

**BETTERMENT WRAP FEE BROCHURE**

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This brochure provides clients with information about Betterment LLC (hereinafter "Betterment") and the Betterment Wrap Fee Program that should be considered before becoming a client of the program. This information has not been approved or verified by any governmental authority.

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## **General Information**

Betterment, offers the Betterment Wrap Fee Program to interested prospects and advisory clients. Betterment, a limited liability company organized under Delaware law, is an SEC Registered Investment Adviser. Betterment maintains its principal office at 853 Broadway, Suite 1208, New York, NY 10003. Betterment Securities is a sponsor of the Betterment Wrap Fee Program. If you have questions regarding the material contained herein, please contact Betterment at [support@betterment.com](mailto:support@betterment.com) or at 888-428-9482.

## **Program Description and Investment Strategy**

Betterment is a smart, simple way of managing savings and investments. This Wrap Fee Brochure is meant to help you understand the nature of your investments, you should review it carefully.

When an individual invests in securities, he or she must first determine what securities to purchase or sell. This process is often done in consultation with an investment advisor such as Betterment. When the decision making phase is complete an order is placed with a broker-dealer to execute the agreed transaction in the securities markets. Investment advisors generally place these orders on behalf of their clients. Typically investment advisors charge a fee that covers managing a portfolio but not the broker-dealer expenses related to executing trades and keeping custody of client assets. In the typical arrangement, those trade execution expenses are an additional charge to the client. A wrap fee program is a popular alternative to a typical advisory fee structure that provides clients with advisory and brokerage execution services for one all-inclusive management fee with no additional account activity charges.

Betterment is organized as a wrap fee program because it best allows us to achieve our mission of simplifying smart saving and investing for our clients. For example, the wrap fee gives clients the freedom to add to or withdraw money from their accounts and change their Allocation without incurring any separate expenses for those activities.

We think that a simpler financial product, with fewer options, helps clients focus on making clear choices and the best investment decisions. Our methodology advises clients to invest in well-diversified holdings in the stock market, for strong long-term returns, coupled with Treasury bonds, for steady income superior to typical bank account rates and lower volatility than the market. We implement this methodology by recommending a portfolio of broad market index Exchange Traded Funds and Treasury Bond Exchange Traded Funds ("Funds"). With our basic methodology in place, Betterment's online platform enables clients to fine tune their Allocation to match to their individual needs.

## **Minimum Investment**

Betterment is open to all individuals. There is no minimum investment.

## **Portfolio Management Services**

The investments offered at Betterment are integrated with the Betterment website where clients manage their Betterment account by setting an Allocation between portfolios of Funds available through the program. When clients deposit to or withdraw money from their Betterment account, they are initiating transactions for the purchase or sale of proportional interests in the available Funds, in an amount that corresponds to their Allocation. Similarly, when clients adjust their Allocation they are initiating transactions to exchange available Funds for one another to reflect the updated Allocation.

Betterment offers 'rebalancing' of client portfolios so that in the face of fluctuating market prices each client's portfolio remains controlled to within a narrow range of his or her Allocation. Betterment recommends rebalancing because it has been shown to improve returns and because it simplifies account management for clients.

Betterment's portfolio management services also include a dividend reinvestment system. Dividend reinvestment means that dividends from the client's Funds are used to purchase additional investments in accordance with a client's Allocation.

To participate in Betterment, clients are required to agree to have their accounts automatically rebalanced and their dividends automatically reinvested.

## **Investment Tools**

In addition, the Betterment website provides tools to help clients project their expected returns, access information related to transactions, and understand their account's prior performance. The website also includes various community-based features which give clients the opportunity to learn from each other and further optimize their investments.

## **Trade Execution, Account Maintenance, and Asset Custody**

When clients choose Betterment they are also choosing the brokerage services of Betterment Securities, a FINRA member broker-dealer. Betterment Securities does not operate the Betterment website. Pursuant to contractual authority from the client, Betterment Securities will maintain all client accounts and execute all securities transactions in client accounts without separate commission costs or other fees. Participation in Betterment requires the appointment of Betterment Securities as broker. Betterment Securities's execution procedures are designed to make every attempt to obtain the best execution possible, although there can be no assurance that it can be obtained. Clients should consider whether or not the appointment of Betterment Securities as the sole broker may or may not result in certain costs or disadvantages to the client as a possible result of less favorable executions.

Generally, when clients make changes to their accounts during normal stock market hours transactions will be processed momentarily while changes clients make to their accounts when markets are closed will be processed the next business day. Transactions are sometimes subject to processing delays which can cause significant time lapses between the time clients have initiated a change to an account and execution. As a result of processing delays, account

changes that occur less than thirty minutes before markets close may not transact until the next business day. Markets generally close at 4:00 PM ET. Further, deposits are automatically subject to a processing period that may be up to five business days or longer; deposit related transactions will not occur until the next business day after this processing period is complete.

To treat all customers fairly and improve execution, Betterment Securities effects aggregated block transactions involving multiple Betterment Accounts as well as cross transactions with Betterment's principal account. These transactions are not subject to any mark-ups, mark-downs, or dealer spreads. In conducting these transactions no client is favored over any other client and each client that participates in an aggregated transaction will participate at the average share price for transactions in the aggregated order.

Under an arrangement provided by Betterment Securities, client assets are held in custody at Penson Financial Services, Inc. ("Penson"). Betterment has chosen to custody assets at Penson because of Penson's long history of security and stability. At Betterment, the safety and security of our client's assets is paramount. Penson will receive fees for its services.

There are never any separate fees for any trade execution or custody service.

## **Fees**

Betterment clients pay an all-inclusive annualized wrap fee of 0.9% of the client's account balance. The fee is not negotiable. This fee includes charges for advisory services, custody of assets, execution and clearing of transactions, and account reporting. Clients participating in this program also agree to direct brokerage in their accounts through Betterment Securities. Betterment and Betterment Securities negotiate with trading partners to execute transactions on the most favorable terms available. Betterment Securities's execution procedures are designed to make every attempt to obtain the best execution possible, although there can be no assurance that it can be obtained. Client should also consider that, depending on the amount of activity in a client's account and the value of custodial, trade execution, advisory, and other services which are provided under the arrangement, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. Betterment may, at its sole discretion, offer some accounts with fees that differ from standard accounts.

The fee is calculated as a prorated amount of a client's average daily balance over a calendar quarter and charged in four installments at the end of each quarter. The fee is not charged on the basis of a share of capital gains upon or capital appreciation of the Funds or any portion of the assets of an advisory client.

## **Fee Payment**

Betterment will automatically debit the prorated amounts of such fees from the assets in a client's account on a quarterly basis.

## **Termination of Advisory Relationship**

A client agreement may be canceled at any time, by either party, for any reason upon receipt of

30 days written notice. Upon termination of any account any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

### **Fund Fees and Expenses**

All fees paid to Betterment for investment advisory services are separate and distinct from the fees and expenses charged by Funds to their shareholders. These fees and expenses are described in each Fund's prospectus. These fees are generally composed of a management fee and other Fund expenses.

### **Potential Conflicts of Interest**

Betterment or individuals associated with Betterment may buy or sell securities identical to or different than those recommended to clients for their personal accounts. In addition, any related person(s) may have an interest or position in certain securities which may also be recommended to a client.

It is the expressed policy of Betterment that no person employed by Betterment may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This policy is intended to prevent employees from benefiting from transactions placed on behalf of advisory accounts.

### **Privacy Policy**

Betterment is committed to protecting our clients' private information. Betterment and Betterment Securities have instituted policies and procedures to ensure that customer information is kept private and secure. Betterment does not disclose any non-public personal information about its customers or former customers to any non-affiliated third parties except as required by or permitted by law or agreed to by the client. In the course of servicing a client account, Betterment may share some information with its service providers, such as transfer agents, custodians, broker/dealers, accountants, and attorneys. Betterment restricts internal access to non-public personal information to those employees who need access to such information in order to provide products or services to a particular client. Betterment also maintains physical, electronic, and procedural safeguards to protect client information.

A copy of the Betterment's Privacy Policy is available on the Betterment website.

### **Subject to Change**

From time to time Betterment may adjust its wrap fee program and policies. In the event of such adjustments this brochure will be modified as needed and an updated copy will be made available on the Betterment website.

## Profiles of the Betterment Team

JON B. STEIN

*Chief Executive Officer*

Born 1979

*Education*

B.A., Harvard University, 2001

M.B.A., Columbia Business School, 2009

*Business Background*

Betterment, Chief Executive Officer, 2007 – Present

First Manhattan Consulting Group, Consultant, 2003-2007

RYAN M. O’SULLIVAN

*Founding Member*

Born 1973

*Education*

B.A. Georgetown University, 1995

*Business Background*

Betterment, Founding Member, 2008 – Present

Madison Trading, Managing Partner, 2002 – Present

Kenneth Cole, Le Tigre Division President, 2007 – 2009

Le Tigre, Managing Partner/President, 2003 – 2007

Wachovia Bank, Senior Vice-President of Equity Capital Markets and Investment Banking, 1999 - 2002

ELI D. BROVERMAN

*Chief Operating Officer*

Born 1978

*Education*

B.A., Brown University, 2001

J.D., NYU School of Law, 2005

Member New York State Bar Association

*Business Background*

Betterment, Chief Operating Officer, 2007 – Present

Proskauer Rose LLP, Associate, 2005-2007