



# UPSIDE

October 21, 2015

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## Disclosure Brochure

### Form ADV Part 2A

This brochure ("Brochure") provides information about the qualifications and business practices of Upside Financial, LLC ("Upside"). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

If you have any questions about the contents of this Brochure or our Supplement(s), please contact us at 312-827-2800 or Additional information about Upside or any of its supervised persons (who are registered under our firm) is also available on the SEC's Investment Adviser Public Disclosure ("IAPD") which can be found at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2. Material Changes

Filing date of last annual ADV update: March 31, 2015

There were no material changes to this Brochure dated October 21, 2015 from the previous versions. There were minor changes, including program changes and changes to related persons, enhancements and clarifications throughout.

Upside has also expanded its services and begun offering sub-advisory services to other investment advisers through an on-line electronic platform.

Effective February 26, 2015, Upside Financial, LLC ("Upside") was purchased by Envestnet, Inc. It is our intent to subsequently merge Upside into Envestnet Asset Management, Inc. (IARD # 111694.) Both entities are currently under common control of Envestnet, Inc.

Envestnet Asset Management, Inc. continues to offer the Upside programs described herein. No material changes were made to the Upside programs.

If you would like to receive additional copies of our brochure, please contact us by telephone at (312) 827-2800 or by e-mail at [compliance@envestnet.com](mailto:compliance@envestnet.com).

For more information about Envestnet, Inc. please see [www.envestnet.com](http://www.envestnet.com). This brochure and related documents as well as Envestnet's Form ADV Part 1, Part 2A and related documents are available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4. Advisory Business

### A. Upside Description

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#### Firm Profile

Upside is an online investment manager and advisor that offers portfolio management through an online platform to make investing intuitive and accessible to investment advisers, investment adviser customers, and individuals. Upside only provides advice through the internet and manages client investment accounts ("Clients") through the website [www.envestnet.com](http://www.envestnet.com), or a derivation thereof based on private labelling for specific investment adviser sub-advisory agreements (collectively the "Platform").

#### Years in Business

*Date of formation:* May 12, 2012      *Date of initial investment adviser registration:* May 20, 2013.

#### Principal Owners

Upside is a wholly owned subsidiary of its parent company Envestnet, Inc. (NYSE:ENV), a publicly held company.

### B. Upside's Advisory Services

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Upside currently conducts no advisory business under the Upside Financial, LLC. Subsequent discussions within this Brochure relate to prior business conducted by the Firm.

Upside's Platform helps Clients create investment plans and invest in model portfolios that are selected based on the Client's risk tolerance and investment goals. This process begins with a risk tolerance assessment followed by the selection of a plan type, after which the Client answers certain questions about his investment objectives. Through the use of algorithms, the Platform identifies an appropriate portfolio of investments. After an investment plan is created and a custodial account opened, the Platform provides ongoing portfolio maintenance (e.g., rebalancing, automated trading, and client billing), and provides a user interface through which Clients can manage their plans, perform cash management operations, and track performance in their accounts, among other services.

### C. Customization of Advisory Services

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Services performed by Upside are based on the individual needs of each of its Clients, and subject to certain product features and account limitations that prospective investors should consider, as described further below in the section titled, "Types of Clients". Client accounts ("Accounts") are subject to Upside's Sub-Advisory Agreement ("Agreement") which describes the scope of authority granted to Upside.

To tailor recommendations and service to each Client, Upside uses its dynamic goal-oriented portfolio software to identify Clients' risk tolerances and required plan settings to reach the Clients' goals.

Through the Platform, Upside asks objective questions to estimate the likelihood of reaching a given goal within the parameters of Clients' plan settings. A Client may not specify investments in which that Client Account may or may not invest.

#### **D. Wrap Fee Program Participation**

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None of our investment advisory services involve the use of wrap programs.

#### **E. Assets Under Management<sup>1</sup> ("AUM")**

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AUM (discretionary):	\$ 0	Date of AUM calculation:
AUM (non-discretionary):	\$ 0	October 2015
Total AUM <sup>2</sup> :	\$ 0	

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#### **A. Upside Advisory Fees**

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Upside's annualized fees for service range from 0.10% to 0.25% of average daily assets under management calculated monthly, and are subject the Master Services Agreement with the Adviser.

Clients managed through the Platform on a sub-advisory basis are subject to Upside's Sub-Advisory Agreement and receive disclosures of total account fees charged at the time the Agreement is executed.

#### **B. Fee Collection Process**

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Fees are collected from the Client's accounts that are held at the custodian firm through a Client invoicing/fee deduction process. Upside's custodian firm(s) maintains the fee schedule disclosed in Item 5(A) above, and the custodian applies the fees directly to the Client's accounts on a monthly based on the annual fee multiplied by the average monthly balances in the account on the last business day of the month as of the close of trading on the New York Stock Exchange ("NYSE"), or as of the close of trading on the day immediately preceding any day when the NYSE is closed, and then divided by 365 (or 366 in any leap year). This process is performed on the last business day of each month at the close of the U.S. equity markets and deducted from Client accounts no later than the following month.

#### **C. Other Fee/Expenses**

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However, in addition to advisory and commission fees, Clients may also pay other fees or expenses to third-parties. These fees fall into three categories: product fees, custody fees and in certain circumstances commissions.

- 1) The issuer of some of the securities or products we purchase for Clients, such as ETFs or other similar financial products, may charge product fees that affect Clients. Upside does not charge

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<sup>1</sup> The term, "assets under management" shall carry the same meaning as that term is defined by Form ADV.

these fees to Clients, and does not benefit directly or indirectly from any such fees. An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of an ETF may include management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Upside discloses each recommended ETF's current information, including expenses, on the Platform.

- 2) Clients may be charged commissions by the custodian broker or other broker-dealers that are executing the transactions that are part of the service (see Item 10). These fees are paid to those brokers and not to Upside, unless those are executed through Upside Brokerage, LLC. In those instances fees will be disclosed as part of the agreement between the Clients and Upside Brokerage, LLC. Custodian fees are subject to change, and may be affected by many variables, including: the type and size of the Account; the number and type of products; the length of time a Client holds the investments; the frequency of Account transactions; and the average price per share of securities in the Account. It could also take the form of an assets under management fee, much like the fee charged by Upside.

#### **D. Fees Charged in Advance**

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There are no fees that are charged in advance. All fees are charged in arrears, in other words after the services have been performed.

#### **E. Additional Compensation**

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Supervised persons of Upside do not accept any compensation for the sale of securities or other investments products.

##### **E.1. Conflicts of Interest**

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Neither Upside nor its supervised person receive any additional compensation from any other sources for the investment products recommended for Client portfolios.

##### **E.2. Client-Directed Brokerage**

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As part of the Platform's portfolio recommendations, Upside may recommend a set of specific securities or investments based on analysis performed by Upside and other third parties. These recommendations are subject to change, but not based on Client direction. If Clients desire to purchase securities beyond those recommended in the portfolios available through the Platform, Clients must purchase those products through other brokers or agents.

When acting as a sub-advisor, Upside may customize the securities available through the Platform to the investment strategies provided by the Client's Adviser. In these instances, the Adviser is responsible for the selection of securities in Client portfolios.

##### **E.3. Brokerage Compensation**

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No other forms of compensation, including Brokerage Compensation are received by Upside.

##### **E.4. Advisory Fee Offset**

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No other forms of compensation are received by Upside.

## Item 6. Performance-Based Fees and Side-By-Side Management

Upside does not charge performance-based fees.

## Item 7. Types of Clients

Upside provides advisory and sub-advisory services to the following types of Clients.

- Individuals
- High net worth individuals

To open an account with Upside, the minimum account size is \$5,000.

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

### A. Methods of Analysis and Investment Strategies Employed

Upside utilizes modern portfolio theory ("MPT") to construct model portfolios for implementation in Clients' investment plans. MPT proposes how rational investors should use diversification to optimize their portfolios, and how a risky asset should be priced.

Using MPT, evaluates possible combinations of the following eight asset classes: US equities, US growth equities, US dividend equities, foreign developed markets equities, emerging markets equities, real estate, treasury inflation protected securities (TIPS), and US government bonds. Mean Variance Optimization uses the expected return and volatility for each asset class and the covariance among asset classes to find the combination that delivers the highest possible return for any given standard deviation of a portfolio's returns.

Upside may also make available the asset allocation with a different set of investments for various asset classes based solely on the model portfolios provided the Adviser. The Client should be aware of the method of analysis used to construct the portfolios provided by Advisers, and such disclosure should be provided by the Adviser to the Client.

### B. Material Risks to Recommended Strategies

There are risks to be aware of concerning the recommended asset allocation and the securities that constitute it.

**Market Risk:** The risk of losses in positions arising from movements in market prices. The price of any security or the value of an entire asset class can decline for a variety of reasons, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, or social events. These changes are all outside of Upside's control.

**Correlation Risk:** The risk associated with having several investments in similar markets. Markets that are part of the same sector or group are usually very highly correlated or move together. If positions in markets that move in tandem are included in portfolios diversification is not mitigating this risk.

**Liquidity Risk:** The risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit). Upside relies on its custodian for trade execution and also relies on the markets to support buyers and sellers of any particular security. High volatility and/or the lack of deep and active liquid markets for a security may prevent a Client from selling securities at all, or at an advantageous time or price there is difficulty finding a buyer and may be forced to sell at a significant discount to market value.

**Credit Risk:** Clients are exposed to the risk that financial intermediaries or security issuers may experience adverse economic consequences that may include impaired credit ratings, default, bankruptcy or insolvency, any of which may affect portfolio values or management. This risk applies to assets on deposit with any Custodian utilized by Client, notwithstanding asset segregation and insurance requirements that are beneficial to Clients. In addition, exchange trading venues or trade settlement and clearing intermediaries could experience adverse events that may temporarily or permanently limit trading or adversely affect the value of Client securities. Finally, any issuer of securities may experience a credit event that could impair or erase the value of the issuer's securities held by a Client. Credit risk events are outside of Upside's control, but through a selection of certain securities, like ETFs limits to credit risk may be achieved since ETFs are subject to regulatory limits on asset segregation and leverage such that fund shareholders are given liquidation priority versus the fund issuer; however, certain funds and products may involve higher issuer credit risk because they are not structured as a registered fund.

**Legislative Risk:** The risk that legislation by a government could significantly alter the business prospects of one or more issuers, adversely affecting investments/securities in those issuers. This may occur as a direct result of government action or by altering the demand patterns of the company's customers. Upside cannot control this risk.

### C. Material Risks to Recommended Securities

As part of its proprietary portfolio construction, Upside recommends index Exchange Traded Funds ("ETF"s). ETFs are typically registered investment companies whose shares represent an interest in a portfolio of securities that track an underlying benchmark or index. (Some ETFs that invest in commodities, currencies, or commodity- or currency-based instruments are not registered as investment companies.) ETFs have been around since 1990, when the first fund was launched in Canada. The original idea was to create portfolios of shares replicating a stock market index, such as the S&P 500. Index-tracking funds had been available to institutional investors since the 1970s. Companies such as Vanguard offered them to individuals in the form of mutual funds. However, as the name suggests, the key feature of an ETF was that it was itself listed on a stock market, so that investors could buy and sell it easily. Unlike units in a conventional mutual fund, ETFs can be traded all day long.

Although the basic index ETF is a rather benign invention that allows small investors to own a diversified portfolio at a low cost there are still risks. The material risks to such securities are as follows:

Risks	Explanation
Brokerage costs	Trading into and out of ETFs incurs sales commissions and, possibly, other

	brokerage fees.
Market pricing	There is no guarantee that the market price of an ETF is the same as the market value of the ETF's underlying securities.
Limited portfolio strategy options	Currently, most publicly available ETFs are passively managed and offer investors few opportunities to maximize gains or limit losses through portfolio strategy.
Lack of support	Many ETF sponsors provide limited customer support.

As part of portfolio construction provided by other investment advisers, who are in sub-adviser agreements with Upside, those advisers will provide disclosures to Clients on the risks to those recommended securities as part of their Disclosure Brochures.

## Item 9. Disciplinary Information

Upside has no disciplinary history or information required to be disclosed.

## Item 10. Other Financial Industry Activities and Affiliations

The following information addresses active or pending financial industry affiliations material to your identification of related conflicts of interest.

Upside is under common control with the following entities that are engaged in the securities or investment advisory business. Certain directors and members of executive management of Upside also serve as directors and/or executive management of these entities:

Envestnet Asset Management, Inc. Registered Investment Advisor  
35 East Wacker Drive, Suite 2400  
Chicago, IL 60601  
Firm CRD #111694

Envestnet Portfolio Solutions, Inc. ("EPS") Registered Investment Advisor  
75 State St., 6<sup>th</sup> Floor  
Boston, MA 02109  
Firm CRD #109662

Envestnet Retirement Solutions, LLC ("ERS") Registered Investment Advisor  
35 East Wacker Drive, Suite 2400  
Chicago, IL 60601  
Firm CRD #171570

Portfolio Brokerage Services, Inc. ("PBS") Registered Broker/Dealer  
1801 California St., 23rd Floor  
Denver, Colorado 80202  
Firm CRD #18554

Portfolio Management Consultants, Inc. ("PMC") Registered Investment Advisor  
1801 California St., 23rd Floor  
Denver, Colorado 80202  
Firm CRD #107747

KD Advisors  
421 Fayetteville Street  
Raleigh, North Carolina 27601  
Firm CRD # 155514

PMC and PBS are wholly-owned subsidiaries of PMC International, Inc. ("PMCI") whose principal business address is 1801 California St., 23rd Floor, Denver, CO 80202.

Envestnet, EPS, and PMCI are wholly-owned subsidiaries of Envestnet, Inc., whose principal business address is 35 E. Wacker Drive, Suite 2400, Chicago, IL 60601.

ERS is a jointly owned subsidiary of Envestnet, Inc., whose principal business address is 35 E. Wacker Drive, Suite 2400, Chicago, IL 60601.

KD Advisors is a wholly-owned subsidiary of Envestnet Retirement Solutions, LLC., whose principal business address is 35 E. Wacker Drive, Suite 2400, Chicago, IL 60601.

Envestnet also serves as the investment advisor to a mutual fund family: The PMC Funds, consisting of the PMC Core Fixed Income Fund and the PMC Diversified Equity Fund (information available at [www.investpmc.com](http://www.investpmc.com)).

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

### A. Code of Ethics

Upside's primary duty is to act as a fiduciary to the Clients it services. We maintain a Code of Ethics ("Code") to ensure that we meet our fiduciary obligations at all times. Our Code addresses issues such as the following:

- Standards of conduct and compliance with applicable laws, rules, and regulations
- Protection of material non-public information
- The addressing of conflicts of interest
- Employee disclosure and reporting of personal securities holdings and transactions
- The firm's IPO and private placement policy
- The reporting of violations of the Code
- Educating employees about the Code
- Enforcement of the Code

Each of our representatives has been furnished with a copy of our Code and has signed their names to a written acknowledgement attesting to their understanding of the Code and acceptance of its terms. A copy of our Code is available to all current and/or prospective clients upon request.

### B. Participation in Client Trading

Our officers or directors may also invest in the same securities that are recommended to Clients, and may also apply the same methodologies employed by Clients to their own portfolios to support their own goals.

### C. Trading Alongside Our Clients

Upside itself does not invest in securities as part of its business, but instead acts as an Adviser or Sub-Adviser to the Clients it server.

## **D. Trading Around the Same Time as Clients**

All executions are processed on a first-entered, first-executed methodology which is implemented by Upside through its custodian.

### **Item 12. Brokerage Practices**

In order to provide the services described in this Brochure, Clients must establish brokerage accounts with a selected custodian. We are not affiliated with any broker-dealer custodian that we recommend. When Upside acts as a Sub-Adviser, we work with the custodian your Adviser selects.

#### **A.1. Research and Soft Dollar Benefits**

Soft dollar benefits are items such as research or other products or services (other than the typical execution and other brokerage services available to all other investment advisers) that an investment adviser may receive from a broker-dealer(s) or other party in connection with the Client securities transactions are directed to that particular broker-dealer(s).

We do not participate in any explicit soft dollar arrangements. Through participation in a custodian's Institutional program, Upside may receive discounts on compliance, marketing, technology, and practice management products or services provided by third party vendors. None of these benefits depend on the amount of brokerage transactions directed to the custodian.

#### **A.2. Brokerage for Client Referrals**

We do not participate in referral arrangements with any broker-dealer in return for selecting or recommending such broker-dealer.

#### **A.3. Directed Brokerage**

All executions will be directed to our custodian or the Adviser's selected custodian as part of Upside's Platform. Neither Clients nor Upside's associated persons may direct brokerage transactions elsewhere and use the Platform.

### **B. Order Batching**

Upside may process aggregated transactions involving multiple Client accounts. In conducting these transactions, no client is favored over any other client, and each client that participates in an aggregated transaction will participate in the average share price for transactions in the aggregated order.

### **Item 13. Review of Accounts**

All transactions in Client accounts are reviewed daily/monthly, as they occur. Upside ensures that fees charged are appropriate and in line with its fee structure, and that executions receive best pricing and service on a quarterly basis. At a minimum, annually the Platform will provide a balancing recommendation and a request for updated material information on Clients.

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

## **A. Compensation we Receive**

Since Upside participates in several custodian's institutional customer platform Upside may receive the economic benefits. The benefits include the receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk; access to block trading, the ability to have advisory fees deducted directly from Client accounts; access to electronic communications network for Client order entry and account information; and discounts on compliance marketing, research, technology, and practice management products or services provided to Upside by third party vendors.

## **B. Compensation we Pay**

We do not compensate any individuals or entities for referring any Referred Parties to Upside. As part of Upside sub-adviser agreements it may share up to half of its service fee with the investment adviser.

### **Item 15. Custody**

We do not have custody of any funds or securities.

### **Item 16. Investment Discretion**

In connection with our investment advisory activities, we will not exercise discretionary authority.

### **Item 17. Voting Client Securities**

We do not vote proxies on behalf of any securities you own. Proxies will be delivered by our custodian directly to the account owners or their assigned authorized persons.

### **Item 18. Financial Information**

#### **A. Balance Sheet**

We do not require or solicit prepayment of any fees from Clients for a period of six months or more in advance. As a result, we are not required to provide our Clients with a copy of our balance sheet from our most recently completed fiscal year.

#### **B. Adverse Financial condition**

In the event that we have discretionary authority or custody of any of our Clients' assets or if we require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance, we are required to disclose any financial condition that is reasonably likely to impair our ability to meet contractual commitments with our Clients. No such conditions exist.

#### **C. Bankruptcy-Related Matters**

Upside has never been the subject of a bankruptcy petition.