

Firm Brochure  
(Part 2A of Form ADV)

**E\*TRADE Capital Management, LLC**

1271 Avenue of the Americas, 14th Floor  
New York, New York 10020-1302

*This brochure provides information about the qualifications and business practices of E\*TRADE Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 866-484-3658. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.*

*Additional information about E\*TRADE Capital Management is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The IARD/CRD number for E\*TRADE Capital Management is 42159.*

*E\*TRADE Capital Management is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.*

March 30, 2012

# Material Changes

---

## Annual Update

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure.

---

## Material Changes since the Last Update

Prior to this version, E\*TRADE Capital Management's most recent update to ADV Part 2A was made on March 2, 2012. E\*TRADE Capital Management's business activities have not changed materially since the time of the last update; however, there were several changes to the Advisory Programs offered by ETCM since the last annual update, which are reflected in this updated Brochure.

A new fee schedule was implemented for new clients who enrolled in the Managed Investment Portfolio on or after January 1, 2012. This new schedule does not impact clients who enrolled in the program prior to January 1, 2012. Information about the new fee schedule is contained in the Fees and Compensation section of this brochure.

The Managed ETF Portfolio Advisory Program converted to the Online Managed Investment Portfolio Program ("Online MIP") on March 2, 2012. The Online MIP Program offers portfolios consisting of either ETFs or Mutual Funds. As part of the conversion, program changes were made in the following areas: account minimums, fee structure, alternative investment selection process, and portfolio monitoring and rebalancing specifications. The program is now referred to as "Online Managed Investment Portfolio" or "Online MIP."

The Principal Owner of the firm changed in 2011 from E\*TRADE Advisory Services, Inc. to ETCM Holdings, Inc. E\*TRADE Financial Corporation, a publicly-owned company traded on the NASDAQ under symbol ETFC, owns 100% of ETCM Holdings, Inc.

ETCM will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. This Firm Brochure replaces all prior versions.

To request the most recent Form ADV Part 2A Brochure in the future, please call us at 866-484-3658.

# Table of Contents

<b>Material Changes.....</b>	<b>i</b>
Annual Update .....	i
Material Changes since the Last Update .....	i
<b>Advisory Business .....</b>	<b>4</b>
Firm Description.....	4
Principal Owners.....	4
Types of Advisory Services.....	4
Wrap Fee Programs.....	5
SEI Investment Program.....	7
<b>Fees and Compensation.....</b>	<b>8</b>
Fees.....	8
Fee Billing .....	11
Other Fees and Compensation Information .....	11
Performance-Based Fees and Side-By-Side Management .....	12
<b>Types of Clients.....</b>	<b>13</b>
Description .....	13
Account Minimums.....	13
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>13</b>
Methods of Analysis.....	13
Risk of Loss .....	16
<b>Disciplinary Information .....</b>	<b>17</b>
Legal and Disciplinary.....	17
<b>Other Financial Industry Activities and Affiliations .....</b>	<b>17</b>
Affiliations .....	17
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>19</b>
Code of Ethics .....	19
Participation or Interest in Client Transactions.....	19
Personal Trading.....	19

<b>Brokerage Practices.....</b>	<b>20</b>
Selecting Brokerage Firms.....	20
Best Execution .....	20
Soft Dollars .....	21
<b>Review of Accounts .....</b>	<b>21</b>
Periodic Reviews .....	21
<b>Client Referrals and Other Compensation .....</b>	<b>22</b>
Incoming Referrals.....	22
Discretionary Authority for Trading.....	22
<b>Voting Client Securities .....</b>	<b>22</b>
Proxy Votes .....	22
<b>Financial Information .....</b>	<b>23</b>
Financial Condition .....	23

# Advisory Business

---

## Firm Description

E\*TRADE Capital Management, LLC (“ETCM”) is an investment adviser registered with the Securities and Exchange Commission (“SEC”). ETCM, under its predecessor name, was founded in 1996 and ETCM became a wholly-owned indirect subsidiary of E\*TRADE Financial on October 3, 2005.

ETCM provides investment advisory services to individuals, trusts, charitable organizations, corporations, individual retirement accounts, self-employed retirement accounts, or business entities residing in the United States. Advisory services are not available to pension or profit-sharing plans subject to the Employee Retirement Income Security Act (“ERISA”). ETCM does not provide financial planning, tax preparation, security rating and pension consulting or market timing services.

ETCM charges only asset-based fees for its services. ETCM provides ongoing monitoring for adherence to a client’s strategy. The firm does not sell commission-based products. The firm is affiliated with other entities that offer a variety of different financial products or securities, including commission-based products. ETCM also partners with Lockwood Advisors, Inc. (“Lockwood”) to provide ETCM with impersonal advisory services for two of our wrap fee programs, and Lockwood additionally acts as co-sponsor and co-adviser for another ETCM wrap fee program.

ETCM’s Investment Policy Committee (“IPC”) has general responsibility for monitoring and approving the investment portfolios and asset allocations offered by ETCM to clients.

ETCM acts as sponsor and investment adviser for three wrap fee programs. The only product currently offered by ETCM that is not a wrap fee product is its SEI Investment Program. All of ETCM’s advisory programs are described in more detail below.

---

## Principal Owners

ETCM Holdings, Inc. is a 100% stockholder. E\*TRADE Financial Corporation, a publicly-owned company traded on the NASDAQ (symbol: ETFC), owns 100% of ETCM Holdings, Inc.

---

## Types of Advisory Services

ETCM currently offers four discretionary investment management products. Under these programs, clients are able to invest in diversified portfolios containing one or more of the following types of securities: registered open-end investment companies (“mutual funds”); U.S. exchange-traded funds (“ETFs”); equity securities and other investment vehicles. The investments approved for use may differ from program to program (“Advisory Assets”). Additionally, ETCM reserves the right to add or delete any security types (e.g. debt securities) from the list of Advisory Assets and change the list of investments comprising the Advisory Assets without notice.

In providing its investment advisory services, ETCM gathers “customer profile” and “risk tolerance” information by consulting with the client. ETCM performs client reviews that may include (but are not limited to): the determination of financial objectives, identification of financial situation, planned investment time horizons, liquidity needs, risk tolerance, considerations for tax sensitivity, investment experience and the source of funds to be invested to assess the client’s suitability for the investment advisory services ETCM offers. Prospective clients that meet the suitability requirements are provided an Investment Proposal, which describes a recommended asset allocation and portfolio.

Clients have the ability to communicate with ETCM regarding the investments made in their accounts and may discuss reasonable restrictions on investments or in some cases select a substitute investment. Certain ETCM advisory solutions allow the client to work with his or her investment adviser representative to alter or change asset allocation percentages in each model portfolio. Clients are not permitted to personally enter transactions for their ETCM accounts. Margin accounts are not permitted in any ETCM advisory program.

These investment advisory services may be administered by associates conducting business under various titles or designations. For purposes of this document these associates are designated as investment advisory representatives (“IARs”).

---

## **Wrap Fee Programs**

### **Wrap Fee Program Information**

ETCM acts as sponsor and investment adviser for three wrap fee programs (“Wrap Fee Programs,” or individually “Wrap Fee Program”):

- Managed Investment Portfolios (“MIP”)
- Unified Managed Accounts (“UMA”) and
- Online Managed Investment Portfolios (“Online MIP”)

ETCM Wrap Fee Program clients pay a single fee for investment advisory services and brokerage services (“program fee”), and this fee may cost the client more or less than purchasing such services separately, generally depending upon commission rates, portfolio turnover and the cost of similar non-wrap discretionary investment advisory services. Mutual funds, model managers and ETFs charge periodic management fees that are separate and apart from the program fee charged by ETCM.

For all of the ETCM Wrap Fee Programs, ETCM has entered into an agreement with its affiliates E\*TRADE Securities (ETS) and E\*TRADE Clearing (ETC) to provide execution, clearing and custodial services for client assets. ETS and ETC are registered broker/dealer firms that are subject to oversight by the SEC and the Financial Industry Regulatory Authority (FINRA). Under this agreement with ETS and ETC, ETCM pays a portion of the wrap fee it receives from clients to its broker-dealer affiliates to cover the costs associated with brokerage and custodial services rendered as well as other services provided to support the programs.

Wrap Fee Program accounts are subject to the terms of two contracts, the E\*TRADE Securities Brokerage Customer Agreement and an Advisory Agreement with ETCM (and with Lockwood Advisors, Inc. as co-adviser for UMA Accounts).

Clients may terminate their advisory relationship at any time by providing notice to ETCM, which may be given to the client's designated IAR or by calling 866-484-3658. Upon terminating the advisory relationship, the account becomes a commission-based ETS brokerage account and ETCM will no longer provide investment advisory services to that account. The client would also no longer pay a wrap fee, but would pay associated brokerage fees for any securities-related transactions the client initiates in the account. If a client terminates his/her brokerage account with ETS, the Advisory Agreement will automatically terminate as well. Upon termination the client is charged a pro-rated program fee through the date of termination or closing.

ETCM has entered into an arrangement with Lockwood Advisors Inc. ("Lockwood"), an investment adviser registered with SEC, whereby Lockwood provides impersonal advisory services to ETCM to assist it with the research, selection, investment, and allocation of MIP and Online MIP client assets in certain mutual funds or ETFs. For these two programs, mutual funds and ETFs are researched and selected by Lockwood, but only added to the program after review and approval by ETCM's IPC. ETCM has also entered an arrangement with Lockwood whereby ETCM and Lockwood agree to act as co-sponsors and co-advisors of the UMA Program. ETCM and Lockwood provide advisory services that include the research, selection, investment, and allocation of UMA client assets in certain mutual funds, exchange traded funds, or portfolio models that invest in individual equities.

Lockwood is an affiliate of Pershing LLC. Lockwood and Pershing LLC are BNY Mellon companies and none of these companies are affiliated with ETCM.

The Wrap Fee Programs offer clients access to broad-based asset allocation strategies that seeks attractive risk-adjusted returns over the long term, generally three years or longer. ETCM, or ETCM and Lockwood for UMA, selects the initial portfolio investments and allocations, monitors the account, rebalances when the account is out of tolerance with the portfolio's Investment Policy Statement, and makes adjustments to portfolio holdings when necessary. There are seven different investment allocation strategies available through the various wrap fee programs, which are recommended based on information collected from the client.

The investment allocation strategies for the Wrap Fee Programs include the following objectives, in order of risk tolerance from highest risk to lowest risk: Aggressive Growth, Growth, Moderate Growth, Conservative Growth, Inflation Protection, Aggressive Income, and Conservative Growth. Clients electing to invest in mutual funds have the option to invest in portfolios that are either tax-aware or standard (not tax-aware), except for the aggressive growth strategy which does not offer a tax-aware portfolio. Due to the limited tax-sensitive products in the ETF universe, there are no tax-sensitive ETF portfolios at this time. Advisory Assets for the MIP and Online MIP programs are limited to shares of "no-load" and "load-waived" A-share mutual funds or ETFs. For UMA accounts, advisory assets include

these mutual funds or ETFs and a portion of the securities may be invested directly in equity securities through the use of equity model managers. The universe of equity model managers are reviewed and approved by Lockwood.

Prospective MIP and UMA clients will work with ETCM IARs to determine which investment allocation strategy is right for them. Online MIP is offered exclusively through and as part of E\*TRADE's Online Advisor ("Online Advisor"), an online investment tool offered by E\*TRADE Securities and available to clients at [www.etrade.com](http://www.etrade.com). Online MIP is one of the five possible investment solutions available through the tool. Online Advisor creates an investment plan by electronically gathering and analyzing client data and information. The client is responsible for electronically updating his/her investor and risk profiles via Online Advisor, including financial condition, and investment goals as his/her profile changes. An E\*TRADE Smart Alert electronic notification is sent quarterly to remind Online MIP clients of their responsibility to update their profile.

Alternative Advisory Assets and asset allocations from the initial recommendation may be made available upon client request. Clients will have ongoing access to investment consultation with their assigned ETCM IAR, or may call 866-484-3658 and speak with an IAR if they are an Online MIP client.

---

## **SEI Investment Program**

The SEI Investment Program ("SIP") is not available to the general public. Currently, certain IARs are permitted to sell SIP to their current clients or as referrals from their existing client base. SIP involves discretionary investment management of client assets under an asset based fee arrangement. It is not a wrap fee program because the client pays an investment advisory fee to ETCM.

ETCM has entered into an arrangement with SEI Investments Management Corporation ("SIMC"), an investment adviser registered with the SEC. Under the arrangement, SIMC provides impersonal advisory services to ETCM to assist it with the investment and allocation of client assets in certain mutual funds advised by SIMC. ETCM uses the advisory fees it collects to pay SIMC for its services.

ETCM has also contracted with SEI Investments Distribution Co. ("SIDC"), a securities broker/dealer registered with the SEC and member firm of FINRA, to provide certain services to ETCM and clients in connection with the SIP, and with SEI Private Trust Company ("SEI Private Trust" and together with SIMC and SIDC, "SEI"), a savings association supervised by the Office of the Comptroller of the Currency (OCC), to provide execution and clearing of transactions and custodial services for client assets. SEI Private Trust serves as the custodian for the accounts of clients participating in the SIP and sends clients monthly or quarterly statements of all transactions in a client's account. None of the SEI companies is affiliated with ETCM.

A client's investment in the SIP occurs when clients complete a questionnaire and the designated IAR discusses investment goals and objectives with each client to obtain suitability information. The client approves the strategy before the client's SIP account (the "Investment Account") is established and the



client makes the final determination on the initial investment of the client's assets in the Investment Account as well as the initial asset allocation of the Investment Account.

The portfolio allocation program classifies a client's objective as Equity, Capital Growth, Growth and Income, Moderate Growth and Income, Fixed Income ("Model Portfolios") or other such classifications as may be established from time to time.

ETCM, through support from SIMC, makes quarterly determinations whether to rebalance an Investment Account. This rebalancing is performed in accordance with parameters established by ETCM that correspond to each model. ETCM has the discretionary authority to maintain the designated allocation in the client's Investment Account. The continuing role of the IAR is to monitor the Investment Account, review performance and conduct at least annual reviews with the client covering the client's personal financial condition, investment goals, appropriate asset allocation and performance. The client must contact his/her IAR promptly whenever any significant change in the client's personal or financial condition or investment goals occurs in order to discuss whether changes in asset allocation or investments selected for the client's Investment Account are recommended.

Clients can be enrolled in the Mutual Fund Strategies program where investments are limited to the purchase and redemption of shares of SEI's no-load institutional mutual funds that are advised by SIMC (the "SEI Funds"). SIMC is responsible for the selection and retention of mutual fund sub-advisers for the SEI Funds. The SEI Funds are only available through limited distribution channels and price and performance data is not disseminated directly to the public.

#### **Assets Under Management:**

As of March 2, 2012, ETCM managed approximately \$809,988,000 in client assets for approximately 6,360 clients. All assets are managed on a discretionary basis.

## **Fees and Compensation**

---

### **Fees**

ETCM charges an advisory fee for its services based on the market value of the client's assets under management. The standard fees charged by ETCM for each of its investment advisory program are provided in the following pages. Advisory fees are negotiable at ETCM's sole discretion. ETCM reserves the right to waive a portion of its advisory fees, in whole or part, for varying periods.

For the Online MIP, MIP, and UMA programs, ETCM deducts its advisory fees from the client's assets. While advisory fees are generally deducted from client assets for the SIP product, the client has the option of being invoiced for the advisory fee.

The program advisory fees for MIP, Online MIP, and UMA are based upon the entire account size. For example, if the account size is \$200,000 in cash and securities, the entirety of the assets in the account, including cash and assets acquired through dividend reinvestment, is charged the advisory fee, as shown

in the applicable Advisory Fee Schedule. The advisory fee is paid quarterly in arrears. Fees are prorated for partial quarters.

### **Managed Investment Portfolios & Online Managed Investment Portfolio:**

The following reflects the standard advisory fees charged to new clients:

Account Market Value <sup>1</sup>	Maximum Annual Gross Advisory Fee	Minimum Annual Advisory Fee Credit <sup>2</sup>	Maximum Annual Net Advisory Fee <sup>3</sup>
\$0 through \$100,000	1.40%	0.50%	0.90%
Greater than \$100,000 up through \$250,000	1.30%	0.50%	0.80%
Greater than \$250,000 up through \$500,000	1.25%	0.50%	0.75%
Greater than \$500,000 through \$1,000,000	1.20%	0.50%	0.70%
Greater than \$1,000,000	1.15%	0.50%	0.65%

1 Account Market Value is the daily weighted average market value of all assets held in the Advisory Account during the quarter after the close of business on the last trading day of the quarter.

2 The Minimum Annual Advisory Fee Credit reflects the anticipated amount of annual compensation to be received by ETCM or its affiliates from funds held in the Advisory Account (or investment advisors of such fund products) for 12b-1, shareholder servicing, or other distribution, administration or bookkeeping fees. To the extent that the actual amount of such fees received by ETCM or its affiliates exceeds the minimum credit, any such excess will be credited back to the Advisory Account.

3 The Maximum Annual Net Advisory Fee is the highest direct fee charged to any client in the MIP Program at the account market value breakpoint. As the market value of the account reaches a higher breakpoint, as shown in the table above, the assets within that breakpoint category are charged a lower rate.

The following schedule is for clients with standard Managed Investment Portfolio Advisory Accounts opened prior to January 1, 2012:

Account Size <sup>1</sup>	Maximum Annual Gross Advisory Fee	Minimum Annual Advisory Fee Credit <sup>2</sup>	Maximum Annual Net Advisory Fee <sup>3</sup>
\$0 to \$100,000	1.25%	0.50%	0.75%
\$100,001 to \$250,000	1.15%	0.50%	0.65%
\$250,001 to \$500,000	1.10%	0.50%	0.60%
\$500,001 to \$1,000,000	1.05%	0.50%	0.55%
\$1,000,001 and over	1.00%	0.50%	0.50%

1. Account Size is the daily weighted average market value of all assets held in the Advisory Account during the quarter calculated after the close of business on the last trading day of the quarter.

2. The Minimum Annual Advisory Fee Credit reflects the anticipated amount of annual compensation to be received by ETCM or its affiliates from funds held in the Advisory Account (or investment advisors of such fund products) for 12b-1, shareholder servicing, or other distribution, administration or bookkeeping fees. To the extent that the actual amount of such fees received by ETCM or its affiliates exceeds the minimum credit, any such excess will be credited back to the Advisory Account.

3. The Maximum Annual Net Advisory Fee is the highest direct fee charged to any client in the MIP Program at the specified account size.

The following schedule is for clients with an Online Managed Investment Portfolio Advisory Account opened prior to March 2, 2012 or prospective clients that accepted the investment advisory agreement prior to March 1, 2012:

Account Size <sup>1</sup>	Maximum Annual Gross Advisory Fee	Minimum Annual Advisory Fee Credit <sup>2</sup>	Maximum Annual Net Advisory Fee <sup>3</sup>
\$0 to \$100,000	1.25%	0.50%	0.75%
\$100,001 to \$250,000	1.15%	0.50%	0.65%
\$250,001 to \$500,000	1.10%	0.50%	0.60%
\$500,001 to \$1,000,000	1.05%	0.50%	0.55%
\$1,000,001 and over	1.00%	0.50%	0.50%

1 Account Ma1 Market Value is the daily weighted average market value of all assets held in the Advisory Account during the quarter after the close of business on the last trading day of the quarter.

2 The Minimum Annual Advisory Fee Credit reflects the anticipated amount of annual compensation to be received by ETCM or its affiliates from funds held in the Advisory Account (or investment advisors of such fund products) for 12b-1, shareholder servicing, or other distribution, administration or bookkeeping fees. To the extent that the actual amount of such fees received by ETCM or its affiliates exceeds the minimum credit, any such excess will be credited back to the Advisory Account.

3 The Maximum Annual Net Advisory Fee is the highest direct fee charged to any client in the MIP Program at the account market value breakpoint. As the market value of the account reaches a higher breakpoint, as shown in the table above, the assets within that breakpoint category are charged a lower rate.

### Unified Managed Accounts:

The following reflects the standard advisory fees charged to clients for UMA:

Account Size <sup>1</sup>	Maximum Annual Gross Advisory Fee	Minimum Annual Advisory Fee Credit <sup>2</sup>	Maximum Annual Net Advisory Fee <sup>3</sup>
\$0 to \$1,000,000	1.75%	0.50%	1.25%
Greater than \$1,000,000 to \$2,000,000	1.65%	0.50%	1.15%
Greater than \$2,000,000 to \$5,000,000	1.60%	0.50%	1.10%
Greater than \$5,000,000	1.45%	0.50%	0.95%

1 Account Size is the daily weighted average market value of all assets held in the Advisory Account during the quarter calculated after the close of business on the last trading day of the quarter.

2 The Minimum Annual Advisory Fee Credit reflects the anticipated amount of annual compensation to be received by ETCM or its affiliates from funds held in the Advisory Account (or investment advisors of such fund products) for 12b-1, shareholder servicing, or other distribution, administration or bookkeeping fees. To the extent that the actual amount of such fees received by ETCM or its affiliates exceeds the minimum credit, any such excess will be credited back to the Advisory Account.

3 The maximum amount of net advisory fee is the highest direct fee charged to any client in the UMA program at the specified account size.

## SEI Investment Program:

The following reflects the standard advisory fees charged to clients for the SEI Investment Program:

### Mutual Fund Strategies

Annual Fee Rate	Assets Under Management
1.25%	on assets up to \$500,000 plus
1.00%	on assets from \$500,001 to \$1,000,000 plus
0.80%	on assets from \$1,000,000 and above
	<i>Accounts may be subject to a minimum annual fee of 1,200</i>

---

### Fee Billing

ETCM bills for its services quarterly, in arrears, meaning that ETCM invoices (or as applicable) charges your account after the three-month billing period has ended. When opening an advisory account with ETCM, clients agree in their investment advisory agreement to have the advisory fees automatically deducted from the cash portion of the advisory account.

ETCM deducts advisory fees from a cash position maintained in the MIP, Online MIP, UMA, or SEI account. If there is not enough cash in a client's account to pay an advisory fee, ETCM will liquidate sufficient securities in the account to cover the balance. It is anticipated that a sufficient portion of the client's assets will generally be allocated to a cash position in order to avoid such liquidations.

---

### Other Fees and Compensation Information

Affiliates of ETCM may provide investment management and other services, such as marketing, shareholder servicing, distribution, administration, or bookkeeping, for certain Advisory Assets and other mutual funds and may earn fees for such services. To the extent that Advisory Assets or other mutual funds pay Rule 12b-1 or other fees, ETCM's affiliates will retain these fees subject to the advisory fee credit. Any compensation received by ETCM or its affiliates from these aforementioned fees is credited back to the MIP, Online MIP, or UMA account by applying a credit amount (the "Minimum Annual Advisory Fee Credit") against the Annual Gross Advisory Fee. The Annual Gross Advisory Fee is an annual asset based fee, as provided in the Advisory Fee Schedules. The Minimum Annual Advisory Fee Credit is equal to 0.50% per annum of all assets in the MIP, Online MIP, or UMA account. To the

extent that the actual amount of any such fees exceeds this credit, any such excess will also be credited back to the MIP, Online MIP, or UMA account to arrive at the actual "Advisory Fee Credit".

All ETCM clients must pay the underlying mutual fund and ETF expenses in which their accounts invest (reflected in the expense ratio of these funds described in the fund's prospectus). These are additional fees separate from the program fee for the Wrap Fee Program accounts and the investment advisory fee for the SEI program. These expenses are applicable as well to the uninvested cash balances in the Wrap Fee Program accounts which are invested in the JPMorgan Liquid Assets Fund, Morgan Class Shares. Affiliates of ETCM may receive certain payments for services provided on behalf of clients invested in the JPMorgan Liquid Assets Fund which are in addition to any Rule 12b-1 and marketing fees paid by such fund as disclosed in its prospectus. Fees associated with the JPMorgan Liquid Assets Fund are separate and apart from ETCM's program fee. Clients will be responsible for paying sales loads on Non-Advisory Assets transferred into any ETCM advised account. Assets in the Wrap Fee Program accounts are not subject to ordinary transaction fees (e.g., commissions or mark-up/mark-downs).

The MIP, Online MIP, UMA or SIP account fees do not cover costs associated with assets held outside of these accounts or charges associated with other accounts that the client has with ETCM or its affiliates, including, without limitation, transaction charges relating to purchases of Advisory Assets that the client elects to make outside of ETCM's Advisory Accounts.

Additional services, not part of the Investment Account, for which ETCM normally charges a fee, are the client's responsibility, e.g. overnight mail, wire transfers, etc. Any additional service fees are deducted from the cash portion of a client's account.

As dually-registered representatives of ETCM and ETS, IARs may receive different types and levels of compensation for the sale of investment advisory services offered by ETCM and/or brokerage services offered by its affiliates and thus, may have a financial incentive to recommend one service or product over other products or services available to the client.

Since the SIP program consists of mutual funds, there are no brokerage fees. SEI waives the sales charges associated with its "Class A" mutual funds. SEI is compensated through fees, including mutual fund management fees, which are disclosed in the prospectuses of the mutual funds used in the SEI Investment Program. Mutual fund shares and securities transferred into the Investment Account are liquidated for reinvestment into SEI Funds.

---

## **Performance-Based Fees and Side-By-Side Management**

ETCM does not charge performance-based fees or engage in side-by-side account management activities. Performance-based fees are fees charged that are based on a share of capital gains or capital appreciation of a client's account. Side-by-side management is the practice of managing accounts that are charged a performance-based fee while at the same time managing accounts that are not.

## Types of Clients

---

### Description

ETCM provides investment advisory services to individuals, trusts, charitable organizations, corporations, individual retirement accounts, self-employed retirement accounts, or business entities residing in the United States. Advisory services are not available to pension or profit-sharing plans subject to the Employee Retirement Income Security Act ("ERISA"). ETCM does not provide financial planning, tax preparation, security rating and pension consulting or market timing services.

Client relationships vary in scope and length of service. ETCM reserves the right to decline any new account, or to resign as adviser to any account after initiation of an investment advisory relationship.

---

### Account Minimums

ETCM may waive account minimums in its sole discretion. If a client withdraws funds from his/her ETCM account in an amount that causes the account to fall below the minimum, ETCM may choose to terminate the account.

Account minimums for each product as of the date of this brochure are provided below.

- Managed Investment Portfolios Program: \$25,000.
- Unified Managed Accounts Program: \$250,000.
- Online Managed Investment Portfolios Program: \$25,000.
  - For accounts with an accepted Investment Advisory Agreement before March 1, 2012 the minimum balance is \$10,000.
- SEI Investment Program: \$100,000.

## Methods of Analysis, Investment Strategies and Risk of Loss

---

### Methods of Analysis

Security analysis methods may include: quantitative (mathematical), fundamental (financial), technical (price and market), and cyclical (trend and time series) analysis. Please note that no particular analytical discipline can predict the absolute outcomes of a planned investment strategy and must consider various uncertainties including, but not limited to, the risks subsequently described.

ETCM and its service providers such as Lockwood may consult financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the SEC, and company press releases to assist them in formulating investment advice.

Other sources of information ETCM and its service providers may utilize include, but are not limited to, Morningstar Principia mutual fund information, Morningstar Principia stock information, Advisor Intelligence, Zephyr Associates, and the World Wide Web.

While the separate Wrap Fee Program Brochures for MIP, UMA, and Online MIP provide more information regarding methods of analysis used in those programs, the following provides a general description of the analysis approach for each of ETCM's investment management products:

### **Managed Investment Portfolios & Online Managed Investment Portfolio Programs**

ETCM has engaged Lockwood to apply its proprietary quantitative screening methodology (including historical performance and risk measures) to the universe of funds and ETFs available to ETCM via the ETS platform (the "Fund Universe") and to provide research and advisory services to ETCM with regard to construction of the model portfolios offered through MIP and Online MIP. Screening will be conducted on an impersonal and ongoing basis.

The IPC reviews and analyzes Lockwood's screening results in order to determine and update the list of Advisory Assets. The IPC has prepared an investment analysis methodology, which incorporates various quantitative criteria including historical return, risk, expenses, manager tenure, performance and style consistency, asset size and growth. Lockwood does not provide investment advice to MIP or Online MIP accounts. The IPC will be responsible for the determination of all investments on the list of Advisory Assets.

Portfolios of mutual funds or ETFs that match the predetermined asset allocations are created and maintained for each risk model in order to establish ideal base portfolios, which can be referred to over time. Such portfolios are referred to as Model Portfolios, which may or may not exactly duplicate client account holdings depending upon timing of an account's implementation and the restrictions imposed, if any.

Over time, market fluctuations may cause various asset classes to become over or under weighted in relation to the designated model allocation. In order to maintain designated asset allocations, ETCM makes periodic (not less than quarterly), determinations whether to rebalance an account. This rebalancing is performed in accordance with parameters established by ETCM that correspond to a client's investment strategy.

The continuing role of the IAR is to monitor the Investment Account, review performance and be available to conduct at least annual reviews with the client covering the client's personal financial condition, investment goals, appropriate strategy (asset allocation model) and performance. The client must contact his/her IAR promptly whenever any significant change in the client's personal or financial condition or investment goals occurs in order to discuss whether changes in asset allocation or investments selected for the client's Investment Account are recommended. Online MIP client interaction will generally be limited to the Online Advisor web interface.

Alternative asset allocations and alternative advisory asset selections from the initial portfolio recommendations are made available upon client request. Online MIP clients wishing to invest in alternative asset allocations or assets are converted from an Online MIP account to an MIP account. ETCM makes redemptions and purchases of mutual fund shares or ETFs in the MIP program accounts to re-allocate assets according to the revised fund allocation targets. Changes may include both adding and deleting funds and changing the percentage ownership in some or all Advisory Assets held in the client's account.

### **Unified Managed Accounts Program**

With respect to the Unified Managed Accounts, ETCM's key responsibilities primarily relate to the 1) initial and ongoing evaluation of client investment objectives and risk tolerance; 2) the initial and ongoing determination of appropriate portfolio manager models to be used and the asset allocations that meet client investment objectives and risk tolerances; 3) performance of ongoing consultations regarding changes in client investment objectives and reasonable investment restrictions; and 4) monitoring of portfolio rebalancing that may be needed on an ongoing basis in order to maintain asset allocations with the range of target allocations.

Lockwood's key responsibilities primarily relate to: 1) the application of research, risk, quantitative analysis and other screening methodologies that are designed to evaluate and select a universe of mutual funds and exchange traded funds available for use in UMA portfolio construction, 2) to review portfolio rebalancing that may be needed in order to maintain allocation with ranges of target allocations; 3) providing oversight in the construction of portfolio models that are designed to meet client objectives and risk tolerances; 4) serving as the overlay manager that evaluates the performance, investment process and the investment style consistency of nonaffiliated money managers that have been assigned to manage UMA portfolio model portfolios; and 5) managing the overall trading activity in portfolios.

Lockwood applies its proprietary quantitative screening methodology (including historical performance and risk measures) to the universe of investments available to ETCM via the ETS platform and provides research and advisory services to ETCM with regard to construction of the UMA portfolios. ETCM's IPC reviews the overall administration of UMA client portfolios and Lockwood's screening results. The Investment Policy Committee incorporates various quantitative criteria including historical return, risk, performance and style consistency and dispersion analysis in performing its duties.

### **SEI Investment Program**

SEI selects specific registered SEI branded mutual funds for the SIP based on the asset allocation model, past performance and experience of the fund managers and/or sub-advisers. SEI was retained for the SIP based on its past performance, long-term history and industry experience. ETCM's Investment Policy Committee monitors SEI's performance and services on a quarterly basis.

The primary investment strategy used on client accounts in SIP is strategic asset allocation. Portfolios are broadly diversified to control the risk associated with traditional markets. Investment strategies for



specific clients are based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes an Investment Policy Statement that documents his/her objectives and his/her desired investment strategy. Other strategies may include long-term purchases, short-term purchases, trading, and hedge strategies.

---

## **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Investing in securities necessarily involves the risk of loss as well as gain. Our investment approach constantly keeps the risk of loss in mind. While not an all-inclusive list of all risks, investors face the following key investment risks depending on the product in which they invest and the portfolio of investments held:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it - a lengthy process - before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## Disciplinary Information

---

### Legal and Disciplinary

There are no legal or disciplinary events that are material to an evaluation by a client or prospective client of ETCM's business or management.

## Other Financial Industry Activities and Affiliations

---

### Affiliations

ETCM is a related person of ETS and ETC, registered broker-dealers (together "E\*TRADE Brokers"). E\*TRADE Brokers are also wholly owned, indirect subsidiaries of E\*TRADE Financial.

The principal executive officers and other control persons of ETCM are employed by, and allocate a substantial portion of their time to, management of other E\*TRADE Financial subsidiaries that provide various financial services.

ETCM's IARs are dually registered as investment adviser representatives of ETCM and as broker-dealer registered representatives of ETS. ETS offers certain products to assist clients in selecting investments based on information provided by clients, including asset allocation services and an All Star List of mutual funds and ETFs. When interacting with clients regarding their investment strategies, a dually-registered IAR will disclose to the client his/her role as a representative of ETS or as an ETCM IAR.

ETS manages regional call centers and branch offices for handling its clients' service needs. IARs of ETCM may be located in certain of these call centers or branch offices. ETS representatives may solicit clients for, or refer clients to, ETCM's IARs for investment advisory services.

IARs may participate in sales contests or be paid cash compensation related to products offered by ETCM. Any cash compensation paid by ETCM for client referrals or solicitations will only be made in accordance with Investment Advisers Act Rules. Any referral payment does not represent an incremental amount above and beyond the investment advisory fee paid by the client to ETCM. All payments are administered in accordance with the provisions of a written compensation plan that is administered and supervised by the Human Resources Department and/or other departments within E\*TRADE Financial.

From time to time, E\*TRADE Capital Management may refer clients to E\*TRADE Brokers. In the event that ETCM refers a client to an affiliate, ETCM discloses to the client at the time of the referral the nature of the affiliation between the referring party and the affiliate.

E\*TRADE Brokers may provide asset custodial services to E\*TRADE clients and in fact do provide such services to participants in the Wrap Fee Programs. In such situations, the client enters into an investment advisory agreement with ETCM and will have a brokerage account with E\*TRADE Brokers

that provides for custodial services. The cost of such services are included in the fees charged by ETCM to clients (Please refer to the information contained in the separate Wrap Fee Program Brochures).

E\*TRADE Brokers receive compensation in connection with the purchase and holding of mutual fund shares by clients. Such compensation may include, but may not be limited to, Rule 12b-1 fees, shareholder service fees and sub-accounting fees which are paid out of fund assets. E\*TRADE Brokers may also receive payments from affiliates of a mutual fund, such as the adviser or distributor, out of their own resources.

E\*TRADE Clearing may also have negotiated business relationships with the affiliated distributor or investment adviser of some mutual funds. Under these business relationship arrangements, ETC receives revenue sharing payments from the mutual fund affiliates. The payments are for distribution, shareholder servicing, and market services (e.g. advertising on E\*TRADE Financial's website, co-branding in sales materials, website disclosures) performed by E\*TRADE Financial and for access to E\*TRADE sales representatives and sponsored sales conferences and training programs. These payments are not made from fund assets and are in addition to the Rule 12b-1 fees and shareholder service fees disclosed in each fund's prospectus. The fee E\*TRADE receives varies and can be a flat fee, a payment based on sales, or an asset-based fee calculated based on the dollar value of fund accounts held by E\*TRADE customers.

No part of the revenue sharing fees received by E\*TRADE is paid or directed to any of E\*TRADE's sales representatives. However, to the extent revenue sharing arrangements may pay for conferences and other educational opportunities for these representatives, it could lead representatives to place more focus on the funds with whose service providers E\*TRADE has revenue sharing arrangements. For information regarding a particular fund's payment and compensation practices, please see the fund's prospectus and statement of additional information.

ETS has revenue sharing arrangements with affiliates of the JPMorgan money market funds in connection with ETS offering classes of the JPMorgan money market mutual funds as sweep investment options in ETS brokerage accounts. Under these arrangements, JPMorgan pays ETS for offering the JPMorgan money market funds on the ETS platform, for distribution and for sub-accounting and related administrative services performed by ETS for its clients who are invested in the JPMorgan money market mutual funds. These payments are in addition to any Rule 12b-1 fees, shareholder service fees and sub-accounting fees disclosed in each fund's prospectus.

# Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

---

## Code of Ethics

ETCM has adopted a Code of Ethics as mandated by the Advisers Act Rules. The Code of Ethics includes the following provisions:

- (1) Standards of business conduct required of employees and other supervised persons, which standards reflect fiduciary obligations and those of supervised persons to advisory clients;
- (2) Terms requiring supervised persons to comply with applicable federal securities laws;
- (3) Terms and procedures relating to the review and approval of certain securities transactions and holdings by supervised persons with access to client information;
- (4) Procedures for reporting violations of the Code of Ethics; and
- (5) Procedures for the receipt and acknowledgement of the Code of Ethics by supervised persons.

ETCM will provide a copy of the Code of Ethics to any client or prospective client upon request.

---

## Participation or Interest in Client Transactions

ETCM and its personnel may buy or sell securities, including selling short, that are also held by clients but no personnel may trade his/her own securities ahead of client trades. Personnel must comply with the provisions of the ETCM Compliance Manual and the Code of Ethics.

IARs generally do not have access to information on pending or contemplated material transactions in the MIP, Online MIP, UMA programs or the SEI Funds.

In the event that a conflict arises, ETCM's Chief Compliance Officer will review the facts and circumstances and may take appropriate steps including, but not limited to, administrative actions, trade sanctions and/or the reversal of related trades associated with persons subject to the ETCM's Code of Ethics.

---

## Personal Trading

E\*TRADE's compliance staff reviews reportable employee trades. The personal trading reviews help ensure that the personal trading of employees does not affect the securities markets or interfere with ETCM's fiduciary duties to its clients.

# Brokerage Practices

---

## Selecting Brokerage Firms

For the UMA, MIP, and Online MIP advisory programs, all brokerage transactions are executed by E\*TRADE Securities and clients cannot designate or select a different broker. By charging a single wrap fee for all services provided to these products, ETCM tries to mitigate the conflicts of interests that are presented from using an affiliated broker-dealer. ETCM also aggregates orders when possible.

For the SEI Investment Program the only investments purchased are shares of the SEI Funds and all mutual fund transactions are executed by SEI Investments Distribution Co. Clients may not select a different broker. Not all investment advisers require clients to utilize a broker selected by the investment adviser. There are no brokerage charges for mutual funds and SEI waives the sales charges on its SEI branded-Class A mutual fund shares.

Under the provisions of the MIP, UMA and Online MIP programs, the client is directing brokerage transactions to be executed by ETS. While ETS maintains a process designed to manage the best execution of securities trades, clients should note that the most favorable execution of client transactions can not be assured. This practice may result in higher prices paid for stocks or ETFs or cost clients more money. ETS posts data on price improvement and trade execution on its website [www.etrade.com](http://www.etrade.com).

Under the provisions of the UMA client investment advisory agreement with Lockwood and ETCM, the client grants full discretion to ETCM and Lockwood to manage client portfolios. Under the agreement, the client directs that all transactions for the purchase or sale of securities and other investments will be executed through E\*TRADE Securities. If Lockwood believes, in good faith, that another broker or dealer would provide better execution, considering all factors including the net price, then they may execute trades through another broker/dealer. If Lockwood were to execute a transactions through a broker dealer other than E\*TRADE Securities, the expense of commissions or other transaction costs for the associated services provided by another broker or dealer would be an additional expense not included in the program fee.

---

## Best Execution

ETCM periodically reviews the results of trade executions at each broker in order to determine if there is a reasonable good faith process designed to achieve best execution for client portfolio trades. These reviews may include (but are not limited to) an assessment of the brokers' best execution review process and the review of information that reflects opportunities for price improvements that benefit its clients.

---

## **Soft Dollars**

ETCM has no soft dollar arrangements and receives no soft dollar credits from brokers with whom client portfolio trades are executed.

## **Review of Accounts**

---

### **Periodic Reviews**

#### **Wrap Fee Programs**

The performance for all ETCM Wrap Fee Advisory Programs is reviewed at least quarterly by the IPC. The IPC reviews the model portfolio holdings and determines if changes should be made.

For the Online MIP, MIP, and UMA Advisory Programs, the accounts are monitored each business day to determine if the accounts have deviated from the asset allocation parameters described in the client's investment proposal. If the allocation percentages are out of line with the investment proposal then the account is rebalanced. A weekly report is reviewed by operations team members to ensure that the system used to monitor and rebalance the accounts is functioning as designed.

On a quarterly basis ETCM requests that its clients notify them in the event their financial information or investment goals and objectives change. Additionally, on an annual basis, ETCM contacts clients to confirm the client's personal financial situation has not changed materially since the most recent asset allocation model was recommended. The client is reminded that alternative asset allocations and investment recommendations are available upon request.

Each quarter clients receive a written report, either by mail or electronically, called the Quarterly Performance Review ("QPR"). The QPR contains market commentary for the previous quarter, all the account positions, transactions that occurred during the review period, withdrawals or additions, performance information and important disclosures about the information provided to the client. Investment adviser representatives are available to discuss the QPRs with clients. Clients may contact the IAR assigned to the account or call 866-484-3658 at any time to discuss the advisory program or transactions in their portfolios.

#### **SEI Investment Program**

SEI provides monthly statements of transactions in a client's account to the client and an ETCM IAR. The IAR monitors client accounts, reviews performance, and conducts reviews with the client no less frequently than annually, covering the client's personal financial situation, appropriate strategy (asset allocation model) and performance. Clients may request more frequent reviews and meetings with the IAR. The IAR reviews client accounts at the time of account establishment and reviews the client accounts at least quarterly thereafter. ETCM requires reviewers to ensure accounts are properly allocated and rebalanced.

# **Client Referrals and Other Compensation**

---

## **Incoming Referrals**

ETCM does not currently have any solicitation agreements with third parties but reserves the right to enter into such agreements for advisory client referrals (“Referral Arrangements”). ETCM may in the future enter into Referral Arrangements for its MIP or UMA products.

Any Referral Arrangements will be conducted in accordance with the requirements of Rule 206(4)-3 under the Advisers Act. Referral fees may be based on a percentage or portion of the advisory fees earned by ETCM or may be fixed payments.

ETCM may receive client prospect referrals from employees of affiliates, particularly ETS call center employees. Referral fees will be paid only to the extent that such arrangement complies fully with the requirements of Rule 206(4)-3 under the Advisers Act.

## **Custody**

Clients should carefully review the account statements they receive from their qualified custodian (from ETS for MIP, Online MIP, and UMA and from SEI Private Trust Company for the Discretionary Investment Program). Clients should carefully review and compare the account statements they receive from the custodian with the information contained in the QPRs received from ETCM.

## **Investment Discretion**

---

### **Discretionary Authority for Trading**

All of ETCM’s products require the client to grant ETCM discretionary authority to manage the account on the client’s behalf. The UMA product requires clients to grant discretionary authority to both ETCM and Lockwood to manage the account on the client’s behalf. When the client opens an advisory account with ETCM, the client executes an investment advisory agreement. Included in the terms of the agreement is a limited power of attorney granting discretionary authority to execute securities transactions.

## **Voting Client Securities**

---

### **Proxy Votes**

ETCM does not vote proxies on securities for clients or advise clients about the voting of proxies, the exercise of corporate actions, including with respect to any tender offer, or the filing of any legal proceeding, including any bankruptcy or class action, relating to the securities held in accounts subject to the SIP, Online MIP or MIP. Clients are expected to vote their own proxies and will receive their proxies directly from their custodian or transfer agent.

With respect to UMA, Lockwood votes proxies in a manner designed to be consistent with its written proxy voting policy. Lockwood's proxy voting policy is further described in its Firm Brochure (Section 2A) as well as in the UMA Wrap Fee Program Brochure. A copy of the policy summary, the voting history associated with UMA investment holdings and the methodologies used to address potential conflicts of interest can be made available upon request.

## Financial Information

---

### Financial Condition

ETCM does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

ETCM does not require or solicit prepayment of advisory fees and is therefore not required to include a copy of its balance sheet for its most recent fiscal year.