

**Form ADV, Part II, Schedule H  
Investment Adviser Wrap Program Brochure**



**Covestor, Ltd.**

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United Kingdom**

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**Wealth Account Services**

**November 8, 2012**

**This brochure provides clients with information about Covestor, Ltd. and the Wealth Account services that should be considered before becoming a client of the Covestor Wealth Account program. This information has not been approved or verified by any governmental authority.**

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***About Covestor:***

Covestor, Ltd. ("Covestor") provides investment advice to individuals, trusts and estates, corporations or business entities, pension and profit sharing plans ("Clients"). The purpose of this Schedule H Brochure is to describe the wrap fee program, sponsored by Covestor, called "Wealth Account" pursuant to which investment advice and costs of trade executions are provided to clients for an all-inclusive wrap fee. The wrap fee program is typically offered to accounts larger than \$50,000. Additional details regarding Covestor may be obtained by reviewing Covestor's Informational Brochure, available at:

<http://site.covestor.com/agreements> or by calling 866-825-3005.

Covestor allows individuals and/or entities ("Members") to register with Covestor.com in order to either

- Share their investment activity with others, or
- Utilize the investment activity of others in their own investment portfolio, via either
  - a. Self-Directed Account or
  - b. Covestor Wealth Account.

Members who share their investment activity with Covestor for a fee are designated Model Managers ("Managers").

Managers are classified as either individuals, known as Non-Registered Publishers or Professionals. Professional Managers must be Registered Investment Advisers.

Managers license their portfolio holdings and trading record ("Trade Data") to Covestor for publication. Managers may choose to also provide additional content including their investment strategy, profile, portfolio market report and analysis. (Collectively this additional content along with Trade Data is referred to as "Manager Content" or "Model.") Managers may manage multiple Models with Covestor.

All Manager Content represents the opinions of that Manager, should not be construed as personalized investment advice, and is subject to change without notice.

**Covestor Wealth Account**

Members selecting the Covestor Wealth Account grant discretionary authority to Covestor in order to allocate the Client's account assets across subscriptions to Manager Models. Covestor will replicate the trade activity in the selected Manager's Models into the Client's account, subject to the Client's investment objectives and Covestor's Trading Rules.

***Investment Management Services – Wealth Account***

Covestor provides ongoing investment advisory services to individuals and firms ("Clients") based on their goals, investment objectives, risk tolerances and time horizons as specified by each Client. Covestor calculates a Risk Score for each Model and Client, in order to facilitate the model allocation and trade replication processes performed by Covestor.

The Covestor Wealth Account services include:

- Initial one-on-one review with our Chief Investment Officer,
- Assignment of a personal Investment Manager to each Client,
- Customized subscription selection and monitoring based on the Client's personal investment goals,
- Ongoing management of all subscriptions,
- At least annual review of the Client's investment objectives, and
- Access to the Client's investment holdings and performance through Covestor's online account services ( [www.covestor.com](http://www.covestor.com) ).

Covestor evaluates Manager Models in order to determine a Risk Score, which includes evaluating the securities held and traded by each Manager, and determining the eligibility of portfolio securities for Covestor's replication process. Replication eligibility filters include security type, market capitalization, and liquidity.

Covestor also monitors the Manager's trading account and calculates performance and risk metrics of the account on a daily basis. Covestor utilizes these performance and risk metrics, along with the Model's Risk Score and Manager's periodic commentary on their strategy as the basis for its evaluation of the ongoing compatibility of the Model with Covestor's Wealth Account Client's investment objectives. More information on Covestor's performance calculations can be found at <http://site.covestor.com/help/disclosures>.

Covestor will not typically initiate the recommendation of specific securities transactions, but will instead rely on the Model Manager's investment decisions. Covestor attempts to track the Manager's trades as accurately as possible, and if necessary, inform the Manager if transactions are not aligned with the Model's stated strategy.

All activities of designated Investment Managers, including assignment to individual clients, are under the direction of the Chief Investment Officer, with periodic review by the Chief Operations Officer.

All individuals that render investment advisory services on behalf of Covestor must have earned a college degree and/or have substantive investment-related experience. In addition, all such individuals shall have attained all required investment-related licenses and/or designations.

Model Managers listed on Covestor's service may use:

- Equity Securities, including exchange-listed securities and certain over-the-counter securities;
- Mutual funds;
- Exchange-traded funds (ETFs).

### **Account Management**

Covestor provides management of the Client's account subject to certain restrictions and potential conflicts. Clients are advised as follows:

1. Additions and Withdrawals:

- a. The Client may make additions to and withdrawals from the account at any time, subject to the following:
  - i. Covestor's right to terminate an account.
  - ii. If assets are deposited into or withdrawn from an account after the start of a month, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the month.
  - iii. Clients may withdraw account assets on notice to Covestor, subject to the usual and customary securities settlement procedures.
  - iv. Additions may be in cash or securities provided that Covestor reserves the right to liquidate any transferred securities, or decline to accept particular securities into a Client's account. Covestor 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.
- b. Many Covestor Models are intended to be long-term investments vehicles and asset withdrawals may impair the achievement of a Client's Investment Strategy.

2. Replication issues and associated conflicts:

- a. While Covestor aims to replicate the Manager's Trade Data as closely as possible, we will retain limited discretion over the trading due to certain limitations of replication. Examples include:
  - i. As Trade Data is not captured in real-time, and there may have been significant market movement in a security subsequent to a Manager making a trade and it being captured by Covestor. This can result in differences in performance in your account compared to the Model, which we call performance drift.
  - ii. The size of a Client's account may make it impractical to replicate a certain trade initiated by a Manager, which may also cause performance drift.
  - iii. A Client may have specified certain investment restrictions, which may also cause performance drift.
- b. A key concept of Covestor is to allow investors to replicate Manager Trade Data that is based on historic trading records. This naturally leads to a significant conflict of interest as the Managers, and if an entity their respective officers, directors, employees and/or affiliates, will always trade ahead of Clients. Managers are made aware that manipulating securities markets is a violation of various laws, regulations and our Investment Policies. In addition, all Managers are required to certify that they are aware of these laws, regulations and policies, and further certify that they will not attempt to profit from or make trades for the purpose of influencing a security due to the knowledge that Clients may be making similar trades after them.
- c. Some Managers may be state or SEC-registered investment advisers. These advisers are supervised or personally subject to rules designed to prevent using material non-public information, including the

requirement to report trading in their personal accounts. Our Non-Registered Publishers are subject to similar reporting requirements imposed by Covestor in order to prevent and/or detect front-running and other various securities law violations.

### 3. Use of Margin

To the extent that a Client authorizes the use of margin, and Covestor thereafter employs margin in the management of the Client's investment portfolio, the market value of the Client's account and corresponding fees payable by the Client to Covestor may be increased. The Client is advised:

- a. Additional principal risks are associated with the use of margin
- b. Potential conflicts of interests exist, as the Client's decision to employ margin may correspondingly increase the management fee payable to Covestor.
- c. The decision to employ margin or to select a Model that requires the employment of margin is left to the discretion of the Client.

### ***Account Minimum***

Covestor has established an account minimum of \$50,000.00 for its clients utilizing the Wealth Account services. This account minimum is negotiable at the discretion of Covestor.

### ***Advisory Fees***

If a Client engages Covestor to provide investment management services, Covestor shall do so on a fee basis, as specified below:

#### **Wealth Account Fee (Wealth Account):**

- a) The Wealth Account Fee is based on the following fee schedule:

<b>Account Balance (USD)</b>	<b>Management Fee per annum</b>	<b>Brokerage Charges<sup>^</sup> Reimbursed</b>	<b>Additional Deposit Minimums</b>
\$50,000 to \$99,999	2.0%	No	\$10,000
\$100,000 to \$499,999	2.0%	Yes	\$25,000
\$500,000 and above	1.5%	Yes	\$25,000

<sup>^</sup> Trading commissions and margin interest only

#### **b) Management Fees**

- Fees are charged on the total value of your account (net liquidation value), i.e. all assets within your Account including cash unallocated to models
- Fees charged are quoted as an annual percentage of your Account's total account balance according to the following schedule:
- There are no additional management fees; Wealth Accounts are not subject to Covestor subscription fees.

- Fees are calculated on a daily basis and paid monthly in arrears

#### c) Brokerage Charges

- For Accounts with a balance of \$100,000 or greater, Covestor will reimburse monthly in arrears for all trading commissions and annually in arrears for any margin interest incurred in your Account to deliver our investment advisory services. Covestor will not reimburse other brokerage fees incurred in your Account including transfer fees, foreign exchange and fees levied for any transactions not executed by us.
- Accounts with a balance below \$100,000 will be subject to brokerage fees, including but not limited to trading commissions and margin fees on Covestor's Subscription services. (<http://site.covestor.com/agreements>)

#### d) Additional Deposits

- Deposits less than the minimum will remain in cash and unallocated to models until such time as the unallocated cash reaches the minimum outlined above as a result of additional deposits or the rebalancing of the Account.

#### e) Effective Date

- These fees apply from the date the account is funded.
2. For the initial month of investment management services, the first month's fees shall be calculated on a pro rata basis. Covestor's 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.
  3. Covestor, in its sole discretion, may negotiate to charge a lesser management fee to particular clients based upon certain criteria (i.e., during initial launch of a service line, dollar amount of assets to be managed, related accounts, account composition, pre-existing Client, account retention, pro bono activities, etc.).
  4. This advisory fee may be more or less costly than paying for the services separately, depending upon the account balance, advisory fees charged, number of transactions in the account, and the level of brokerage and other fees payable by the Client individually. Covestor has no control over the frequency or size of transactions that may occur in a Model.
  5. Covestor compensates Managers based on the fee stated for their model, which is displayed at: <http://search.covestor.com/> for each Manager.

### ***Recommended Custodian & Clearing Services***

Covestor shall generally recommend that Clients utilize the brokerage and clearing services of selected financial institutions. Covestor may only implement its investment management services after the Client has arranged for and furnished Covestor with all information and authorization regarding accounts with

appropriate financial institutions. Financial institutions shall include, but are not limited to, broker-dealers recommended by Covestor, broker-dealers directed by the Client, trust companies, banks and other appropriate institutions (collectively referred to herein as "Financial Institutions"). Clients are advised as follows:

1. Clients may incur certain charges imposed by the Financial Institutions and other third parties:
  - a. Such charges include; custodial fees, charges imposed directly by a mutual fund or exchange traded fund in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.
  - b. All such charges, transaction fees and brokerage commissions are in addition to Covestor fees. Per Covestor's fee schedule (see above), Covestor will to refund specific brokerage costs incurred by its Wealth Account Clients.
2. Covestor's Client Agreement and/or the separate agreement with the Financial Institutions may authorize Covestor through the Financial Institutions to debit the Client's account for the amount of Covestor's fees and to directly remit those fees to Covestor in accordance with applicable custody rules.
3. The Financial Institutions recommended by Covestor have agreed to send a statement to the Client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Covestor.

### ***Regular Reporting***

Unless otherwise agreed upon, Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the Client accounts.

Covestor provides additional reporting to its clients through its website: [www.covestor.com](http://www.covestor.com). Clients have direct access to their secure, private account detail pages, where they can revise their investment objectives; view their account holdings, daily account activity and performance, plus access their monthly portfolio reports provided by Covestor. Clients are advised to periodically review all their account information to ensure it remains accurate in Covestor's records.

### ***Termination***

The Client Agreement and associated Wealth Account Addendum between Covestor and the Client will continue in effect until terminated by either party pursuant to the terms of the Client Agreement.

### ***Officers and Investment Committee***

Covestor has an Investment Committee comprised of officers of Covestor. The Investment Committee is responsible for the prudent oversight of Covestor's assets under management. The Investment Committee



meets annually to discuss, in general terms, Covestor's risk management, investment strategy & policies, and performance. The following officers currently serve on the Investment Committee: Chief Investment Officer, Chief Operations Officer and Chief Executive Officer. The Chief Compliance Officer attends the meetings.

**THOMAS H. DORSKY**

Born 1971

*Post-Secondary Education:*

Bentley University –1993, BS, Finance

*Professional Certifications:*

Chartered Financial Analyst (CFA)

*Recent Business Background:*

Covestor, Ltd., Chief Operations Officer, 3/2012 – Present

Thomson Reuters Company, Global Head of Content Operations & Platform, 12/2009 – 3/2-2012

Thomson Reuters Company, Head of Holdings & Securities, 10/2005 – 12/2009

Wellington Management Company, LLP, Vice President, Investment Administration, 11/2002 – 10/2005

Brown Brothers Harriman, Vice President, Investor Services, 1/1994 – 11/2002

**ASHEESH ADVANI, CHIEF EXECUTIVE OFFICER**

Born 1971

*Post-Secondary Education:*

University of Pennsylvania, Wharton School – 1994, BSc. Economics (Finance)

Oxford University, St. Anthony's College – 1995, MSc. Economics for Development

Oxford University, St. Anthony's College – 1998, DPhil. Management

*Recent Business Background:*

Covestor, Ltd., Chief Executive Officer, 7/2011 – present

Thomson Reuters, Global Head of Financial Advisor Products (Lipper and Digital Ventures division), 11/2010 - 5/31/2011

Thomson Reuters, VP/GM, New Media Markets (Content, Technology, Operations – ClearForest division), 1/2010 - 11/2010

Virgin Money USA, Chief Executive Officer, 5/2007 - 5/2009

CircleLending, Founder & Chief Executive Officer, 11/2000 - 05/2007

**Invitee:**

**ANTOINE M. DEVINE**

Born 1957

*Post-Secondary Education:*

University of Texas School of Law, JD 1991

Jackson State University, BS, Finance 1979

***Recent Business Background:***

Covestor, Ltd., General Counsel & Chief Compliance Officer, 9/2011 - Present

Securities Compliance Services, President, 01/2008 – 09/2011

Unemployed, 09/2007 – 12/2007

Schott Capital Management, Compliance Analyst, 03/2007 – 08/2007

Unemployed, 03/2006 – 02/2007

Kelmoore Investment Company, General Counsel & Chief Compliance Officer, 12/2003 – 02/2006

***Best Execution***

Covestor establishes relationships with selected brokers to provide brokerage services to Covestor clients.

Factors which Covestor considered in its selection of selected brokers and will consider in recommending any other broker-dealer include financial strength, reputation, execution, pricing, research, and services. The commissions and/or transaction fees charged by these selected brokers may be higher or lower than those charged by other broker-dealers. The commissions paid by Covestor's clients shall comply with Covestor's duty to obtain "best execution." In seeking best execution, Covestor may not only consider cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Therefore, while Covestor will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions. Covestor shall periodically and systematically review its policies and procedures regarding recommending broker-dealers to its Clients in light of its duty to obtain best execution.

Currently, due to technical and best execution considerations, Covestor is only utilizing the brokerage services of Interactive Brokers.

***Execution of Covestor-related Trading Activity***

Covestor and persons associated with Covestor ("Associated Persons") are permitted to buy or sell securities that it also recommends to Clients consistent with Covestor's policies and procedures. In addition, Associated Persons may also become clients of Covestor and, as such, any Covestor initiated trades for those Associated Persons will be executed alongside all other Covestor clients. Covestor currently implements trades in random order, so as not to affect any clients favorably or unfavorably.

Associated Persons may also open brokerage accounts for use by Covestor as test accounts. Again, trades in these accounts will be executed alongside all other Covestor clients. Covestor may also enter into an agreement with the owners of these test accounts to provide the investment funds in these accounts.

***Code of Ethics***

Covestor 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 Covestor or any of its associated persons. The *Code of Ethics* also requires that certain of Covestor's 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. Clients may contact Covestor to request a copy of its *Code of Ethics*.

Unless specifically permitted in Covestor's *Code of Ethics*, none of Covestor's *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Covestor's Clients. As mentioned above, Covestor's *Access Persons* are permitted to become clients of Covestor and their accounts and trade activity are managed alongside & consistent with Covestor's other clients.

When Covestor is purchasing or considering for purchase any security on behalf of a Client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Covestor is selling or considering the sale of any security on behalf of a Client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds; and (v) accounts under the control of Covestor (i.e. those of *Access Persons* who are clients or maintain accounts for use as Covestor Test Accounts).

### ***Privacy Policy***

A copy of Covestor's privacy policy notice and a written disclosure statement that meets the requirements of Rule 204-3 of the Investment Advisers Act of 1940, as amended ("*Advisers Act*"), shall be provided to each Client prior to or contemporaneously with the execution of the Client Agreement. Any Client who has not received a copy of Covestor's written disclosure statement at least forty-eight (48) hours prior to executing the Client Agreement shall have five (5) business days subsequent to executing the agreement to terminate Covestor's services without penalty.

### ***Proxy Policy***

Covestor does not vote proxies on behalf of its Clients.

### ***Referral Programs***

If a Client is introduced to Covestor by either an unaffiliated or an affiliated solicitor, Covestor may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Covestor's investment management fee, and shall not result in any additional charge to the Client. If the Client is

introduced to Covestor by an unaffiliated solicitor, the solicitor shall provide the Client with a copy of Covestor's written disclosure statement that meets the requirements of Rule 204-3 of the Advisers Act, and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement, including compensation. Any affiliated solicitor of Covestor shall disclose the nature of his/her relationship to prospective Clients at the time of the solicitation and will provide all prospective Clients with a copy of Covestor's written disclosure statement at the time of the solicitation.