about customer privacy and safety, product access and affordability, product quality and safety, and follow good selling practices. Failure on the part of a company to address these factors may lead to misuse of personal data, product recalls from harmful practices, deceptive labeling, and predatory selling, to name just a few.

The **Ethical Leadership Portfolio** is designed to invest in companies that follow best-practice corporate governance, competitive behavior, and risk management principles, and provide equal treatment of stakeholders. We include in this portfolio companies that demonstrate management's ability to interact with regulators, resolve conflict between corporate and societal interests, act responsibly in times of crises, and avoid anti-competitive behavior, such as collusion, fraud, and corruption.

The **Fair Labor & Thriving Communities Portfolio** is designed to invest in companies that care about the societies where they operate as well as maintain diverse and equal opportunities, and development opportunities for their workforce. We

include in this portfolio companies that care about upholding fair labor standards, maintain a safe and healthy workplace, have processes and policies in place against abusive labor practices, and are committed to being good citizens, protecting public health, and respecting business ethics.

The **Gender Equality Portfolio** is designed to invest in companies that maintain diverse and equal opportunities, and development opportunities for their workforce. We include in this portfolio companies trying to achieve gender parity by encouraging equal pay, active recruiting, promotion of women, and embracing a culture of tailored benefit packages and mentorship programs.

The **LGBTQ Inclusion Portfolio** is designed to invest in companies that maintain diverse and equal opportunities, and development opportunities for their LGBTQ workforce. We include in this portfolio companies that focus on culture and hiring and promotion practices that embrace the building of a diverse and inclusive workforce with a focus on the LGBTQ community.

The **Land Health Portfolio** is designed to invest in companies that pay attention to harmful land waste as a byproduct of their activities and take into consideration the safe treatment, storage, and disposal of solid waste while observing local and universal regulations. In constructing this portfolio, we also consider how companies handle the impact from the extraction of natural resources, such as deforestation, biodiversity damage, and habitat loss.

The **Mindful Business Models Portfolio** is designed to invest in companies that display business model resilience and incorporate ESG elements into long-term planning. We include in this portfolio companies that are working towards the transition to low-carbon and climate-friendly economies and where management has shown a willingness to proactively address legal and regulatory ESG issues.

The **Ocean Life Portfolio** is designed to invest in companies that manage their water use and place value on ocean and marine life. We include in this portfolio companies that have waste management and recycling initiatives and controls and systems in place to avoid significant disasters that can impact ocean life.

The **Pure Water Portfolio** is designed to invest in companies that manage their water use and avoid contamination and toxic waste. We include in this portfolio companies that care about the management of wastewater treatment and discharge, their impact on ecosystems and the health and safety of the local community, including community members' access to clean water.

The **Racial Equality Portfolio** is designed to invest in companies that maintain diverse and equal opportunities, and development opportunities for their workforce. We include in this portfolio companies that practice equal hiring and provide employment opportunities to persons of all races, regardless of skin color, backgrounds, and ethnicities in an environment that is free of discrimination.

The **Sustainable Product Lifecycle Portfolio** is designed to invest in companies that consider the design, quality, and safety of products and services, focusing on the entire supply chain and the materials used in manufacturing products. This portfolio also attempts to capture the value companies and suppliers place on labor practices and human rights.

These portfolios use an ESG investment strategy. Such a strategy could limit the types and number of investment opportunities available to these portfolios, lead the portfolios to underperform a portfolio without an ESG focus or with a distinct ESG focus, and result in the portfolios investing in securities or industry sectors that underperform the market as a whole or foregoing opportunities to invest in securities that might otherwise be advantageous to invest in. Interactive Advisors could also be unsuccessful in creating a portfolio composed of companies that exhibit positive ESG characteristics.

Additional information on the Socially Responsible Investing Portfolio construction process, actual trading results of the Firm-owned account managing the portfolio, and other information on the general features of these portfolios may be found in this white paper (<https://interactiveadvisors.com/esg>), on the individual portfolio pages (accessible from the Pick a Portfolio webpage: <https://interactiveadvisors.com/portfolios>) and the relevant risk disclosure document at this location: <https://interactiveadvisors.com/forms-and-agreements>

## ESG Exclusionary Lists

In January 2020, the Firm started offering clients the option to select from several predefined exclusionary lists in investing in portfolios on the platform. Clients may select one of the following exclusionary lists in order to avoid investing in companies they do not think share their values. Each of the following exclusionary groups is based on detailed business classification and ESG metrics, typically contains 25 stocks, and is reviewed annually:

- **Animal testing** - excluding companies selling personal and household products and services that test cosmetic products on animals;
- **Business ethics controversies** - excluding companies with the most controversies relating to ethics, politics or corruption, as published in the media;
- **Corporate political spending and lobbying** - excluding companies with the highest amount of political donations and those that spend the most on lobbying, relative to size;
- **Energy intensive** - excluding companies with the highest total energy usage;
- **Fossil fuels** - excluding companies that operate in the coal industry and/or are the largest producers of oil;
- **Greenhouse emissions** - excluding companies with the highest reported direct and indirect CO2 emissions;
- **Hazardous waste** - excluding companies responsible for creating the highest hazardous waste;
- **High water usage** - excluding companies with the highest levels of water withdrawals;
- **Tobacco, alcohol and gambling** - excluding companies deriving revenue from sales of tobacco, alcohol and gambling activities; and
- **Weapons and gun manufacturers** - excluding companies deriving revenue from sales of military equipment and weapons.

Clients deciding to exclude securities in any of these lists from their portfolio investments should understand that these exclusions affect the performance of their portfolio investments. The Firm provides an interactive tool on its website that allows clients to estimate the performance differences between investing in one of the portfolios as initially constructed and investing in one of the portfolios excluding the securities on any of the exclusionary lists.

Clients may find more information on these exclusionary lists, the performance consequences of relying on them, and other risks associated with using them on this webpage: <https://interactiveadvisors.com/esg>

## Index-Tracking Portfolios

Interactive Advisors offers 14 Index Tracking Portfolios. Each Index Tracking portfolio is designed to follow certain predefined rules so that the portfolio can track the performance of a specified basket of underlying investments, a form of passive investing. Interactive Advisors constructs and manages the Index Tracking Portfolios based on data provided by FTSE and Russell under licensing agreements. The goal of these portfolios is to allow investors to track the performance of certain specified portions of the US Stock market as represented by the reference indices. While based on data provided by the above two index providers who calculate the indices these portfolios seek to track, the Index Tracking Portfolios are not in any way sponsored, endorsed, sold, promoted or recommended by these two index providers. Additionally, while these portfolios aim to track each corresponding reference index as closely as possible and mimic the performance of that index, Interactive Advisors cannot make any guarantee that these portfolios will succeed in doing so.

At this time, Interactive Advisors offers the following Index Tracking Portfolios:

1. **The FTSE NAREIT All Equity REITs Managed Portfolio** seeks to invest in the real estate space across the US economy with exposure to all investment and property sectors. The portfolio contains all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property that also meet certain minimum size and liquidity criteria.
2. **The Russell 1000 Consumer Discretionary Managed Portfolio** invests in stocks of companies that provide goods and services that consumers purchase on a discretionary basis. The portfolio targets long US Consumer discretionary equities within the Russell 1000® Index.

3. **The Russell 1000 Consumer Staples Managed Portfolio** invests in stocks of companies providing direct-to-consumer products that, based on consumer spending habits, are considered nondiscretionary. The portfolio targets long US Consumer Staple equities within the Russell 1000® Index.
4. **The Russell 1000 Dividend Growth Managed Portfolio** seeks to invest in the top large-capitalization US dividend equities within the Russell 1000® Index. The portfolio targets companies that have successfully increased their dividend payments over a period of ten years within the Russell 1000® Index. Companies are screened for liquidity and dividend status, then selected and equal weighted subject to a maximum individual sector weight of 30%.
5. **The Russell 1000 Energy Managed Portfolio** invests in stocks of companies involved in the exploration and production of energy products such as oil, natural gas, and coal. The portfolio targets long US Energy equities within the Russell 1000® Index.
6. **The Russell 1000 Financial Services Managed Portfolio** invests in stocks of companies that provide financial services. The portfolio targets long US Financial Services equities within the Russell 1000® Index.
7. **The Russell 1000 Healthcare Managed Portfolio** includes stocks of companies involved in providing medical or healthcare products, services, technology, or equipment. The portfolio targets long US Healthcare equities within the Russell 1000® Index.
8. **The Russell 1000 Materials & Processing Managed Portfolio** includes stocks of companies that extract or process raw materials. The portfolio targets long US Materials and Processing equities within the Russell 1000® Index.
9. **The Russell 1000 Producer Durables Managed Portfolio** includes stocks of companies that manufacture products and provide services that consumers purchase on a discretionary basis. The portfolio targets long US Producer Durables equities within the Russell 1000® Index.
10. **The Russell 1000 Technology Managed Portfolio** includes stocks of companies that serve the electronics and computer industries or that manufacture products based on the latest applied science. The portfolio targets long US Technology equities within the Russell 1000® Index.
11. **The Russell 1000 Utilities Managed Portfolio** includes stocks of companies that distribute electricity, water, or gas, or that operate as independent power producers. The portfolio targets long US Utility equities within the Russell 1000® Index.
12. **The Russell 3000 Dividend Growth Managed Portfolio** seeks to invest in the top U.S. dividend equities within the Russell 3000® Index. The portfolio targets companies that have successfully increased their dividend payments over a period of ten years within the Russell 3000® Index. Companies are screened for liquidity and dividend status, then selected and equal weighted subject to a maximum individual sector weight of 30%.
13. **The Russell Top 200 Managed Portfolio** seeks to invest in the top 200 large-capitalization US equities. The portfolio targets 200 long positions based on the Russell Top 200 Index. The Russell Top 200® Index is a market capitalization weighted index of the largest 200 companies in the Russell 3000 Index.
14. **The Russell 1000 Telecommunications Managed Portfolio** consists of companies that are associated with the global transmission of audio and video data.

Information on the general features of the Index Tracking portfolios may be found on the individual portfolio pages, accessible through the Pick a Portfolio webpage (<https://interactiveadvisors.com/portfolios>) (or through the Portfolios tab on the home page) and the relevant risk disclosure document at this location: <https://interactiveadvisors.com/forms-and-agreements>.



## WisdomTree ETF Portfolios

Interactive Advisors offers two WisdomTree ETF Portfolios. These portfolios are proprietary investment portfolios constructed and managed by Interactive Advisors based on data provided by WisdomTree pursuant to a model portfolio licensing agreement. These portfolios are based on WisdomTree's Model Portfolios, implementing an index-centric approach seeking to add value through both asset allocation and ETF selection relative to composite cap-weighted benchmarks. While strategic in nature, these model portfolios also reflect tactical tilts based on market conditions. While WisdomTree manages the model portfolios (deciding on their ETF composition, weighting, periodic reweighting and reallocation), it does not have discretionary authority and cannot place trades in Interactive Advisors Client accounts. Interactive Advisors is responsible for placing trades in Client accounts invested in portfolios corresponding to each model portfolio and allowing Clients to invest in a specific portfolio deemed suitable for each Client based on the Client's responses to a risk questionnaire. These portfolios are almost entirely composed of ETFs owned and managed by WisdomTree and its affiliates ("WisdomTree ETFs"). WisdomTree primarily uses WisdomTree ETFs in these portfolios unless there is no WisdomTree ETF consistent with the desired asset allocation or model portfolio strategy. There may be similar ETFs with higher ratings, lower fees and expenses, substantially better performance or more attractive yield/risk profiles in the market. Because WisdomTree and its affiliates earn fees for advisory, administrative and other services from most of the ETFs selected for these portfolios (and thus benefit from investments made in these portfolios), WisdomTree has an incentive to favor its own ETFs and to include higher cost ETFs in these portfolios. Additional information on the ETFs included in each of these portfolios, including their investment objectives, risks, charges and expenses, can be found in the prospectus for each ETF here <https://www.wisdomtree.com/resource-library/prospectus-regulatory-reports> (and <https://www.ishares.com/us/library/financial-legal-tax>) or can be obtained by calling 1-866-909-9473. You may contact us to obtain a listing of all the ETFs included in these portfolios. Additional information on the WisdomTree ETF Portfolios may be reviewed on the individual portfolio pages on our website at: <https://interactiveadvisors.com/wisdomtree?portfolio=wisdomtree-aggressive>; <https://interactiveadvisors.com/wisdomtree?portfolio=wisdomtree-moderately-aggressive-with-alt> and the relevant risk disclosure document at this location: <https://interactiveadvisors.com/forms-and-agreements>

## SSGA ETF Portfolios

Interactive Advisors offers two SSGA ETF Portfolios. These portfolios are proprietary investment portfolios constructed and managed by Interactive Advisors based on data provided by SSGA pursuant to a model portfolio licensing agreement. These portfolios are based on SSGA's Global Tactical Asset Allocation ETF Model Portfolios, implementing a tactical asset allocation decision-making process, which includes evaluation of global asset classes. While SSGA develops the model portfolios (deciding on their ETF composition, weighting, periodic reweighting and reallocation), it does not have discretionary authority and cannot place trades in Interactive Advisors Client accounts. Interactive Advisors is responsible for placing trades in Client accounts invested in portfolios corresponding to each model portfolio and allowing Client investments in a specific portfolio deemed suitable for each Client based on the Client's responses to a risk questionnaire. These portfolios are almost entirely composed of ETFs owned and managed by SSGA and its affiliates ("SSGA ETFs"). There may be similar ETFs with higher ratings, lower fees and expenses, substantially better performance or more attractive yield/risk profiles in the market. Because SSGA and its affiliates earn fees for advisory, administrative and other services from most of the ETFs selected for these portfolios (and thus benefit from investments made in these portfolios), SSGA has an incentive to favor its own ETFs and to include higher cost ETFs in these portfolios.

**In May 2019, SSGA decided to no longer charge Interactive Advisors a model strategist fee under the governing agreement, which reduced the fee applicable to investments in these portfolios from 0.30% to 0.10%. SSGA made this decision as it plans on using two newly launched sector-rotation SSGA ETFs in these portfolios, with the intention to enhance beta exposure within the US larger capitalization equity and core fixed income asset classes, and those sector-rotation SSGA ETFs have higher total expense ratios than the ETFs that may replace in the portfolios. The 0.20% reduction in the fee for investments in these portfolios is intended to mitigate the impact of the higher total expense ratios on the total cost of investing in the portfolios. Even with and despite this fee reduction (through**

**the elimination of SSGA’s model strategist fee), the total cost of investing in the SSGA ETF Portfolios will be higher following incorporation of the sector-rotation ETFs in the SSGA ETF Portfolios.**

Additional information on the ETFs included in each of these portfolios, including their investment objectives, risks, charges and expenses, can be found in the prospectus for each ETF here: <https://us.spdrs.com/en/resources/materials/productLiteratureOverlay.seam> You may contact us to obtain a listing of all the ETFs included in these portfolios. Additional information about each of the SSGA ETF Portfolios may be reviewed on the individual portfolio pages on our website at: <https://interactiveadvisors.com/ssga?portfolio=ssga-growth> and <https://interactiveadvisors.com/ssga?portfolio=ssga-moderate> and in the relevant risk disclosure document at this location: <https://interactiveadvisors.com/forms-and-agreements>.

## **Legg Mason ETF Portfolios**

Interactive Advisors offers one Legg Mason ETF Portfolio, which is a proprietary investment portfolios constructed and managed by Interactive Advisors based on data provided by Legg Mason and its affiliates pursuant to a model portfolio licensing agreement. The Legg Mason Global Growth and Income Portfolio is a diversified equity portfolio which uses a combination of Legg Mason ETFs in order to meet its objectives of balancing growth, income, and portfolio risk. The portfolio seeks to provide a balanced exposure across growth, value, infrastructure, international and emerging market equities and fixed income securities (while also providing exposure to environment, social and governance (“ESG”) ETFs.) While Legg Mason develops and manages the model portfolio (deciding on its ETF composition, weighting, periodic reweighting and reallocation), it does not have discretionary authority over and cannot place trades in Interactive Advisors client accounts. Interactive Advisors is responsible for exercising discretionary investment and trading authority over its client accounts. Interactive Advisors is also responsible for allowing investments in a specific portfolio deemed suitable for each client based on the client’s responses to a risk questionnaire. This portfolio is entirely or primarily composed of ETFs managed by Legg Mason and its affiliates (“Legg Mason ETFs”). There may be similar ETFs with higher ratings, lower fees and expenses, substantially better performance or more attractive yield/risk profiles in the market. Because Legg Mason and its affiliates earn fees for advisory, administrative and other services from the Legg Mason ETFs selected for these portfolios, Legg Mason may have an incentive to favor Legg Mason ETFs and to include Legg Mason ETFs with higher fees and costs relative to non-affiliated ETFs or to other Legg Mason ETFs in deciding the composition of these portfolios. Additional information on the ETFs included in each of these portfolios, including their investment objectives, risks, charges and expenses, can be found in the prospectus for each ETF here: <https://www.leggmason.com/en-us/products/exchange-traded-funds.html>. You may contact us to obtain a listing of all the ETFs included in these portfolios. Additional information about the Legg Mason ETF Portfolio may be reviewed on the individual portfolio page on our website at: <https://interactiveadvisors.com/legg-mason?portfolio=global-growth-income> and in the relevant risk disclosure document at this location: <https://interactiveadvisors.com/forms-and-agreements>.

## **Global X ETF Portfolios**

Interactive Advisors offers two Global X ETF Portfolios, which are proprietary investment portfolios constructed and managed by Interactive Advisors based on data provided by Global X pursuant to a model portfolio licensing agreement. **The China Sector ETF Model Portfolio** provides exposure to China utilizing a segmented and processed approach with a tilt towards the growthier, “new” economy that is being driven by the shift to a consumer led economy, is intended to be tilted toward the new, consumer-led economy and away from the more export-oriented sectors, and is a momentum-oriented strategy that takes into consideration the correlation between sectors as well as valuations, and seeks to take advantage of the dynamics within the Chinese market. **The Global X Equity Thematic Disruptors ETF Model Portfolio** is a growth-focused equity allocation using Global X and third-party ETFs. The ETFs utilized in this portfolio are chosen to target structural themes that may be disrupting various segments and sectors in the broad market.

While Global X develops and manages the model portfolios (deciding on their ETF composition, weighting, periodic reweighting and reallocation), it does not have discretionary authority over and cannot place trades in Interactive Advisors client accounts. Interactive Advisors is responsible for exercising discretionary investment and trading authority over its client accounts. Interactive Advisors is also responsible for allowing investments in a specific portfolio deemed suitable for

each client based on the client's responses to a risk questionnaire. This portfolio is entirely or primarily composed of ETFs managed by Global X ("Global X ETFs"). There may be similar ETFs with higher ratings, lower fees and expenses, substantially better performance or more attractive yield/risk profiles in the market. Because Global X earns fees for advisory, administrative and other services from the Global X ETFs selected for these portfolios, Global X may have an incentive to favor Global X ETFs and to include Global X ETFs with higher fees and costs relative to non-affiliated ETFs or to other Global X ETFs in deciding the composition of these portfolios. Additional information on the ETFs included in each of these portfolios, including their investment objectives, risks, charges and expenses, can be found in the prospectus for each ETF here: <https://www.globalxfunds.com/> You may contact us to obtain a listing of all the ETFs included in these portfolios. Additional information about the Global X ETF Portfolios may be reviewed on the individual portfolio pages on our website (<https://interactiveadvisors.com/global-x?portfolio=china-sector> and <https://interactiveadvisors.com/global-x?portfolio=thematic-disruptors>) and in the relevant risk disclosure document at this location: <https://interactiveadvisors.com/forms-and-agreements>.

## **General Risks Associated with Investments in Any Portfolios Offered by Interactive Advisors**

All investment activities, including investments with Interactive Advisors, include a risk of loss that Clients should be prepared to bear. Interactive Advisors cannot guarantee any level of performance or that any Client will avoid a loss of account assets.

Investment risks fall into the following categories. This listing of investment risks may not be all-inclusive, but should be considered carefully by each Client before deciding whether to invest with Interactive Advisors.

**Market Risk:** Security prices may decrease in response to direct and indirect events and market conditions, usually caused by factors independent of the specific attributes of the investment security. Investments in any portfolios could lose money over short periods due to short-term market movements and over longer periods during more prolonged market downturns. Due to market conditions, the value of the investments may fluctuate significantly from day to day and this volatility may cause the value of your investment in any of the portfolios to decrease.

**Inflation Risk:** Rising inflation reduces the purchasing power of the underlying currency, which is the dollar for U.S. based investments.

**Liquidity Risk:** Liquidity is the ability to convert an investment into cash. Investment assets are usually more liquid when established markets exist to trade those securities. For instance, U.S. Treasury bills and most equity securities have highly developed markets, while tangible property, such as real estate and precious stones, are less liquid. All portfolios make use of fractional shares of stock. As stocks cannot be traded in fractions on public exchanges and fractional shares are typically unrecognized and illiquid outside of the Interactive Advisors platform, if Clients want to liquidate their investments in a portfolio, they will need to fully redeem their investment in which case IB LLC will sell any fractional shares to a liquidity provider and any whole shares to the market. If Clients want to transfer their holdings to another brokerage firm, they will first need to sell their fractional shares to the liquidity provider through IB LLC and will incur commissions on all of these trades. Additionally, high volatility and/or the lack of liquid markets for any security may prevent Clients from selling their security at all or at a favorable time or price because IB LLC has difficulty finding a buyer and may be forced to sell at a significant discount to market value. Also, while Interactive Advisors values the securities held in Client accounts based on data provided by IB LLC (and obtained by IB LLC from third-party independent providers), that data may be stale or otherwise affected by events impacting the security at issue. Interactive Advisors attempts to minimize some of this liquidity risk by blocking any trades in both Manager and Interactive Advisors Portfolios in securities with a market capitalization of less than \$50 million or an average daily volume of less than \$100,000.

**Reinvestment Risk:** This is the risk that future gains may be reinvested at less favorable (lower) rates of return than currently available.

**Interest-Rate Risk:** Changes in interest rates may result in fluctuations in the prices of other investment vehicles. For example, when interest rates rise, fixed income securities prices fall.

**Currency Risk:** Investments in non-U.S. based assets are subject to additional changes in valuation due to changes in currency exchange rates.

**Business Risk:** This covers risks associated with specific industries or companies within an industry.

**Financial Risk:** Excessive use of credit (borrowing) to finance a business' operations increases the risk of profitability, because the company must cover its debt obligations in good and bad years.

**Counterparty Risk:** The risk to each party of a contract that the counterparty will not live up to its contractual obligations.

**Cyber-Security Risk:** Given Interactive Advisors' reliance on the Internet to provide investment advice and conduct its business, it is susceptible to operational, information security and other similar risks. Deliberate cyber attacks or cyber incidents could lead a third-party to gaining unauthorized access to Interactive Advisors computer systems, misappropriating Manager and Client assets or sensitive information, corrupting data or causing operational disruptions.

**Leverage Risk:** Portfolio Managers cannot use borrowed funds or leverage to fund investments in their portfolios, i.e., trade on margin. The Firm mitigates the risks and conflicts of using leverage or margin accounts in investing in its portfolios by only allowing Clients to invest with it through a no-borrowing-ability margin account, which is not allowed to borrow for investment/leverage purposes but has the ability to use proceeds from stock and ETF sales immediately for new purchases instead of waiting for the usual 2-day settlement period. A conflict of interest still arises as this account type's use of margin based on our management will result both in interest charges by Interactive Brokers and a higher Fee payable to us based on the increased gross market value of your Account. But we mitigate this conflict of interest by Interactive Brokers generally not extending to our clients any more margin that deemed necessary to address free riding issues. The conflict cannot be completely eliminated because these accounts could owe small amounts of margin interest to our affiliated broker-dealer Interactive Brokers during the 2-day settlement window.

**Short Selling Risk:** The Firm does not allow short selling in any portfolios on the platform at this time.

**Reliance on Information Provided by Clients and the Scope of the Risk Assessment Questionnaire:** The investment advice Interactive Advisors provides to Clients is highly dependent on the accuracy of the information provided to Interactive Advisors by its Clients. If a Client provides inaccurate information or fails to update outdated information, the quality and relevance of Interactive Advisors' investment advice could be materially affected. Interactive Advisors' investment advice is based on the risk assessment questionnaire it asks Clients to fill out through its website and the answers and information Clients provide to Interactive Advisors in response to that questionnaire. There may be additional information or financial circumstances not asked about in Interactive Advisors' risk assessment questionnaire, that could inform, but is not taken into account or reflected in Interactive Advisors' investment advice. Clients may choose to contact another financial advisor to discuss any such additional information or other financial circumstances that Clients may think could be relevant to Interactive Advisors' investment advice. **Interactive Advisors Clients (or their advisors, if applicable) are responsible for advising Interactive Advisors of any changes in their financial situation or investment objectives.**

**Reliance on Third-Party Data:** Interactive Advisors' investment advice is based on data and information from third-party sources. While Interactive Advisors believes that the data it uses in its investment management processes is obtained from reliable sources, it did not audit or validate this data, which may contain errors.

**Reliance on Technology:** Interactive Advisors' investment activities depend on various computer and telecommunications technologies, some provided by or dependent upon third parties, such as data feed, data center, telecommunications or utility providers. Interactive Advisors' services to its Clients could be severely compromised by system and/or telecommunications failures, power loss, unauthorized system access or use, computer viruses, fire or water damage, human errors in using certain systems, or other events or circumstances. Events that may interrupt computer or telecommunications systems could have a material adverse effect on Interactive Advisors Clients, including by preventing Interactive Advisors from trading, liquidating or monitoring its Clients' investments. Interactive Advisors maintains back-up electronic books and records at a third-party disaster recovery site. In case of interruption of its computer and/or telecommunications systems, Interactive Advisors will strive to resume service to its Clients promptly, barring any circumstances outside of its control.

**Performance Drift Risk:** This is the risk that the performance of any portfolio you invest in and the performance of your account diverge, due to the following factors, among others:

- **The Portfolio Manager's compliance with the trading rules:** For the protection of Clients, trades that a Portfolio Manager makes that are outside of the Interactive Advisors trading rules are not replicated in Client accounts.
- **Your risk score and exclusions:** Your risk score and any restrictions you placed on buying or selling certain securities or tickers could result in certain trades executed by the Portfolio Manager or Interactive Advisors not being replicated in your account.
- **Your cash flow behavior:** Performance drift will result if you frequently invest additional cash or partially redeem your investment.
- **Inability to mirror in exact proportion:** Depending on the size of your investment relative to the Portfolio Manager's, translating each trade the Portfolio Manager makes into whole shares in your account can lead to small rounding differences, and therefore slightly different allocations.
- **The broker's availability of stock to lend:** When shorting, the stock must first be borrowed. The broker may not have the exact amount of stock available to fulfill all that is requested.

Depending on the specific circumstances, performance drift can be to your disadvantage or to your benefit.

**Model Risk:** Some strategies include the use of various proprietary quantitative or investment models. Investments selected using models may perform differently than expected as a result of changes from the factors' historical – and predicted future trends, and technical issues in the implementation of the models, including, for example, issues with data feeds. Moreover, the effectiveness of a model may diminish over time, including as a result of changes in the market and/or changes in the behavior of other market participants. A model's return mapping is based partially on historical data regarding particular economic factors and securities prices. The operation of a model, similar to other fundamental, active investment processes, may result in negative performance, including returns that deviate materially from historical performance, both actual and pro-forma. For a model driven investment process – and again similar to other, fundamental and active investment processes, there is no guarantee that the use of models will result in effective investment outcomes for clients.

**Risks of Monte Carlo Simulation:** For the Goal Tracker tool projections, we use Monte Carlo simulation to generate financial and/or retirement goal projection forecasts and in connection with investment decisions. Monte Carlo simulation is a statistical modeling technique that charts the probability of discrete financial outcomes at certain times in the future. The outcomes presented using Monte Carlo simulation represent only a few of the many possible outcomes, will vary over time, and are not guarantees of investment returns. Moreover, since past investment performance and general market conditions may not necessarily be repeated in the future, your financial and/or retirement goals may not be fulfilled by relying on investment decisions that are based on Monte Carlo simulation results. Differences in account size, age, risk tolerance, transaction timing, and prevailing market conditions at the time of investment may also lead to different results, and you may lose money. Generally in Monte Carlo simulations, results are very sensitive to assumptions about expected return and risk and the base assumptions used may be unrealistic, leading to unrealistic outcomes.

**Cash Drag Risk:** The allocation of cash within your portfolio has an impact on portfolio performance. Some of the portfolios offered on the platform have high allocations to cash. As the allocation to cash in a portfolio increases, the volatility of the entire portfolio is reduced. In times when invested assets are increasing in value, portfolios with increased amount of cash lead to returns which lag a fully invested portfolio. Alternatively, when invested assets are declining in value, portfolios with an increased amount of cash lead to a less significant decline in the portfolio.

**Pattern Day Trader Classification Risk:** Depending on your account type, net asset value, and trading activity, your account may be classified as a Pattern Day Trader account by IB LLC, which will result in restrictions being placed on your account for a period of time. A day trade is defined as a purchase and sale of a security (US and Non-US) within the same trading day. The FINRA and NYSE instituted regulations intended to limit the amount of trading that can be done in

accounts with small amounts of capital, specifically accounts with less than 25,000 USD Net Liquidation Value. A Pattern Day Trader is someone who effects 4 or more day trades within a 5 business day period.

**Infectious Disease Risk:** A worldwide outbreak of COVID-19, a novel coronavirus disease, has negatively affected economies, markets and individual companies throughout the world. The effects of this COVID-19 pandemic to public health, and business and market conditions, including exchange trading suspensions and closures may continue to have a significant negative impact on the performance of a portfolio's investments, increase volatility, and exacerbate other pre-existing political, social and economic risks. The risk of further spreading of COVID-19 has led to significant uncertainty and volatility in the financial markets. The impacts of COVID-19, and other epidemics and pandemics that may arise in the future, could adversely affect the economies of many nations, particular regions, or the entire global economy, individual companies and investment products, and the market in general. The full extent of such impacts cannot necessarily be foreseen. The impacts may be short term or may last for an extended period of time, and may exacerbate other pre-existing political, social and economic risks. The value of a portfolio and the securities in which a portfolio invests may be adversely affected by impacts caused by COVID-19 and other epidemics and pandemics that may arise in the future. The impact of a pandemic may also negatively affect the liquidity of certain of a portfolio's holdings and may make it more difficult to value such holdings. Governments, their regulatory agencies, or self-regulatory organizations may take actions that affect the instruments in which a portfolio invests, or the issuers of such instruments, in ways that could also have a significant negative impact on a portfolio's performance.

## **Risks Specific to Investments in Portfolios Made up of ETFs**

### **1. Market Risk**

ETFs are typically designed to track the performance of certain indices, market sectors, or groups of assets such as stocks, bonds, or commodities. ETF managers may use different strategies to achieve this goal, but, in general, they do not have the discretion to take defensive positions in declining markets. Investors must be prepared to bear the risk of loss and volatility associated with the underlying index/assets.

### **2. Tracking Errors**

Tracking errors refer to the disparity in performance between an ETF and its underlying index or its assets. Tracking errors can arise due to factors such as the impact of transaction fees and expenses incurred by the ETF, changes in the composition of the underlying index/assets, and the ETF manager's replication strategy. The most common replication strategies include: i) full replication, ii) representative sampling and iii) synthetic replication, which are discussed in more detail below.

### **3. Trading at a Discount or Premium**

An ETF may be traded at a discount or premium to its Net Asset Value (NAV). This price discrepancy is caused by supply and demand factors, and may be particularly likely to emerge during periods of high market volatility and uncertainty. This occurrence may also be observed for ETFs tracking specific markets or sectors that are subject to direct investment restrictions.

### **4. Foreign Exchange Risk**

Investors trading ETFs with underlying assets not denominated in U.S. dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the ETF price.

### **5. Liquidity Risk**

Market Makers (MMs) are exchange members that provide liquidity to facilitate trading in ETFs. Although most ETFs are supported by one or more MMs, there is no assurance that active trading will be maintained. In the event that the MMs default or cease to fulfill their role, investors may not be able to buy or sell the product. Interactive

Advisors attempts to reduce this risk by selecting ETFs with more liquidity for portfolios whose composition its Investment Management Team is responsible for determining.

## 6. Counterparty Risk Involved in ETFs with Different Replication Strategies

### a. Full replication and representative sampling strategies:

An ETF using a full replication strategy generally aims to invest in all constituent stocks or assets in the same weightings as its benchmark. ETFs adopting a representative sampling strategy will invest in some, but not all of the relevant constituent stocks or assets. For ETFs that invest directly in the underlying assets rather than through derivative instruments issued by third parties, counterparty risk tends to be less of a concern.

### b. Replication strategies using swaps and other derivatives (i.e., synthetic replication):

ETFs may utilize swaps or other derivative instruments to gain exposure to a benchmark. Currently, replication ETFs can be further categorized into two classes:

- **ETFs utilizing swaps:** Total return swaps allow ETF managers to replicate the benchmark performance of ETFs without purchasing some or all the underlying assets. ETFs utilizing swaps are exposed to counterparty risk of the swap dealers and may suffer losses if such dealers default or fail to honor their contractual commitments.
- **ETFs utilizing derivatives:** ETF managers may also use other derivative instruments to replicate the economic benefit of the relevant benchmark. The derivative instruments may be issued by one or multiple issuers. ETFs utilizing derivatives are subject to the counterparty risk of the derivative instruments' issuers and may suffer losses, if such issuers default or fail to honor their contractual commitments.

Even where collateral is obtained by an ETF, it is subject to the collateral provider fulfilling its obligations. There is a further risk that, when the right against the collateral is exercised, the market value of the collateral could be substantially less than the amount secured resulting in significant loss to the ETF.

## Risks Specific to Investments in the Interactive Advisors Portfolios

Investments in the Interactive Advisors Portfolios (e.g., Smart Beta, Asset Allocation, Index Tracking, WisdomTree ETF Portfolios, SSGA ETF Portfolios, Socially Responsible Investing Portfolios, etc.) are subject to the risks discussed here and the separate Risk Disclosures for each portfolio line available on the Forms and Agreements page of the Interactive Advisors website (<https://interactiveadvisors.com>; <https://interactiveadvisors.com/forms-and-agreements>) (which Clients are required to acknowledge before being allowed to invest in any of these portfolios), any of which may adversely affect the Portfolios' yield, total return, and ability to meet their investment objectives. **This discussion of the risks associated with investments in the Interactive Advisors Portfolios is a summary of the discussion of risks in those separate portfolio-line-specific risk disclosures, and Clients are prompted to consult those risk disclosures for a fuller risk discussion.**

As with any investment, there are a number of risks associated with investing in an Interactive Advisors Portfolio. These include the following:

- You may lose all or part of your investment in the Portfolios, your investment may not perform as well as other investments, or your investment 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
- These Portfolios may not be suitable for all investors.

**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. For the

portfolios it constructs in-house (e.g., Smart Beta and Asset Allocation Portfolios) Interactive Advisors generally attempts to avoid excessive concentration in individual sectors of the market, but may not be successful.

**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.

**Conflict of interest risks and disclosures:** As explained above, Interactive Advisors trades its own funds alongside the assets of the Clients who invest in the Interactive Advisors Portfolios in order to effectuate its trade mirroring procedures. To avoid the potential for front-running, orders in Interactive Advisors-owned accounts are combined with orders in client accounts and submitted for execution to IB LLC in one or multiple trades. Executions are then allocated pro rata with participating accounts receiving the same average price per share and sharing transactions costs pro rata. These safeguards are described in the Investment Management Agreement that Clients sign before investing with Interactive Advisors and are intended to ensure Interactive Advisors adheres to its fiduciary duty to Clients, and avoids or mitigates any conflicts of interest.

**Risks associated with owning and trading fractional shares and related agency cross trades:** Interactive Advisors is able to offer the Interactive Advisors Portfolios and the extensive diversification they are designed to achieve for even relatively small investments, by offering Interactive Advisors Clients the ability to trade fractional shares of the ETFs and stocks that the portfolios invest in. 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). Please refer to Item 11, Fractional Share Transactions, for more information.

**These portfolios may become unavailable for investment:** Any of the Interactive Advisors Portfolios may become unavailable for investment at any point in the future either because the Firm decides to close one of these portfolios or because a third-party data provider decides to terminate the governing licensing agreement with the Firm or to cease providing the data needed to manage the portfolio. Interactive Advisors will notify all affected Clients of any such portfolio closure as soon as possible to allow them to identify suitable alternative investments on the Interactive Advisors platform or elsewhere. You should bear these contractual limitations in mind when deciding whether to invest in one of these portfolios, which may become unavailable for investment in the future.

**Not a bank deposit:** Your investment in any of the Interactive Advisors 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.

**Smart Beta Portfolio-specific risks** - Due to its composition, each Smart Beta Portfolio carries additional, specific risks, which may lead it to lose or gain money out of proportion with the stock market as a whole.

- **Value securities risk** - Stocks in the **Value Portfolio (VAL.IB™)**, perceived by Interactive Advisors as undervalued, may fail to appreciate for long periods of time, may never realize their full potential value, or may underperform other segments of the market or the market as a whole.
- **Quality securities risk** - Companies issuing the stocks included in the **Quality Portfolio (QAL.IB™)** may experience lower than expected returns, even negative growth, as well as increased leverage.
- **Growth securities risk** - There is no guarantee that the past performance of the stocks in the **Growth Portfolio (GRO.IB™)** will continue. These stocks typically trade at higher multiples of current earnings than other securities and, therefore, may be more sensitive to changes in current or expected earnings than other equity securities and may be more volatile.
- **High-dividend securities risk** - There is no guarantee that the large-capitalization companies issuing the stocks in the **Dividend Portfolio (DIV.IB™)** will declare dividends in the future or that, if the dividends are declared, they will remain at current levels or increase over time.



- **Equal weighting risk** - Due to the **Broad Market Portfolio's (BRM.IB™)** use of half equal weighting and the resulting higher proportion of small- and medium-capitalization company stocks, this portfolio may underperform other segments of the market or the market as a whole.
- **Small-capitalization company risk** - Small-cap versions of the Smart Beta Portfolios (**smVAL.IB™**, **smGRO.IB™**, **smQAL.IB™**, **smDIV.IB™**, and **smBRM.IB™**) are invested solely in small-capitalization company stocks. Small-capitalization company stocks have historically been riskier than large and medium-capitalization company stocks. Securities of small-capitalization companies generally trade in lower volumes, are often more vulnerable to market volatility, get less analyst coverage, and are subject to greater and more unpredictable price changes than other stocks or the stock market as a whole.
- **ESG (Environment, Social and Governance) investment strategy risk** - Five of the Smart Beta portfolio, the **ESG Broad Market Portfolio (esgBRM.IB™)**, **ESG Growth Portfolio (esgGRW.IB™)**, **ESG Value Portfolio (esgVAL.IB™)**, **ESG Quality Portfolio (esgQUAL.IB™)**, and **ESG Dividend Portfolio (esgDIV.IB™)**, use an ESG investment strategy, which limits the types and number of investment opportunities available to these portfolios and could underperform portfolios without an ESG focus, be they the Smart Beta Broad Market Portfolio, other Smart Beta portfolios, or other portfolios on the Interactive Advisors platform or elsewhere. The ESG investment strategy of these portfolios could result in the 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 a portfolio 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.

**Tax burden implications of Smart Beta Portfolio investments:** Given the high volume of trading in the Smart Beta Portfolios due to their composition, quarterly rebalancing trades, and recurring investments, Clients will also be responsible for reporting large amounts of stock sales in their tax forms (e.g., IRS Form 8949, Sales and Other Dispositions of Capital Assets). This tax-filing burden is increased for the Broad Market Portfolios (**BRM.IB™** and **smBRM.IB™**), each made up of 1,000 stocks. Interactive Advisors is not qualified to and cannot provide any tax advice or prepare any tax documents for Clients. Clients will need to consult an accountant or tax attorney to determine the tax-filing burden of investing in these portfolios. Please note that IB LLC provides certain tools to assist clients with their tax filings, but these tools may only be able to support a limited number of trades.

**Costs associated with investing in ETF-based Interactive Advisors Portfolios:** In addition to Management Fees you pay to Interactive Advisors and commissions you pay to IB LLC for transactions in your account, for Interactive Advisors Portfolios made up of ETFs (e.g., Asset Allocation Portfolios, WisdomTree, SSGA and Legg Mason ETF Portfolios), you will be charged other fees and expenses by the issuer of ETFs you own in your account. This means that you will pay more for ETFs you invest in through the Interactive Advisors Portfolios than if you purchased these ETFs directly. ETFs typically include certain embedded expenses that reduce the fund's net asset value and indirectly the performance of your portfolio investing in ETFs. The embedded expenses of an ETF include ETF management fees, custodian fees, brokerage commissions, and legal and accounting fees. These expenses may change from time to time at the sole discretion of the ETF issuer. Please note that Interactive Advisors does not benefit either directly or indirectly from these fees. For the Asset Allocation Portfolios where it selects the component ETFs, Interactive Advisors generally seeks to invest in ETFs with lower expenses.

**Market risk for investments in the Asset Allocation Portfolios:** The price of any security or the value of entire asset classes could decline for reasons outside of Interactive Advisors' control, such as changes in the economy, interest rates, regulatory changes, political and social events. A high allocation to a specific asset class will negatively affect the performance of a portfolio, when that class underperforms in comparison to other asset classes, while a low allocation to a given asset class may underperform the market when that asset class outperforms other asset classes. Interactive Advisors tries to mitigate the market risk associated with investments in the Asset Allocation portfolios by designing them as mixtures

of equities and fixed income investments with the objective of providing income, growth, and stability during different economic conditions, while taking into account the various asset classes' historical performance.

**Interest rate risk associated with bond ETFs:** Some of the Interactive Advisors Portfolios (e.g., Asset Allocation, WisdomTree and SSGA ETF Portfolios) invest in bond or fixed income ETFs, which are exposed to interest rate risk (i.e., the risk that underlying bond prices will decline because of rising interest rates). An increase in interest rates may cause the value of bond or fixed-income ETFs held by the portfolios to decline, which could lead to heightened volatility in the fixed-income markets, and adversely affect the liquidity of fixed-income ETFs. The current historically low interest rate environment exacerbates the risks associated with rising interest rates.

**Credit risk associated with corporate bond ETFs:** Some of the Interactive Advisors Portfolios invest in corporate bond ETFs, which are exposed to the risk that the corporations issuing the debt or other counterparties may be unable or unwilling to make timely interest and/or principal payments when due or honor any of their other obligations. This could negatively affect the debt issuer's credit rating or the market's perception of that debt issuer's ability to make payments, which could in turn negatively affect the value of these portfolios' investments in the corporate ETFs. The degree of credit risk associated with the corporate bond ETFs depends on the financial condition of the issuers of the underlying instruments and the terms of the underlying bonds the ETFs invest in.

**Tax and other risks associated with municipal bond ETFs:** Some of the Asset Allocation Portfolios invest in municipal bond ETFs, which are exposed to the risk that all or a portion of the tax-exempt income from municipal bonds held will be declared taxable, potentially retroactively, due to changes in tax laws or adverse interpretations by the Internal Revenue Service or state or local tax authorities. Municipal bonds could also be adversely affected by changes in the rights of municipal bond holders, including those in connection with the insolvency of the issuing municipality. Municipal bonds used to finance and backed by current or anticipated revenues from a specific project or asset could be adversely affected by the inability to collect revenues from that project or asset.

**Real estate investment risk and tax consequences for investments in the FTSE NAREIT All Equity REITs Managed Portfolio:** This portfolio invests in companies such as real estate investment trusts ("REITs") or real estate holding companies, which exposes investing Clients to the risks of owning real estate directly, as well as to risks that relate specifically to the way in which real estate companies are organized and operated. Real estate is highly sensitive to general and local economic conditions and developments, and real estate companies, including REITs, use leverage, which increases investment risk and could exacerbate this portfolio's losses. Clients interested in this portfolio should consult with their accountant or tax attorney on the tax consequences of investing in this portfolio, as dividend payments made out by REITs held in this portfolio could be taxed as ordinary income at the top marginal tax rate. Interactive Advisors does not provide tax advice and does not in any way represent that investing in this portfolio will result in any particular tax consequences.

**Sector and concentration risks associated with investments in the Index Tracking Portfolios:** 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. Many of the Index Tracking Portfolios track indices focused on a specific industry or sector and are thus more affected by the risks associated with that specific industry or sector:

1. **Consumer discretionary sector** - Companies in this sector are affected by fluctuations in supply and demand, and adversely affected by changes in consumer spending as a result of various social, economic, or political conditions.
2. **Energy sector** - The market value of securities issued by companies in the energy sector may decline for a variety of reasons including changes in energy prices, energy supply and demand, government regulations, energy conservation and exploration efforts, government regulation and potential civil liabilities.
3. **Materials sector** - Companies in this sector are adversely impacted by the volatility of commodity prices, exchange rates, depletion of resources, over-production, litigation and government regulations.
4. **Financial services sector** - Companies in this sector are significantly affected by economic, market, and business developments, borrowing costs, interest-rate fluctuations, competition, and government regulation.

5. **Healthcare sector** - The profitability of companies in this sector is affected by government regulations and government healthcare programs, increases or decreases in the cost of medical products and services, product liability claims, patent protection, and competition.
6. **Technology sector** - Companies in this sector may have limited product lines, financial resources and/or personnel, face competition, and are heavily dependent on the protection of intellectual property rights.
7. **Materials sector** - Companies in this sector are adversely impacted by the volatility of commodity prices, changes in exchange rates, depletion of resources, over-production, litigation, and changes in government regulations.
8. **Producer durables sector** - These companies may be affected by changes in domestic and international economies and politics, consolidation, excess capacity, and consumer demands, spending, tastes and preferences.
9. **Telecommunications sector** - Companies in this sector are subject to extensive government regulation. The costs of complying with governmental regulations, delays or failure to receive required regulatory approvals, or the enactment of new regulatory requirements may negatively affect the business of telecommunications companies.

**ESG (Environmental, Social and Governance) investment strategy risk associated with investments in the ESG Asset Allocation Portfolios** - Six of the Asset Allocation portfolios use an ESG investment strategy, which limits the types and number of investment opportunities available to this portfolio and could underperform asset allocation portfolios without an ESG focus, offered on the Interactive Advisors platform or elsewhere. These portfolios' ESG investment strategy could result in these portfolios investing in ETFs focused on 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. Also, Interactive Advisors could be unsuccessful in creating portfolios investing in ETFs made up of companies that exhibit positive or favorable ESG characteristics, and the ETF manager (or the provider of the index the ETF seeks to track) may not succeed in selecting issuers that exhibit positive or favorable ESG characteristics. Additionally, the ESG-focused ETFs these six Asset Allocation portfolios invest in have been launched relatively recently (2016-2018), have short performance histories and may not be successful in implementing an ESG investment strategy. The performance of the ESG-focused Asset Allocation portfolios is expected to be similar to that of the non-ESG Asset Allocation portfolios, but Interactive Advisors does not claim and cannot guarantee that this will be the case in the future, given the limited performance history available for the ESG-focused ETFs these portfolios invest in and the fact that past performance is no guarantee of future results. The expense ratios associated with the ESG-focused ETFs these six Asset Allocation portfolios invest in are higher than those associated with their non-ESG ETF counterparts.

**Socially Responsible Investing Portfolio- Specific Risks** - 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.
- **New portfolio risk** - Interactive Advisors started trading the Socially Responsible Investing Portfolios in July 2020. Therefore, these portfolios have no operating or actual performance history before July 2020. Clients investing in these portfolios also bear the risk that Interactive Advisors may not be successful in implementing its investment strategy.
- **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.

**Global X ETF Portfolio-Specific Risks** - Due to their composition and focus, the Global X ETF Portfolios may present certain risks that other portfolios on the platform do not present at all or exhibit to a lesser degree.

- **New fund risk** - Some of the Global X ETFs are relatively new funds, with no or little operating history, which could result in additional risks for investors in these portfolios. There can be no assurance that these ETFs will grow or maintain an economically viable size, and the ETFs may be liquidated at a time that is not favorable to certain individual shareholders.
- **Small fund risk** - Some of the Global X ETFs these portfolios invest in could be small, experience low trading volume and wide bid/ask spreads, and even face the risk of being delisted if they no longer meet the conditions of the listing exchange.
- **Risks of investing in specific countries or regions** - Some of the Global X ETFs invest in issuers located in specific countries or regions, which poses risks unique to those countries or regions. For instance, investing in Russian securities involves risks associated with the settlement of portfolio transactions and loss of ETFs' ownership rights in portfolio securities as a result of the system of share registration and custody in Russia and a number of jurisdictions, including the US, Canada and the European Union, have imposed economic sanctions on

certain Russian individuals and Russian corporate entities, which may adversely affect Russia's economy and the ETFs' investments.

- **Risks related to investments in China** - One of the Global X ETF portfolios invests exclusively in Global X ETFs focusing on specific sectors of the Chinese economy. Thus, this portfolio and its underlying ETFs have investment exposure to China, which subjects them to risks specific to that country, such as considerable degrees of economic, political and social instability, concerns about rising government and household debt levels, higher volatility from time to time than developed markets, inefficiency, volatility and pricing anomalies stemming from government influence, a lack of publicly available information, internal social unrest or confrontations with neighboring countries potentially disrupting economic development and leading to greater risk of currency fluctuations, currency convertibility, interest rate fluctuations and higher rates of inflation, and security concerns such as terrorism and strained international relations. As export growth continues to be a major driver of China's rapid economic growth, trade tensions between China and its trading partners, including the trade conflict with the US and the imposition of tariffs on Chinese goods and increased international pressure related to Chinese trade policy and forced technology transfers and intellectual property protections, may have a substantial impact on the Chinese economy. Investments in China may also be subject to loss due to expropriation or nationalization of assets and property or the imposition of restrictions on foreign investments and repatriation of capital. China has also privatized or has begun the process of privatizing certain entities and industries and privatized entities may lose money or be re-nationalized. Changes in applicable Chinese tax laws could also reduce the after-tax profits of the ETFs investing in China, and uncertainties in Chinese tax rules could result in unexpected tax liabilities for the ETFs.
- **Risks related to ETFs' investments in China A-Shares** - A-Shares are issued by companies incorporated in mainland China and traded on Chinese exchanges. Foreign investors can access A-Shares by obtaining a QFII or a RQFII license, as well as through the Stock Connect Program, a securities trading and clearing program seeking to achieve mutual stock market access between the China and Hong Kong markets. Some of the ETFs in the portfolios gain exposure to A-Shares through the Stock Connect Programs. Investments in A-Shares are subject to various regulations and limits, and the recoupment or repatriation of assets invested in A-Shares is subject to restrictions by the Chinese government. A-Shares may be subject to frequent and widespread trading halts and may become illiquid. Trading suspensions in certain stocks could lead to greater market execution risk and costs for the ETFs, and the creation and redemption of creation units may also be disrupted, all risks which could adversely affect the value of the ETFs' investments.

**ETFs making up the WisdomTree, SSGA, Legg Mason and Global X ETF Portfolios may have higher expense ratios and be less liquid than other ETFs:** These portfolios are almost entirely composed of ETFs owned and managed by the ETF issuers and their affiliates. There may be similar ETFs with higher ratings, lower fees and expenses, substantially better performance, or more attractive yield/risk profiles in the market. Because the ETF issuers and their affiliates earn fees for advisory, administrative, and other services from most of the ETFs selected for these portfolios (and thus benefit from investments made in these portfolios), they have an incentive to favor their own ETFs and to include ETFs with higher fees and costs relative to non-affiliated ETFs or other affiliated ETFs in deciding the composition of these portfolios. The expense ratio associated with the ETFs in which these portfolios invest are discussed in each ETF's prospectus, and may be modified at any time by the ETF issuer. Some of the ETFs in these portfolios may be less liquid than some of the other ETFs Interactive Advisors portfolios invest in, which could lead to increased trading costs to enter or exit positions in these ETFs relative to other ETFs and larger differences between the market prices of the ETFs and the underlying holdings. Each of these portfolios is exposed to the risks associated with the underlying ETFs and we urge Clients planning to invest in these portfolios to review the risk discussion in the prospectus for each ETF these portfolios invest in at these locations: <https://www.wisdomtree.com/resource-library/prospectus-regulatory-reports>, <https://www.ishares.com/us/library/financial-legal-tax>, <https://us.spdrs.com/en/resources/materials/productLiteratureOverlay.seam>, <https://www.leggmason.com/en-us/products/exchange-traded-funds.html>. and

<https://www.globalxfunds.com/>. You may contact us to obtain a listing of all the ETFs included in each of these portfolios.

### **Assumptions, limitations and risks associated with the Goal Tracker software tool**

The long-term return estimates used by the Goal Tracker tool are estimates intended to provide a general guideline for the potential returns of a client's investment with Interactive Advisors. The projections or other information generated by the long-term return estimates regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results or the realized returns of any of our portfolios, your account or the account of any other Interactive Advisors client, are not guarantees of future results, and are provided for informational, educational and illustrative purposes only. Hypothetical projected portfolio returns assume reinvestment of interest and dividends and do not include taxes or inflation adjustments. **Hypothetical projected portfolio values could differ significantly from the actual performance of any of our portfolios. As such your likelihood of achieving your goals portrayed by the tool may be overstated and unrealistic.** Actual results in an Interactive Advisors client account investing in any Interactive Advisors portfolio could differ significantly from these hypothetical results depending on factors such as: broad stock market performance, factor returns, available liquidity, interest rates, economic growth, transaction costs, and other market factors.

There is no guarantee that clients will reach the goal specified in the tool and assumptions not used in this tool and other market developments can affect the probability of reaching your goal(s). Interactive Advisors does not make any representation that any client will or is likely to achieve results similar to these by investing in any portfolios on the Interactive Advisors platform. The tool's estimates and projections can vary with each use and over time. The estimates and projections generated using the Goal Tracker tool are provided for informational, educational and illustrative purposes and are not intended to constitute and should not be relied on as a full financial plan, comprehensive financial planning, legal or tax advice. Clients should consult a qualified financial planner, tax advisor, CPA or lawyer to obtain such advice. Interactive Advisors does not in any way represent that the estimates generated using this tool are based on or meant to replace a comprehensive evaluation of a client's entire personal portfolio. Through this tool or otherwise, Interactive Advisors does not provide tax advice. There may be more tax-advantageous account types to achieve the stated goals, but this tool does not take that into account. None of the tool's projections should be construed as an offer, recommendation or solicitation to buy or sell any security. The main assumptions, limitations and risks associated with the Goal Tracker software tool are discussed in this white paper on our website (<https://interactiveadvisors.com/learn-more/goal-tracker>) and on the webpage logged-in clients review when deciding whether to use this tool.

### **Other Considerations**

#### **Investment Advice**

At this time Interactive Advisors offers investment advice by allowing Clients to invest in Portfolios generally trading any or a combination of the following: equity securities traded on U.S. exchanges, ETFs, and REITs.

Clients are advised that:

- i. Interactive Advisors' investment advice consists of facilitating Clients' ability to select Manager or Interactive Advisors Portfolios through its risk scoring system and guidance provided upon request by Interactive Advisors' client service representatives. In the case of Asset Allocation Portfolios, after it assigns to Clients risk scores based on their answers to the risk assessment questionnaire, Interactive Advisors recommends to Clients a specific Asset Allocation portfolio, which Clients may then choose to invest in or not. The Asset Allocation Portfolios are the only ones Interactive Advisors recommends to Clients.
- ii. Interactive Advisors may modify recommendations that are implied by the trading data provided by the Manager and Manager Content in certain circumstances. For example, some securities transactions may not be executed under Interactive Advisors' Trading Rules laid out in the Portfolio Manager Trading Rules on the Interactive Advisors website (posted in the Forms and Agreements page at <https://interactiveadvisors.com>; <https://interactiveadvisors.com/forms-and-agreements>). This is discussed in more detail in Item 4 above.

- iii. Once a Client selects a Manager Portfolio or an Interactive Advisors Portfolio to invest in, the Client may not alter the Portfolio or the trades in his account that is invested in that Portfolio strategy, except by restricting the trading of specific tickers or securities in his account or using any of the ESG exclusion lists we offer for client selection. Clients can terminate their investment in a Portfolio at any time and invest in another Portfolio available on the Interactive Advisors platform or choose not to invest in any Portfolio. Interactive Advisors does not charge management fees on any funds held in Client accounts that are not invested in any portfolios on its platform.
- iv. Any securities transferred to the Custodian to fund an account are solely for liquidation and subsequent investment in a Manager Portfolio or Portfolios. Interactive Advisors does not issue recommendations on the further disposition of transferred securities.

## **Client Additions and Withdrawals**

Clients may make additions to and withdrawals from their Interactive Advisors accounts at any time, subject to the following:

- a. Interactive Advisors' right to terminate an account.
- b. If assets are deposited into or withdrawn from an account after the start of a month, the fee payable with respect to that account will be appropriately adjusted or prorated to reflect the number of days in that month that the assets in the account were invested in any portfolio.
- c. Clients may withdraw account assets on notice to Interactive Advisors, subject to the usual and customary securities settlement procedures and IB LLC's withdrawal procedures.
- d. Additions may be in cash or securities provided that Interactive Advisors reserves the right to liquidate any transferred securities, or decline to accept particular securities into a Client's account. Interactive Advisors may consult with its Clients about the options and ramifications of transferring securities. However, Clients are advised that, when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.
- e. Interactive Advisors designs its Portfolios as long-term investments and asset withdrawals may impair the achievement of a Client's investment strategy.
- f. If you want to liquidate some or all of the fractional holdings in your investment in any of the Interactive Advisors Portfolios, IB LLC will need to sell these fractional shares to the third-party liquidity provider as these do not trade on the open market.
- g. The performance of a Client's investment in one of the Portfolios could diverge from the performance of the Portfolio Manager or Interactive Advisors-owned account managing that portfolio or the performance of other Client accounts invested in the same portfolio if the Client frequently invests additional cash or partially redeems his investment.

## **Trading Restrictions**

- a. In managing Client assets, Interactive Advisors retains discretion over the trading based on certain trading limitations. Trading limitations include the following:
  - Minimum thresholds for market capitalization to ensure portfolio trades occur in liquid securities;
  - The size of a Client's account may not make it practical to allocate shares for certain trades initiated by a Manager; and
  - A Client may have specified certain ticker or security trading restrictions or restrictions based on predefined ESG exclusion lists for investments in his account.

- b. The concept of Interactive Advisors is to allow investors (i.e., Clients) to replicate Manager or Interactive Advisors trade data. This naturally leads to a significant conflict of interest as the Managers, and if the Manager is an entity, its respective officers, directors, employees, and/or affiliates, will send a trade for execution ahead of Clients. It is therefore important to note the following:
- i. It is illegal for anyone to manipulate the market for securities.
  - ii. Managers represent to Interactive Advisors that neither they nor their affiliates or employees trade in securities in which they possess any material nonpublic information or use their knowledge of the timing of the release of their trade data or the fact that the release of that trade data will prompt trades in Interactive Advisors Client accounts to trade ahead of Interactive Advisors Clients or to otherwise improve their position in the ownership of securities or futures or move the price of any securities or futures.
  - iii. **To eliminate the time lag between any Manager or Interactive Advisors trades and the replication of these trades into Client accounts and any incentives and conflicts of interest presented by such time lag, Interactive Advisors has established procedures to mitigate the risk of a Manager trading ahead of Clients. This includes combining the orders for the sale or purchase of a security by a Manager (or Interactive Advisors) with those of Clients investing in that Manager or Interactive Advisors Portfolio in a single trade or allocating the combined trades between Manager or Interactive Advisors and Client accounts on a pro rata basis (a process referred to as “co-trading”).**
  - iv. Managers agreed to not buy or sell securities in any of their proprietary or personal accounts using the strategy in the Interactive Advisors-linked account before buying or selling those same securities in their Interactive Advisors-linked account.
  - v. Interactive Advisors will randomly check managers’ trading in accounts following the same strategy as their Interactive Advisors-linked account to detect any instances of trading ahead and/or any indication of improper trading practices.
  - vi. Portfolio Managers may themselves be SEC- or state-registered investment advisers, or hedge fund managers exempt from registration. Regardless of registration status, we expect Managers to exercise a reasonable level of care, diligence, and skill. All Portfolio Managers must agree to report, monitor, and review under their own Code of Ethics provisions trades in the IB account that is mirrored through the Interactive Advisors platform. Portfolio Managers must also provide Interactive Advisors with an annual certification that they are not aware of any instances of front-running in connection with trades placed at Interactive Advisors through their Code of Ethics reviews or otherwise. Portfolio Managers agree to promptly notify Interactive Advisors in writing of any instances of front-running of trades placed at Interactive Advisors. Non-Registered Portfolio Managers (generally exempt hedge fund managers) will be subject to a limited version of Interactive Advisors’ Code of Ethics and will be required to report their personal trading activity to Interactive Advisors. **At this time, there are no unregistered Portfolio Managers on the Interactive Advisors platform.**

## Use of Margin

To the extent that a Client authorizes the use of margin, and Interactive Advisors thereafter employs margin in the management of the Client's investment in a portfolio, the market value of the Client's account and corresponding fee payable by the Client to Interactive Advisors will be increased. The Client is advised of these principal risks and conflicts of interest associated with the use of margin:

- Margin strategies entail additional fees and expenses, as the Client account must pay interest on any amounts borrowed to the broker dealer.



- Potential conflicts of interests exist, as the Client's decision to employ margin will correspondingly increase the Management Fee payable to Interactive Advisors because the market value of a Client's account on which the fee is assessed will be increased through the use of margin.
- Potential conflicts of interest exist, as the Client will be paying IB LLC, Interactive Advisors' affiliated broker dealer, interest for the use of margin in his account in addition to paying Interactive Advisors a higher Management Fee for the account than would be the case if the account did not use margin.

**Since the spring of 2019, to prevent free-riding violations and mitigate the above conflicts of interests, IB LLC has only allowed Interactive Advisors Clients to open no-borrowing-ability margin accounts. These accounts are not allowed to borrow for investment/leverage purposes but have the ability to use proceeds from stock and ETF sales immediately for new purchases instead of waiting for the usual 2-day settlement period, and, just like is the case with cash brokerage accounts at IB LLC, any cash shortfall in these accounts is covered by liquidating account holdings sufficient to cover the shortfall. A conflict of interest arises as this account type's use of margin based on our management will result both in interest charges by our affiliate IB LLC and a higher Fee payable to us based on the increased gross market value of the account. We mitigate this conflict of interest by IB LLC generally not extending to our clients any more margin that deemed necessary to address free riding issues. Nonetheless this conflict of interest cannot be completely eliminated because this account type could owe small amounts of margin interest to our affiliated broker-dealer Interactive Brokers during the 2-day settlement window.**

## Securities Lending

Clients (other than those investing through IRA accounts) may opt to participate in IB LLC's securities lending program, which allows IB LLC to lend certain securities held in the Client's account. See the Custodian's website (<https://www.interactivebrokers.com/Universal/servlet/Registration.formSampleView?doc=Agreements/showSLDisclosure.jsp>) for more detailed disclosures. Interactive Advisors is not a participant or partner in this program, and Clients may elect to participate at their sole discretion.

## Benchmark Comparisons Made Available to Clients

Comparisons to benchmarks on the individual portfolio pages on our website are provided for illustrative purposes only. As of February 2021, benchmark comparisons provided in portfolio performance charts are not automatically available but can be displayed if website visitors choose to have them displayed. Benchmarks relevant to each portfolio are assigned by Interactive Advisors based on overall strategy, portfolio trade history, and/or other criteria. Interactive Advisors believes that comparing the relative performance of the portfolios against the performance of an appropriate benchmark can provide insight into the reasons for a portfolio's performance and may assist Clients in making investment decisions. There are no universal criteria for choosing an appropriate portfolio benchmark. But Clients should be mindful of the limitations of using benchmark comparisons in making investment decisions. As prominently stated on our website, the performance, composition and volatility of the portfolios we offer and the benchmark(s) that could be selected for comparison purposes, could vary significantly.

At this time Interactive Advisors uses investable exchange-traded fund ("ETF") as benchmarks. Unlike index returns, investable ETF returns reflect the deduction (i.e., are net of) management fees, transaction costs and expenses and are thus more comparable to Interactive Advisors portfolio returns. Benchmark returns displayed on the individual portfolio pages have been calculated by Interactive Advisors using daily-adjusted close prices.

For some of the portfolios, Interactive Advisors has selected the S&P 500 ETF as a benchmark. Broadly-based benchmarks like the S&P 500 ETF may be shown only as an indication of the general performance of the financial markets during the periods indicated, for comparison to general equity market behavior only and may not be suitable for comparison to individual portfolios with specific objectives, such as industry or security types. Generally, Interactive Advisors chooses the S&P 500 ETF as a benchmark for a portfolio when that portfolio is not constrained to particular industries or types of securities, which might make a benchmark with a narrower scope or in a specific market segment more appropriate. While portfolios for which the S&P 500 ETF is used as a benchmark may invest from time to time in certain market segments in

which there may be a more appropriate benchmark, Interactive Advisors believes that over time the appropriate benchmark for those portfolios is a broader market benchmark such as the S&P 500 ETF. For other portfolios, Interactive Advisors has chosen different benchmarks based on portfolio construction rules and/or consultation with any relevant data providers (as applicable) and similarly believes that those benchmarks are a reasonably accurate representation of the segment of the total market where the portfolio is managed.

There can be no assurance that a benchmark will remain appropriate over time and Interactive Advisors will periodically review the benchmark's appropriateness and decide to use other benchmarks as appropriate.

### **Factors not considered by Interactive Advisors**

Generally, in providing its services to Clients, there are a number of factors Interactive Advisors does not consider including but not limited to:

- **Tax implications:** Interactive Advisors does not consider its Clients' specific tax implications in recommending portfolios. Interactive Advisors does not provide tax advice and does not represent in any manner that investments in a portfolio will result in any particular tax consequences. Each Client must rely on his own examination and that of its financial, tax, and legal advisors in evaluating the tax implications of investing in an Interactive Advisors portfolio. Clients and their personal tax advisors are responsible for how the transactions conducted in an account are reported to the IRS or any other taxing authority on the Client's personal tax returns. Interactive Advisors assumes no responsibility for the tax consequences on any Client of any transaction. Clients should not construe the contents of the Interactive Advisors website or any recommendation made by Interactive Advisors as tax advice.
- **Transaction costs and frequency of trading:** Interactive Advisors does not consider, but attempts to disclose, the frequency of a portfolio's trading when recommending portfolios to Clients. A portfolio with a high level of trading and turnover could lead to Clients incurring substantial transaction costs, tax implications (such as short-term capital gains), and other similar consequences that could negatively impact the value of a Client's investment. Clients should bear these transaction costs in mind when deciding whether to invest in a portfolio on the Interactive Advisors platform. Nonetheless, for the Smart Beta and Asset Allocation Portfolios (i.e., the only portfolios for which it decides the frequency and extent of trading), Interactive Advisors periodically reviews turnover to ensure it is not excessive in amount or frequency, including before each rebalancing to confirm turnover is in line with expected values.

### **Item 9: Disciplinary Information**

As of the date of this brochure, Interactive Advisors has not been subject to any legal or disciplinary actions material to a Client's or a prospective Client's evaluation of Interactive Advisors' advisory business. Therefore, Interactive Advisors has no information applicable to this item.

### **Item 10: Other Financial Industry Activities and Affiliations**

Interactive Advisors is part of the Interactive Brokers Group, an automated global electronic broker and market maker. Neither Interactive Advisors nor its representatives are registered as a broker-dealer or representative of a broker-dealer.

In order to perform the co-trading processes for its platform described in Item 4 of this brochure, Interactive Advisors entered into a Technology Services Agreement with the Interactive Brokers Group, LLC ("IBG LLC"). Specifically, pursuant to this agreement, IBG LLC, at Interactive Advisors' direction, will develop and program Interactive Advisors' software, which, among other things, calculates the amount of securities to be traded for Interactive Advisors Clients to effectuate Interactive Advisors' co-trading procedures. Interactive Advisors remains solely responsible for the investment advice provided to its Clients, and will periodically monitor IBG LLC's implementation of its replication procedures. Interactive Advisors will pay to IBG LLC a fee equal to IBG LLC's cost of performance of the services under this agreement plus ten percent (10%), and reimburse IBG LLC for any disbursements incurred in the performance of the

agreement. Interactive Advisors will not charge its Clients advisory fees higher than it would otherwise charge them in the absence of this agreement.

IB LLC, the Broker-Dealer and Custodian for all trades in Client accounts, is a related party to and is under common control with Interactive Advisors; both entities are subsidiaries owned by Interactive Brokers Group. IB LLC is a registered Broker-Dealer, Futures Commission Merchant, and Forex Dealer Member, regulated by the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, and the National Futures Association, and is a member of the Financial Industry Regulatory Authority and several other self-regulatory organizations. IB LLC provides clearing and custody services on an agency basis for the Interactive Advisors trading platform, which executes Portfolio Manager and Interactive Advisors trades alongside Client accounts in accordance with Interactive Advisors' internal trading rules and specific Client restrictions.

**Interactive Advisors' relationship with IB LLC is material to its advisory business. A conflict of interest exists to the extent that Interactive Advisors recommends the purchase or sale of securities (to implement initial investment or rebalancing trades) given that IB LLC receives commissions in connection with all transactions in Interactive Advisors Clients' accounts. Additionally, the parent company of both affiliates, the Interactive Brokers Group LLC derives the majority of its revenues from the brokerage operations of the IB LLC subsidiary. As Interactive Advisors places all of its Clients' trades through IB LLC (which receives compensation for these services), this compensation ultimately benefits both IB LLC and Interactive Advisors given their corporate affiliation.**

Interactive Advisors does not receive any compensation from the unaffiliated third-party Portfolio Managers or the data providers supplying any of the data for portfolios on the Interactive Advisors platform.

**Allocation to cash and associated conflict of interest:** IB LLC's brokerage clients, including Interactive Advisors clients, are eligible to receive credit interest on long settled cash balances in brokerage accounts (<https://www.interactivebrokers.com/en/index.php?f=46385>). Generally, the rate clients will earn from IB LLC on their uninvested cash balances will be lower than yields on other cash alternatives, such as money market funds, that are available to clients for investments outside of their IB LLC accounts. Interactive Advisors' affiliated broker-dealer IB LLC generates revenue on the cash held in all of its brokerage clients' accounts, which benefits the parent company and by extension Interactive Advisors as part of the same corporate family. The interest revenue IB LLC generates does not in any way reduce the fees clients owe Interactive Advisors for its portfolio management services. Generally, Interactive Advisors has a financial incentive to have clients select and invest in its portfolios rather than hold unmanaged cash in their accounts because Interactive Advisors does not charge fees or make any revenue on uninvested cash (other than the general financial benefit conferred on the Interactive Brokers Group by IB LLC's above-described revenue), but does charge an annual management fee on funds invested in a portfolio. As to the cash which is part of a client's portfolio investment, Interactive Advisors mitigates any conflict of interest presented by the IB LLC program and revenue described above by using tested investment management models to objectively determine the appropriate cash allocation in a given portfolio (for in-house built portfolios like the Smart Beta, Asset Allocation and Socially Responsible Investing Portfolios). The Firm's Investment Management Team has set the maximum initial cash allocation percentage for these three portfolio lines to 1% of portfolio assets. This 1% target cash allocation may drift upward over time due to periodic dividend payments. Interactive Advisors does not determine or direct the cash allocation for any of the other portfolios it offers which are set either by the Portfolio Managers or ETF Model Providers, which are not affiliated with it or IB LLC and thus would not benefit from a larger cash allocation or the resulting increased revenue. Interactive Advisors does not in any way consider the amount of cash in client accounts or the potential IB LLC revenue resulting from these cash balances in client accounts in determining the appropriate level of cash in any given client investment. Clients themselves decide and can change at any time the amount of cash sitting in their accounts above and beyond the allocation to cash associated with a specific portfolio investment. Interactive Advisors cannot control whether such free cash is invested in a portfolio or stays as cash in a client account as only clients can decide how much funds they transfer to an Interactive Advisors account and how much of (and whether) those funds get invested in a specific portfolio.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

Interactive Advisors has adopted a code of ethics that sets forth the standards of conduct expected of its Associated Persons and requires compliance with applicable securities laws (“Code of Ethics”). In accordance with Section 204A of the Advisers Act, its Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by Interactive Advisors or any of its Associated Persons. The Code of Ethics also requires that certain Interactive Advisors personnel (called “Access Persons”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Interactive Advisors’ Access Persons may not trade securities, commodities, derivative products, financial instruments, or exchange-traded investment products on their own behalf between the hours of 8:30 a.m. and 6:00 p.m. local time at their place of employment. However, Access Persons may retain financial advisers to conduct such trading on their behalf during such prohibited hours.

Interactive Advisors’ Access Persons may not purchase or sell, directly or indirectly, any security which they know at the time of the purchase or sale is being considered for purchase or sale on behalf of any Client account or being actively purchased or sold on behalf of any Client account. Given the firm’s historical business model, which was limited to implementing transactions in Client accounts by tracking the trade activity in Manager Portfolios, Interactive Advisors personnel generally were not considered to know or expected to know that a security is being purchased or sold by a Client unless that personnel had access to the firm’s trade blotter or had other knowledge of the firm’s purchases or sales before their implementation in Client accounts. But, unlike with third-party Portfolio Manager trades, certain Interactive Advisors personnel (e.g., the Investment Management team) will be managing the Interactive Advisors Portfolios (e.g. Smart Beta, Asset Allocation Portfolios, Socially Responsible Investing, WisdomTree, SSGA, Global X and Legg Mason ETF Portfolios) and are deemed to know (or are likely to know) that a security will be eventually purchased or sold by any Clients, who are following that portfolio. In accordance with the provisions of Interactive Advisors’ Code of Ethics, Interactive Advisors’ Access Persons (including Interactive Advisors’ Investment Management team) may not purchase or sell, directly or indirectly, any security which they know at the time of the purchase or sale is being considered for purchase or sale on behalf of any Client account or being actively purchased or sold on behalf of any Client account. While Interactive Advisors employees are allowed to become Interactive Advisors Clients and invest in any Interactive Advisors Portfolios, individuals involved in making investment and trading decisions for the Interactive Advisors Portfolios and placing related trades will be subject to certain black-out periods for trading illiquid stocks or ETFs traded in the Interactive Advisors Portfolios in any personal trading accounts.

Access Persons may become Clients of Interactive Advisors and invest in any portfolios and, as such, any Interactive Advisors-initiated trades for those Access Persons will be executed alongside and consistent with Interactive Advisors’ management of other Clients’ accounts. Interactive Advisors currently aggregates trades initiated by Portfolio Managers and the trades of Clients investing in those Managers’ Portfolios and allocates shares purchased or sold at the average price for each trade, so as not to affect any Clients favorably or unfavorably. Access Persons may also open brokerage accounts for use by Interactive Advisors as test accounts. Trades in these accounts are also executed alongside all other Interactive Advisors Clients. Interactive Advisors may provide the owners of these test accounts with funding to invest in these accounts.

Interactive Advisors Access Persons must acknowledge the terms of the Code of Ethics annually or as amended.

Clients may contact Interactive Advisors to request a copy of the Firm’s Code of Ethics.

## Portfolio Managers' Trading

Portfolio Managers may manage accounts outside of Interactive Advisors for other clients and may implement the same trading strategy or decisions in those accounts before they do so in their Interactive Advisors account. This means that there may be situations where Portfolio Managers enter the same trades on behalf of their clients outside of Interactive Advisors before they trade in their Interactive Advisors account (and therefore before the strategy is replicated in Interactive Advisors Client accounts). This could result in Interactive Advisors Clients getting less favorable pricing terms and performance in their Interactive Advisors account than the Portfolio Manager's clients get in their non-Interactive Advisors accounts. To minimize the effects of this potential conflict of interest, all Portfolio Managers must agree to report, monitor, and review under their own Code of Ethics provisions trades in the IB account that are co-traded through the Interactive Advisors platform. In the Portfolio Manager License Agreement, Portfolio Managers represent to Interactive Advisors that neither they nor their personnel or affiliated persons will use their knowledge of the timing of the trades in their Interactive Advisors account or the fact that those trades will prompt trades in Interactive Advisors Client accounts to trade ahead of Interactive Advisors Clients or otherwise improve their position in the ownership of those securities or move their prices. Portfolio Managers must also provide Interactive Advisors with an annual certification that they are not aware of any instances of front-running in connection with trades placed at Interactive Advisors through their Code of Ethics reviews or otherwise. Portfolio Managers agree to promptly notify Interactive Advisors in writing of any instances of front-running trades placed at Interactive Advisors. Non-Registered Portfolio Managers (generally exempt hedge fund managers) will be subject to a limited version of Interactive Advisors' Code of Ethics and are required to report their personal trading activity to Interactive Advisors. At this time, there are no non-registered Portfolio Managers on the Interactive Advisors platform.

At its discretion, Interactive Advisors could randomly check managers' trading in non-Interactive Advisors-linked accounts following the same strategy as their Interactive Advisors-linked account to detect any instances of trading ahead and/or any indication of improper trading practices and will prominently disclose to Clients or prospects any material aspects of the manager's trading practices.

## Proprietary Trading for the Management of Interactive Advisors Portfolios

Interactive Advisors manages the Interactive Advisors Portfolios by trading in one or more proprietary brokerage account(s) associated with each such portfolio. A conflict of interest thus arises between Interactive Advisors executing trades in that proprietary account with the knowledge that it will be executing similar trades in Client accounts investing in that Interactive Advisors Portfolio. Interactive Advisors may have an incentive to provide favored treatment to its proprietary account to the detriment of Interactive Advisors Client accounts investing in an Interactive Advisors Portfolio by trading ahead of Clients in that proprietary account or taking other actions which favor Interactive Advisors' proprietary account. By choosing to invest in one or more Interactive Advisors Portfolios, Interactive Advisors Clients acknowledge and agree that Interactive Advisors will manage their accounts by replicating trading Interactive Advisors conducts in proprietary accounts funded with its own capital.

To mitigate any conflict of interest or risk of trading ahead of its Clients presented by Interactive Advisors trading in a proprietary brokerage account in connection with the management of the Interactive Advisors Portfolios, Interactive Advisors has imposed on itself the same protections against potential front-running that it applies to the third-party Portfolio managers whose trading Interactive Advisors mirrors, described in the Investment Management Agreement Interactive Advisors Clients sign:

- Combining orders for the sale or purchase of a security by Interactive Advisors with those of Interactive Advisors' Clients that invest in any of the Interactive Advisors Portfolio accounts;
- Placing the combined orders through IB LLC; and
- Allocating the combined trades between Interactive Advisors and client accounts on a pro rata basis (i.e., Interactive Advisors Clients and Interactive Advisors receive the same average price per share and share transaction costs pro rata) (a process referred to as "co-trading").

## Agency Cross Transactions

IB LLC and Interactive Advisors may only execute trades referred to as “Agency Cross Transactions” if a Client has given written consent in advance through the Investment Management Agreement executed with Interactive Advisors. In that agreement, Interactive Advisors Clients acknowledge and agree that an Interactive Advisors affiliate (namely, IB LLC) may engage in “Agency Cross Transactions” as defined in Rule 206(3)-2 (17 C.F.R. § 275.206(3)-2) promulgated by the SEC under the Advisers Act, in which an Interactive Advisors affiliate acts as a broker both for an Interactive Advisors Client and for the customer on the other side of the transaction. Interactive Advisors Clients acknowledge that the Interactive Advisors affiliate may receive commissions from and have a potentially conflicting division of loyalties and responsibilities regarding both parties to such Agency Cross Transactions. Nonetheless, Interactive Advisors Clients consent to and authorize IB LLC to engage in such Agency Cross Transactions, and may revoke this consent and authorization at any time by written notice to Interactive Advisors or IB LLC.

Compliance with Rule 206(3)-2 requires Interactive Advisors to satisfy the following conditions:

1. Clients must provide written consent in the Client Agreement prospectively authorizing Agency Cross Transactions after full written disclosure that IB LLC, Interactive Advisors’ affiliate, will act as a broker, receive commissions from and have a potentially conflicting division of loyalties and responsibilities regarding both parties to these transactions. Interactive Advisors’ Investment Management Agreement with its Clients provides such written disclosure and obtains such written consent from its Clients. Specifically, Interactive Advisors Clients consent to IB LLC designating their orders to trade: (1) on IB LLC’s Automated Trading System or a public exchange, against the orders of other IB LLC customers, including liquidity providers; (2) through an exchange-operated price improvement facility; or (3) against a third-party liquidity provider that would fill orders (such as orders for less than a full share), which could otherwise not be filled in the open market. These Agency Cross Transactions are reflected and identified in Interactive Advisors Clients’ IB LLC activity statements. IB LLC will act as a broker for and receive commissions from both parties to these transactions.
2. Interactive Advisors or IB LLC on behalf of Interactive Advisors must send each Client a written confirmation at or before the completion of each transaction that includes (i) a statement of the nature of this transaction, (ii) the date this transaction took place, (iii) an offer to furnish, upon request, the time when this transaction took place, and (iv) the source and amount of any other remuneration received or to be received by Interactive Advisors’ affiliated broker-dealer. This confirmation would take place prior to settlement, but after execution, and a transaction is not complete until the settlement takes place. Interactive Advisors does not receive any compensation from IB LLC. IB LLC will provide these written confirmations of Agency Cross Transactions to Interactive Advisors Clients in the trade confirmations and daily activity statements for the accounts, either through IB LLC’s Account Management system or for the simplified robo advisor account type (opened since July 2018) through the Account Management window embedded in the Firm’s dashboard, accompanied by email notice of posting.
3. Interactive Advisors or IB LLC on behalf of Interactive Advisors must send Clients an annual statement identifying the total number of Agency Cross Transactions and the total amount of commissions or other remuneration that Interactive Advisors or IB LLC received in connection with these agency-cross transactions since the last summary. IB LLC will provide this information in the annual activity statements for Clients’ accounts, provided as noted above.
4. Client consent may be revoked at any time, and all written disclosure statements and confirmations discussed above must include a conspicuous statement that Clients’ written consent to these Agency Cross Transactions may be revoked at any time by written notice to Interactive Advisors or IB LLC. Interactive Advisors’ Investment Management Agreement with its Clients includes such a conspicuous statement. Trade confirmations and activity statements provided by IB LLC to Clients also include such a statement.

## Fractional Share Transactions

Interactive Advisors is able to offer the Interactive Advisors Portfolios and Manager Portfolios and the extensive diversification they are designed to achieve at even relatively small investment amounts by allowing Interactive Advisors Clients to trade fractional shares. Because stocks or ETFs cannot be traded in fractions on public exchanges, IB LLC, Interactive Advisors' affiliated broker-dealer, facilitates trading in these Portfolios by executing all fractional share orders on behalf of Interactive Advisors Clients against a liquidity provider who is an IB LLC client. This liquidity provider sells or buys fractional shares that Interactive Advisors Clients would not otherwise be able to trade in the open market. These trades occur either at the execution price the liquidity provider gets on the market for shares 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.

Interactive Advisors Clients investing in any of the portfolios on the platform consent to IB LLC matching their fractional share buy and sell orders with the liquidity providers willing to trade fractional shares with Interactive Advisors and its Clients. Clients may revoke their written consent to such transactions at any time by written notice to Interactive Advisors or IB LLC, as discussed in the Investment Management Agreement. But Clients revoking their written consent to these Agency Cross Transactions in fractional shares should note that if they do so they will no longer be able to invest in portfolios on our platform, which rely on fractional share investments.

Fractional shares are typically unrecognized and illiquid outside of a client's advisory account and, as a result, fractional shares may not be marketable or transferrable to another brokerage account. In the event of a liquidation or transfer of assets to another account, Interactive Advisors may convert such fractional shares to cash.

As a result, if you want to liquidate any of your investments in your portfolio, you will need to fully redeem your investment in which case IB LLC will sell any fractional shares to the liquidity provider and any whole shares to the market. If you want to transfer portfolio holdings to another brokerage firm, you will first need to sell your fractional shares to the liquidity provider through IB LLC and will incur commissions on all of these trades. Please note that IB LLC cannot facilitate customers 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.

## **Agency Cross Transactions in IRA Accounts**

Pursuant to the Department of Labor's Prohibited Transaction Exemption 86-128, Interactive Advisors started seeking IRA accountholders' written consent for its affiliated broker dealer IB LLC to receive brokerage commissions for effecting or executing securities transactions in their accounts and for acting as a broker for both the IRA accountholder and the party on the other side of the transaction and receive reasonable compensation from both parties before allowing clients to invest in any portfolios. Interactive Advisors will give IRA accountholders the opportunity to revoke their authorization on an annual basis, but IRA accountholders may also terminate their authorization at any time by calling 1-866-825-3005 or emailing us at [clientservices@interactiveadvisors.com](mailto:clientservices@interactiveadvisors.com). IRA accountholders also receive certain information about IB LLC's commissions revenue and portfolio turnover in their quarterly and annual activity statements provided by IB LLC, as required under the above-mentioned Prohibited Transaction Exemption 86-128.

## **Principal Transactions**

Neither Interactive Advisors nor any of its Affiliates will engage in any principal transactions with Interactive Advisors clients. IB LLC will not knowingly designate your orders to trade with the orders of Interactive Advisors' Affiliates engaged in proprietary trading. This may affect the timing, price, and quantity of the execution you receive.

Please note that certain Interactive Advisors Affiliates, including Interactive Advisors employees, officers and directors, and employees of the Interactive Brokers Group Inc., invest with and are clients of Interactive Advisors. Because Agency Cross Transactions between Interactive Advisors Affiliates and other Interactive Advisors Clients could be deemed principal transactions, Interactive Advisors will set up a process designed to prevent Interactive Advisors Affiliates from trading with any other Interactive Advisors Clients, both internally and on the open market. Interactive Advisors does not allow trading between Interactive Advisors client accounts internally at IB LLC.

## Item 12: Brokerage Practices

### Affiliated Brokerage

Interactive Advisors uses its affiliated broker dealer IB LLC for all trading in its portfolios. Clients must open a brokerage account with IB LLC if they want to invest in one of the portfolios offered by Interactive Advisors. All brokerage commissions and/or transactions fees charged by IB LLC are exclusive of and in addition to Interactive Advisors' management fees.

**All brokerage transactions under the Investment Management Agreement will occur through IB LLC, Interactive Advisors' affiliated broker-dealer. The use of an affiliate for brokerage services represents a conflict of interest. Due to technical and best execution considerations, Interactive Advisors is only utilizing the brokerage services of IB LLC, a related party. Interactive Advisors does not accept clients who direct the use of other brokers. Interactive Advisors thus directs all of the Managers and Clients on its platform to establish brokerage and custodial relationships with IB LLC.**

**In the Investment Management Agreement, Interactive Advisors Clients appoint IB LLC as the broker and custodian for the assets in their accounts and direct Interactive Advisors to execute all trading in their Interactive Advisors accounts through IB LLC, and acknowledge the conflict of interest in this brokerage arrangement. In the Investment Management Agreement, Clients also acknowledge that the appointment of IB LLC as the sole broker for their account may result in disadvantages to them, i.e., less favorable executions (e.g., higher commissions, greater spreads, or less favorable net prices) than may be available through the use of a different broker-dealer.**

**Both Interactive Advisors Clients and Interactive Advisors Portfolio Managers pay IB LLC commissions for the trades in their Interactive Advisors accounts, which represents a conflict of interest. Interactive Advisors does not directly receive any of the brokerage revenue generated by IB LLC from Managers or Clients trading through Interactive Advisors. But Interactive Advisors is supported financially by IBG LLC, the parent company of both Interactive Advisors and IB LLC, and IBG LLC's revenues primarily stem from its brokerage operations.**

All Interactive Advisors trades are affected on an agency basis. When selecting IB LLC as a broker dealer, Interactive Advisors did not consider whether Interactive Advisors or a related party receives client referrals from that broker-dealer.

Interactive Advisors has evaluated the brokerage services and cost of IB LLC and believes that IB will provide Interactive Advisors Clients with a blend of execution services, commissions costs, financial strength and reputation, trading platform, responsiveness to Clients' execution needs, block trading capabilities, accuracy of trades and trade confirmations, and professionalism that fulfills Interactive Advisors' best execution requirement for client transactions. While Interactive Advisors has a reasonable belief that IB LLC is able to obtain best execution and competitive prices, Interactive Advisors will not independently seek best execution price capability through other broker dealers. Interactive Advisors periodically undertakes Trade Cost Analysis ("TCA") of trades in Client accounts to confirm the quality of IB LLC's brokerage execution services. The commissions paid by Interactive Advisors' Clients shall comply with Interactive Advisors' duty to obtain "best execution." Interactive Advisors shall periodically and systematically review its policies and procedures regarding recommending IB LLC as a broker dealer to its Clients in light of its duty to obtain best execution.

While we reasonably believe the use of IB LLC is in its Clients' best interests and allows for more effective investments, Clients should be aware and understand the use of IB LLC may prevent Interactive Advisors from negotiating brokerage commissions and other charges on Clients' behalf. This practice may also prevent Interactive Advisors from obtaining best execution of some or all of Clients' orders. As a result, the use of affiliated brokerage could result in higher commissions, greater spreads, or less favorable net prices than would be the case if Interactive Advisors were able to select other broker-dealers to execute transactions.

Additionally, Clients should be aware that a significant shareholder of Interactive Brokers Group, Inc. is a significant client of Interactive Advisors through investments in the Smart Beta Portfolios. Although this client does not receive any preferential treatment by comparison to other Interactive Advisors Clients, this client relationship presents a conflict of



interest as Interactive Advisors has an incentive to favor this client over any other of its clients especially in the management of the Smart Beta Portfolios for which his investments represent the majority of the associated assets under management at this time.

## **Commissions Charged by IB LLC**

**In the summer of 2021, Interactive Advisors elected to have all of its clients' brokerage accounts at IB LLC operate under the zero-commission "IBKR-LITE" fee model.** IBKR-LITE clients are charged zero commission for US exchange-listed stock and ETF trades. IBKR-LITE orders for NMS stocks are generally routed to select over-the-counter market-makers ("Market Makers") for handling. IB LLC's agreements with the Market Makers provide IB LLC with payment for order flow ("PFOF") from each Market Maker for trades executed with that Market Maker. IB LLC may also route IBKR-LITE orders to another broker, ATS, or exchange (each an "Away Route"), in which case it may collect PFOF for trades executed at or through that Away Route. Although IB LLC's receipt of PFOF may reduce the amount of price improvement that client accounts obtain on their stock and ETF trades (as compared to the price improvement available under IBKR's IBKR-PRO fee model), Interactive Advisors believes that the amount that clients save by avoiding commissions (as compared to IBKR-PRO) generally more than compensates for any loss

IBKR-Lite clients are charged no brokerage account activity fees and no market data fees for US exchange-traded stocks and ETFs, but they may incur non-commission related fees such as market data fees for other products, service fees such as wire transfer fees, and fees to cover regulatory fees incurred by IB LLC when clients sell stocks. These fees are not intended to be a direct pass-through of exchange and third-party fees. Costs passed on to IBKR-Lite clients may be greater than the costs paid by IBKR to the relevant exchange, regulator, clearinghouse or third party. For products not entitled to zero-commission trading under IBKR Lite, the same commission structure will apply to both IBKR-Lite and IBKR-Pro. Where applicable, a "Fixed" commission model will apply to IBKR-Lite clients for such products. For more information, see [ibkr.com/commissions](http://ibkr.com/commissions)

The operation of the IBKR-LITE service for Interactive Advisors clients constitutes a conflict of interest in light of the corporate affiliation between the two entities and the fact that the payments IBKR will receive from Market Makers and Away Routes on Interactive Advisors client orders will benefit the parent company of both entities and thus Interactive Advisors indirectly and the fact that IBKR-LITE executions may end up bringing clients less price improvement than IBKR-PRO executions even after accounting for the commissions savings.

This conflict of interest is disclosed to and acknowledged by Interactive Advisors clients at account opening through the provision of this disclosure. This conflict is mitigated by periodically confirming that IBKR-LITE executions are in line with IBKR-PRO executions after accounting for the commissions savings. Interactive Advisors believes the benefits clients will receive from IBKR-LITE commission structure including zero-commission NMS stocks trades and fixed-rate commission US equity options trades outweigh the conflict of interest.

Any information Interactive Advisors provides to Clients about the possibility and benefits of a brokerage account upgrade is provided by IB LLC and furnished to clients as a courtesy. This information should not be construed as a recommendation by Interactive Advisors to upgrade to a full IB LLC brokerage account, to trade in any particular way, or to trade on margin.

## **Commissions and Tax Burdens Associated with the Rebalancing of the Interactive Advisors-Managed Smart Beta Portfolios and Index Tracking Portfolios**

Interactive Advisors rebalances these two Interactive Advisors Portfolio lines quarterly. Due to large number of holdings in these portfolios, quarterly rebalancing of the Smart Beta and Index Tracking portfolios and Client investments and divestments could result in a large number of quarterly transactions in many or all of the securities, in which the Smart Beta and/or Index Tracking portfolios and Client accounts are invested. A higher turnover rate could result in higher turnover taxes when held in a taxable account. The additional costs associated with higher portfolio turnover will affect the performance of Client accounts investing in these portfolios.

Clients will need to report some (or all) of these trades on their tax forms. Interactive Advisors cannot provide tax advice or prepare tax documents for Clients. Clients should consult an accountant or tax attorney to determine the tax-related obligations associated with investing in these portfolios. IB LLC provides certain tools to assist its brokerage clients with their tax filings, but these tools may only be able to support a limited number of trades.

## **Soft Dollar Arrangements**

An investment adviser receives soft dollar benefits from a broker-dealer when the investment adviser receives research or other products and services in exchange for client securities transactions or maintaining an account balance with the broker-dealer. We do not have a soft dollar agreement with IB LLC or a third-party. But we do receive benefits other than execution services by using IB LLC as our custodian and executing broker, including but not limited to services that help us manage and administer client accounts such as: software and technology systems that allow us to manage client data, execute trades, get market and pricing information, process advisory fees, recordkeeping and client reporting. Although the receipt of these benefits is a potential conflict of interest, we believe these benefits are typically for the industry. Generally, our selection of IB LLC is primarily supported by the scope, quality and pricing of IB LLC's services. These benefits outside of execution are general benefits used to help service all of our client accounts and are not allocated pro rata to certain client accounts.

## **Trade Aggregation**

Trade orders placed by Portfolio Managers or Interactive Advisors will normally be aggregated with Clients orders, which facilitates best execution. We note however that trades may not be aggregated if Client restrictions prevent us from doing so.

## **Trade Allocation**

We attempt to allocate investment opportunities on a pro-rata basis among eligible accounts based on the originally planned allocation. Both the Portfolio and the Client will receive the average price for each trade. However, in certain situations, it may not be equitable to allocate on a pro-rata basis (e.g. round lots or size restrictions on the allocation). The trading systems used by IB LLC automatically allocate trades on a pro-rata basis (with respect to the market imposed round lot requirements).

## **Timeliness**

We will ensure that transactions are promptly and fairly allocated between the Portfolio Manager or Interactive Advisors, on the one hand, and Clients, on the other hand, at the average price.

## **Small adjustment trades to minimize performance drift**

To ensure that Interactive Advisors is able to better track trading activity in Manager or Interactive Advisors Portfolios, Clients authorize Interactive Advisors to make adjustment trades that Interactive Advisors in its discretion determines will help a Client account mirror the Portfolio(s) in which the Client invests. Clients understand and acknowledge that these adjustments may require small buy or sell trades in their accounts, which they authorize Interactive Advisors to effect without the Clients' specific advance approval or authorization. Clients also understand that they will incur additional transaction costs, including commissions, in connection with these small adjustments. A conflict of interest arises in connection with these adjustments because IB LLC, Interactive Advisors' affiliated broker-dealer, collects commissions on these trades. Clients acknowledge this conflict of interest and authorize Interactive Advisors to effect these adjustment trades in the Investment Management Agreement they enter into with Interactive Advisors.

## **Best Execution**

Regardless of how transactions are executed, Interactive Advisors strives to ensure IB LLC obtains best execution of Client trades whenever possible.

## Resolution of Trade Errors

Clients acknowledge that Interactive Advisors will be responsible for Client account losses resulting from its failure to follow its own trading procedures or a lapse in its internal communications. Clients acknowledge that Interactive Advisors cannot and will not be responsible for any Client account errors and/or losses occurring when Interactive Advisors uses its best efforts to execute trades in a timely and efficient manner. Clients also acknowledge that Interactive Advisors is not responsible if a trade or a portion of a trade is not effected or an electronic “glitch” occurs even though Interactive Advisors followed its trading procedures and best efforts.

In certain situations, Interactive Advisors may manually send Client trades for execution after a Portfolio Manager’s trades are executed. Differences in execution prices due to delays in trading of less than 48 hours will not constitute a trade error, regardless of the cause of this delay.

Clients also acknowledge that Interactive Advisors cannot and will not be responsible for trades that are not properly executed by any third parties, including but not limited to broker-dealers, clearing firms, or custodians, when Interactive Advisors has properly submitted the order.

Clients are responsible for immediately notifying Interactive Advisors if they think that a trade error has occurred in their account. Clients also agree to promptly return any assets or funds erroneously credited to their account by IB LLC in connection with any of the trades in their Account.

## Item 13: Review of Accounts

Interactive Advisors will periodically contact Clients to review its previous services or investment recommendations to them and to discuss the impact resulting from any intervening changes in Clients’ financial situation or investment needs.

Investment activity in all Client accounts may be monitored periodically by the Chief Investment Officer for potential conflicts with the Client’s stated investment objectives and risk tolerances, namely in the areas of liquidity, risk exposure, and investment strategy and trade activity associated with investments.

Interactive Advisors reevaluates the risk scores assigned to Portfolio Manager strategies (at least annually) and prompts Clients to review their answers to the risk assessment questionnaire and previously specified investment restrictions (at least quarterly) to ensure Clients are invested in strategies suitable for their risk appetite and ability to withstand investment losses. Annually, Interactive Advisors will contact Clients to determine whether there have been any changes in their financial situation or investment objectives warranting a revision of their prior answers to the risk assessment questionnaire and whether Clients want to impose new or revise existing restrictions on the trading in their accounts. Interactive Advisors’ client service representatives are also available to discuss and explain investment decisions made for their Interactive Advisors Portfolio investments and may be contacted by telephone at 1-866-825-3005 and by email at [support@interactiveadvisors.com](mailto:support@interactiveadvisors.com).

**Interactive Advisors Clients are and remain responsible at all times for advising Interactive Advisors of any changes in their financial situation, investment objectives, risk tolerance and investment restrictions. Clients who have experienced material changes to their financial circumstances or investment objectives, or wish to impose initial or modify existing ticker or reasonable restrictions upon Interactive Advisors' management services, or make any other changes to the management of their assets should promptly update their information and responses to the risk assessment questionnaire on the Interactive Advisors website or contact one of our client services representatives to inform them of any intervening changes.**

Interactive Advisors provides Clients with individual, password-protected, login credentials to its website, <https://interactiveadvisors.com/> where Clients have direct access to their secure, private account detail pages, where they can revise their investment objectives and their answers to the risk assessment questionnaire, view their account holdings, daily account activity and performance, and access their monthly Portfolio reports detailing performance and risk exposure.

**Clients are urged to periodically compare activity statements prepared by Interactive Advisors and quarterly account statements and transaction confirmations provided by IB LLC with regard to activity, holdings and valuations in their Interactive Advisors account. Clients should immediately inform Interactive Advisors of any discrepancies they detect between Interactive Advisors and IB LLC account statements.**

## **Item 14: Client Referrals and Other Compensation**

### **Solicitations and Referrals**

Interactive Advisors does not receive compensation or other economic benefits from persons other than Clients for providing investment advice or advisory services to its Clients. Interactive Advisors does not currently use solicitors to refer advisory clients to the Firm and does not compensate a third-party for client referrals.

### **Portfolio Manager Compensation**

Interactive Advisors compensates each Portfolio Managers with a portion of the Management Fee(s) charged to Clients for their investments in the specific Manager Portfolio. Occasionally, Interactive Advisors Clients may have initially heard about Interactive Advisors from one of the Portfolio Managers on the platform, but Interactive Advisors will not compensate Portfolio Managers for any client referrals.

## **Item 15: Custody**

### **Recommended Custodian and Clearing Services**

Interactive Advisors recommends that Clients utilize the brokerage and clearing services of IB LLC. Interactive Advisors only implements its investment management services after the Client has arranged for and furnished Interactive Advisors with all information and authorization regarding the opening of a brokerage account with IB LLC, a related party of Interactive Advisors.

Interactive Advisors likely has custody of Client funds and securities by virtue of its affiliation with IB LLC, the qualified custodian for Client funds and securities, and also in light of certain provisions in the brokerage agreement that clients enter into with IB LLC for the simplified robo advisor account type launched in July 2018.

In accordance with the SEC's Custody Rule and in recognition of the corporate relation between Interactive Advisors and IB LLC, the qualified custodian of its Clients' assets, since 2015, Interactive Advisors has engaged an independent public accountant (Spicer Jeffries LLP) to conduct an annual, independent surprise audit of Client funds and securities.

IB LLC sends quarterly account statements directly to Interactive Advisors Clients identifying the amount of funds and securities in their account(s) at the end of the period and setting forth all transactions in the account(s) during that period, including but not limited to any fees charged by Interactive Advisors. **Clients should contact IB LLC or Interactive Advisors immediately if they do not receive account statements from IB LLC on at least a quarterly basis.** Interactive Advisors clients should carefully review those statements to ensure that they accurately reflect the transactions in their Interactive Advisors account(s). Interactive Advisors may also separately provide account updates to its Clients. Clients should carefully compare the account updates they receive from Interactive Advisors with the account statements they receive from IB LLC, the qualified custodian. The account statements received from IB LLC are the official custodial records for Interactive Advisors client accounts. The reports provided by Interactive Advisors are not statements but simply tools Clients should use in evaluating the performance of their investments and are not intended to replace the statements received from the custodian of assets, IB LLC. If Clients discover any discrepancy between the account statements provided by Interactive Advisors and those provided by IB LLC, then they should contact Interactive Advisors immediately.

## Item 16: Investment Discretion

As authorized in the Interactive Advisors Client Agreement, Interactive Advisors assumes discretionary authority over Client assets placed with Interactive Advisors for management. This is done via a power of attorney granting Interactive Advisors the ability to initiate financial transactions and trades on behalf of its Clients, in order to execute trades in Portfolios Clients invest in. This grant of investment discretion allows Interactive Advisors to place trades in client accounts without contacting Clients before each trade. In all cases, however, Interactive Advisors' discretion will be exercised in a manner consistent with the investment objectives, risk tolerance, and risk score for the particular client account. Clients maintain authority to revise their answers to the risk assessment questionnaire, change their investment status, and may place restrictions on the securities to be bought or sold for their account.

Interactive Advisors uses its best judgment and good faith efforts in rendering services to Clients. Interactive Advisors cannot warrant or guarantee any particular level of account performance, or that an account will be profitable over time. Not every investment decision or recommendation made by Interactive Advisors will be profitable. Interactive Advisors Clients assume all market risk involved in the investment of account assets under the Investment Management Agreement and understand that investment decisions made by Interactive Advisors in Client accounts are subject to various market, currency, economic, political, and business risks.

**Interactive Advisors Clients are and remain responsible at all times for advising Interactive Advisors of any changes in their financial situation, investment objectives, risk tolerance and investment restrictions. Clients who have experienced material changes to their financial circumstances or investment objectives, or wish to impose initial or modify existing ticker or reasonable restrictions upon Interactive Advisors' management services, or make any other changes to the management of their assets should promptly update their information and responses to the risk assessment questionnaire on the Interactive Advisors website or contact one of our client services representatives to inform them of any intervening changes.**

### No self-directed trading available

Clients should understand that the Interactive Advisors platform is a discretionary investment advisory program and not a self-directed brokerage service. Unlike in a self-directed brokerage account, in their Interactive Advisors accounts Clients cannot enter individual buy and sell orders for specific securities to be executed at particular times. In accordance with the discretionary trading authority granted Interactive Advisors by Clients, once a Client selects a Manager or an Interactive Advisors Portfolio to invest in, the Client may not alter the Portfolio or the trades in his account that is invested in that Portfolio, except to restrict the trading of specific tickers or securities in his account. Clients may terminate their investment in a Portfolio at any time and invest in another Portfolio available on the Interactive Advisors platform or choose not to invest in any Portfolio. If a Client wants to control the specific time and securities to be bought and sold in his account, he should not use Interactive Advisors' services or should execute separate self-directed trades in a separate partition of the client's IB LLC brokerage account or another brokerage account at IB LLC or elsewhere.

Interactive Advisors Clients may restrict the tickers or securities traded in their account at any time and Interactive Advisors will honor these restrictions when mirroring the trading in portfolio Clients choose to invest in if such restrictions are received in a timely fashion before Interactive Advisors places trades in Client accounts. Clients should understand that imposing restrictions on future investments and selling any existing holdings in a portfolio affect the performance of a Client's account negatively or positively and lead to that account performing differently and possibly worse than the Manager or Interactive Advisors account trading that portfolio or other Client accounts invested in the same portfolio. **Clients also understand and acknowledge that they are responsible for informing the Firm if they do not want to sell existing holdings in a security they decide to restrict and implement the security restriction only prospectively. In the absence of such notice from Clients, the Firm will implement any security restriction by both selling existing holdings in that security and refraining from trading in that security in the future, if and until the Client decides to lift that restriction.**

## Item 17: Voting Client Securities

Interactive Advisors obtains authority from its Clients to receive proxy materials and vote client proxies, and has adopted proxy voting policies and procedures designed to ensure that it votes proxies in the best interest of its Clients and that it provides Clients with information about how their proxies are voted. In light of its fiduciary duty to Clients, the complexity of the issues that may be raised with proxy votes and the relatively large number of unique holdings that Clients may hold in their accounts as a result of investments in portfolios on the platform, Interactive Advisors has retained Institutional Shareholder Services Inc. (“ISS”) to vote proxies on its behalf. ISS is an independent third party that specializes in providing a variety of fiduciary-level proxy-related services to institutional investment managers and investment advisors. The services provided by ISS to Interactive Advisors include in-depth research, voting recommendations, vote execution and recordkeeping. ISS’s Proxy Voting Guidelines (Benchmark Policy Recommendations) for the United States guiding ISS’s proxy voting on Interactive Advisors’ behalf are available on the ISS website: <https://www.issgovernance.com/policy-gateway/voting-policies/>. At times, Interactive Advisors and/or ISS may not be able to vote proxies on behalf of Clients when Clients’ holdings are in countries that restrict trading activity around proxy votes or the securities are otherwise restricted. Also, Interactive Advisors will not be responsible or liable for failing to vote any proxies where it has not received the proxies or related shareholder communications on a timely basis.

Interactive Advisors will use its best judgment to vote proxies in the best interests of its Clients and will typically follow the recommendations of ISS. In the event that Interactive Advisors decides to vote a proxy (or a particular proposal within a proxy) in a manner different from the ISS recommendation, Interactive Advisors will document the reasons supporting the decision. In the event that Interactive Advisors intends to deviate from the proxy voting recommendation of ISS and a conflict of interest is present, Interactive Advisors shall bring the proxy voting issue to the attention of affected clients for guidance on how to vote the proxy while disclosing the conflict. Clients may obtain a copy of Interactive Advisors’ Proxy Voting Policies and Procedures and information about how client proxies were voted by calling us at (866) 825-3005 or emailing us at [clientservices@interactiveadvisors.com](mailto:clientservices@interactiveadvisors.com).

The ISS platform Interactive Advisors uses to vote proxies on its clients’ behalf uses pre-populated vote features. Interactive Advisors will periodically sample pre-populated votes.

When Interactive Advisors becomes aware that an issuer intends to file or has filed additional soliciting materials with the SEC that would reasonably be expected to affect its vote, in advance of the submission deadline, the Firm will promptly review these additional materials and decide if Interactive Advisors is to adhere to ISS’s recommendation(s). Notwithstanding, if Interactive Advisors believes ISS’s proxy recommendations will generally serve the best economic interests of its clients, Interactive Advisors will vote in accordance with ISS’s recommendations. However, if additional soliciting materials are made available to Interactive Advisors seven (7) business days prior to the submission deadline by U.S. issuers or fourteen (14) business days by non-U.S. issuers, the Proxy Administrator is not required to review these materials or take any action.

Under ISS’s current processes, in the event new material public information becomes available or if ISS finds that a report contains a material error, ISS promptly issues a Proxy Alert (“Alert”) to inform its clients including Interactive Advisors of any corrections and, if necessary, any resulting changes in the vote recommendations. Alerts are distributed to ISS’ investor clients through the ProxyExchange platform used to distribute the regular research and voting recommendations. This ensures that the Firm, if it received an original report, will also receive the related Alert, which is attached to the relevant original company meeting report. Even if the Firm has cast its vote before receiving an Alert, the Firm may cancel and change its vote at any time before the meeting cut-off date, if it determines that such a change is warranted by the new information. ISS is currently evaluating client needs as it relates to future reporting, alerting, and on-screen signals to indicate the availability of issuer feedback. Historically, issuers have rarely issued information requiring ISS to issue an update warranting an alert to shareholders.

Interactive Advisors will neither advise nor act on behalf of any Client in legal proceedings involving companies whose securities are held or were previously held in the Client's account, including but not limited to, the filing of "Proofs of Claim" in class action settlements.

## **Item 18: Financial Information**

Interactive Advisors does not require or solicit the prepayment of its advisory fees, and does not have any adverse financial condition or financial commitment that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to Clients. Interactive Advisors has never been the subject of a bankruptcy proceeding. Interactive Advisors is not self-sustaining through its advisory fee revenue alone, and is financially supported by its ultimate parent IBG LLC, through periodic capital contributions and unsecured loans. Clients may obtain information about the financial condition of Interactive Brokers Group, Inc. by visiting the Group's website at <https://investors.interactivebrokers.com/ir/main.php> and <https://www.interactivebrokers.com/en/index.php?f=559>

## **Item 19: Requirements for State-Registered Advisers**

Because our principal place of business is outside the U.S., in the United Kingdom, and we are an investment adviser registered with the SEC, Interactive Advisors is not required to register with the individual states. Interactive Advisors qualifies to register directly with the U.S. Securities and Exchange Commission. However, Interactive Advisors makes notice filings in states that require such notice under state "Blue Sky" laws.

## **AML Officer Contact Information**

Interactive Advisors' AML Officer is Ana-Maria Ignat, Chief Compliance Officer, Covestor Limited, 2200 Pennsylvania Avenue, Suite 280E, Washington, D.C. 20037, (202) 349-3850, (312) 542-7391 (fax), [aignat@interactiveadvisors.com](mailto:aignat@interactiveadvisors.com).

This brochure supplement provides information about John Dahlstrom that supplements Interactive Advisors' brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Advisors' brochure or if you have any questions about the contents of this supplement. Additional information about John Dahlstrom is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement - John Dahlstrom**

**Covestor Limited doing business as “Interactive Advisors”, “Interactive Advisers,” “Interactive Brokers Asset Management”, “IB Asset Management”, and “IBKR Asset Management”**

**Boston Office:**

**175 Federal Street, Suite 930**

**Boston, MA 02110**

**866-825-3005 x 716**

**London Office:**

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**110 Bishopsgate**

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**United Kingdom**

**+44 (203) 787-9250**

**Website: <https://interactiveadvisors.com>**

**August 27, 2021**



## **John Dahlstrom, Director, Manager/Client Relations**

<b>Born</b>	1982
<b>Educational Background</b>	Suffolk University, 09/2000 to 05/2004, B.A. – Finance
<b>Business Experience</b>	Covestor doing business as Interactive Advisors, Client Adviser, 07/2015 – present NGAM - Investment Consultant - 03/2011 - 07/2015 MSSB - Client Service Associate - 06/2003 - 02/2011
<b>Professional Certifications</b>	FINRA Series 7, 63 and 66  John is supervised by Sanjoy Ghosh, Chief Investment Officer. He reviews John's work on an ongoing basis along with John's activities through our investment management systems. All inquiries should be directed to Sanjoy Ghosh at (866) 825-3005 x 702.
<b>Disciplinary Information</b>	None
<b>Other Business Activities</b>	None
<b>Additional Compensation</b>	None

This brochure supplement provides information about Jennifer Mitton that supplements Interactive Advisors' brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Advisors' brochure or if you have any questions about the contents of this supplement. Additional information about Jennifer Mitton is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement - Jennifer Mitton**

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## Jennifer Mitton, Director, Investor Relations

<b>Born</b>	1988
<b>Educational Background</b>	Bates College, Boston, BA, Psychology, 2007 - 2011 Harvard Extension School, Masters of Finance, 2013 - 2016
<b>Business Experience</b>	Covestor doing business as Interactive Advisors, Investor Relations, 03/2020 – present Loomis Sayles - Portfolio Analyst - 06/2018 - 02/2020 Harbourvest Partners - Portfolio Data Analyst - 05/2016 - 06/2018 Advantage Data - Fixed Income Analyst - 12/2014 - 05/2016
<b>Professional Certifications</b>	FINRA Series 65  Jennifer is supervised by Sanjoy Ghosh, Chief Investment Officer. He reviews Jennifer's work on an ongoing basis along with Jennifer's activities through our investment management systems. All inquiries should be directed to Sanjoy Ghosh at (866) 825-3005 x 702.
<b>Disciplinary Information</b>	None
<b>Other Business Activities</b>	None
<b>Additional Compensation</b>	None

This brochure supplement provides information about Sanjoy Ghosh that supplements Interactive Advisors' brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Advisors' brochure or if you have any questions about the contents of this supplement. Additional information about Sanjoy Ghosh is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement - Sanjoy Ghosh**

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**August 27, 2021**

## **Sanjoy Ghosh, Chief Investment Officer**

<b>Born</b>	1973
<b>Educational Background</b>	Colgate University, B.A., Economics and Math, 1992 - 1996 Wharton, University of Pennsylvania, M.A, and Ph.D, Finance, 1996 - 2000
<b>Business Experience</b>	Covestor Ltd doing business as Interactive Advisors, Chief Investment Officer, 05/2013 – Present Panagora Asset Management, Director, Equities, 7/2004 - 4/2013
<b>Professional Certifications</b>	FINRA Series 65
<b>Disciplinary Information</b>	None
<b>Other Business Activities</b>	None
<b>Additional Compensation</b>	None

This brochure supplement provides information about Bimal Shah that supplements Interactive Advisors' brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Advisors' brochure or if you have any questions about the contents of this supplement. Additional information about Bimal Shah is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement - Bimal Shah**

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**August 27, 2021**

## **Bimal Shah, Chief Technology Officer**

<b>Born</b>	1969
<b>Educational Background</b>	King's College, University of London, B.Sc. (1st Hons.), Physics and Computer Science, 1986 - 1989  Queen Mary University of London, M.Sc. (Distinction), Computer Science, 1999 - 2000
<b>Business Experience</b>	Covestor Ltd doing business as Interactive Advisors, Chief Technology Officer, 09/2008 – Present  Betfair, Engineering and Product Manager, 04/2005 - 08/2008  Thinkingcap Technology, Founder, 01/1999 - 03/2005  D.E.Shaw & Co., Group Manager and Architect, Financial Data, 10/1996 - 12/1998  Accenture, Consultant and Manager, 01/1991 - 09/1996
<b>Disciplinary Information</b>	None
<b>Other Business Activities</b>	None
<b>Additional Compensation</b>	None