



*SEC No. 801-69224*

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

**Covestor Ltd.**

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**March 18, 2014**

This brochure provides information about the qualifications and business practices of Covestor Ltd. If you have any questions about the contents of this brochure, please contact us at (866) 825-3005 or [clientservices@covestor.com](mailto:clientservices@covestor.com). 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.

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### *Material Changes*

Additional information about Covestor Ltd. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Date	Description of Changes
18-Mar-2014	Wealth Account disclosure removed; changes to Client Advisors
31-Dec-2013	Steven S. Holstein added as Chief Marketing Officer; revised assets under management
1-May-2013	CIO Change: Sanjoy Ghosh added as Chief Investment Officer
28-Mar-2013	Qualified Client Disclosure; Performance Fees; Code of Ethics; Chairman/CFO Change
1-Nov-2012	Address Change; revised assets under management
30-Sept-2012	CIO Change
31-Mar-2012	COO Change: Thomas H. Dorsky for Simon Veingard; Cessation of the Personal Trade Reporting (PTR) service
1-Nov-2011	Address change
1-Oct-2011	CCO Change: Antoine Devine replacing Anne Dewey
17-Aug-2011	Revised assets under management; minor format changes
5-Aug-2011	CEO Change: Asheesh Advani replacing Perry Blacher
29-Apr-2011	Revised Format – Informational Brochure
29-Apr-2011	Enhanced disclosures of financial condition.
29-Apr-2011	Enhanced disclosures for advisory fees, no performance fees charged.
29-Apr-2011	Enhanced disclosures for securities traded.

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## Part 2A: Brochure

### Advisory Business – Covestor, Ltd. (“Covestor”)

Covestor Limited (“Covestor”) is a private limited company incorporated in the United Kingdom and established on 15 May 2006, becoming an SEC-registered adviser on 3 May 2008.

Covestor allows individuals and/or entities (“Portfolio Managers and/or Subscribers”) to register with Covestor.com in order to either:

- Share their investment activity with others (Portfolio Managers), or
- Utilize the investment activity of others in their own investment portfolio (Subscribers).

#### Members Sharing Their Investment Activity

Portfolio Managers share their personal investment history by providing us with access to their Historical Trade Data either in real time, by a data feed or by a daily trade report. Managers are classified as either Non-Registered Publishers or RIA Publishers. RIA Publishers must be registered investment advisers. Portfolio Managers license their portfolio holdings and trading record (“Historical Trade Data”) to Covestor for publication and analysis. Managers may choose to also provide additional content including their investment strategy, profile, portfolio market reports and analysis. (Collectively this additional content along with Historical Trade Data are referred to as “Manager Content”) Managers may manage multiple Portfolios 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.

#### Members Subscribing to Managers (Subscribers or Clients)

Subscribers, also referred to as Clients, may choose to subscribe to one or more Manager Portfolios through a Portfolio Investment Subscription or Portfolio Data Subscription.

#### Portfolio Investment Subscription

A Client may subscribe to a Portfolio and engage Covestor to provide certain investment management services. Under such a relationship Covestor may be engaged to replicate the selected Portfolio's Historical Trade Data for the Subscriber in their personal account.

A Client may also subscribe to Multi-Manager Portfolios (“MMP” or “multi-manager portfolio”), which consist of collections of portfolios assembled by Covestor to address particular investment segments and asset classes. MMP construction is reviewed by the Investment Committee, and managed by the Investment Management team. Neither Covestor nor any of its Investment Adviser Representatives receive any additional compensation for subscriptions to MMPs.

- a. Prior to engaging Covestor to provide the foregoing investment management services, the Client will be required to enter into one or more written agreements with Covestor setting forth

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the terms and conditions under which Covestor shall render its services (the “Client Agreement”).

### Portfolio Data Subscription

A Subscriber may subscribe to Portfolios without any investment management services. Under such a relationship:

- a. Subscribers receive the Manager Content of the Managers that they select. Covestor will provide ongoing notification of updates to the Manager Content, including Historical Trade Data. These will typically be in the form of email notifications.
- b. The Subscriber is under no obligation to act upon any of the information and retains absolute discretion and responsibility over any implementation decisions. Manager Content does not constitute and should not be considered investment advice.
- c. Covestor will charge a fee for access to the selected Portfolio(s) (“Direct Access Fee”). Direct Access Fees are negotiable, but generally range from \$0 to \$5,000 per year depending upon the Portfolio selected.

### Investment Management Services

Manager Content is analyzed by Covestor in order to determine a Risk Score for a Manager's Portfolio and identify trades eligible for Covestor's replication process. Trade eligibility filters include security type, market capitalization, and liquidity. Covestor provides ongoing limited investment advisory services to individuals and firms (“Clients”) based on the individual goals, investment objectives and risk tolerances specified by each Client for the purpose of determining a Client Risk Score. Clients are free to choose any Portfolio that carries a risk score that corresponds to or is lower than their Personal Risk Score.

Covestor provides ongoing investment services to its Clients through three channels:

- **Self-Directed Account (“Self-Directed”)** - Clients make their own decisions regarding the selection and timing of Portfolio subscriptions.
- **Covestor Multi-Manager Portfolios (“MMP”)** - Subscriptions to MMPs are “self-directed” investments, although Covestor is responsible for the selection of portfolios for inclusion within an MMP. MMPs require an initial funding of \$100,000. A Covestor multi-manager portfolio is a combination of different Covestor portfolios that aims to provide broad exposure to emerging manager alpha and to diversify the risks associated with a single investment portfolio. The benefit of diversification can result in additional return per unit of risk taken. Diversity is achieved through the selection of portfolios exposed to different asset classes and with varied strategy types. The first step involves selecting eligible portfolios based on criteria such as the consistency of approach, strategy definition and other screens for quality. The second step is to combine the portfolios using a proprietary optimization framework.

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- **Qualified Client Account (“Qualified Client Account”)** – Qualified Clients, as defined by Rule 205-3 of the Investment Advisers Act of 1940, may also invest in Portfolios that charge performance fees. The Subscriber must meet certain net worth requirements:
  - a. \$2,000,000 in net worth, except that;
    - i. the person’s primary residence will not be included as an asset;
    - ii. indebtedness that is secured by the person’s primary residence (e.g., a mortgage), up to the estimated fair market value of the primary residence at the time the advisory contract is entered into, will not be subtracted as a liability; and
    - iii. indebtedness that is secured by the person’s primary residence in excess of the estimated fair market value of the primary residence at the time the advisory contract is entered into will be subtracted as a liability.

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. Clients also receive online access to account activity reports from Covestor that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a daily basis.

Covestor also monitors the Manager’s trading account and calculates performance and risk metrics of the account. Covestor utilizes these performance and risk metrics, along with the Portfolio’s Risk Score and the Manager’s periodic commentary on their strategy as the basis for its evaluation of continuing appropriateness of Portfolios for clients. More information on Covestor’s performance calculations can be found at <http://site.covestor.com/help/disclosures>.

Those individuals to whom Covestor provides publication services only will receive regular reports from Covestor regarding the Portfolios to which the Client is subscribed.

Portfolio Managers may use:

- Equity Securities, including exchange-listed securities, certain over-the-counter securities, and American Depositary Receipts (“ADRs”);
- Exchange-traded funds (“ETFs”).
- We also impose restrictions regarding minimum market capitalization and average daily volume based on the securities’ class and application to risk score categories.

As of December 31, 2013, Covestor’s regulatory assets under management are \$28,208,737, of which 100% is managed on a limited discretionary basis.

### **Firm Ownership**

Covestor Ltd. is owned by Covestor Inc., a privately held firm whose principal owners include its founders and venture capital firms, which also have members on our board of directors.

## **Investment Management Agreements**

Covestor requires prospective clients to sign a client agreement prior to establishing an investment account. This client agreement provides Covestor with limited discretionary authority to initiate investment activities on behalf of the client over the client's investment assets. Copies of Covestor's Client Agreement are available upon request, as well as via the Covestor.com website.

## **Termination of Agreement**

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

## **Covestor.com Website**

The content of the Covestor.com website, including Manager Content, performance analysis and rankings is provided as general and impersonalized investment information and commentary and does not constitute a specific recommendation or solicitation that anyone should purchase or sell any particular security, investment advisory service or Portfolio. Covestor relies on information provided to it by Portfolio Managers in publishing Manager Content for the website, and also provides internally-generated content.

## **Fees and Compensation**

### **Advisory Fees**

If a Client engages Covestor to provide investment management services, Covestor shall do so on a fee basis. As specified below, Covestor's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses charged by our custodian to Clients. Covestor does not receive any portion of these commissions, transaction fees, and costs.

Covestor automatically deducts its management fees from Client's accounts, as authorized in the Client Agreement.

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. Covestor, in its sole discretion, may negotiate to charge a lesser management fee 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.).

Covestor's advisory fees shall be calculated on the following basis:

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## 1. Subscription Fees (Self-Directed):

If engaged, Covestor may charge an annual fee based upon a percentage of the market value of the assets being managed by Covestor ("Subscription Fee").

- a. Covestor's Subscription Fee shall be prorated and charged monthly, in arrears, based upon the daily market value of subscribed assets during the previous month.
- b. Subscription Fees vary by Portfolio chosen and the level of assets to be subscribed.
- c. The Subscription Fee will range from 0.25% to 3.00%, which shall include any Direct Access Fees, paid on the Client's behalf.
- d. Covestor shall charge a minimum Management Fee of \$60 per annum (\$5.00 per month) per Portfolio subscribed to, prorated and charged monthly in arrears. This minimum fee will be charged independent of the duration of the subscription during the month and any (or no) transaction activity in the Portfolio.
- e. No Subscription Fees are charged on assets that are not subscribed to a Portfolio or MMP.

Covestor, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities.

## 3. Multi-Manager Portfolio Fees (Self-Directed):

If engaged, Covestor may charge an annual fee based upon a percentage of the market value of the assets being managed by Covestor ("Subscription Fee").

- a. Covestor's Subscription Fee for MMPs shall be prorated and charged monthly, in arrears, based upon the daily market value of subscribed assets during the previous month.
- b. Subscription Fees vary by the MMP chosen and the level of assets to be subscribed.
- c. The Subscription Fee will range from 1.00% to 2.00%.
- d. No Subscription Fees are charged on assets that are not subscribed to a MMP.
- e. Covestor shall charge a minimum Management Fee of \$60 per annum (\$5.00 per month) per MMP subscribed to, prorated and charged monthly in arrears. This minimum fee will be charged independent of the duration of the subscription during the month and any (or no) transaction activity in the MMP.

Covestor, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities.



## 4. Qualified Clients

### Performance-Based Fees

For some investment strategies, the standard fee schedule is:

- a. a management fee from 0% to 2%, and
- b. a performance-based fee of up to 30%

Even within the same investment strategy, different Clients can have different fee structures; some pay asset-based fees, while others pay performance-based fees. Some Client accounts have fee structures that include elements of both asset-based and performance-based fee structures.

### Side-by-Side Management of Client Accounts

As noted above, we charge performance-based fees in a number of situations. Portfolio Managers and other investment personnel may have responsibility for Client accounts with performance-based fees, as well as for accounts with asset-based or fixed subscription fees. Strong investment returns increase the performance-based fee paid to us as a firm and the incentive compensation paid to the Portfolio Manager. As a result, we have an incentive, particularly in the case of hedge funds, to favor an account with a performance-based fee. The following sections describe how we manage this and other conflicts relating to the side-by-side management of Client accounts.

Many of our Portfolio Managers manage Client assets using more than one investment strategy. Those strategies differ based on an array of factors such as issuer concentration levels, average market capitalization ranges, duration, sector or subsector concentrations, geographic concentrations, tax considerations, cash flows, benchmarks, risk profiles, liquidity needs, time horizons and turnover expectations. Accounts within the same investment strategy may also differ as a result of Client contributions and withdrawals, market constraints or other factors.

Even within a single investment strategy, Client accounts may be customized to meet Clients' specific requirements. For example, a particular account may be unable to invest in a particular country, industry or issuer. These restrictions are typically reflected in the account guidelines.

This description of potential differences among a Portfolio Manager's investment strategies and accounts is not meant to be exhaustive. Rather, we want to illustrate the fact that we expect that individual Portfolio Managers may make different investment decisions for different Portfolios.

Sometimes those decisions are based on objective criteria, such as industry, sector or capitalization levels. At other times the decision reflects the Portfolio Manager's subjective professional judgment about the decision to invest in a security for a Portfolio or for a set of Portfolios. Our Portfolio Managers make these judgments based on a wide variety of factors, including but not limited to the other holdings in the Portfolio, the attractiveness of other investment opportunities available for that Portfolio, the Portfolio Manager's understanding of each Portfolios' objectives and risk profile and the costs of transacting in a particular security. These individualized decisions can result in significantly different

investment returns between investment strategies and among Portfolios managed by the same manager.

An important example of how accounts managed by the same Portfolio Manager will differ, as well as how potential conflicts can arise in these situations, is our management of long-short Portfolios and more traditional long-only investment strategies. Portfolio Managers who manage long-short Portfolios may also manage other Portfolios. Some of those may be hedge funds not managed at Covestor.

Some Portfolios use a more diverse array of investment tools and techniques than other investment strategies. Those tools and techniques include the use of short sales, leverage and a wide range of derivative instruments.

These Portfolios differ significantly from long-only accounts and typically have different investment objectives, strategies, time horizons, and risk profiles and different tax and other considerations. In addition, some of these funds do not typically measure performance against a specific index or benchmark, but instead pursue absolute returns.

A Portfolio Manager may also make similar investment decisions for a long-short and a long-only strategy, but at different times. Because of these differences, we expect that long-short and long-only strategies managed by the same manager will have significantly different investment results over time.

The fee structures applicable to some Portfolios often differ from those of the accounts that make up the majority of our firm's asset base. In particular, some may charge a performance fee of up to 30% of the profit in the Portfolio, in addition to a management fee of up to 2%. Managers for those Portfolios receive a percentage of the performance fee paid to us. As a result, these managers have an economic incentive to favor Portfolios with performance fees over other Portfolios they may manage. We recognize the conflict this presents. We manage this and other conflicts associated with side-by-side management of Client subscriptions through internal review processes and enhanced oversight. While the procedures we use to manage these conflicts differ depending upon the specific risks presented, all are designed to guard against intentionally favoring one account over another.

### **How We Allocate Investment Opportunities Generally**

Our open-platform investment strategy means that individual Portfolio Managers manage assets in different investment strategies for different subscribers who pay different fees. We expect those managers to use their subjective judgment in managing Portfolios, and we expect that they will make different investment decisions for different Portfolios in order to fulfill each Portfolios' investment objectives. Client identities are not shared with Portfolio Managers except under very limited circumstances, so that Portfolios are managed with no consideration of a particular clients' situation. Occasionally, a Client and a Portfolio Manager may have had a prior business relationship. In this instance, the risk score system may or may not prevent the Client from subscribing.

At the same time, we prohibit our managers from basing their decisions on favoritism, "window dressing," or other practices that violate either applicable law or our fiduciary duties to our Clients.

We use a number of techniques to perform after-the-fact review of trading in Client accounts. These techniques include performance dispersion analysis and Trade Cost Analysis ("TCA"); however, we do not routinely review individual transactions in isolation. The frequency and extent of reviews vary depending on our assessment of the opportunity and incentives for inappropriate investment allocation decisions.

## Types of Clients

Covestor's clients include individuals, trusts, corporations and other legal entities. Covestor has established an account minimum of \$5,000.00 for Self-Directed Subscription Account clients.

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

Covestor typically relies on the investment decisions of Managers in managing Subscriber accounts. Covestor attempts to track the Manager's trades as accurately as possible, but does maintain limited discretion to modify the Manager's trades or rebalance Portfolios and/or Client accounts in order to provide the best services to Subscribers.

In addition to the investment management team, Covestor also has an Investment Committee which plays an important role, focusing on higher level portfolio management matters, such as review, discussion and approval of new investment strategies and products, criteria for the selection, and retention and recommendation of Portfolio Managers, enhancements to existing strategies and determining the overall strategic and tactical priorities of the investment management team. Along with the investment management team, the Investment Committee includes Covestor's Chief Executive Officer and Chief Operating Officer, with the Chief Compliance Officer and other employees participating by invitation on an as-needed basis.

## Account Management

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

### 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. Covestor designs its Portfolios as long-term investments and asset withdrawals may impair the achievement of a Client's Investment Strategy.

### **Replication issues and associated conflicts:**

- a. While Covestor aims to replicate the Manager's Historical Trade Data as closely as possible, it will retain limited discretion over the trading due to certain limitations of replication.

Examples include:

- i. As Historical 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 and subsequently executed by Covestor.
  - ii. The size of a Client's account may not make it practical to replicate a certain trade initiated by a Manager.
  - iii. A Client may have specified certain restrictions.
- b. The 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 Subscribers and Clients.
- i. It is illegal for anyone to manipulate the market for securities.
  - ii. Managers certify that they are aware of the laws and will not make trades for the purpose of influencing a security due to the knowledge that Subscribers or Clients may be making similar trades after them.
- c. Managers may themselves be SEC/state registered investment advisers, or unregistered. Regardless of registration status, we expect managers to exercise a reasonable level of care, diligence and skill. The Non-Registered Publishers are subject to a limited version of our Code of Ethics, and are required to report personal trading activity through Compliance11, a Code of Ethics monitoring platform designed to address certain conflicts of interest.
- d. Covestor's CIO or other employees may hold models that are selected for Multi-Manager Portfolios, which could present a conflict of interest in the selection of underlying portfolios. The

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Investment Management Team's portfolio selection process employs objective criteria, and MMP composition is presented to the Investment Committee.

### Limited Investment Advice

Covestor offers advice on each type of investment described under "Advisory Business." However, Clients are advised:

- a. Covestor's investment advice is typically limited to facilitating subscribers' ability to select Managers and Portfolios through the Risk Scoring system and guidance provided upon request by client service representatives.
- b. Covestor does not recommend specific securities. Investment decisions are made solely by Portfolio Managers.
- c. Covestor exercises discretion regarding which portfolios are selected within a multi-manager portfolio. The portfolios that pre-selected for self-directed clients are disclosed on the website.
- d. Covestor may modify recommendations that are implied by Manager Content in certain circumstances. For example, some securities may not be replicable under our Trading Rules.
- e. Any securities transferred to the custodian to fund an account are solely for liquidation and subsequent investment in a Portfolio or Portfolios. We do not issue recommendations on the further disposition of transferred securities.

### 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 fee payable by the Client to Covestor will 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 shall correspondingly increase the management fee payable to Covestor.
- c. The decision as to whether to employ margin or to select a Portfolio that requires the employment of margin is left totally to the discretion of the Client.

Covestor trades in equity securities traded on U.S. exchanges, exchange traded funds (ETFs).

### Securities Lending

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

### Risk of Loss

All investment activities include the risk of loss. These investment risks fall in to several categories:

**Market Risk:** Security prices may decrease due in response to direct and indirect events and market conditions, usually caused by factors independent of the specific attributes of the investment security.

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

**Liquidity Risk:** Liquidity is the ability to convert an investment into cash. Investment assets are usually more liquid when established markets exist to trade those securities. For instance, U.S. Treasury bills and most equity securities have highly developed markets, while tangible property such as real estate and precious stones are less liquid.

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

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

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

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

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

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

### Disciplinary Information

As of the date of this brochure, Covestor has not been subject to any legal or disciplinary actions material to a client's or prospective client's evaluation of Covestor's advisory business.

### Other Financial Industry Activities and Affiliations

Other industry affiliations may typically include broker-dealers, investment companies, banks, accounting firms, insurance-related businesses, and real estate brokers or dealers. Covestor and its management personnel have no other financial affiliations nor receive any compensation or referral fees from such firms.

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

Covestor and persons associated with Covestor (“Associated Persons”) are permitted to buy or sell securities that may be traded by Portfolio Managers for replication on the same day. Portfolio Managers trade at their own discretion, and without notice to us. . In addition, Associated Persons may also become clients of Covestor and, as such, any Covestor initiated trades for those Associated Persons will be replicated alongside all other Covestor clients. Covestor currently replicates trades initiated by Portfolio Managers 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. Trades in these accounts are also replicated alongside all other Covestor clients. Covestor may also enter into an agreement with the owners of these test accounts to provide them with the funds to invest in these accounts.

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*.

Covestor's Code of Ethics permit Covestor's Access Persons to effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) transactions in a security which may be actively purchased or sold by Portfolio Managers for replication in any Covestor Client accounts. 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. 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).

### Brokerage Practices

Covestor establishes relationships with selected brokers to provide brokerage services to Covestor clients. All brokerage commissions and/or transactions fees charged by these selected brokers are

exclusive and in addition to Covestor fees. 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, but may consider other brokerage firms.

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

Covestor does not currently utilize trade aggregation on behalf of its clients. Covestor's trade replication process generates individual market orders for clients. As a result, execution prices may vary across clients, even if the accounts trade in the same security on the same day.

### **Soft Dollar Arrangements**

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Covestor in its investment decision making process. Such research generally will be used to service all of Covestor's Clients, but brokerage commissions paid by one Client may be used to pay for research that is not used in managing that Client's Portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest. We currently have no arrangements to receive investment research products and/or services.

Covestor may receive from its selected brokers, without cost to Covestor, computer software and related systems support, which allow Covestor to better monitor Client accounts maintained at these selected brokers. Covestor may receive the software and related support without cost because Covestor renders investment management services to Clients that maintain assets at these selected brokers. In fulfilling its duties to its Clients, Covestor endeavors at all times to put the interests of its Clients first. Clients should be aware, however, that Covestor's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Covestor's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services. Additionally, Covestor may receive the following benefits from its selected brokers: receipt of duplicate Client confirmations and bundled duplicate statements; access to a trading desk that exclusively services registered investment adviser participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to Client accounts; and access



to an electronic communication network for Client order entry and account information. We currently have no arrangements to receive such software or system support.

### Review of Accounts

Covestor implements these services for their advisory Clients by providing:

1. Collaboration with each Client on the appropriate investment strategy for their investment objectives. This investment strategy includes overall objectives, Manager Content preferences, risk tolerance, and other guidelines and restrictions specified by the Client. Covestor utilizes aspects of the Clients investment strategy to calculate a Client's Risk Score, which Covestor uses during the subscription and trade replication processes.
2. Access to Manager Content and evaluation of appropriateness of Manager Portfolios, including:
  - a. Asset allocation;
  - b. Asset selection; and
  - c. Trade activity implied by selected Portfolios, trade type, and projected costs.
3. Implementation of investment strategy on behalf of Client:
  - a. Portfolio Management & Accounting;
  - b. Subscription to selected Portfolios, provided the Client's Risk Score is greater than or equal to the Portfolio's Risk Score; and
  - c. Trade Execution, in order to best replicate the selected Portfolio's Historical Trade Data in the brokerage account of the Client.
4. Investment activity in all Client accounts is monitored periodically by the Chief Investment Officer for potential conflicts with the Client's stated investment objectives and risk tolerances, namely in the areas of liquidity, risk exposure, and investment strategy and trade activity associated with subscriptions.
5. Clients are contacted periodically regarding their accounts by Client Services staff. In addition, 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 detailing performance and risk exposure.
6. Clients are advised to promptly notify Covestor if they wish to impose any reasonable restrictions upon Covestor's management services or make any other changes to the management of their assets.

### **Client Referrals and Other Compensation**

#### **Solicitations and Referrals**

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.

#### **Portfolio Manager Compensation**

Covestor compensates Managers a portion of either: the Subscription Fee or Performance Fee for every subscription to the Manager's Portfolio. (See "Qualified Clients")

### **Custody**

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

As per section 12B (below), 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 member 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. For assets outside of any existing wrap fee programs, Clients may incur brokerage commissions and transaction fees.

- c. All such charges, fees and commissions are exclusive of and in addition to Covestor's fee.
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.

### **Investment Discretion**

As authorized in the Covestor Client Agreement, Covestor assumes some discretionary authority over the client's assets placed with Covestor for management. This is done via a limited power of attorney granting Covestor the ability to initiate financial transactions and trades on behalf of its clients in order to replicate trades executed in Portfolios clients are subscribed to. Clients maintain authority to change their subscription status, and to have restrictions placed on the type of securities to be bought or sold for their account.

### **Voting Client Securities**

Covestor does not vote proxies on behalf of its Clients.

### **Financial Information**

Covestor does not require prepayment of its advisory fees and, therefore, is not required to provide our most recent fiscal year financial statements.

Covestor relies upon venture capital funding from a small number of investors and is not self-sustaining through its advisory fee revenue alone. Periodic capital raising activities are conducted in order to ensure adequate funding for the Firm. The company's investors presently include Union Square Ventures, Spark Capital and Amadeus Capital Partners, each of which has a representative on Covestor's board of directors.

### **Requirements for State-Registered Advisers**

Because our principal place of business exists outside the U.S. in the United Kingdom, Covestor is not required to register with individual states. We qualify to register directly with the U.S. Securities and

## **Covestor, Ltd. Informational Brochure**

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Exchange Commission. However, we make notice filings in states that require such notice under state “Blue Sky” laws.

### **AML Officer Contact Information**

Covestor’s AML Officer is Tom Dorsky, 175 Federal Street, Suite 825, Boston, MA 02110, 866-825-3005(tel), 857-453-4530(fax).

## Part 2B: Brochure Supplement

### Supervised Persons

#### Education and Business Standards

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.

#### Supervised Persons

##### **Bhargav Shivarthi, Director Client Relations**

Born 1982

##### Educational Background:

New York University, 08/2001 to 08/2005, BA – Economics  
Center For Learning (India), 05/1999 to 05/2001, A-Levels

##### Business Experience:

Covestor, Director Client Relations, 06/2009 – present  
Anantha Energy Pvt., Ltd., Analyst, 05/2008 – 05/2009  
Oppenheimer & Co, Inc., Intern/Trainee, 05/2005 – 05/2008

##### Disciplinary Information:

None

##### Other Business Activities:

None

##### Additional Compensation:

Client advisers may receive a performance bonus. Any such bonus, if received, is paid from firm revenues.

##### Supervision:

Bhargav is supervised by Thomas H. Dorsky, Chief Operations Officer. He reviews Bhargav's work on an ongoing basis along with Bhargav's activities through our client management systems. All inquiries should be directed to Thomas H. Dorsky at (866) 825-3005.

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## Alexander MacAndrew, Investment Analyst

Born 1983

### Educational Background:

University of Nottingham, 08/2004 to 07/2007, BA(Hons) – Finance, Accounting and Management.

### Business Experience:

Covestor, Investment Analyst, 11/2011 – present  
Dimensional Fund Advisors, Analyst, 08/2009 – 11/2011  
UBS Investment Bank, Equity Sales, 08/2007 – 06/2009

### Professional Certifications:

Chartered Financial Analyst, awarded 11/2011

## CFA Charter Financial Advisor Statement for SEC Form ADV

The Chartered Financial Analyst (CFA) charter is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals.

There are currently more than 90,000 CFA charterholders working in 135 countries. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

## High Ethical Standards

The CFA Institute Code of Ethics and Standards of Professional Conduct, enforced through an active professional conduct program, require CFA charterholders to:

- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

## Global Recognition

Passing the three CFA exams is a difficult feat that requires extensive study (successful candidates report spending an average of 300 hours of study per level). Earning the CFA charter demonstrates mastery of many of the advanced skills needed for investment analysis and

decision making in today's quickly evolving global financial industry. As a result, employers and clients are increasingly seeking CFA charterholders—often making the charter a prerequisite for employment.

Additionally, regulatory bodies in 19 countries recognize the CFA charter as a proxy for meeting certain licensing requirements, and more than 125 colleges and universities around the world have incorporated a majority of the CFA Program curriculum into their own finance courses.

### **Comprehensive and Current Knowledge**

The CFA Program curriculum provides a comprehensive framework of knowledge for investment decision making and is firmly grounded in the knowledge and skills used every day in the investment profession. The three levels of the CFA Program test a proficiency with a wide range of fundamental and advanced investment topics, including ethical and professional standards, fixed-income and equity analysis, alternative and derivative investments, economics, financial reporting standards, portfolio management, and wealth planning.

The CFA Program curriculum is updated every year by experts from around the world to ensure that candidates learn the most relevant and practical new tools, ideas, and investment and wealth management skills to reflect the dynamic and complex nature of the profession.

To learn more about the CFA charter, visit [www.cfainstitute.org](http://www.cfainstitute.org)

Disciplinary Information:

None

Other Business Activities:

None

Additional Compensation:

None

Supervision:

Alex is supervised by Thomas H. Dorsky, Chief Operations Officer. He reviews Alex's work on an ongoing basis along with Alex's activities through our investment management systems. All inquiries should be directed to Thomas H. Dorsky at (866) 825-3005.

### **Diego Alvarado, Client Adviser**

Born 1986

Educational Background:

Villanova University (no degree) 09/2004 - 05/2005

Mass Bay Community College (no degree) 09/2006 - 05/2008

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Suffolk University (BSBA, Finance) 09/2008 - 05/2010

### Business Experience:

Covestor, Client Adviser 11/2012 - Present

Bank of America N.A., Financial Advisor 07/2011 - 10/2012

Morgan Stanley Smith Barney, Financial Advisor 06/2010 - 06/2011

Merrill Lynch Pierce Fenner & Smith Inc., Seasonal Client Associate/Intern 09/2007 - 05/2010

### Disciplinary Information:

None

### Other Business Activities:

Longwood Cricket Club, Tennis Instructor 06/2001 - Present

The Park School Alumni Committee Member

The Varsity Fund Board Member

### Additional Compensation:

Client advisers may receive a performance bonus. Any such bonus, if received, is paid from firm revenues.

### Supervision:

Diego is supervised by Thomas H. Dorsky, Chief Operations Officer. He reviews Diego's work on an ongoing basis along with Diego's activities through our client management systems. All inquiries should be directed to Thomas H. Dorsky at (866) 825-3005.

## **Kimberly Clouse, Chief Client Advocate & Advisory Board Chair**

Born: 1968

### Educational Background:

Rice University - 1991, B.A., Managerial Studies and Political Science

Harvard University Graduate School of Business – 1997, Master of Business Administration

### Business Experience:

Covestor, Chief Private Client Advocate and Advisory Board Chair - June 2013 – present

Via Global Advisors, Founder & CEO - January 2013 - present

TPW Financial, President, Newton, MA - February 2012 - November 2012

Athena Capital Advisors, LLC, Lincoln, MA - April 2008 - January 2011



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## Disciplinary Information:

None

## Other Business Activities:

Founder & CEO, Via Global Advisors  
Board Member, Wyoming Private Trust Company  
Board Member, Market Street Trust Company  
Brookline Community Foundation, Member, Investment Committee

## Additional Compensation:

## Supervision:

Kimberly is supervised by Thomas H. Dorsky, Chief Operations Officer. He reviews Kimberly's work on an ongoing basis along with Kimberly's activities through our client management systems. All inquiries should be directed to Thomas H. Dorsky at [\(866\) 825-3005](tel:866-825-3005).

## Key Personnel

The following individuals currently hold key management responsibility within Covestor.

### Asheesh Advani, Chief Executive Officer

Born 1971

#### Educational Background:

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

#### Business Experience:

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

## Disciplinary Information:

None

Other Business Activities:

None

Additional Compensation:

None

### **Thomas H. Dorsky, Chief Operating Officer & AML Officer**

Born 1971

Educational Background:

Bentley University – 1993, BS, Finance

Professional Certifications:

Chartered Financial Analyst (CFA)

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The CFA Program curriculum is updated every year by experts from around the world to ensure that candidates learn the most relevant and practical new tools, ideas, and investment and wealth management skills to reflect the dynamic and complex nature of the profession.

To learn more about the CFA charter, visit [www.cfainstitute.org](http://www.cfainstitute.org).

### **Business Experience:**

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

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

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

### **Disciplinary Information:**

None

### **Other Business Activities:**

None

### **Additional Compensation:**

None

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

Born 1973

## Covestor, Ltd. Informational Brochure

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### Educational Background:

Colgate University, B.A., Economic and Math, 1992 - 1996

Wharton, University of Pennsylvania, M.A, and Ph.D, Finance, 1996 - 2000

### Business Experience:

Covestor Ltd., Chief Investment Officer, 05/2013 – Present

Panagora Asset Management, Director, Equities, 7/2004 - 4/2013

### Disciplinary Information:

None

### Other Business Activities:

None

### Additional Compensation:

None

### **Steven S. Holstein, Chief Marketing Officer**

Born: 1960

### Educational Background:

Clark University, B.A. Economics – 1982

Boston University, MBA - 1988

### Business Experience (past five years):

Covestor, Ltd., Chief Marketing Officer - 12/2013-Present

Unemployed, 3/2013 – 11/2013

Guardian, Chief Marketing Officer, 8/2000 – 2/2013

MassMutual Financial Group, Senior Vice President, Marketing & Market Development, 2000-2009

### Disciplinary Information:

None

### Other Business Activities:

Advisory Board: Northwestern's Kellogg School & New Era Marketing joint venture

## Covestor, Ltd. Informational Brochure

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Additional Compensation:

None

### **Antoine M. Devine, General Counsel & Chief Compliance Officer**

Born 1957

Educational Background:

University of Texas School of Law – 1991, JD

George Washington University School of Law – Fall 1990

Jackson State University, B.S. Finance, 1979

Professional Certifications:

Member, California Bar Association – 1993 – Present

In-House Counsel, Massachusetts Bar Association – 2012 – Present

In-House Counsel, NY Bar Association – 2011 – 2012

Business Experience:

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, Legal & Compliance Consultant, 03/2007 – 08/2007

Unemployed, 03/2006 – 02/2007

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

Disciplinary Information:

None

Other Business Activities:

None

Additional Compensation:

None