



*SEC No. 801-69224*

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

**Covestor Limited doing business as “Interactive Brokers Asset Management”  
and “IB Asset Management”**

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**July 20, 2017**

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@ibassetmanagement.com](mailto:clientservices@ibassetmanagement.com) (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 (“SEC”) or by any state securities authority. This brochure is for informational purposes only. It does not convey an offer of any type and it is not intended to be, and should not be construed as, an offer to sell, or solicitation of an offer to buy, any interest in any entity, investment, or investment vehicle.

Additional information about Covestor Ltd is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliates with Covestor who are registered as investment adviser representatives of Covestor. Covestor’s registration as an investment adviser with the SEC does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information, which can help you determine whether to hire or retain an adviser.

## MATERIAL CHANGES

Date	Description of Changes Since the Last Annual Update on February 16, 2017
July 20, 2017	<p>Disclosure of two business names under which Covestor Limited will conduct its investment advisory business: Interactive Brokers Asset Management and IB Asset Management</p> <p>Disclosure of new website address: <a href="http://ibassetmanagement.com">http://ibassetmanagement.com</a></p> <p>Discussion of a recently launched Covestor-Managed Smart Beta Portfolios, (Tax Managed Large Cap Portfolio)</p> <p>Discussion of upcoming revisions in risk assessment questionnaire to determine suitability of investments for clients</p> <p>Disclosure of significant investment by Interactive Brokers Group, Inc. significant shareholder and planned trading block between clients and affiliates of Interactive Brokers Asset Management</p>

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## Part 2A: Brochure

### Item 4: Advisory Business – Covestor Limited (“Covestor”)

#### Advisory Firm Background and Principal Owner

Covestor Limited (“Covestor Ltd” or “Covestor”) doing business as (“dba”) Interactive Brokers Asset Management and IB Asset Management, an investment adviser registered with the United States Securities and Exchange Commission (“SEC”), is a private limited company incorporated in the United Kingdom and established on May 15, 2006. Covestor Ltd is not registered to conduct investment advisory business in any jurisdiction outside the United States. Covestor Ltd is incorporated as a private limited company but is not registered to provide investment management or advice in the United Kingdom or anywhere outside of the United States.

Covestor Ltd is owned by Covestor Inc., a privately held firm whose principal owner is Interactive Brokers Group, Inc. Interactive Brokers Group, Inc., together with its subsidiaries (the “Interactive Brokers Group”), is an automated global electronic broker and market maker. Interactive Brokers Group, Inc. is a Delaware corporation whose common stock is publicly traded on NASDAQ. Additional information about Interactive Brokers Group is available at <https://www.interactivebrokers.com>. The information in this brochure has not been approved or verified by the SEC or by any U.S. State Securities Authority.

Additionally Part 1A of the Form ADV providing additional information about Covestor may be reviewed at the SEC’s website:

[http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx)[http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx) (select “Firm” and type in our firm name). Our registration does not imply any level of skill or training. The oral and written communications we provide to you, including this brochure, are for you to evaluate us and our services, and to determine whether the advisory services Covestor offers are right for you and disclose the potential conflicts of interest associated with Covestor’s services.

Covestor primarily conducts its advisory business under one of two business names, Interactive Brokers Asset Management and IB Asset Management, which are different than its legal name. The firm’s website is located at <http://ibassetmanagement.com> and <http://covestor.com>. Traffic from Covestor’s existing website (covestor.com) will be redirected to the new <http://ibassetmanagement.com> website for a period of time. Covestor is doing business as Interactive Brokers Asset Management and IB Asset Management and will be referred to as “IBAM” throughout this brochure.

As of July 14, 2017, IBAM manages \$64.80 million on a discretionary basis.

## **Advisory Services**

### ***Portfolio Manager Strategies***

IBAM offers an online investment platform through which IBAM's Clients can invest in a variety of third-party portfolio manager trading strategies. These trading strategies generally replicate (mirror) the trading by third-party portfolio managers ("Portfolio Managers" or "Managers"). IBAM assigns risk scores to the Portfolio Manager strategies on its platform and allows IBAM Clients with commensurate risk scores to invest in those strategies.

IBAM generally offers the following services to its Clients in connection with trading strategies of Portfolio Managers on the platform:

1. It screens, selects, and assesses the riskiness of Portfolio Manager strategies;
2. It assesses the risk tolerance of Clients by assigning them a risk score based on responses to a risk assessment questionnaire;
3. It allows Clients to invest in and follow the trading in a Portfolio Manager strategy that is in line with (i.e., a risk score equal to or lower than) their assigned risk score;
4. It replicates the trades in the Portfolio Manager account into the accounts of investing Clients while retaining the discretion to block certain manager trades that violate certain preset trading rules;
5. It corrects any discrepancies between the expected positions in Client accounts based on their portfolio investments and the actual positions in Client accounts after the replication process by executing small trades in Client accounts; and
6. It regularly reevaluates the risk scores assigned to Portfolio Manager strategies (at least annually) and prompts Clients to review their answers to the risk assessment questionnaire (at least quarterly) to ensure Clients are invested in strategies suitable for their risk appetite and ability to withstand investment losses. At least annually, IBAM also attempts to contact all clients to determine whether there have been any changes in their financial situation or investment objectives warranting a revision of their prior answers to the risk assessment questionnaire and whether they want to impose new or revise existing restrictions on the trading of their account.

IBAM analyzes each Portfolio Manager's trading and strategy to determine a risk score for the Portfolio. IBAM then assigns a risk score between 1 (least risky) and 5 (most risky) to each Portfolio traded by Portfolio Managers. The purpose of the risk score is to ensure that the Portfolio risk is in line with Client expectations and meets IBAM's fiduciary obligation to recommend suitable investment for Clients. To ensure that IBAM Clients have access only to Portfolios that are suitable for their ability to take on risk and risk tolerance, IBAM profiles Clients using a questionnaire to ascertain their risk tolerance, also on a scale of 1 to 5. The client suitability questionnaire includes a variety of questions pertaining to the

Client's risk tolerance and ability. IBAM matches up Clients' assigned risk scores with Portfolio risk scores in accordance with a proprietary risk scoring methodology, i.e., Clients may only invest in Portfolios with a risk score equal to or lower than their risk score. Clients can update their responses to the risk assessment questionnaire on IBAM's website at any time. Changes to these responses may result in a change in the Clients' risk score and thus the Portfolios that the client may be able to invest in. IBAM provides clients with individual, password-protected, login credentials to its website, <http://ibassetmanagement.com> (or <http://covestor.com>), where Clients can view their holdings and account history as well as access other account-related documents.

IBAM provides detailed definitions of all portfolio and Client risk scores in the Help & Support section of on its website. In 2017, IBAM revised its risk assessment/suitability questionnaire, which clients need to take to invest in any IBAM portfolios. The risk assessment/suitability questionnaire takes into consideration clients' financial situation, income, net worth, ability to take risks, investment objectives, age, investing knowledge, investment horizon and tolerance for drawdowns. IBAM calculates risk scores for clients based on clients' answers to the questionnaire. In determining the risk score of clients investing in an IBAM portfolio through their existing investment advisor, IBAM will take into account whether the client's existing advisor is registered with the SEC or a state regulator and has confirmed that it will only invest its clients in portfolios suitable for the client based on the client's investment profile and the advisor's dealings with the client.

Based on the risk score assigned to each Client, IBAM Clients may then invest in one or more of the Portfolios or strategies that have risk scores equal to or lower than the Client either on their own or with the assistance of IBAM's client service representatives (who are appropriately registered as Investment Adviser Representatives). IBAM does not take into account a Client's personal tax situation when recommending and managing portfolios. IBAM recommends that Clients consult with their tax advisor on such matters.

Once an IBAM Client invests in a specific strategy, IBAM mirrors or replicates the activity in that Portfolio into the investing Client's account. To implement IBAM's service, Clients and Portfolio Managers enter into agreements with IBAM and a Customer Agreement with IBAM's affiliated broker-dealer Interactive Brokers LLC ("Broker-Dealer" or "Custodian" or "IB LLC") and have to open brokerage accounts with the Broker-Dealer.

IBAM does not automatically replicate all trades in the Portfolio Managers' accounts. For instance, IBAM Clients may specify that certain securities not be traded in their accounts, and IBAM will block trading in these securities even if a Manager in whose Portfolio the Client invests trades the security. Additionally, IBAM may also disallow certain Manager trades altogether or simply block them from replication or mirroring into Client accounts. For instance, IBAM does not allow Managers to trade certain securities, including those with a market capitalization of less than \$50 million or an average

daily volume of less than \$100,000. IBAM may also limit certain types of trading (like short positions, leverage, or option trading) if inconsistent with the strategy's assigned risk score (unless and until the strategy is assigned an appropriately higher risk score and clients have the opportunity to determine if they are comfortable with the strategy's increased risk score). Trades that violate any of IBAM's trading rules are blocked from replication in Client accounts.

Additionally, Portfolio Managers may decide to no longer make their trading data available to IBAM. Should that occur, IBAM will inform Clients investing in those portfolios that the portfolio is no longer available and Clients need to invest in different portfolios or convert their existing investments in such portfolio into cash. IBAM will provide Clients with as much advance notice as practicable, but Clients should be aware that IBAM depends on the Portfolio Managers to provide it with advance notice of such decisions.

A central piece of IBAM's trading process is IBAM's aggregation of all Portfolio Manager and investing Client orders into a single order. To ensure pricing and execution fairness and prevent any potential front-running by Portfolio Managers of Client trades following them, IBAM places a single order that combines the Portfolio Manager's order with the number of shares that need to be transacted in order to replicate the Manager's strategy into all investing Clients' accounts, a process referenced as "co-trading". IBAM then allocates the share to the Portfolio Manager and Clients' accounts on a pro rata basis at the average price with transaction costs shared pro rata.

IBAM will randomly check managers' trading in non-IBAM-linked accounts following the same strategy as their IBAM-linked account to detect any instances of trading ahead and/or any indication of improper trading practices and will prominently disclose to clients or prospects any material aspects of the manager's trading practices.

### ***IBAM-Managed Portfolios***

In addition to Portfolio Manager strategies, IBAM allows its clients to invest in certain portfolios IBAM itself manages. These portfolios, referred throughout this Brochure as Smart Beta Portfolios, are proprietary investment portfolios designed and managed by IBAM itself, and not by third-party Portfolio Managers. To provide these portfolios, IBAM initially funds and trades a fixed amount of its funds in separate proprietary brokerage accounts associated with each Smart Beta Portfolio. After the initial investments, IBAM reserves the discretion to add additional funds to the initial investment amounts in order to manage these firm-owned accounts with a higher investment amount and more efficiently manage investments in these portfolios. IBAM then replicates the trading in these proprietary brokerage accounts in the accounts of Clients investing in that specific Portfolio in order to implement its mirroring procedures. Subsequently, any quarterly rebalancing trades placed by IBAM in the Smart Beta Portfolios are proportionally replicated in Client accounts investing in one or more of these portfolios via IBAM's co-trading technology.

Each Smart Beta portfolio seeks, as its investment objective, to achieve total returns that exceed the total returns of certain market-capitalization-weighted indices, such as the S&P 500, by relying on systematic rules-based investment strategies that do not use conventional market capitalization weights. They are designed to provide systematic exposure to a fundamental factor or combination of factors, and employ alternative weighting schemes based on measures such as value, growth, quality, and dividend yield. IBAM has undertaken research and back-testing to select the fundamental factors, rules, and/or weighting used to construct these portfolios. These portfolios combine elements of automated (robo) investing with management oversight, and are auto-rebalanced quarterly to maintain their optimal strategic composition.

The risks associated with investing in these portfolios are discussed in more detail in Item 8 below.

Prior to investing in any Smart Beta Portfolio, Clients are prompted and required to review and acknowledge a separate risk disclosure specifically laying out the risks and conflicts of interest associated with these portfolios, the applicable fees and commissions, and the brokerage arrangements involved.

IBAM offers the following Smart Beta portfolios at this time.

The **Value Portfolio (VALCOV™)** targets an allocation of 300 long positions, with stocks having attractive valuation ratios receiving higher allocations, and both trailing and forward price-earnings valuation ratios being considered when determining allocations. This contrarian approach to stock selection allows the **Value Portfolio** to allocate capital to companies that may be out of favor with the market, but poised for recovery. The **Value Portfolio** has a significant element of broad equity market risk, and is therefore exposed to stock market volatility and drawdowns. Due to this portfolio's focus on value stocks, it will likely suffer greater losses if this segment of the market underperforms.

The **Growth Portfolio (GROCOV™)** targets an allocation of 300 long positions, with stocks having attractive growth ratios receiving higher allocations, and both trailing and forward earnings growth measures being considered when determining allocations. Even if a company reports better than expected past results, the guidance given during the quarter is also important and considered by IBAM in determining attractiveness of the stock. The **Growth Portfolio** has a significant element of broad equity market risk and is therefore exposed to stock market volatility and drawdowns. Due to this portfolio's focus on growth stocks, it will likely suffer greater losses if this segment of the market underperforms.

The **Quality Portfolio (QALCOV™)** targets an allocation of 300 long positions, with stocks having attractive quality ratios receiving higher allocations, and return on assets and other earnings quality measures being considered when determining allocations. This portfolio seeks securities with strong fundamentals that are not excessively overvalued. The **Quality Portfolio** has a significant element of



broad equity market risk, and is therefore exposed to stock market volatility and drawdowns. Due to this portfolio's focus on quality stocks, it will likely suffer greater losses if this segment of the market underperforms.

The **Dividend Portfolio (DIVCOV™)** targets an allocation of 300 long positions, with stocks having attractive dividend yields and stable payouts receiving higher allocations. This ensures that future dividend payouts are less likely to be at risk. One advantage of this portfolio is that it offers investors a stream of dividend income while also providing the potential for longer-term attractive returns.

The **Broad Market Portfolio (BRMCOV™)** targets an allocation of 1,000 long positions, with allocations being a blend of equal and capitalization weight. Because of the equal weight component, the portfolio has a larger proportion of smaller companies compared to a portfolio that is purely capitalization-weighted. During rebalancing of this portfolio, IBAM tends to buy securities that have shown relative decline in value, and sell securities that have shown relative increase in value. The portfolio is therefore less prone to having concentration in bubble stocks that have experienced dramatic price appreciation. The **Broad Market Portfolio** has a significant element of broad equity market risk, and is therefore exposed to stock market volatility and drawdowns. Due to this portfolio's use of half equal weighting, it will likely underperform if small-, mid-cap or value stocks underperform.

IBAM also offers small-capitalization company versions of the above five portfolios: **smVALCOV™**, **smGROCOV™**, **smQALCOV™**, **smDIVCOV™**, and **smBRMCOV™**.

The **Tax Managed Large Cap Portfolio (TAXCOV™)** targets an allocation of 150 long positions, the initial allocation being based on capitalization weight with the security universe consisting of the largest stocks within the US equity market. This portfolio's goal is to achieve a risk-return profile similar to the large stocks within the US equity market while harvesting unrealized investment losses with a quarterly frequency. During quarterly rebalancings, IBAM tries to harvest unrealized investment losses while trying to maintain the target capitalization weighting. IBAM chooses replacement stocks based on how similar they are to the original stock on various fundamental factors like market capitalization, valuation, industry classification and others. On average these replacement stocks are expected to have similar risk and return characteristics as the stocks being replaced but there can be no assurance that the replacement stocks will perform the same or similarly. The tax losses incurred in this portfolio could be potentially used by investors to offset other gains and income depending on their unique circumstances. But clients should note that IBAM does not provide tax advice and does not in any way represent that investing in this portfolio will result in any particular tax consequences.

In the future, IBAM may construct and offer to its Clients other Smart Beta portfolios than those offered at this time.

Clients may choose among the available Smart Beta Portfolios, and invest in more than one. Clients may place reasonable restrictions, or make reasonable modifications to existing restrictions, regarding the management of their account by restricting the securities or tickers traded in their accounts. As with Portfolio Manager strategies, IBAM cannot enter trades in a specific stock in the IBAM account of a specific client who is following a portfolio. Clients should understand that imposing restrictions on future investments and selling any existing holdings may affect the performance of their accounts and lead to their accounts performing differently and possibly worse than the portfolios generally.

At least annually, IBAM will contact Smart Beta clients to determine whether there have been any changes in their financial situation or investment objectives and whether clients want to impose new or revise existing restrictions on the trading in their accounts. Also, at least quarterly, IBAM will notify clients who have invested in one or more Smart Beta portfolios in writing to contact it if there have been any changes in their financial situation or investment objectives or they wish to impose any restrictions on the trading in their account. Clients will receive periodic statements and trade confirmations setting forth all transactions in their accounts, all contributions and withdrawals, all fees and expenses charged, and the value of their account at the beginning and end of the period, including any fractional share holdings and transactions. IBAM's client service representatives are available to discuss and explain investment decisions made for their Smart Beta Portfolio investments and may be contacted by telephone at 1-866-825-3005 and by email at [support@ibassetmanagement.com](mailto:support@ibassetmanagement.com) (or [support@covestor.com](mailto:support@covestor.com)).

IBAM started trading some of the Smart Beta portfolios in November 2016, December 2016 and respectively March 2017. Therefore, these portfolios do not have any performance history before those dates. To allow its Clients to evaluate the appropriateness of investing in these portfolios, IBAM has calculated hypothetical back-tested results for these portfolios, which are available, accompanied by appropriate disclosures, disclaimers, and qualifications on the individual portfolio pages on its website at <http://ibassetmanagement.com> (or <http://covestor.com>). In generating hypothetical back-tested returns for these portfolios, IBAM followed accepted back-testing practices to avoid common pitfalls such as look-ahead bias, survivorship bias and overfitting the data. IBAM Clients or members of the public interested in reviewing the hypothetical back-tested returns calculated by IBAM for these portfolios are required to first review online disclosures about the limitations of relying on hypothetical back-tested results in making investment decisions.

Clients can find additional information on IBAM's Smart Beta Portfolio construction process, hypothetical back-tested returns for these portfolios, actual trading results, and other disclosures regarding these portfolios on the IBAM website.

#### ***Members Sharing Their Investment Activity***

IBAM selects the Portfolio Managers that may participate on its platform and offer Portfolio Manager strategies discussed above using a variety of criteria.

As part of its processes to ensure the quality of the Portfolio Managers on the Platform and to minimize the risk of Manager front-running, IBAM screens the managers and may require that Managers meet certain minimum criteria (e.g., AUM, size of personal funds invested in the strategy). IBAM may also require that Portfolio Managers and their lead traders certify to IBAM that they will not trade ahead of IBAM clients in their proprietary or personal accounts or systematically trade ahead of IBAM clients in any non-IBAM client accounts using the same strategy.

Before Portfolio Managers launch their strategy on the platform, IBAM monitors the performance of the strategy in the Manager's IB LLC account in a live test environment. In this live test environment, the Managers make trades in their account and IBAM tracks the performance of their account. IBAM displays the performance of the Manager's account on its public website if and when the Manager's strategy is ultimately approved to be listed on the platform. IBAM Clients are not allowed to invest in the Manager's strategy during the live test period. Managers complete a questionnaire in which they specify their parameters for portfolio construction, risk control and strategy guidelines. This questionnaire assists IBAM in gathering information about each Manager, including his or her investment philosophy, process and strategy differentiators. Managers may then provide IBAM with historical trade data for their strategy for periods before the Manager joined the platform. IBAM analyzes this information to ensure consistency with the Manager's responses to the questionnaire and other strategy-related materials. If the Portfolio demonstrates performance and risk characteristics consistent with the strategy and IBAM's Investment Management team believes that the Manager has the skills and experience to consistently deliver the strategy described, IBAM will open the Portfolio up for Client investments. IBAM does not impose specific performance requirements and views the consistency with which Portfolio Managers implement their strategy and ability to generate alpha as more important in selecting Portfolio Managers for its platform.

Managers on the IBAM platform may be either RIAs or Non-Registered Portfolio Managers exempt from registration. RIAs must be federal or state-registered investment advisers, including hedge fund managers. While Non-Registered Portfolio Managers may be hedge fund managers exempt from registration, IBAM only allows such Non-Registered Portfolio Managers meeting certain trading experience and portfolio size criteria to participate. Portfolio Managers participating on the IBAM platform represent to IBAM that they are appropriately registered or licensed or exempt from such licensing or registration requirements in light of the business they conduct both on and outside the IBAM platform. Portfolio Managers registered as investment advisers with the SEC or a U.S. state also confirm to IBAM they are in good standing, will provide their current Form ADV 2A and 2B filing to IBAM, and they and their access persons comply with all applicable regulatory requirements. Portfolio Managers must also notify IBAM of changes in their registration or regulatory status.

Portfolio Managers share their personal investment history by providing IBAM with access to their trade data in real-time by a data feed. Managers deploy their investment strategy by trading in a brokerage account they open with IB LLC and generally fund with their own funds.

Portfolio Managers also license their portfolio holdings and trading record (“Historical Trade Data”) to IBAM for publication and analysis. Historical Trade Data provided by Portfolio Managers may be related to the Manager’s trading in client, model (based on aggregate performance of all client assets invested in a given strategy) and/or proprietary accounts. Some Managers 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 run multiple Portfolios on the IBAM platform. All Manager Content represents the opinions of that Manager, should not be construed as personalized investment advice to you or any other IBAM Client, and is subject to change without notice.

Portfolio Managers may manage accounts outside of IBAM for other clients and may implement the same trading strategy or decisions in those accounts before they do so in their IBAM account. This means that there may be situations where Portfolio Managers enter the same trades on behalf of their clients outside of IBAM before they trade in their IBAM account (and therefore before the strategy is replicated in IBAM Client accounts). This could result in IBAM clients getting less favorable pricing terms and performance in their IBAM account than the Portfolio Manager’s clients get in their non-IBAM accounts. To minimize the effects of this potential conflict of interest, all Portfolio Managers must agree to report, monitor and review under their own Code of Ethics provisions trades in the IB account that are mirrored through the IBAM platform. In the Portfolio Manager License Agreement, Portfolio Managers represent to IBAM that neither they nor their personnel or affiliated persons will use their knowledge of the timing of the trades in their IBAM account or the fact that those trades will prompt trades in IBAM Client accounts to trade ahead of IBAM Clients or otherwise improve their position in the ownership of those securities or move their prices. Portfolio Managers must also provide IBAM with an annual certification that they are not aware of any instances of front-running in connection with trades placed at IBAM through their Code of Ethics reviews or otherwise. Portfolio Managers agree to promptly notify IBAM in writing of any instances of front-running trades placed at IBAM. Non-Registered Portfolio Managers (generally exempt hedge fund managers) are subject to a limited version of IBAM’s Code of Ethics and are required to report their personal trading activity to IBAM. At this time, there are no non-registered Portfolio Managers on the IBAM platform.

Conversely, IBAM does not require Portfolio Managers to manage any other accounts outside of IBAM using the strategy offered on the IBAM platform although many Managers have tested their strategies elsewhere. IBAM’s offering of Portfolio Managers’ strategies to its Clients does not imply that these strategies have been tested elsewhere, or have been successful for the manager’s clients or the manager himself. IBAM may display to Clients a Manager’s Historical Trade Data if available.

Portfolio Managers generally use the following types of investments in their IBAM strategies:

- Equity Securities, including exchange-listed securities, certain over-the-counter securities and American Depositary Receipts (“ADRs”);
- Exchange-traded funds (“ETFs”); and
- Options.

IBAM may also mix data from multiple manager Portfolios to create multi-manager portfolios (“MMPs”). An MMP is a combination of different Portfolios on the IBAM platform designed to diversify the risks associated with a single investment Portfolio while still capturing manager alpha. In its sole discretion, IBAM will decide whether to create an MMP and which specific Portfolios will comprise an MMP. IBAM may also periodically rebalance MMPs. By agreement with the Portfolio Managers, IBAM has the right to set the Client fee level at its sole discretion and will pay Managers fees for MMPs based on the proportion of the overall AUM in the Portfolio attributable to each Manager, calculated on a daily basis, and the management fee corresponding to the Manager’s Portfolio. Clients will pay the annual management fee applicable to an MMP as they would any other fee applicable to another individual Manager strategy on the platform, in accordance with the calculation set forth in Item 5, Fees and Compensation.

#### **IBAM Clients**

Clients must enter into one or more written agreements with IBAM setting forth the terms and conditions under which IBAM shall render its services (the “Investment Management Agreement” or “Client Agreement”) before they engage IBAM to provide its investment management services. Pursuant to that agreement, IBAM uses its related custodian’s trading facilities to mirror or replicate trades in Portfolio Manager or IBAM’s Smart Beta Portfolio accounts into the investing Clients’ accounts. IBAM uses its affiliated broker-dealer, IB LLC, to execute all trades on its platform.

Clients may become IBAM’s clients and invest in one or more IBAM portfolios in one of two ways:

1. By applying to open a IBAM account on the IBAM website; or
2. By authorizing their investment advisor to open an IBAM account on their behalf on the IBAM website.

Under the first method, clients sign IBAM’s Investment Management Agreement and acknowledge all required documents and disclosures online directly.

Under the second method, clients’ investment advisors may hire IBAM as a sub-advisor. The client’s investment advisor has responsibility to communicate with the client and to determine suitability of investments in IBAM portfolios based on the client’s financial circumstances, investment objectives, risk tolerance, liquidity needs, net worth, investment experience and any other factors that may be relevant and appropriate for such a determination. Clients’ investment advisors gather all information needed to

open an IBAM account on behalf of their clients and invest their clients' assets in such portfolios as the advisor and client deem appropriate. In determining the risk score of clients investing in an IBAM portfolio through their existing investment advisor, IBAM will take into account whether the client's existing advisor is registered with the SEC or a state regulator and has confirmed that it will only invest its clients in portfolios suitable for the client based on the client's investment profile and the advisor's dealings with the client. These investment advisors are also responsible for providing Clients with a current copy of IBAM's disclosure statement prepared in accordance with Form ADV, Part 2A/2B and any other IBAM disclosures. Before IBAM allows an investment advisor to invest one of its clients in an IBAM portfolio, IBAM will conduct its own due diligence of the advisor and also obtain from the ultimate clients a signed agreement to allow their advisor to invest their account in IBAM portfolios ("Client Authorization") whereby clients authorize their investment advisors (a) to open an account with IBAM on their behalf, sign and acknowledge all required documents (including, but not limited to the Investment Management Agreement), provide all required consents, and receive on their behalf all disclosures that IBAM makes to its clients (including, but not limited to, the Form ADV Part 2 Informational Brochure), (b) to access their IBAM account and make all investment decisions, including which portfolios to invest in and the amount of those investments, and (c) to specify any investment restrictions to IBAM on clients' behalf. Clients agree to pay IBAM advisory fees applicable to the portfolios their advisors invest in on their behalf and acknowledge that those fees are separate and in addition to any fees they agreed to pay their advisor. Clients also acknowledge in the Client Authorization that all applicable agreements, disclosures, documents, and consents that the advisors may sign, provide or acknowledge on their behalf are available for clients' review on the IBAM website at <http://site.ibassetmanagement.com/agreements> (or <http://covestor.com/agreements>) or may be obtained by contacting the advisor or IBAM. Client also are informed that they must notify IBAM immediately in writing if they want to revoke the Client Authorization or if any of their representations and warranties in the agreement become inaccurate.

In the case of portfolios managed by third-party managers, IBAM's Clients do not invest directly with the Portfolio Managers and the Managers do not have any authority over Client assets or discretionary trading authority over IBAM Client accounts. The Portfolio Managers simply license their trade data to IBAM, which then allows its Clients to have IBAM mirror the same strategy and trading decisions in their accounts. Portfolio Managers implement their trading philosophy and strategy without knowing the identity of IBAM's clients or taking into account IBAM clients' individualized circumstances. Clients may also invest in Multi-Manager Portfolios or MMP, which consist of collections of Portfolios selected by IBAM to address particular investment segments and asset classes.

Clients should understand that the IBAM platform is a discretionary investment advisory program and not a self-directed brokerage service. Unlike self-directed brokerage accounts, IBAM clients do not enter individual buy and sell orders for specific securities to be executed at particular times. Rather, IBAM places buy and sell orders for specific securities consistent with the Portfolio Manager or IBAM-managed portfolio strategy selected by Clients, in accordance with the discretionary authority granted IBAM by Clients. If a client wants to control the specific time and securities to be bought and sold in his account, he should not use IBAM or should execute separate self-directed trades in a separate partition of the client's IB LLC brokerage account or another brokerage account.

IBAM Clients may restrict the tickers or securities traded in their account at any time and IBAM will honor these restrictions when mirroring the trading in portfolio Clients choose to invest in if such restrictions are received in a timely fashion before IBAM places trades in Client accounts. Clients should understand that imposing restrictions on future investments and selling any existing holdings in a portfolio may affect the performance of a client account negatively or positively and lead to that account performing differently or possibly worse than the portfolio.

IBAM's Clients may include "Qualified Clients." Such Qualified Clients, as defined by Rule 205-3 of the Investment Advisers Act of 1940, may invest in portfolios that charge performance fees. Qualified Clients must invest a minimum of \$1,000,000 with IBAM, unless they meet the Rule's net worth requirement as follows:

- In the case of a natural person, at the time of entering into a Client Agreement with IBAM, at least \$1,000,000 under management with IBAM or a net worth (together with assets held jointly with the Client's spouse, if applicable) in excess of \$2,100,000, excluding the value of the Client's primary residence (debt secured by the Client's primary residence may not be included as a liability, but debt secured by the Client's primary residence in excess of its estimated fair market value must be included as a liability); or
- In the case of a company, at the time of entering into a Client Agreement with IBAM, at least \$1,000,000 under management with IBAM or a net worth in excess of \$2,100,000.

As only Qualified Clients may invest in Portfolios that charge Performance Fees, IBAM uses a Qualified Client affirmation process to assess whether a specific Client is a qualified client under the applicable SEC rule.

Unless otherwise agreed upon, Clients are provided with transaction confirmation notices and regular summary account statements directly from IB LLC for their accounts. Clients also receive online access to account activity reports from IBAM that include relevant account and/or market-related information such as an inventory of account holdings and account performance on a daily basis. Clients are also provided with monthly updates of account balances and performance. However, Clients should review

the information in their custodial statements for accuracy and compare that information to any report they receive from IBAM.

IBAM also monitors the Manager's trading account and calculates performance and risk metrics for this account. IBAM 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 the continued appropriateness of Portfolios for Clients. More information on IBAM's performance calculations can be found at <http://site.ibassetmanagement.com/help/disclosures> (or <http://site.covestor.com/help/disclosures>)

Additionally, as previously noted, IBAM imposes restrictions regarding minimum market capitalization and average daily volume based on the securities' class and application to risk score categories.

As of July 14, 2017, IBAM's regulatory assets under management were approximately \$64.80 million, of which 100% is managed on a discretionary basis. Clients should be aware that a significant shareholder of Interactive Brokers Group, Inc. is a significant client of IBAM.

#### **Investment Management Agreements**

IBAM requires prospective Clients to sign an Investment Management Agreement or Client Agreement prior to establishing an investment account. This agreement provides IBAM with discretionary authority to initiate investment activities on behalf of the Client over the Client's investment assets. A copy of IBAM's form Client Agreement is available upon request, as well as via the <http://ibassetmanagement.com> (or <http://covestor.com>) website (in the Forms and Agreements section).

#### **Termination of Agreement**

The agreement between IBAM and the Client will continue in effect until terminated by either party pursuant to the terms of that agreement.

Any Client who has not received a copy of IBAM's written disclosure statement (i.e., this document) 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 IBAM's services without penalty (i.e., will not be responsible for any advisory fees).

#### **Covestor.com and Ibassetmanagement.com Websites**

The content of the covestor.com and ibassetmanagement.com websites, 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. IBAM relies on information provided to it by Portfolio Managers and certain third parties in publishing Manager



Content for the websites, and also provides internally-generated content. IBAM obtains Manager Content from sources believed to be reliable, but makes no representation as to the accuracy or completeness.

## **Item 5: Fees and Compensation**

### **Advisory Fees**

If a Client engages IBAM to provide investment management services, IBAM shall do so on a fee basis.

As specified below, IBAM's fees only cover its investment advisory services and do not include brokerage commissions, custodial fees, transaction fees, exchange fees or other related costs and expenses incurred for the investment of Client assets through IBAM. All fees paid to IBAM for its investment advisory services are separate, distinct and in addition to any fees and expenses charged by mutual funds or in conjunction with internal expenses associated with exchange-traded funds. Clients will be solely responsible, directly or indirectly, for these additional expenses. IBAM does not receive any portion of these commissions, fees, or costs. Clients are directed to review Item 12: Brokerage Practices, found later in this brochure.

IBAM automatically deducts its management fees from Client's accounts, as authorized in the Client Agreement, using IB LLC's invoice billing process. IBAM calculates the fees owed to it by each Client every month and submits the invoice to IB LLC. IB LLC debits those fees from client accounts and pays them to IBAM if in accordance with Client's instruction to IB LLC to pay advisory fees in the amount invoiced by IBAM. The fees calculated and invoiced by IBAM must be in accordance with the level of fees outlined for the various portfolios in the Client Agreement and at <http://site.ibassetmanagement.com/help/costs> (or <http://site.covestor.com/help/costs>).

For the initial month of investment management services, the first month's fees shall be calculated on a pro rata basis. IBAM'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.

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

#### **1. Annual Management Fees Charged to Self-Directed Accounts**

If engaged, IBAM charges an annual fee based upon a percentage of the gross market value of the assets being managed by IBAM, i.e., the assets that a Client chooses to invest in a Manager Portfolio ("Management Fee").

- a. For third-party Portfolio Manager strategies, IBAM's Management Fee consists of an annual management fee, quoted as an annual percentage of the gross market value of Client assets

invested in a Manager Portfolio. Generally, this fee will range between 0.25% and 1.5% of the gross market value of Client assets invested in each Portfolio.

- b. For the Smart Beta Portfolios, IBAM charges investing clients an annual Management Fee amounting to 0.08% (8 basis points) of the gross market value of Client assets invested in one or multiple Smart Beta Portfolios.
- c. IBAM's Management Fee shall be computed daily but prorated and charged monthly, in arrears or retroactively for the previous month (or in connection with a withdrawal from a portfolio), based upon the daily market value of invested assets during the previous month. Thus, on a daily basis, the applicable fee rate associated with each Portfolio in which a Client has invested will be applied to the end-of-day gross market value of the Client's investment (i.e., assets in client account invested) into that Portfolio, with the resulting amount divided by 365. For purposes of calculating IBAM's Management Fee, the value of the investment will be the value on the day the fee is calculated (i.e., the initial value of the assets initially invested by the Client in the strategy and all intervening additions to or subtractions from that up to the date the fee is calculated). At the end of each month, the Client is charged a Management Fee made up of the sum of all daily fees calculated during that month for each investment.
- d. Management Fees vary by Portfolio chosen and the level of assets to be invested in that Portfolio.
- e. No Management Fees are charged on assets that are not invested in a Portfolio.
- f. The gross market value of a Portfolio for purposes of calculating the Management Fee that a Client owes to IBAM is calculated based on data provided by IB LLC, IBAM's affiliated broker-dealer and custodian. IB LLC uses pricing data from an independent third party (SIX Financial, aka Telekurs) to arrive at the asset pricing information used by IBAM to derive Portfolios values for purposes of its management fee calculations.

IBAM, in its sole discretion, may waive its portion of the Management Fee or charge a lower Management Fee based upon certain criteria including but not limited to: the initial launch of a service line, 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. IBAM's fees are not generally negotiable by individual Clients. The fees applicable to each Portfolio available on the platform are generally negotiated between IBAM and the Portfolio Manager offering the specific strategy.

For Manager Portfolios, IBAM retains 0.25% of any Management Fees charged to its Clients and pays any remaining Management Fees collected from Clients to the Portfolio Managers. Because IBAM staff have constructed and manage the Smart Beta portfolios without any involvement on the part of third-party Portfolio Managers, IBAM retains the entire 0.08% fee charged to its Clients for investments in the Smart Beta Portfolios and does not pay any portion of this fee to any Portfolio Managers.

## **2. Performance-Based Fees Charged to Qualified Clients**

For some investment strategies offered by certain Portfolio Managers, the standard fee schedule includes both:

- a. A Management Fee ranging from 0.25% to 1.50% of the gross market value of the Client assets invested in each Portfolio (having the same characteristics discussed above), and
- b. A performance-based fee ranging from 2% to 12% of the net positive performance of a Client's investment in the specific Portfolio ("Performance Fee").

IBAM does not currently charge Performance-Based Fees to clients investing in any IBAM-managed portfolios (e.g., the Smart Beta Portfolios).

Only Qualified Clients may invest in Portfolios that charge Performance Fees. IBAM uses an online Qualified Client affirmation process to assess whether a specific Client is a qualified client under the applicable SEC rule.

If applicable, Performance Fees are calculated on a quarterly basis for each Portfolio investment. The applicable Performance Fee rate is applied to any gains over the period after Management Fees have been subtracted. A hurdle or gate requirement applies to certain Portfolios before a Performance Fee may be charged. For those Portfolios, Performance Fees are only charged once the hurdle rate or gate requirement is satisfied and Performance Fees are only charged if gains on the Portfolio for the quarter result in investment value exceeding the investment high water mark. The high watermark is a record of the highest value the investment has achieved since inception and is designed to ensure Performance Fees are only paid on new gains. The high water mark is determined at the Client account level. The final Performance Fee payable is calculated as the Performance Fee rate multiplied by gains over the higher of the gate value or the high water mark. Clients may see whether the specific portfolio they would like to invest in charges a Performance Fee and applies a hurdle requirement on the individual portfolio webpage.

Clients may pay a different Performance Fee than other Clients investing in the same Portfolio depending on the timing of their investment in the Portfolio, the high water mark and other factors.

In the case of Portfolios charging both a Management Fee and a Performance Fee, IBAM retains a 0.25% Management Fee and 2% Performance Fee, and pays any remaining amount of management and performance-based fees collected from Clients to the Portfolio Managers.

Clients may be able to contract directly with the Portfolio Managers offering their strategies on the IBAM platform to obtain their advisory services outside of the platform at lower fees than they pay to IBAM.

All fees are calculated based on Portfolio values determined from data provided by IB LLC, IBAM's affiliated broker-dealer and custodian. IB LLC uses pricing data from an independent third party (SIX Financial, aka Telekurs) to arrive at the asset pricing information used by IBAM to derive Portfolios values for purposes of its management fee calculations.

No persons at IBAM nor any supervised persons or representatives of IBAM accept compensation or commissions for the sale of securities or other investment products (e.g., asset-based sales charges or service fees from the sale of mutual funds).

## **Item 6: Performance-Based Fees and Side-by-Side Management of Client Accounts**

As noted above, IBAM charges performance-based fees (i.e., fees based on a share of capital gains on or capital appreciation of a client's assets) 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 fees. Strong investment returns increase the performance-based fee paid to IBAM as a firm and the compensation paid to the Portfolio Manager. As a result, IBAM has an incentive, particularly in the case of hedge funds, to favor an account with a performance-based fee. Historically, IMA has offered a relatively small number of portfolios for which it charged performance-based fees. The following sections describe how IBAM manages this and other conflicts relating to the side-by-side management of Client accounts.

Many of IBAM's Portfolio Managers may utilize and offer more than one investment strategy on the IBAM platform. 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 stock. These ticker or securities restrictions are specified by each Client.

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 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 Portfolio's 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 utilize long-short investment strategies in one Portfolio may utilize other strategies in other Portfolios. Some of those other Portfolios may be hedge funds not managed at IBAM. Some investment strategies utilize more diverse 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. Portfolios consisting of positions utilized in a long-short strategy will differ significantly from long-only accounts and typically have different investment objectives, strategies, time horizons, risk profiles, tax and other considerations. In addition, some of these strategies do not typically measure performance against a specific index or benchmark, but instead pursue absolute returns. A Portfolio Manager may utilize both long-short and long-only strategies, 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 Portfolios may include a Performance Fee of up to 12% of net positive performance of the investments in the specific Portfolio, in addition to a Management Fee of up to 1.5%. Portfolio Managers associated with performance fee Portfolios receive a percentage of the Performance Fee paid to IBAM. As a result, these Portfolio Managers have an economic incentive to favor Portfolios with performance fees over other Portfolios. IBAM manages this and other conflicts associated with side-by-side management of Client accounts through internal review processes and enhanced oversight. While the procedures IBAM uses to manage these conflicts differ

depending upon the specific risks presented, all are designed to guard against intentionally favoring one account over another.

Because IBAM only charges annual management fees and does not charge performance fees to clients investing in its Smart Beta Portfolios, no related side-by-side management conflict issues arise in connection with these portfolios.

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

Client identities are not generally shared with Portfolio Managers, so the Portfolio Managers employ an investment strategy with no consideration of a particular Client's 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 investing.

At the same time, IBAM prohibits Managers on its platform from basing their decisions on favoritism, "window dressing," or other practices that violate either applicable law or IBAM's fiduciary duties to its Clients.

IBAM uses 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, IBAM does not routinely review individual transactions in isolation. The frequency and extent of reviews vary depending on IBAM's assessment of the opportunity and incentives for inappropriate investment allocation decisions.

## **Item 7: Types of Clients**

IBAM's Clients include individuals, trusts, corporations and other legal entities. IBAM has established the following account minimums:

- a. Third-Party Portfolio Manager strategies – investment minimums starting at \$10,000, with the majority of portfolios having minimum required investments ranging between \$10,000 and \$30,000;
- b. IBAM-Managed Smart Beta Portfolios- \$5,000; and
- c. Qualified Client Accounts - \$1,000,000 unless minimum net worth requirements are satisfied. (See Item 4).

To invest in any IBAM portfolios, clients must still open a brokerage account with IB LLC, IBAM's affiliated broker dealer and meet IB LLC's \$5,000 minimum funding requirement .

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

IBAM employs a variety of methods and strategies to make investment decisions and recommendations to Clients.

For Portfolio Manager strategies, IBAM typically relies on the investment decisions of Portfolio Managers in its management of Client accounts. IBAM attempts to track the Portfolio Manager's trades as accurately as possible, but does maintain discretion to modify the Portfolio Manager's trades or rebalance Portfolios and/or Client accounts in order to provide the best services to Clients.

For the Smart Beta Portfolios, IBAM utilizes a proprietary computer algorithm or model to select the stocks included in the portfolios initially and during quarterly rebalancing. IBAM's Investment Management team oversees the trading in the Smart Beta portfolios in order to verify the accuracy and reliability of the stock fundamental data used in the model. IBAM's main sources of information for the transactions in the Smart Beta Portfolios include data about US stocks provided by third-party data vendors.

### **Account Management**

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

#### **Additions and Withdrawals:**

##### **Clients**

Clients may make additions to and withdrawals from the account at any time, subject to the following:

- a. IBAM's right to terminate an account.
- b. If assets are deposited into or withdrawn from an account after the start of a month, the fee payable with respect to that account will be appropriately adjusted or prorated to reflect the number of days in that month that the assets in the account were invested in any Portfolio.
- c. Clients may withdraw account assets on notice to IBAM, subject to the usual and customary securities settlement procedures and the Custodian's withdrawal procedures.
- d. Additions may be in cash or securities provided that IBAM reserves the right to liquidate any transferred securities, or decline to accept particular securities into a Client's account. IBAM 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.

- e. IBAM designs its Portfolios as long-term investments and asset withdrawals may impair the achievement of a Client's investment strategy.
- f. Withdrawals from your IBAM account may impact your ability to satisfy IB LLC's minimum equity requirements for portfolio margin access.
- g. If you want to liquidate some or all of the fractional holdings in a Smart Beta investment, IB LLC will need to these fractional shares to the third-party liquidity provider as these do not trade on the open market.

### **Portfolio Managers**

Portfolio Managers can close a Portfolio upon providing a 30-day notice at any time. When a closure occurs, IBAM will attempt to provide Clients with a selection of Portfolios with similar strategies wherever possible. We cannot ensure that any comparable Portfolios will be available, and, whether or not alternative Portfolios exist. Clients are under no obligation to maintain an account or, if they maintain an account, to invest in any Portfolios. Please note that after the closure of a portfolio, you could choose to maintain the investments in that closing portfolio in an IB LLC brokerage account distinct from the one managed by IBAM or an external brokerage account outside of IB LLC but you will be responsible for managing those investments, including periodically rebalancing the assets. Please note that, if you choose to remain invested with IBAM after the closure of a portfolio, you will incur transaction fees in connection with liquidating your investment in a closed Portfolio and investing in a new Portfolio. You may also incur federal and state tax liabilities if liquidation results in long and/or short-term gains.

### **Trading Restrictions:**

- a. IBAM retains discretion over the trading due to certain trading limitations.

Examples of trading limitations include:

- i. Minimum thresholds for market capitalization to ensure Portfolio trades occur in liquid securities.
  - ii. The size of a Client's account may not make it practical to allocate shares for certain trades initiated by a Manager.
  - iii. A Client may have specified certain ticker or security trading restrictions for investments in his account.
- b. The concept of IBAM is to allow investors (i.e., Clients) to replicate Manager trade data. This naturally leads to a significant conflict of interest as the Managers, and if the Manager is an



entity, its respective officers, directors, employees and/or affiliates, will send a trade for execution ahead of Clients. It is therefore important to note the following:

- i. It is illegal for anyone to manipulate the market for securities.
  - ii. Managers represent to IBAM that neither they nor their affiliates or employees: trade in securities in which they possess any material nonpublic information or use their knowledge of the timing of the release of their trade data or the fact that the release of that trade data will prompt trades in IBAM Client accounts to trade ahead of IBAM Clients or to otherwise improve their position in the ownership of securities or futures or move the price of any securities or futures.
  - iii. IBAM has established procedures to mitigate the risk of a Manager trading ahead of Clients including by combining the orders for the sale or purchase of a security by a Manager with those of Clients investing in that Manager's Portfolio in a single trade or allocating the combined trades between Manager and Client accounts on a pro rata basis (a process referred to as "co-trading").
  - iv. Managers agreed to not buy or sell securities in any of their proprietary or personal accounts using the strategy in the IBAM-linked account before buying or selling those same securities in their IBAM-linked account.
  - v. IBAM will randomly check managers' trading in accounts following the same strategy as their IBAM-linked account to detect any instances of trading ahead and/or any indication of improper trading practices and will prominently disclose to clients or prospects the manager's trading practice.
- c. Portfolio Managers may themselves be SEC- or state-registered investment advisers, or hedge fund managers exempt from registration. Regardless of registration status, we expect Managers to exercise a reasonable level of care, diligence and skill. All Portfolio Managers must agree to report, monitor and review under their own Code of Ethics provisions trades in the IB account that is mirrored through the IBAM platform. Portfolio Managers must also provide IBAM with an annual certification that they are not aware of any instances of front-running in connection with trades placed at IBAM through their Code of Ethics reviews or otherwise. Portfolio Managers agree to promptly notify IBAM in writing of any instances of front-running of trades placed at IBAM. The Non-Registered Portfolio Managers (generally exempt hedge fund managers) are subject to a limited version of IBAM's Code of Ethics and are required to report their personal trading activity to IBAM. At this time, there are no unregistered Portfolio Managers on the IBAM platform.
- d. In the specific case of options, the size of a Client's account may not make it practical to allocate shares for certain trades initiated by a Portfolio Manager. IBAM's replication strategy will

therefore have to be customized in the case of certain options trades. Under certain circumstances, the Client account size (relative to the size of the Manager Portfolio) may require purchasing partial option contracts. Partial options, however, cannot be traded, so IBAM will need to decide whether to purchase more (i.e., round up) or purchase less (i.e., round down) options positions in a Client Portfolio proportional to the Portfolio Manager Portfolio. Depending on the direction of the rounding, the Client can have either significantly lower or higher cash balances, leverage and risk in the investment compared to the Portfolio Manager. This can result in Client Portfolios having different hedged and unhedged exposures and therefore significantly different outcomes compared to that of the Manager Portfolio.

### **Investment Advice**

IBAM offers advice on each type of investment described under “Advisory Business” in Item 4.

Clients are advised that:

- a. IBAM's investment advice consists of: (a) facilitating Clients' ability to select Managers and Portfolios through the risk scoring system and guidance provided upon request by IBAM's client service representatives; and (b) offering IBAM-Managed Portfolios that Clients may invest in based on the same risk scoring system.
- b. IBAM may modify recommendations that are implied by the trading data provided by the Manager and Manager Content in certain circumstances. For example, some securities transactions may not be executed under IBAM's Trading Rules laid out in the Portfolio Manager Trading Rules on the IBAM website (posted in the Forms and Agreements section in Item 4). This is discussed in more detail in Item 4 above.
- c. Once a Client selects a Manager Portfolio to invest in, the Client may not alter the Portfolio or the trades in his account that is invested in that Portfolio strategy, except by restricting the trading of specific tickers or securities in their accounts. Clients can terminate their investment in a Portfolio at any time and invest in another Portfolio available on the IBAM platform or choose not to invest in any strategy.
- d. Any securities transferred to the Custodian to fund an account are solely for liquidation and subsequent investment in a Manager Portfolio or Portfolios. IBAM does not issue recommendations on the further disposition of transferred securities.
- e. To ensure that IBAM is able to better track trading activity in Manager Portfolios or IBAM-Managed Portfolios, clients authorize IBAM to make adjustment trades that IBAM in its discretion determines will help a client account mirror the Portfolio(s) in which the client invests. Clients understand and acknowledge that these adjustments may require small buy or sell trades in their accounts, which they authorize IBAM to effect without the clients' specific advance approval or authorization. Clients also understand that they will incur additional transaction costs, including commissions, in connection with these small adjustments. A conflict of interest arises in connection with these adjustments because IB LLC, IBAM's affiliated broker-

dealer, collects commissions on these trades. Clients acknowledge this conflict of interest and authorize IBAM to effect these adjustment trades in the Investment Management Agreement.

### **Use of Margin**

To the extent that a Client authorizes the use of margin, and IBAM 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 IBAM will be increased. The Client is advised that:

- a. Additional principal risks are associated with the use of margin.
- b. Margin strategies entail additional fees and expenses, as the Client account must pay interest on any amounts borrowed.
- c. Potential conflicts of interests exist, as the Client's decision to employ margin shall correspondingly increase the Management Fee payable to IBAM because the gross market value of a Client's account on which the fee is assessed will be increased through the use of margin.
- d. Potential conflicts of interest exist as the Client will be paying IB LLC, IBAM's affiliated broker dealer, interest for the use of margin on his account in addition to paying IBAM a higher Management Fee for the account than would be the case in the absence of margin.
- e. IBAM does not recommend whether Clients should apply margin or leverage to their account. The decision as to whether to employ margin or to select a Portfolio that requires the employment of margin is left to the discretion of the Client.
- f. In the case of options Portfolios, because options do not trade in fractions of contracts, IBAM may have to buy more or less options for the Client account than the Portfolio when attempting to replicate an option strategy. This could result in the Client's account having different leverage than the Manager Portfolio the Client invests in, among other differences.

IBAM generally trades in equity securities traded on U.S. exchanges, exchange-traded funds (ETFs), and options.

### **Securities Lending**

Clients may opt to participate in IB LLC's securities lending program, which allows IB LLC 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. IBAM is not a participant or partner in this program, and Clients may elect to participate at their sole discretion.

## **General Risk Factors:**

### **Risk of Loss**

All investment activities, including investments with IBAM, include a risk of loss that Clients should be prepared to bear. Investment risks fall into the following categories. This listing of investment risks may not be all-inclusive but should be considered carefully before deciding whether to invest with IBAM:

**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.

**Cyber-Security Risk:** Given IBAM's reliance on the Internet to provide investment advice and conduct its business, it is susceptible to operational, information security and other similar risks. Deliberate cyber attacks or cyber incidents could lead a third-party to gaining unauthorized access to IBAM's computer

systems, misappropriating Manager and Client assets or sensitive information, corrupting data or causing operational disruptions.

**Leverage Risk:** Certain Portfolio Managers may use borrowed funds or leverage to fund investments in their portfolios, i.e., trade on margin. Clients choosing to invest in such Portfolios understand and acknowledge that leverage makes the value of their Account increase or decrease at a greater rate than if no funds were borrowed, leading to higher returns in the case of favorable market movements but also larger losses under adverse market conditions. The higher the amount of margin (or leverage) in a Portfolio, the larger both the risk of loss and possibility of profit. In addition, Clients may also incur additional expenses associated with borrowing funds. For instance, Clients must pay the broker interest on their margin loan and may need to pay other fees and expenses as well, such as hard-to-borrow fees and buy-in costs, and may even lead to a lower rate of return than if funds were not borrowed. Generally, investment strategies involving leverage or margin trading are more speculative and carry a greater potential for loss than investments not using margin.

**Short Selling Risk:** Certain portfolios on the IBAM platform may use short selling strategies. Short selling refers to the sale of a security that the seller does not own or a sale consummated by the delivery of a stock borrowed by or for the account of the seller. A short selling strategy hinges on the short seller's ability to purchase later at a lower price the security he sells without initially owning, and attempts to profit from falling security prices of potentially overvalued stocks. Clients choosing to invest in such Portfolios understand and acknowledge that short selling is more complex than simply owning securities, and the risk of loss associated with short selling is virtually unlimited. Unlike with stock purchases (where the risk of loss is limited to the amount paid for the stock and the gains are potentially limitless), short selling theoretically carries virtually unlimited risk of loss because there is no limit on the price that a security could reach before the short position is closed. Short selling may also involve additional expenses and risks, including hard-to-borrow stock charges and buy-in risk.

**Reliance on Information Provided by Clients and the Scope of the Risk Assessment Questionnaire:** The investment advice IBAM provides to Clients is highly dependent on the accuracy of the information provided to IBAM by its Clients. If a Client provides inaccurate information or fails to update outdated information, the quality and relevance of IBAM's investment advice could be materially affected. IBAM's investment advice is based on the risk assessment questionnaire it asks Clients through its website and the answers and information Clients provide to IBAM. There may be additional information or financial circumstances not asked about in IBAM's risk assessment questionnaire that could inform but is not taken into account or reflected in IBAM's investment advice. Clients may choose to contact another financial advisor to discuss any such additional information or other financial circumstances that Clients may think could be relevant to IBAM's investment advice.

In determining the risk score of clients investing in an IBAM portfolio through their existing investment advisor, IBAM will take into account whether the client's existing advisor is registered with the SEC or a

state regulator and has confirmed that it will only invest its clients in portfolios suitable for the client based on the client's investment profile and the advisor's dealings with the client.

**Reliance on Third-Party Data:** IBAM's investment advice is based on data and information from third party sources. While IBAM believes that the data it uses in its investment management processes is obtained from reliable sources, it did not audit or validate this data, which may contain errors. IBAM exclusively relied on data compiled by a third-party (i.e., the Thomson Reuters Worldscope database) for market data and information as the basis for the hypothetical return calculations for the Smart Beta Portfolios, and is not responsible for the accuracy of this data.

**Reliance on Technology:** IBAM's investment activities depend on various computer and telecommunications technologies, some provided by or dependent upon third parties, such as data feed, data center, telecommunications or utility providers. IBAM's services to its Clients could be severely compromised by system and/or telecommunications failures, power loss, unauthorized system access or use, computer viruses, fire or water damage, human errors in using certain systems, or other events or circumstances. Events that may interrupt computer or telecommunications systems could have a material adverse effect on IBAM Clients, including by preventing IBAM from trading, liquidating or monitoring its Clients' investments. IBAM maintains back-up electronic books and records at a third-party disaster recovery site. In case of interruption of its computer and/or telecommunications systems, IBAM will strive to resume service to its Clients promptly, barring any circumstances outside of its control.

**Performance Drift Risk:** This is the risk that the performance of any portfolio you invest in and the performance of your account diverge, due to the following factors, among others:

- **The Portfolio Manager's compliance with the trading rules:** For the protection of clients, trades that a Portfolio Manager makes that are outside of the IBAM trading rules are not replicated in client accounts.
- **Your risk score and exclusions:** Your risk score and any restrictions you placed on buying or selling certain securities or tickers could result in certain trades executed by the Portfolio Manager or IBAM not being replicated in your account.
- **Your cash flow behavior:** Performance drift will result if you frequently invest additional cash or partially redeem your investment.
- **Inability to mirror in exact proportion:** Depending on the size of your investment relative to the Portfolio Manager's, translating each trade the Portfolio Manager makes into whole shares in your account can lead to small rounding differences, and therefore slightly different allocations.
- **The broker's availability of stock to lend:** When shorting, the stock must first be borrowed. The broker may not have the exact amount of stock available to fulfill all that is requested.
- **The unique features of the investment product you invest in, such as options:** Options contracts usually cover 100 shares and do not trade in fractions. Therefore, performance drift can occur whenever IBAM replicates a Portfolio Manager's options trading in your account and

has to round down or up any quantity traded to account for the different amount invested in the two accounts. This can lead to over- or under-hedging or leverage in your account in comparison to the Portfolio Manager's. Options are also leveraged instruments, and could be more illiquid than other investment products. Partial assignments of options contracts could also result in performance drift between your account and the Portfolio Manager's. These unique features of options could lead to your account having significantly different performance, leverage, levels of risks and trading costs than the options portfolio you invest in.

### **Risks Specific to ETFs:**

#### **1. Market Risk**

ETFs are typically designed to track the performance of certain indices, market sectors, or groups of assets such as stocks, bonds, or commodities. ETF managers may use different strategies to achieve this goal, but, in general, they do not have the discretion to take defensive positions in declining markets. Investors must be prepared to bear the risk of loss and volatility associated with the underlying index/assets.

#### **2. Tracking Errors**

Tracking errors refer to the disparity in performance between an ETF and its underlying index or its assets. Tracking errors can arise due to factors such as the impact of transaction fees and expenses incurred by the ETF, changes in composition of the underlying index/assets, and the ETF manager's replication strategy. The most common replication strategies include: i) full replication, ii) representative sampling and iii) synthetic replication, which are discussed in more detail below.

#### **3. Trading at Discount or Premium**

An ETF may be traded at a discount or premium to its Net Asset Value (NAV). This price discrepancy is caused by supply and demand factors, and may be particularly likely to emerge during periods of high market volatility and uncertainty. This occurrence may also be observed for ETFs tracking specific markets or sectors that are subject to direct investment restrictions.

#### **4. Foreign Exchange Risk**

Investors trading ETFs with underlying assets not denominated in U.S. dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the ETF price.

## **5. Liquidity Risk**

Market Makers (MMs) are exchange members that provide liquidity to facilitate trading in ETFs. Although most ETFs are supported by one or more MMs, there is no assurance that active trading will be maintained. In the event that the MMs default or cease to fulfill their role, investors may not be able to buy or sell the product.

## **6. Counterparty Risk Involved in ETFs with Different Replication Strategies**

(a) Full replication and representative sampling strategies:

An ETF using a full replication strategy generally aims to invest in all constituent stocks or assets in the same weightings as its benchmark. ETFs adopting a representative sampling strategy will invest in some, but not all of the relevant constituent stocks or assets. For ETFs that invest directly in the underlying assets rather than through derivative instruments issued by third parties, counterparty risk tends to be less of a concern.

(b) Replication strategies using swaps and other derivatives (i.e., synthetic replication):

ETFs may utilize swaps or other derivative instruments to gain exposure to a benchmark. Currently, replication ETFs can be further categorized into two forms:

### **i. ETFs utilizing swaps**

Total return swaps allow ETF managers to replicate the benchmark performance of ETFs without purchasing some or all the underlying assets.

ETFs utilizing swaps are exposed to counterparty risk of the swap dealers and may suffer losses if such dealers default or fail to honor their contractual commitments.

### **ii. ETFs utilizing derivatives**

ETF managers may also use other derivative instruments to replicate the economic benefit of the relevant benchmark. The derivative instruments may be issued by one or multiple issuers.

ETFs utilizing derivatives are subject to the counterparty risk of the derivative instruments' issuers and may suffer losses if such issuers default or fail to honor their contractual commitments.

Even where collateral is obtained by an ETF, it is subject to the collateral provider fulfilling its obligations. There is a further risk that, when the right against the collateral is exercised, the market



value of the collateral could be substantially less than the amount secured resulting in significant loss to the ETF.

### **Risks Specific to Options Trading:**

IBAM offers its Clients the opportunity to invest in Portfolios that include options trading. Clients must be approved to trade options in their IB LLC brokerage account to be able to invest in Portfolios trading options on the IBAM platform.

At any time IBAM Clients become uncomfortable with the options trading in their IBAM account, including the losses or level of risk associated with options trading, they may terminate any Portfolio investment that is trading options and easily remove options trading from their IBAM account online using the Account Settings page.

Before being allowed to invest in Portfolio Manager strategies trading options, all IBAM Clients represent that they understand that IBAM will attempt to mirror the option trading in the Portfolio(s) in which the Client invests but IBAM may not be able to perfectly replicate the same proportion of options in the Client's account that the Manager holds in his Portfolio for several reasons. For instance, among other circumstances, the ratio may call for a fraction of an option contract to be purchased for a Client's account, but, because options do not trade in fractions of contracts, IBAM must either buy more or less options and underlying stock than the ratio calls for. This may result in the Client's account having different performance, leverage, levels of risk and trading costs than the Manager Portfolio the Client invests in. In particular, the Client's account may have higher leverage, be more imbalanced and have higher risk than the Manager Portfolio.

### **Risks of Buying (Purchasing) Options**

When a Portfolio purchases call options it pays a fee or "premium." This premium is paid at the time the option is purchased and is not refundable to the buyer, regardless of what happens to the stock price or the option. The Portfolio is exposed to gains if the stock underlying the call option increases in price above the pre-determined strike price. This gain is offset by the premium paid for buying the call option. If the price of the stock underlying the call option is below the exercise price, the option expires worthless.

When a Portfolio purchases put options it pays a fee or "premium." This premium is paid at the time the option is purchased and is not refundable to the buyer, regardless of what happens to the stock price or the option. The Portfolio is exposed to gains if the stock underlying the put option decreases in price below the pre-determined strike price, but this gain is offset by the premium paid for buying the put option. If the price of the stock underlying the put option is above the exercise price, the option expires worthless.

The premiums the Portfolio pays when buying options may increase as a result of a number of factors, including changes in interest rates, stock market volumes or price volatility of the underlying securities.

### **Risks of Selling (Writing) Options**

When a Portfolio sells a call option, it provides the buyer the right to buy the security at a pre-determined strike price. The Portfolio is therefore exposed to losses if the stock underlying the call option increases in price above the pre-determined strike price, this loss is offset by a premium received for selling the call option. If the value of the stock underlying the call option is below the exercise price, the call is unlikely to be exercised and the Portfolio will just receive the premium.

When a Portfolio sells a put option, it provides the buyer the right to sell the security at a pre-determined strike price. The Portfolio is therefore exposed to losses if the stock underlying the put option decreases in price below the pre-determined strike price. This loss is offset by a premium received for selling the put option. If the value of the stock underlying the put option is above the exercise price, the put is unlikely to be exercised and the Portfolio will just receive the premium.

The premiums the Portfolio receives for selling options may decrease as a result of a number of factors, including changes in interest rates, stock market volumes or price volatility of the underlying securities.

### **Risks of Trading Options**

1. Trading options is highly speculative in nature, involves a high degree of risk and is not suitable for all Clients.
2. Options may involve certain costs and risks such as liquidity, interest rate, market, credit, and the risk that a position could not be closed when most favorable.
3. Option contracts are traded for a specified period of time and have no value after expiration.
4. Trading options may result in the total loss of premiums and transaction costs.
5. Trading halts in the underlying security, or other trading conditions (for example, volatility, liquidity, systems failures) may cause the trading market for an option (or all options) to be unavailable, in which case, the holder or writer of an option would not be able to engage in a closing transaction and an option writer would remain obligated until expiration or assignment.

6. Even if the market is available, there may be situations when options prices will not maintain their customary or anticipated relationships to the prices of the underlying interests and related interests.
7. An options market may sometimes impose restrictions on the particular types of options transactions, such as opening transactions or uncovered writing transactions.
8. Disruptions in the markets for the underlying interests could also result in losses for options investors.
9. **Lack of Liquidity in Options Market:** There is no assurance that a liquid market will be available at all times for a Portfolio to buy or sell options or to enter into closing purchase transactions. In addition, under certain circumstances, the Portfolio Manager may hold the underlying stocks as part of a hedged strategy, the Portfolio may be less likely to sell stocks to take advantage of new investment opportunities, and the cash available to the Portfolio to purchase new securities may be limited.
10. **Portfolio Turnover:** Portfolio turnover is the percentage of the Portfolio that was replaced once during a one-year period. High rates of Portfolio turnover entail transaction costs that could negatively impact performance. In periods of high market volatility, option exercise is more likely, which can result in a significant increase in turnover.
11. **Tax Consequences:** Portfolios that sell options expect to generate premiums. These premiums typically result in short-term capital gains to the Portfolio for federal and state income tax purposes. Receipts of such short-term capital gains usually are taxable at the same rate as ordinary income to investors. Transactions involving the disposition of a Portfolio's underlying securities (whether due to the exercise of a call option or otherwise) give rise to capital gains or losses. Portfolios that sell options have no control over the exercise of options, redemptions, or corporate events affecting their equity securities investments (such as mergers or reorganizations) and may be forced to realize capital gains or losses at inopportune times.
12. Margin requirements may apply to trading equity options.
13. "Naked" uncovered option trading is the most speculative and riskiest form of trading and exposes investors to potentially significant losses. Uncovered options writing is suitable only for knowledgeable investors who fully understand the risks, have the financial capacity and willingness to incur potentially substantial losses, and have sufficient liquid assets to meet applicable margin requirements. When writing (selling) naked calls, the risk is unlimited, since there is theoretically no limit to the price increase that could be achieved by the underlying stock. The risk in the naked put is that the stock could go to zero.

14. There may be other risks associated with investing in a Manager Portfolio that trades options, and this description of certain risks is not intended to be an exhaustive presentation of all risks associated with options trading. IBAM Clients should review the current Options Clearing Corporation (“OCC”) disclosure document “Characteristics and Risks of Standardized Options” and any options risk disclosures provided by the broker-dealer for all Client trades, IB LLC.

**Potential future consent to T+2 settlement**

In the case of buy-writes or covered call options, Clients may consent to Timber Hill Inc., a market-making affiliate of IBAM and IB LLC, providing them with T+2 settlement for the purchase of replacement shares to use against an option assignment to potentially preclude capital gains and a higher tax liability. Timber Hill Inc. is the only liquidity provider on the T + 2 facility, and it may profit or lose in connection with each such transaction.

**Risks of Investing in the IBAM-Managed Smart Beta Portfolios:**

Investments in these Portfolios are subject to the risks discussed here and the Risk Disclosures for Smart Beta Portfolios available on the Forms and Agreements page of the IBAM website, any of which may adversely affect the Portfolios’ yield, total return, and ability to meet their investment objectives.

As with any investment, there are a number of risks associated with investing in a Smart Beta Portfolio. These include the following:

- You may lose all or part of your investment in the Portfolios, or your investment may not perform as well as other investments or may fluctuate significantly due to short-term or long-term market movements;
- There is no assurance that these Portfolios and strategies will meet their investment objectives, work as intended or perform as well as other investment strategies; and
- Smart Beta Portfolios may not be suitable for all investors.

**Market Risk** - These Portfolios could lose money over short periods due to short-term market movements and over longer periods during more prolonged market downturns. Due to market conditions, the value of the Portfolios’ investments may fluctuate significantly from day to day and this volatility may cause the value of your investment in the Portfolios to decrease.

**Equity securities risks** – These Portfolios are primarily invested in stocks and therefore bear the risks of the general stock market. In particular, the Portfolios:

- Entail greater risk of loss and volatility than some other asset classes, such as bonds;
- Are primarily composed of US stocks, so may be particularly affected by certain changes in the US economy that do not affect the global economy; and

- Include large-, medium-, and small-capitalization stocks, each of which carries its own risks and may gain or lose value in a different proportion than the stock market overall.
  - For instance, large-capitalization companies have fewer opportunities to expand the market for their products and services, may be slow to respond to new competitive challenges such as changes in technology, and may grow more slowly than smaller companies, especially during extended periods of economic expansion, causing their stocks to underperform investments in small- or medium-capitalization stocks.
  - Medium-capitalization company stocks have historically been subject to greater investment risk than large-capitalization company stocks, may be less stable, more susceptible to adverse developments, and more sensitive to changing market conditions, and have more limited markets and managerial and financial resources while their stocks may be more volatile and less liquid than those of more established companies, in part due to less certain growth and dividend-yield prospects.

**New portfolio risk** – IBAM launched the first set of Smart Beta Portfolios in November 2016, the second set in December 2016, and another portfolio in March 2017. Therefore, these Portfolios are newly formed and have no operating or actual performance history before November 2016, December 2016, and March 2017 respectively. Clients investing in these Portfolios also bear the risk that IBAM may not be successful in implementing its investment strategy. Additionally, the model used to select the securities in each Smart Beta Portfolio is not certain to maximize returns or minimize risks, and may not be appropriate for every investor. No assurance can be given that a Smart Beta Portfolio will be successful under all or any market conditions. Additionally, IBAM’s judgments about the attractiveness, value and potential appreciation of particular asset classes in which these Portfolios invest may prove to be incorrect and may not produce the desired results, and IBAM’s strategy may not effectively protect the Portfolios from market declines and may limit their participation in market gains.

**Sector and concentration risks** – A Portfolio may carry higher risk to the extent it is significantly composed of assets in a particular sector, issuer, group of issuers, country, group of countries, region, market, industry, or asset class. In managing these Portfolios, IBAM attempts (but may not be successful) to avoid excessive concentration in individual sectors of the market.

**Regulatory risk** - The Portfolios are subject to the risk that a change in US law and related regulations will impact the way IBAM manages these Portfolios, increase the particular costs of their operation and/or change the competitive landscape. This may result in IBAM deciding to cease offering these Portfolios.

**Portfolio-specific risks** - In addition, each Smart Beta Portfolio carries additional, specific risks, which may lead it to lose or gain money out of proportion with the stock market as a whole.

- **Value securities risk** – Stocks in the **Value Portfolio (VALCOV™)**, perceived by IBAM as undervalued, may fail to appreciate for long periods of time, may never realize their full potential value, or may underperform other segments of the market or the market as a whole.
- **Quality securities risk** – Companies issuing the stocks included in the **Quality Portfolio (QALCOV™)** may experience lower than expected returns, even negative growth, as well as increased leverage.
- **Growth securities risk** – There is no guarantee that the past performance of the stocks in the **Growth Portfolio (GROCOV™)** will continue. These stocks typically trade at higher multiples of current earnings than other securities and, therefore, may be more sensitive to changes in current or expected earnings than other equity securities and may be more volatile.
- **High-dividend securities risk** – There is no guarantee that the large-capitalization companies issuing the stocks in the **Dividend Portfolio (DIVCOV™)** will declare dividends in the future or that, if the dividends are declared, they will remain at current levels or increase over time.
- **Equal weighting risk** – Due to the **Broad Market Portfolio's (BRMCOV™)** use of half equal weighting and the resulting higher proportion of small- and medium-capitalization company stocks, this portfolio may underperform other segments of the market or the market as a whole.
- **Small-capitalization company risk** - Small-cap versions of the Smart Beta Portfolios (**smVALCOV™**, **smGROCOV™**, **smQALCOV™**, **smDIVCOV™**, and **smBRMCOV™**) are invested solely in small-capitalization company stocks. Small-capitalization company stocks have historically been riskier than large and medium-capitalization company stocks. Securities of small-capitalization companies generally trade in lower volumes, are often more vulnerable to market volatility, get less analyst coverage, and are subject to greater and more unpredictable price changes than other stocks or the stock market as a whole.
- **Replacement stock risks** – In connection with IBAM's management of **TAXCOV™**, the performance of the stocks selected to replace stocks that have experienced capital losses during quarterly rebalancing may not be the same or similar to that of the initial holdings despite their similar expected risk and return characteristics. That performance could be better or worse than the performance of the securities that IBAM sells for tax-loss harvesting purposes despite the fact that IBAM selects replacement stocks on the basis of how similar they are to the original stocks on several fundamental factors, such as market capitalization, current valuation, industry classification, historical return on assets, and others.
- **Uncertain tax outcomes** - The tax consequences of investing in **TAXCOV™** (e.g., tax loss harvesting) are complex, uncertain, depend on numerous client-specific factors and may be challenged by the Internal Revenue Service.

#### **Smart Beta Portfolio investment limitations**

In accordance with applicable regulatory requirements, IBAM will not allow clients to make any initial, additional or recurring investments in a Smart Beta Portfolio 3 business days prior to the date of a quarterly rebalance. If a client requests such a transaction during this period, IBAM will send the transaction for execution on the first trading day after the rebalance. Clients may redeem some or all of

their investment in any Smart Beta Portfolio at any time. But, if clients have a cash (rather than margin) brokerage account and engage in redemptions less than 3 business days after the quarterly rebalance, IB LLC may require them to pay for purchases in their account on the date of the trade for the next 90 days.

To avoid price swings around market open and close, client requests to invest in or redeem any investments in the Smart Beta Portfolios will be processed in the order in which they are received between 9:35 am and 3:50 pm ET.

**Not a bank deposit** - Your investment in one of the Smart Beta Portfolios is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

#### **Conflict of interest risks**

As we explained above, IBAM will trade its own capital alongside that of the clients who invest in the Smart Beta Portfolios. IBAM has therefore imposed on itself the same protections against potential front-running that it applies to the third-party Portfolio Managers whose trading IBAM mirrors, described in the Investment Management Agreement you signed, and such other protections determined necessary given IBAM's fiduciary duty to its clients.

#### **Limitations of hypothetical back-tested returns**

IBAM launched the first set of Smart Beta Portfolios in November 2016, the second set in December 2016, and one additional portfolio in March 2017. IBAM calculated hypothetical back-tested returns for the Smart Beta Portfolios for informational and educational purposes, to illustrate how these Portfolios would have performed over time if they had existed before their launch date(s). Hypothetical back-tested returns are hypothetical, do not reflect actual trading, and do not place any client money at risk. Actual results in client accounts may differ for many reasons, such as the market's performance, available liquidity, factor returns, interest rates and transaction costs. IBAM provides additional information on how it calculated the hypothetical back-tested returns for the Smart Beta Portfolios and their inherent limitations on each of the portfolio pages.

#### **Risks Associated with Owning and Trading Fractional Shares**

IBAM is able to offer the Smart Beta Portfolios and the extensive diversification they are designed to achieve for even relatively small investments by offering IBAM clients the ability to trade fractional shares. IBAM has determined that the benefits of offering fractional shares outweigh the negative effects of investing in them, but clients should be aware of their unique features, risks and costs.

IBAM clients own all the shares held in their IBAM account, including fractional shares acquired as a result of their investment in a Smart Beta Portfolio. No aspect of IBAM's management or operation of the Smart Beta Portfolios should be deemed as an attempt by IBAM to restrict in any way any rights

clients would otherwise have over the securities and funds in their accounts, including any fractional share holdings.

Stocks cannot be traded in fractions on public exchanges, so IB LLC, IBAM's affiliated broker-dealer, facilitates trading in Smart Beta Portfolios brokering all fractional share orders on behalf of IBAM clients against one or more liquidity providers. These liquidity providers will sell or buy fractional shares that IBAM clients would not otherwise be able to trade in the open market. These trades will occur either at the execution price the liquidity provider gets on the market for stocks it sells to IBAM clients or, if the fractional shares are provided from the provider's inventory, at the National Best Bid or Offer ("NBBO") at the time of the order.

There is a potential conflict of interest in connection with these fractional transactions as IB LLC will act as broker for both IBAM clients and the liquidity provider counterparty to these transactions that IBAM clients have consented to in the Investment Management Agreement. IBAM clients may revoke their written consent to such transactions at any time by written notice to IBAM or IB LLC, as discussed in the Investment Management Agreement, but if they do so, IBAM clients will no longer be able to invest in these portfolios as they rely on fractional share investments.

As stocks cannot be traded in fractions on public exchanges and fractional shares are typically unrecognized and illiquid outside of the IBAM platform, if clients want to liquidate their Smart Beta Portfolio investments, they will need to fully redeem their investment in which case IB LLC will sell any fractional shares to the liquidity provider and any whole shares to the market. If clients want to transfer their Smart Beta holdings to another brokerage firm, they will first need to sell their fractional shares to the liquidity provider through IB LLC. Clients will incur commissions on all of these trades.

Please note that IB LLC cannot facilitate customers voting proxies on fractional share holdings, does not provide a mechanism to make voluntary elections on fractional holdings, and cannot provide clients with any shareholder documentation for any holdings of less than one share. But clients will receive payments or value commensurate to their fractional ownership in the case of stock dividends, stock splits, mergers or other mandatory corporate actions (including cash dividends).

#### **Tax burden implications**

Given the high volume of trading in the Smart Beta Portfolios due to portfolio composition, quarterly rebalancing trades, and recurring investments, clients will also be responsible for reporting large amounts of stock sales in their tax forms (e.g., IRS Form 8949, Sales and Other Dispositions of Capital Assets). This tax-filing burden is increased for the Broad Market Portfolios (**BRMCOV™** and **smBRMCOV™**), each made up of 1,000 stocks. IBAM is not qualified to and cannot provide any tax advice or prepare any tax documents for clients. Clients will need to consult an accountant or tax attorney to determine the tax-filing burden of investing in these portfolios. Please note that IB LLC



provides certain tools to assist clients with their tax filings, but these tools may only be able to support a limited number of trades.

### **Tax consequences of investing in TAXCOV™**

The tax consequences of investing in **TAXCOV™** are complex, uncertain and may be challenged by the Internal Revenue Service. Additionally, a client's ability to reduce a tax liability through investments in this portfolio depends on the client's tax and investment profile, including: (a) purchases and sales in investments of the client or the client's spouse at IBAM, Interactive Brokers or elsewhere; (b) type of investment (taxable versus nontaxable); (c) holding period (short versus long); (d) the client's tax rate; (e) account size; and (f) the amount of capital gains and income a client has against which the client can apply losses harvested in this portfolio. For instance, clients in certain tax brackets may not owe capital gain taxes and certain tax-favored accounts (e.g., Roth and traditional IRAs) do not benefit from tax-loss harvesting as they are already tax-free or tax-deferred. Also, a tax-loss harvesting strategy may not benefit short-term investors. Transactions in another IBAM portfolio or outside of IBAM may affect whether a loss experienced in this portfolio is successfully harvested and, if so, whether that loss is usable by the client in the most efficient manner. IBAM clients could write off harvested losses in their **TAXCOV™** portfolio investments against capital gains generated in this same portfolio, other IBAM portfolios, other Interactive Brokers investments, or elsewhere in their taxable accounts. Any losses are first applied to offset any investment gains and then, if any losses are left, up to \$3,000 in ordinary income. Harvested tax losses not utilized during the tax period when recognized may be generally carried forward indefinitely to offset future capital gains and income, if any. But capital losses cannot be carried over after a taxpayer's death and are deductible only on the final income tax return filed on the decedent's behalf. IBAM does not monitor for wash sales in client accounts and will not provide notice of wash sales to clients investing in any of its portfolios. Clients are responsible for monitoring their and their spouse's accounts, including their IBAM investments, other investments in Interactive Brokers account(s), and other investments, to confirm that transactions in the same or substantially similar security do not create a "wash sale," i.e., a sale at a loss and purchase of same or similar security during the 61-day wash sale period. Very generally, the wash sale rule disallows losses if the security is replaced with a substantially identical security during the wash sale period. Clients may find information on wash sales in their Interactive Brokers 1099-eligible accounts on their daily, monthly and annual Activity Statements. Clients may violate the wash sale rule and be unable to harvest certain of their tax losses if they use multiple tax-loss harvesting providers or brokers. For more information on the wash sale rule and other tax-loss harvesting-related issues, please read IRS Publication 550 currently available at <https://www.irs.gov/pub/irs-pdf/p550.pdf> and our Smart Beta FAQs available at <http://site.ibassetmanagement.com/help/faq/smart-beta> (or <http://site.covestor.com/help/faq/smart-beta>)

### **Benchmark and index comparisons made available to Clients**

Comparisons to benchmarks or indices on our website are provided for illustrative purposes only. An index is a broadly diversified, unmanaged group of securities, which may include only large capitalization

companies or companies of a certain size. Broadly-based indices may be shown only as an indication of the general performance of the financial markets during the periods indicated. The S&P 500 Index is intended for comparison to general equity market behavior only and may not be suitable for comparison to individual portfolios with specific objectives, such as industry or security types. Because of the differences between Portfolio and Client investments and any indices shown, IBAM cautions investors that no index is directly comparable to the performance shown since each index has its own unique results and volatility, and such indices, if shown, should not be relied upon as an accurate comparison. Index comparisons are provided for informational purposes only and should not be used as the basis for making investment decisions. There are significant differences between client accounts and the indices referenced including, but not limited to, risk profile, liquidity, volatility and asset composition. If you would like more specific information about a particular index, please visit the respective index's website.

Benchmarks relevant to each portfolio are assigned by IBAM based on overall strategy, portfolio trade history, and/or other criteria. For certain portfolios, IBAM uses an index as a benchmark, while for others it uses an investable ETF as a benchmark. Index returns do not reflect the deduction of any management fees, transaction costs or expenses. Individuals cannot invest directly in an index. Investable ETF returns reflect the deduction of (i.e., are net of) management fees, transaction costs and expenses. Benchmark returns displayed on the individual portfolio profile pages have been calculated by IBAM using daily benchmark prices and include capital appreciation but do not include dividend income. By contrast, returns for the portfolio manager account associated with each portfolio include dividend income. This difference could result in benchmark returns being understated.

**Generally, in making portfolio recommendations, there are a number of factors IBAM does not consider including but not limited to:**

- **Tax Implications:** IBAM does not consider its Clients' specific tax implications in recommending portfolios. IBAM does not provide tax advice and does not represent in any manner that investments in a Portfolio will result in any particular tax consequences. Each Client must rely on his own examination and that of its financial, tax and legal advisors in evaluating the tax implications of investing in an IBAM portfolio. Clients and their personal tax advisors are responsible for how the transactions conducted in an account are reported to the IRS or any other taxing authority on the client's personal tax returns. IBAM assumes no responsibility for the tax consequences to any client of any transaction. Clients should not construe the contents of the IBAM website or any recommendation made by IBAM as tax advice.
- **Transaction costs and frequency of trading:** IBAM does not consider but attempts to disclose the frequency of a portfolio's trading when recommending portfolios to clients. A portfolio with a high level of trading and turnover could lead to clients incurring substantial transaction costs, tax implications (such as short-term capital gains) and other similar consequences that could

negatively impact the value of a Client's investment. Clients should bear these transaction costs in mind when deciding whether to invest in a portfolio on the IBAM platform.

## **Item 9: Disciplinary Information**

As of the date of this brochure, IBAM has not been subject to any legal or disciplinary actions material to a Client's or a prospective Client's evaluation of IBAM's advisory business. Therefore, IBAM has no information applicable to this item.

## **Item 10: Other Financial Industry Activities and Affiliations**

IBAM is part of the Interactive Brokers Group, an automated global electronic broker and market maker.

Neither IBAM nor its representatives are registered as a broker-dealer or representative of a broker-dealer.

In order to perform the mirroring/replication processes for its platform described in Item 4 of this brochure, IBAM entered into a Technology Services Agreement with the Interactive Brokers Group, LLC ("IBG LLC"). Specifically, pursuant to this agreement, IBG LLC, at IBAM's direction, will develop and program IBAM's software, which, among other things, calculates the amount of securities and/or options contracts to be traded for IBAM clients to effectuate IBAM's replication/mirroring procedures. IBAM remains solely responsible for the investment advice provided to its clients, and will periodically monitor IBG LLC's implementation of its replication procedures. IBAM will pay to IBG LLC a fee equal to IBG LLC's cost of performance of the services under this agreement plus ten percent (10%), and reimburse IBG LLC for any disbursements incurred in the performance of the agreement. IBAM will not charge its clients advisory fees higher than it would otherwise charge them in the absence of this agreement.

IB LLC, the Broker-Dealer and Custodian for all IBAM Manager and Client trades, is a related party to and is under common control with IBAM; both entities are subsidiaries owned by Interactive Brokers Group. IB LLC is a registered Broker-Dealer, Futures Commission Merchant and Forex Dealer Member, regulated by the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission and the National Futures Association, and is a member of the Financial Industry Regulatory Authority and several other self-regulatory organizations.

IB LLC provides clearing and custody services for the IBAM trading platform, which executes Portfolio Manager trades alongside client accounts in accordance with IBAM's internal trading rules and specific client restrictions. Trading is performed on an agency basis through IB LLC.

IBAM's relationship with IB LLC is material to its advisory business and a conflict of interest exists to the extent that IBAM recommends the purchase of securities given that IB LLC receives commissions in connection with transactions in IBAM clients' accounts. Additionally, the parent company of both affiliates, the Interactive Brokers Group LLC derives the majority of its revenues from the brokerage operations of IB LLC subsidiary. As IBAM places all of its clients' trades through IB LLC (which receives compensation for these services), this compensation ultimately benefits both IB LLC and IBAM given their corporate affiliation.

IBAM does not receive any compensation from the unaffiliated third-party Portfolio Managers who provide strategies for the IBAM platform.

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

### **Code of Ethics**

IBAM and persons associated with IBAM ("Associated Persons") are permitted to buy or sell securities that are traded by Portfolio Managers 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 IBAM and, as such, any IBAM-initiated trades for those Associated Persons will be executed alongside all other IBAM Clients. IBAM currently aggregates trades initiated by Portfolio Managers and the trades of Clients investing in those Managers' Portfolios and allocates shares accordingly at the average price for each trade, so as not to affect any Clients favorably or unfavorably. Associated Persons may also open brokerage accounts for use by IBAM as test accounts. Trades in these accounts are also executed alongside all other IBAM Clients. IBAM provides the owners of these test accounts with funding to invest in these accounts.

IBAM 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 IBAM or any of its Associated Persons. The *Code of Ethics* also requires that certain of IBAM'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. IBAM's Access Persons may not trade securities, commodities, derivative products, financial instruments or exchange-traded investment products on their own behalf between the hours of 8:30 a.m. and 6:00 p.m. local time at the Access Person's place of employment. However, Access Persons may retain financial advisers to conduct such trading on their behalf during such prohibited hours.

Clients may contact IBAM to request a copy of its *Code of Ethics*.

IBAM Access Persons must acknowledge the terms of the Code of Ethics annually, or as amended.

IBAM's Code of Ethics permits IBAM'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 any IBAM Client accounts. As mentioned above, IBAM's Access Persons are permitted to become Clients of IBAM and their accounts and trade activity are managed alongside and consistent with IBAM's management of other Clients' accounts. As discussed below, certain IBAM affiliated persons, including IBAM employees and directors, and employees of the Interactive Brokers Group Inc. invest with and are clients of IBAM. Because agency cross transactions between IBAM affiliated persons and other IBAM clients could be deemed principal transactions, IBAM will set up a process intended to block IBAM affiliated persons from trading with any other IBAM client in the regular course of trading the portfolios on the platform both internally and on the open market.

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 IBAM (i.e. those of Access Persons who are Clients or maintain accounts for use as IBAM Test Accounts).

But IBAM's Access Persons may not purchase or sell, directly or indirectly, any security which they know at the time of the purchase or sale is being considered for purchase or sale on behalf of any Client account or being actively purchased or sold on behalf of any Client account. Given the firm's historical business model which was limited to implementing transactions in Client accounts by tracking the trade activity in Manager Portfolios, IBAM personnel generally were not considered to know or expected to know that a security is being purchased or sold by a Client unless that personnel had access to the firm's trade blotter or has other knowledge of the firm's purchases or sales before their implementation in Client accounts.

But, unlike with third-party Portfolio Manager trades, certain IBAM personnel on IBAM's Investment Management team will be transacting in IBAM's Smart Beta portfolios and will be considered to know (or are likely to know) that a security will be eventually purchased or sold by any Clients who are following that portfolio. In accordance with the provisions of IBAM's Code of Ethics, IBAM's Access Persons (including IBAM's Investment Management team) may not purchase or sell, directly or indirectly, any security which they know at the time of the purchase or sale is being considered for

purchase or sale on behalf of any Client account or being actively purchased or sold on behalf of any Client account. IBAM employees are allowed to become IBAM clients and invest in any IBAM portfolios, including the Smart Beta Portfolios. But individuals involved in making investment and trading decisions for the Smart Beta portfolios and placing related trades will be subject to certain black-out periods for trading stocks considered or transacted for the Smart Beta portfolios in any personal trading accounts.

#### **Proprietary trading for IBAM's Smart Beta Portfolios**

IBAM manages the Smart Beta Portfolios by trading in one or more proprietary brokerage account(s). A conflict of interest thus arises between IBAM executing trades in that proprietary account with the knowledge that it will be executing similar trades in Client accounts investing in that Smart Beta Portfolio. IBAM may have an incentive to provide favored treatment to its proprietary account to the detriment of IBAM client accounts investing in a Smart Beta Portfolio by trading ahead of clients in that proprietary account or take other actions which favor the proprietary account. By choosing to invest in one or more Smart Beta Portfolios, IBAM clients acknowledge and agree that IBAM will manage their accounts by replicating trading IBAM conducts in proprietary accounts funded with its own capital.

To mitigate any conflict of interest or risk of trading ahead of its clients presented by IBAM trading in a proprietary brokerage account in connection with the management of the Smart Beta Portfolios, IBAM has imposed on itself the same protections against potential front-running that it applies to the third-party Portfolio managers whose trading IBAM mirrors, described in the Investment Management Agreement IBAM clients sign:

- combining orders for the sale or purchase of a security by IBAM with those of IBAM's clients that invest in any of IBAM's Smart Beta Portfolio accounts;
- placing the combined orders through IB LLC; and
- allocating the combined trades between IBAM and client accounts on a pro rata basis (*i.e.*, IBAM clients and IBAM will receive the same average price per share and transaction costs will be shared equally) (a process referred to as "co-trading").

#### **Agency cross transactions**

IB LLC and IBAM may only execute trades referred to as "Agency cross transactions" if a Client has given written consent in advance through the Investment Management Agreement executed with IBAM. In that agreement, IBAM clients acknowledge and agree that a IBAM affiliate (namely, IB LLC) may engage in "agency cross transactions" as defined in Rule 206(3)-2 (17 C.F.R. § 275.206(3)-2) promulgated by the SEC under the Advisers Act, in which a IBAM affiliate acts as a broker both for a IBAM client and for the customer on the other side of the transaction. IBAM clients acknowledge that the IBAM Affiliate may receive commissions from and have a potentially conflicting division of loyalties and responsibilities regarding both parties to such Agency cross transactions. Nonetheless, IBAM clients consent to and authorize IB LLC to engage in such agency cross transactions, and may revoke this consent and authorization at any time by written notice to IBAM or IB LLC.

Specifically, IBAM clients consent to IB LLC designating their orders to trade: (1) on IB LLC's Automated Trading System or a public exchange, against the orders of other IB LLC customers, including liquidity providers; (2) through an exchange-operated price improvement facility; or (3) against a third-party liquidity provider that would fill orders (such as orders for less than a full share), which could otherwise not be filled in the open market. These agency cross transactions are reflected and identified in IBAM clients' IB LLC activity statements. IB LLC will act as a broker for and receive commissions from both parties to these transactions.

IBAM is able to offer the Smart Beta Portfolios and the extensive diversification they are designed to achieve for even relatively small investments by allowing IBAM clients to trade fractional shares. Because stocks cannot be traded in fractions on public exchanges, IB LLC, IBAM's affiliated broker-dealer, facilitates trading in Smart Beta Portfolios by executing all fractional share orders on behalf of IBAM clients against one or more liquidity providers who are IB LLC's clients. These liquidity providers sell or buy fractional shares that IBAM clients would not otherwise be able to trade in the open market. These trades occur either at the execution price the liquidity provider gets on the market for shares it sells to IBAM clients or, if the fractional shares are provided from the provider's inventory, at the National Best Bid or Offer ("NBBO") at the time of the order.

IBAM Clients investing in a Smart Beta Portfolio consent to IB LLC matching their fractional share buy and sell orders with liquidity providers willing to trade fractional shares with IBAM and its clients. Clients may revoke their written consent to such transactions at any time by written notice to IBAM or IB LLC, as discussed in the Investment Management Agreement. But clients revoking their written consent to these agency cross transactions in fractional shares should note that if they do so they will no longer be able to invest in the Smart Beta Portfolios, which rely on fractional share investments.

Compliance with Rule 206(3)-2 requires IBAM here to satisfy all of the following conditions:

- Clients must provide written consent in the Client Agreement prospectively authorizing agency cross transactions after full written disclosure that IB LLC, IBAM's affiliate, will act as a broker, receive commissions from and have a potentially conflicting division of loyalties and responsibilities regarding both parties to these transactions. IBAM's Investment Management Agreement with its Clients provides such written disclosure and obtains such written consent from its Clients.
- IBAM or IB LLC on behalf of IBAM must send each Client a written confirmation at or before the completion of each transaction that includes (i) a statement of the nature of this transaction, (ii) the date this transaction took place, (iii) an offer to furnish, upon request, the time when this transaction took place, and (iv) the source and amount of any other remuneration received or to be received by IBAM's affiliated broker-dealer. This confirmation would take place prior to

settlement, but after execution, and a transaction is not complete until the settlement takes place. IBAM does not receive any compensation from IB LLC. IB LLC will provide these written confirmations of agency cross transactions to IBAM Clients in the trade confirmations and daily activity statements for the accounts.

- IBAM or IB LLC on behalf of IBAM must send Clients an annual statement identifying the total number of agency cross transactions and the total amount of commissions or other remuneration that IBAM or IB LLC received in connection with these agency-cross transactions since the last summary. IB LLC will provide this information in the annual activity statements for Clients' accounts.
- Client consent may be revoked at any time, and all written disclosure statements and confirmations discussed above must include a conspicuous statement that Clients' written consent to these agency cross transactions may be revoked at any time by written notice to IBAM or IB LLC. IBAM's Investment Management Agreement with its Clients includes such a conspicuous statement. Trade confirmations and activity statements provided by IB LLC to Clients also include such a statement.

### **Principal transactions**

Neither IBAM nor any of its Affiliates will engage in any principal transactions with IBAM clients.

IB LLC will not knowingly designate your orders to trade with the orders of IBAM's Affiliates engaged in proprietary trading. This may affect the timing, price and quantity of the execution you receive. Please note that your orders may execute against the orders of IBAM Affiliates and their customers on the open market, but these trades are not principal transactions within the meaning of Section 206(3) of the Advisers Act.

Clients should be aware that a significant shareholder of Interactive Brokers Group, Inc. is a significant client of IBAM. Additionally, this individual and other IBAM affiliated persons, including IBAM employees and directors and employees of the Interactive Brokers Group Inc. invest with and are clients of IBAM. Because agency cross transactions between IBAM affiliated persons and other IBAM clients could be deemed principal transactions, IBAM will set up a process intended to block IBAM affiliated persons from trading with any other IBAM client in the regular course of trading the portfolios on the platform on the open market. Trading between IBAM client accounts internally at IB LLC is already blocked.

## **Item 12: Brokerage Practices**

IBAM establishes relationships with selected brokers to provide brokerage services to IBAM Clients. All brokerage commissions and/or transactions fees charged by these selected brokers are exclusive and in addition to IBAM fees. Factors which IBAM considered in its selection of selected brokers and will consider in recommending any other broker-dealer include: financial strength; reputation; stability;



combination of transaction, execution, and asset custody services; capability to execute, clear and settle trades; capability to facilitate transfers and payments to and from accounts; breadth of available investment products; availability of investment tools and technology, services; quality of services; pricing; competitiveness of the prices of services; and research. 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 IBAM's Clients shall comply with IBAM's duty to obtain "best execution."

In seeking best execution, IBAM not only considers the cost, but also 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, operational capabilities, expertise in particular markets, commission rates, and responsiveness, and the size and difficulty of the order. Therefore, while IBAM will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions and may pay higher commission rates to broker dealers it believes offer greater reliability, better pricing or more efficient execution. IBAM 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.

All IBAM trades are affected on an agency basis. When selecting broker-dealers, IBAM does not consider whether IBAM or a related party receives client referrals from that broker-dealer.

**The use of an affiliate for brokerage services represents a conflict of interest. Currently, due to technical and best execution considerations, IBAM is only utilizing the brokerage services of IB LLC, a related party. IBAM does not accept clients who direct the use of other brokers. IBAM thus directs all of the Managers and Clients on its platform to establish brokerage and custodial relationships with IB LLC. In the Investment Management Agreement, IBAM Clients appoint IB LLC as the broker and custodian for the assets in their accounts and direct IBAM to execute all trading in their IBAM accounts through IB LLC, and acknowledge the conflict of interest in this brokerage arrangement. Clients also acknowledge that the appointment of IB LLC as the sole broker for their account may result in disadvantages to them, i.e., less favorable executions (e.g., higher commissions, greater spreads, or less favorable net prices) than may be available through the use of a different broker-dealer.**

IBAM has evaluated the brokerage services and cost of IB LLC and believes that IB will provide IBAM clients with a blend of execution services, commissions costs, financial strength and reputation, trading platform, responsiveness to Clients' execution needs, block trading capabilities, accuracy of trades and trade confirmations, and professionalism that fulfills IBAM's best execution requirement for client transactions. While IBAM has a reasonable belief that IB LLC is able to obtain best execution and competitive prices, IBAM will not independently seek best execution price capability through other

broker dealers. IBAM periodically undertakes Trade Cost Analysis (“TCA”) of trades in Client accounts to confirm the quality of IB LLC’s brokerage execution services.

Both IBAM Clients and IBAM Portfolio Managers pay IB LLC commissions for the trades in their IBAM accounts, which represents a conflict of interest. IBAM does not directly receive any of the brokerage revenue generated by IB LLC from Managers or Clients trading through IBAM. But IBAM is supported financially by IBG LLC, the parent company of both IBAM and IB LLC, and IBG LLC’s revenues primarily stem from its brokerage operations.

Additionally, Clients should be aware that a significant shareholder of Interactive Brokers Group, Inc. is a significant client of IBAM. Although this client does not receive any preferential treatment by comparison to other IBAM clients, this client relationship presents a conflict of interest as IBAM has an incentive to favor this client over any other of its clients. Additionally, other IBAM affiliated persons, including IBAM employees and directors and employees of the Interactive Brokers Group Inc. invest with and are clients of IBAM. Because agency cross transactions between IBAM affiliated persons and other IBAM clients could be deemed principal transactions, IBAM will set up a process intended to block IBAM affiliated persons from trading with any other IBAM client in the regular course of trading the portfolios on the platform on the open market. Trading between IBAM client accounts internally at IB LLC is already blocked.

#### **Commissions Charged by IB LLC**

IB LLC charges IBAM clients commissions based on IB’s tiered commissions structure for stock trades and IB’s standard options commissions structure for options trades.

Generally, for transactions in portfolios managed by third-party Portfolio Managers, IB charges IBAM clients commissions of \$0.0035 per share, with exchange, regulatory and clearing fees charged separately. (This is subject to a minimum per order commission of \$0.35 and a maximum of 0.5% of the value of the trade.)

For transactions in IBAM Smart Beta Portfolios IB offers IBAM clients a modified tiered commission structure, which we believe will facilitate efficient investing. Under this structure, IB charges \$0.0035 in commissions based on the whole “basket” of securities in a client’s Smart Beta investment rather than on each security. Generally, for Smart Beta Portfolio trades, IB charges a minimum commission equal to the lower of \$5 or 0.05% of trade value per client account, if more than the standard tiered commissions charge of \$0.0035 per aggregated shares in the client basket. IB LLC caps commissions on Smart Beta portfolios at 0.5% of the value of the basket trade.

Additionally, IB LLC requires all brokerage accounts to generate a minimum level of commissions each month. Under certain circumstances, IB will charge IBAM clients a minimum monthly commission charge of up to \$10. Specifically, whenever the overall monthly commissions paid by all IBAM client

accounts do not amount to at least \$10 in commissions per account per month, IB will collectively charge IBAM clients the difference between the actual commissions charged and the overall \$10 minimum due for all IBAM clients, determined on a pro rata basis (based on the amount by which each IBAM client account is below the \$10 minimum).

Additional information on IB LLC commissions can be found on the IB LLC website: <https://www.interactivebrokers.com/en/index.php?f=commission&p=stocks2> and <https://www.interactivebrokers.com/en/index.php?f=commission&p=options1>

### **Commissions and Tax Burdens Associated with the Rebalancing of the IBAM-Managed Smart Beta Portfolios**

IBAM rebalances each of the Smart Beta portfolios on a quarterly basis, which could result in a large number of quarterly transactions in many or all of the securities in which the Smart Beta portfolios and client accounts are invested. While the annual management fee collected by IBAM for the Smart Beta portfolios is not affected by this portfolio turnover, clients should be aware that they will incur transactions costs, including commissions, whenever IBAM buys and sells securities in these portfolios as these trades are then mirrored in the accounts and reflected in the account statements of the clients investing in that portfolio. These commissions are payable to IB LLC, IBAM's affiliated broker-dealer, which is a conflict of interest. A higher turnover rate leads to higher transaction costs in client account and may also result in higher turnover taxes when held in a taxable account. The additional costs associated with higher portfolio turnover will affect the performance of client accounts following IBAM's Smart Beta models.

The Smart Beta Portfolios involve a large number of stocks and there will be trades in many of these stocks whenever IBAM rebalances the portfolios or clients add to or subtract from their investment. Clients will need to report some (or all) of these trades on their tax forms. IBAM cannot provide tax advice or prepare tax documents for clients. Clients should consult an accountant or tax attorney to determine the tax-related obligations associated with investing in these portfolios. IB LLC provides certain tools to assist its brokerage clients with their tax filings, but these tools may only be able to support a limited number of trades.

### **Best execution**

Regardless of how transactions are executed, IBAM strives to ensure IB LLC obtains best execution of Client trades whenever possible.

### **Trade Aggregation**

Trade orders placed by Portfolio Managers will normally be aggregated with Clients orders to assist in providing best execution. We note however that trades may not be aggregated if Client restrictions prevent us from doing so.

**Trade Allocation**

We will always attempt to allocate investment opportunities on a pro-rata basis among eligible accounts based on the originally planned allocation. Both the Portfolio and the Client will receive the average price for each trade. However, in certain situations, it may not be equitable to allocate on a pro-rata basis (e.g. round lots or size restrictions on the allocation). The trading systems used by IB LLC automatically allocate trades on a pro-rata basis (with respect to the market imposed round lot requirements).

**Resolution of Trade Errors**

Clients acknowledge that IBAM will be responsible for Client account losses resulting from its failure to follow its own trading procedures or a lapse in its internal communications. Clients acknowledge that IBAM cannot and will not be responsible for any Client account errors and/or losses occurring when IBAM uses its best efforts to execute trades in a timely and efficient manner. Clients also acknowledge that IBAM is not responsible if a trade or a portion of a trade is not effected or an electronic “glitch” occurs even though IBAM followed its trading procedures and best efforts.

In certain situations, IBAM may manually send Client trades for execution after a Portfolio Manager’s trades are executed. Differences in execution prices due to delays in replication of the Portfolio Manager’s trade of less than 48 hours will not constitute a trade error, regardless of the cause of this delay.

Clients also acknowledge that IBAM cannot and will not be responsible for trades that are not properly executed by any third parties, including but not limited to broker-dealers, clearing firms, or custodians, when IBAM has properly submitted the order.

Clients are responsible for immediately notifying IBAM if they think that a trade error has occurred in their account. Clients also agree to promptly return any assets or funds erroneously credited to their account by IB LLC in connection with any of the trades in their Account.

**Timeliness**

We will ensure that transactions are promptly and fairly allocated between the Portfolio and Clients at the average price.

**Directed Brokerage**

All brokerage transactions under the Investment Management Agreement will occur through IB LLC, an affiliate of IBAM. IBAM does not offer services through any other broker-dealer. The use of an affiliate for brokerage services represents a conflict of interest. In the Investment Management Agreement IBAM Clients acknowledge this conflict of interest and authorize IBAM to execute transactions through IB LLC consistent with IBAM’s duty of best execution.

Our agreement with IB LLC requires the costs for all brokerage transactions with IBAM and its Clients to be consistent with the costs charged by IB LLC to unrelated third parties. This will include volume discounts where appropriate.

While we reasonably believe the use of IB LLC is in its Clients' best interests and allows for a more effective investment of the Portfolio, Clients should be aware and understand the use of IB LLC may prevent IBAM from negotiating brokerage commissions and other charges on Clients' behalf. This practice may also prevent IBAM from obtaining best execution of some or all of Clients' orders. As a result, directed brokerage transactions may result in higher commissions, greater spreads or less favorable net prices than would be the case if IBAM were able to select other brokers-dealers to execute transactions.

#### **Soft Dollar Arrangements**

An investment adviser receives soft dollar benefits from a broker-dealer when the investment adviser receives research or other products and services in exchange for client securities transactions or maintaining an account balance with the broker-dealer. We do not have a soft dollar agreement with IB LLC or a third-party.

### **Item 13: Review of Accounts**

IBAM will periodically contact clients to review its previous services or investment recommendations to them and to discuss the impact resulting from any intervening changes in clients' financial situation or investment needs.

At least annually, IBAM will contact clients to determine whether there have been any changes in their financial situation or investment objectives and whether they want to impose new or revise existing ticker or security restrictions on the trading in their account. Also, at least quarterly, IBAM will ask clients in writing to contact it if there have been any changes in their financial situation or investment objectives or they wish to impose any ticker or security restrictions on the trading in their account. In 2017, IBAM revised its risk assessment/suitability questionnaire, which clients need to take to invest in any IBAM portfolios. The risk assessment/suitability questionnaire takes in consideration clients' financial situation, income, net worth, ability to take risks, investment objective, age, investing knowledge, investment horizon and tolerance for drawdowns in generating clients' risk scores. Please contact us if you have any questions about the risk assessment questionnaire.

In determining the risk score of clients investing in an IBAM portfolio through their existing investment advisor, IBAM will take into account whether the client's existing advisor is registered with the SEC or a state regulator and has confirmed that it will only invest its clients in portfolios suitable for the client based on the client's investment profile and the advisor's dealings with the client.

**Clients who have experienced material changes to their financial circumstances or investment objectives, or wish to impose initial or modify existing ticker or security restrictions on their investments, should promptly update their information and responses to the risk assessment questionnaire on the IBAM website or contact one of our client services representatives to inform them of the intervening changes.**

IBAM implements its investment management services for its advisory Clients by providing:

1. Collaboration with each Client on the appropriate investment strategy for their investment objectives. This investment strategy includes overall objectives, Portfolio preferences, risk tolerance, and other guidelines and restrictions specified by the Client. IBAM utilizes aspects of the Client's investment strategy to calculate a Client's Risk, which IBAM uses during the investment and trade execution 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 an investment strategy on behalf of Client:
  - a. Portfolio Management and Accounting;
  - b. Investment in 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 obtain best execution on behalf of the Client.
4. Investment activity in all Client accounts may be 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 investments.
5. Clients are contacted periodically regarding their accounts by Client Services staff. In addition, IBAM provides additional reporting to its Clients through its website <http://ibassetmanagement.com> (or <http://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, and access their monthly Portfolio reports detailing performance and risk exposure.
6. Clients are urged to periodically compare activity statements prepared by IBAM and quarterly account statements and transaction confirmations provided by IB LLC with regard to activity,

holdings and valuations in their IBAM account. Clients should immediately inform IBAM of any discrepancies they detect between IBAM and IB LLC account statements.

7. Clients are advised to promptly notify IBAM if they wish to impose any reasonable restrictions upon IBAM's management services or make any other changes to the management of their assets.

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

### **Solicitations and Referrals**

IBAM does not receive compensation or other economic benefits from persons other than clients for providing investment advice or advisory services to its clients.

IBAM does not currently use solicitors to refer advisory clients to the firm and does not compensate a third-party for client referrals.

### **Portfolio Manager Compensation**

IBAM compensates Managers with a portion of any Management Fee(s) or/and any Performance Fee(s) it charges to Clients. Occasionally, IBAM Clients may have initially heard about IBAM from one of the Portfolio Managers on the platform. But IBAM will not compensate Portfolio Managers for client referrals. IBAM will compensate Portfolio Managers only with a portion of the Management Fee and/or Performance Fee IBAM charges Clients investing in the Manager's Portfolio.

## **Item 15: Custody**

### **Recommended Custodian and Clearing Services**

IBAM recommends that Clients utilize the brokerage and clearing services of IB LLC. IBAM only implements its investment management services after the Client has arranged for and furnished IBAM with all information and authorization regarding the opening of a brokerage account with IB LLC, a related party of IBAM.

IBAM may be deemed to have custody of Client funds and securities by virtue of its affiliation with IB LLC, the qualified custodian for Client funds and securities. IB LLC sends quarterly account statements directly to IBAM Clients identifying the amount of funds and securities in their account(s) at the end of the period and setting forth all transactions in the account(s) during that period, including but not limited to any fees charged by IBAM. IBAM clients should carefully review those statements to ensure that they accurately reflect the transactions in their IBAM account(s). Under certain circumstances, IBAM may also separately provide account updates to its Clients. Clients should compare the account

updates they receive from IBAM with the activity account statements they receive from IB LLC, the qualified custodian.

In accordance with the SEC's Custody Rule and in recognition of the new corporate relation between IBAM and IB LLC, the qualified custodian of its Clients' assets, since 2015, IBAM has engaged an independent public accountant (Spicer Jeffries LLP) to conduct an annual, independent surprise audit of Client funds and securities.

Clients should contact IB LLC or IBAM immediately if they do not receive account statements from IB LLC on at least a quarterly basis. IBAM provides clients with separate reports or account statements providing information about their IBAM account. Clients should compare these carefully to the account statements received from IB LLC, the custodian of the accounts. The account statements received from IB LLC are the official custodial records for IBAM client accounts. The reports provided by IBAM are not statements but simply tools Clients should use in evaluating the performance of their investments and are not intended to replace the statements received from the custodian of assets, IB LLC. If Clients discover any discrepancy between the account statements provided by IBAM and that provided by IB LLC, then they should contact IBAM immediately.

## **Item 16: Investment Discretion**

As authorized in the IBAM Client Agreement, IBAM assumes discretionary authority over Client assets placed with IBAM for management. This is done via a power of attorney granting IBAM the ability to initiate financial transactions and trades on behalf of its Clients in order to execute trades in Portfolios Clients invest in. This grant of investment discretion allows IBAM to place trades in client accounts without contacting Clients before each trade. In all cases, however, IBAM's discretion will be exercised in a manner consistent with the investment objectives, risk tolerance and risk score for the particular client account. Clients maintain authority to revise their answers to the risk assessment questionnaire, change their investment status, and to have restrictions placed on the securities to be bought or sold for their account.

IBAM uses its best judgment and good faith efforts in rendering services to clients. But IBAM cannot warrant or guarantee any particular level of account performance, or that an account will be profitable over time. Not every investment decision or recommendation made by IBAM will be profitable. IBAM Clients assume all market risk involved in the investment of account assets under the Investment Management Agreement and understand that investment decisions made by IBAM in Client accounts are subject to various market, currency, economic, political and business risks.

IBAM Clients are responsible for advising IBAM of any changes in their financial situation or investment objectives.



## **Item 17: Voting Client Securities**

As a matter of firm policy and practice, IBAM does not have any authority to and does not vote proxies on behalf of its Clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Clients will receive shareholder notices directly from the designated custodian, IB LLC.

IBAM will neither advise nor act on behalf of any client in legal proceedings involving companies whose securities are held or were previously held in the client's account, including but not limited to, the filing of "Proofs of Claim" in class action settlements.

## **Item 18: Financial Information**

IBAM does not require or solicit the prepayment of its advisory fees, and does not have any adverse financial condition or financial commitment that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients. IBAM has never been the subject of a bankruptcy proceeding.

IBAM is not self-sustaining through its advisory fee revenue alone, and is financially supported by IBG LLC, through periodic unsecured loans. Clients may obtain information about the financial condition of Interactive Brokers Group, Inc. by visiting the Group's website at <https://investors.interactivebrokers.com/ir/main.php>

## **Item 19: Requirements for State-Registered Advisers**

Because our principal place of business is outside the U.S., in the United Kingdom, IBAM is not required to register with the individual states. IBAM qualifies to register directly with the U.S. Securities and Exchange Commission. However, IBAM makes notice filings in states that require such notice under state "Blue Sky" laws.

## **AML Officer Contact Information**

IBAM's AML Officer is Andrew Marchment, Level 20 Heron Tower, 110 Bishopsgate, London EC2N 4AY, United Kingdom, 44 203 787 9250.

This brochure supplement provides information about Joseph Sullivan that supplements Interactive Brokers Asset Management's brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Brokers Asset Management's brochure or if you have any questions about the contents of this supplement. Additional information about Joseph Sullivan is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement**

### **Joseph Sullivan**

**Covestor Limited doing business as "Interactive Brokers Asset Management"  
and "IB Asset Management"**

**Boston Office:  
175 Federal Street, Suite 930  
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866-825-3005 x 713**

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United Kingdom  
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**<http://ibassetmanagement.com> (formerly <http://covestor.com>)**

**July 20, 2017**

**Joseph Sullivan, Director, Manager Relations**

Born 1985

**Educational Background:**

Emmanuel College, 9/2003 to 5/2007, B.A. Economics and Management

**Business Experience:**

Covestor doing business as Interactive Brokers Asset Management, Director, Manager Relations - 7/2014 - Present

NGAM, Investment Consultant - 5/2012 - 7/2014

JPMorgan, Investment Specialist - 1/2008 - 5/2012

**Professional Certifications:**

FINRA Series 7, 63 and 66

Joseph is supervised by Sanjoy Ghosh, Chief Investment Officer. He reviews Joseph's work on an ongoing basis along with Joseph's activities through our investment management systems. All inquiries should be directed to Sanjoy Ghosh at (866) 825-3005 x 702.

This brochure supplement provides information about John Dahlstrom that supplements Interactive Brokers Asset Management's brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Brokers Asset Management's brochure or if you have any questions about the contents of this supplement. Additional information about John Dahlstrom is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement**

### **John Dahlstrom**

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**<http://ibassetmanagement.com> (formerly <http://covestor.com>)**

**July 20, 2017**

**John Dahlstrom, Client Adviser**

Born 1982

**Educational Background:**

Suffolk University, 09/2000 to 05/2004, B.A. – Finance

**Business Experience:**

Covestor doing business as Interactive Brokers Asset Management, Client Adviser, 07/20 – present

NGAM - Investment Consultant - 03/2011 - 07/2015

MSSB - Client Service Associate - 06-2003 - 02-2011

**Professional Certifications:**

FINRA Series 7, 63 and 66

John is supervised by Sanjoy Ghosh, Chief Investment Officer. He reviews John's work on an ongoing basis along with John's activities through our investment management systems. All inquiries should be directed to Sanjoy Ghosh at (866) 825-3005 x 702.

This brochure supplement provides information about Yatharth Manuja that supplements Interactive Brokers Asset Management's brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Brokers Asset Management's brochure or if you have any questions about the contents of this supplement. Additional information about Yatharth Manuja is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement**

### **Yatharth Manuja**

**Covestor Limited doing business as "Interactive Brokers Asset Management"  
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**July 20, 2017**

**Yatharth Manuja, Investment Analyst**

Born 1990

**Educational Background:**

London School of Economics & Political Science, 2012-2013 – Master of Science in Finance

Indian Institute of Technology, Hyderabad, 2008-2012 – Bachelor of Technology in Electrical Engineering and a Minor in Economics

**Business Experience:**

Covestor Ltd doing business as Interactive Brokers Asset Management, Analyst, 08/2015 – Present

Covestor Ltd, Consultant, 10/2013-08/2015

Covestor Ltd, Intern, 07/2013-10/2013

**Professional Certifications:**

FINRA Series 65

**Disciplinary Information:**

None

**Other Business Activities:**

None

**Additional Compensation:**

None

Yatharth is supervised by Sanjoy Ghosh, Chief Investment Officer. He reviews Yatharth's work on an ongoing basis along with Yatharth's activities through our investment management systems. All inquiries should be directed to Sanjoy Ghosh at (866) 825-3005 x 702.

This brochure supplement provides information about Sanjoy Ghosh that supplements Interactive Brokers Asset Management's brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Brokers Asset Management's brochure or if you have any questions about the contents of this supplement. Additional information about Sanjoy Ghosh is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement**

### **Sanjoy Ghosh**

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**<http://ibassetmanagement.com> (formerly <http://covestor.com>)**

**July 20, 2017**



**Sanjoy Ghosh, Chief Investment Officer**

Born 1973

**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 doing business as Interactive Brokers Asset Management, Chief Investment Officer, 05/2013 – Present

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

**Professional Certifications:**

FINRA Series 65

**Disciplinary Information:**

None

**Other Business Activities:**

None

**Additional Compensation:**

None

This brochure supplement provides information about Bimal Shah that supplements Interactive Brokers Asset Management's brochure. You should have received a copy of that brochure. Please contact us at 1-866-825-3005 if you did not receive Interactive Brokers Asset Management's brochure or if you have any questions about the contents of this supplement. Additional information about Bimal Shah is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Part 2B: Brochure Supplement**

### **Bimal Shah**

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**<http://ibassetmanagement.com> (formerly <http://covestor.com>)**

**July 20, 2017**

**Bimal Shah, Chief Technology Officer**

Born 1969

**Educational Background:**

King's College, University of London, B.Sc. (1st Hons.), Physics and Computer Science, 1986 - 1989

Queen Mary University of London, M.Sc. (Distinction), Computer Science, 1999 - 2000

**Business Experience:**

Covestor Ltd doing business as Interactive Brokers Asset Management, Chief Technology Officer, 09/2008 – Present

Betfair, Engineering and Product Manager, 04/2005 - 08/2008

Thinkingcap Technology, Founder, 01/1999 - 03/2005

D.E.Shaw & Co., Group Manager and Architect, Financial Data, 10/1996 - 12/1998

Accenture, Consultant and Manager, 01/1991 - 09/1996

**Disciplinary Information:**

None

**Other Business Activities:**

None

**Additional Compensation:**

None