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## **Wealthfront Advisers 529 College Savings Plan Wrap Fee Program Brochure**

**October 29, 2019**

### **Item 1 Cover Page**

This Wealthfront Advisers 529 College Savings Plan Wrap Fee Program Brochure (“Brochure”) provides information about the qualifications and business practices of Wealthfront Advisers LLC (“Wealthfront Advisers” or “we” or “us”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”), in respect of the Wealthfront Advisers 529 College Savings Plan (the “Plan”). Registration does not imply a certain level of skill or training but only indicates that Wealthfront Advisers has registered its business with state and federal regulatory authorities, including the SEC (our SEC number is 801-69766). The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

If you have any questions about the contents of this Brochure, please contact us at 844-995-8437 or [support@wealthfront.com](mailto:support@wealthfront.com). Additional information about Wealthfront Advisers is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on Wealthfront Advisers’ website, [www.wealthfront.com](http://www.wealthfront.com).

## **Item 2 Material Changes**

Since the last updating amendment to Wealthfront Advisers' Form ADV Part 2 brochure on August 13, 2019, there are no material changes to this 529 College Savings Plan Wrap Fee Program Brochure.

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## **Item 4 Services, Fees and Compensation**

### **A. General Description of the Company**

Wealthfront Advisers is an automated investment adviser registered with the SEC. Wealthfront Advisers sponsors software-based investment advisory and portfolio management services for its clients in respect of the Plan through the Wealthfront Advisers 529 Wrap Fee Program. This program is made available via accounts that all clients open at Wealthfront Brokerage LLC (“Wealthfront Brokerage”), a member of Financial Industry Regulatory Authority (“FINRA”). Wealthfront Advisers became the successor investment adviser to Wealthfront Inc. effective August 1, 2018. On the same date, Wealthfront Inc. changed its name to Wealthfront Corporation. Software-based financial planning tools and services are provided by Wealthfront Software LLC (“Wealthfront Software”). Wealthfront Advisers, Wealthfront Brokerage and Wealthfront Software are wholly owned subsidiaries of Wealthfront Corporation, which is a privately held company headquartered in Palo Alto, CA. Additional information about Wealthfront Advisers’ products, structure and directors is provided on Part 1 and Part 2 of Wealthfront Advisers’ Form ADV which is available online at <http://www.adviserinfo.sec.gov>. We encourage visiting our website [www.wealthfront.com/529](http://www.wealthfront.com/529) or our related mobile application (the “Site” or the “App”) for additional information about the firm and the Plan.

### **B. 529 Plans**

The Plan is a “529 plan,” i.e., a qualified tuition program sponsored by a state and established under and operated in accordance with Section 529 of the Internal Revenue Code. 529 plans help families save for future college costs. They enable individuals and certain trusts to accumulate savings for qualifying higher education costs of beneficiaries by purchasing interests in a state-created 529 plan trust, which interests are “municipal fund securities.” Proceeds from sales of the state-created 529 plan trust interests are in turn invested in one or more investments. Any earnings on these interests are tax deferred and may be withdrawn on a tax-free basis if used to pay for a qualified higher education expense.

### **C. Summary of Wealthfront Advisers’ 529 Investment Advisory Services**

Wealthfront Advisers offers a unique automated investment advisory service based on Modern Portfolio Theory (“MPT”) that makes it possible for anyone who enters into a Wealthfront Advisers 529 College Plan Client Agreement (the “529 Client Agreement”), to access state-of-the-art investment advisory and portfolio management services in the context of a 529 plan. As provided in the 529 Client Agreement, advisory clients (“Clients”) grant Wealthfront Advisers discretionary authority to manage Client assets in accounts (“Client Accounts” or “Accounts”) opened and maintained at Wealthfront Brokerage pursuant to the Wealthfront Brokerage Customer Brokerage and Custody Agreement (the “Brokerage Agreement”), through which Wealthfront Brokerage provides the necessary basic brokerage services to the Clients. Clients are also required to enter into a Participation Agreement (“Participation Agreement”) with the state 529 plan trust in order to establish the Client’s 529 account. Wealthfront Advisers’ investment objective is to seek maximum long-term, risk-adjusted, after-tax, net of fee returns.

## **D. Tailored Services and Investment Restrictions**

Wealthfront Advisers tailors its software-based 529 College Plan investment advisory services to the individual needs of each of its Clients. Wealthfront Advisers uses its software, which is based on academic behavioral economics research, to determine an investor's risk tolerance. Wealthfront Advisers asks each prospective Client a series of questions to evaluate both the individual's objective capacity to take risk and subjective willingness to take risk. We ask subjective risk questions to determine both the level of risk an individual is willing to take and the consistency among the answers. For example, if an individual is willing to take a lot of risk in one case and very little in another, then the individual is deemed inconsistent and is therefore assigned a lower risk tolerance score than the simple weighted average of her answers. We ask objective questions to estimate with as few questions as possible whether the Client is likely to have enough money saved at the time of matriculation by the Client's beneficiary ("Beneficiary"), in order to afford the Beneficiary's likely spending needs. The greater the excess income, the more risk the Client is able to take. Clients may not specify investments in which Client Account may not invest.

Each individualized 529 portfolio is designed to be consistent with the Clients' investment objectives and risk tolerances. Wealthfront Advisers creates an investment plan and manage a Client's 529 portfolio by seeking to identify: 1) the optimal asset classes in which to invest, 2) the most efficient exchange traded funds ("ETFs") or other investments to represent each of those asset classes, 3) the ideal mix of asset classes based on the Client's specific risk tolerance, and 4) the most appropriate time to rebalance the Client's portfolio to maintain intended risk tolerance and optimal return for the Client's risk level.

Under the Plan, Wealthfront Advisers constructs a portfolio for its Client using up to nine separate municipal fund securities, each of which contains a single underlying ETF representing a separate asset class. Wealthfront Advisers designs the Client's portfolio to provide a diversified asset allocation based on the Client's individual risk tolerance as reflected by the Client's risk score, which is determined by the Client's responses to a risk questionnaire completed during the application process. Using the risk score, Wealthfront Advisers assigns the Client's portfolio to one out of 20 "glide paths," each of which determines how the Client's portfolio's allocations of municipal fund securities will change over time. Each glide path gradually shifts the asset allocations of the municipal fund securities in the Client's portfolio to progressively decreasing levels of expected risk as the expected matriculation date of the Beneficiary approaches. The Client's starting point along the specific glide path is determined by the Beneficiary's expected matriculation date. Thus, two Clients with identical risk scores and Beneficiaries of different ages will transition along the same glide path but will start at different points on the glide path due to the different investment time horizons.

## **E. 529 Wrap Fee Program**

Under the Plan, Client assets are managed by Wealthfront Advisers as part of Wealthfront Advisers' 529 Wrap Fee Program. A wrap account is a professionally managed investment plan in which all expenses, including brokerage commissions (if any), management fees, and administrative costs, are "wrapped" into a single charge. Wealthfront Advisers' 529 Wrap Fee Program provides Clients

investment plans, portfolio management, and necessary basic brokerage services for one comprehensive fee based on a percentage of individual account assets.

Wealthfront Advisers may buy or sell securities consistent with a Client's investment plan designed to seek an investment return suitable to the goals and risk profile of each distinct Client Account. Wealthfront Advisers determines an appropriate course of action by performing a review of each Client's individual account and suitability parameters. This review may include type of account, goals, overall financial condition, income, assets, risk tolerance and other factors unique to the individual Client's situation. Wealthfront Advisers manages each Client Account on an individualized basis.

In order to implement Wealthfront Advisers' continuous investment advice, Wealthfront Advisers provides investment advisory and portfolio management services under the 529 Wrap Fee Program only on a discretionary basis.

#### **F. 529 Advisory Fees**

Wealthfront Advisers is compensated for its 529 advisory services by charging a fee based on the net market value of a Client's Account. Wealthfront Advisers reserves the right, in its sole discretion, to reduce or waive the advisory fee for certain Client Accounts for any period of time determined by Wealthfront Advisers. In addition, Wealthfront Advisers may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients.

Wealthfront Advisers currently charges an annualized investment advisory fee of 0.25% on net market value of a Client's Account. Annual fees are charged on a monthly basis as explained below.

Wealthfront Advisers' investment advisory fees are not charged in advance and are calculated on a continuous basis and deducted from Client Accounts each month as follows: Wealthfront Advisers calculates a daily advisory fee, which is equal to the fee rate multiplied by the net market value of the Client's Account as of the close of trading on the New York Stock Exchange ("NYSE") (herein, "close of markets") on such day, or as of the close of markets on the immediately preceding trading day for any day when the NYSE is closed, and then divided by 365 (or 366 in any leap year). The advisory fee for a calendar month is equal to the total of the daily fees calculated during that month and is deducted from Client Accounts no later than the tenth business day of the following month. Wealthfront Advisers waives its investment advisory fees on the first \$25,000 it manages for Nevada residents who open a college savings account, and this fee waiver applies to the aggregate of all of the Nevada resident's Wealthfront Advisers account assets

Wealthfront Advisers may pay Wealthfront Brokerage amounts out of the proceeds of the Wealthfront Advisers advisory fee pursuant to an agreement between Wealthfront Advisers and Wealthfront Brokerage.

#### **G. Other 529 Account Fees**

In addition to advisory fees, Clients may also pay other fees or expenses to third-parties. The issuer of some of the securities or products we purchase for Clients, such as Plan municipal fund securities,

ETFs or other similar financial products, may charge product fees that affect Clients. Wealthfront Advisers does not charge these fees to Clients and does not benefit directly or indirectly from any such fees. A Plan municipal fund security or an ETF typically includes embedded expenses that may reduce the Plan municipal fund security's or ETF's net asset values, and therefore may directly affect the Plan municipal fund security's or ETF's performances and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of a municipal fund security may include an administrative/recordkeeping fee and a state fee, and expenses of an ETF may include management fees, custodian fees, brokerage commissions, and legal and accounting fees. Municipal fund security expenses may change from time to time at the sole discretion of the 529 state trust, and ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront Advisers discloses each municipal fund security's and ETF's current information, including expenses, on the Site.

### **Item 5 Account Requirements and Types of Clients**

The minimum amount required to open and maintain a Plan Account is \$500. Clients can be individuals or certain trusts. Clients have real-time access to their Accounts through the Site. Additional requirements for opening an Account with Wealthfront Advisers are described in Item 4, above.

At any time, a Client may terminate an Account, or withdraw all or part of an Account, or update her investment risk profile (but may change her profile only up to two times per year or upon an eligible change of Beneficiary), which may initiate an adjustment in the Accounts' holdings. In that case, unless otherwise directed by the Client, Wealthfront Advisers will redeem or sell the securities in the Client Account (or portion of the Account, in the case of a partial withdrawal or update) at market prices at the time of the termination, withdrawal or update.

Investors evaluating Wealthfront Advisers' software based 529 investment advisory service should be aware that Wealthfront Advisers' relationship with Clients is likely to be different from the "traditional" investment advisory relationship in several aspects:

- A. Wealthfront Advisers is a software-based investment adviser, which means each Client must acknowledge her ability and willingness to conduct her relationship with Wealthfront Advisers on an electronic basis. Under the terms of the 529 Client Agreement and the Brokerage Agreement, each Client agrees to receive all Account information and Account documents (including this Brochure), and any updates or changes to same, through her access to the Site and Wealthfront Advisers' electronic communications. Unless noted otherwise on the Site or within this Brochure, Wealthfront Advisers' investment advisory service, Wealthfront Brokerage's brokerage services, the signatures for the 529 Client Agreement, the Brokerage Agreement, the Participation Agreement, and all documentation related to the advisory and brokerage services are managed electronically. Wealthfront Advisers does make individual representatives available to discuss servicing matters with Clients.
- B. To provide its investment advisory services and tailor its investment decisions to each Client's specific needs, Wealthfront Advisers collects information from each Client, including specific

information about her investing profile such as financial situation, risk tolerance, and investment objectives. Wealthfront Advisers maintains this information in strict confidence subject to its Privacy Policy, which is provided on the Site. (The Plan's recordkeeper and custodian and the issuer of the Securities in which the Client will invest pursuant to the Plan will have access to Client's non-public personal and financial information that Client furnishes to Wealthfront Advisers) When customizing its investment solutions, Wealthfront Advisers relies upon the information received from a Client. Although Wealthfront Advisers contacts its Clients periodically as described further in Item 7 below, a Client must promptly notify Wealthfront Advisers of any change in her financial situation or investment objectives that might require a review or revision of her Account's portfolio.

C. Clients may not place orders to purchase or sell securities on a self-directed basis.

### **Item 6 Methods of Analysis, Investment Strategies and Risk Considerations**

For its software-based 529 investment advisory service, Wealthfront Advisers provides Clients with investment advisory service that is based on MPT. MPT attempts to maximize a portfolio's expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by selecting the proportions of various asset classes rather than selecting individual securities. Historically, rigorous MPT-based financial advice has only been available through high-end financial advisors. Wealthfront Advisers' goal is to enable anyone with at least \$500 to access the benefits of MPT.

Prior to the launch of the Wealthfront Advisers software-based investment advisory service, it was not practical to offer rigorous and complete MPT to everyone because delivering a complete solution was too complex. Specifically, the number of calculations required to identify an optimized asset allocation, the ideal securities to represent each asset class, and an individual's true risk tolerance are beyond the scope of free, web-based tools. The job becomes even more difficult when considering the importance of periodically rebalancing a portfolio to maintain a desired risk level.

To employ MPT properly, one must start with an accurate determination of an individual's objective and subjective tolerance for risk. Achieving accuracy requires sophisticated software applied to more detailed questions than are typically asked by advisers. Based on this risk analysis, Wealthfront Advisers seeks to create an individualized investment plan using the optimal asset classes in which to invest, the most efficient and inexpensive ETFs (to underlie the Plan's municipal fund securities) to represent each of those asset classes, and the ideal mix of asset classes based on the Client's specific risk tolerance. For the Plan, Wealthfront Advisers uses Mean Variance Optimization to rigorously evaluate every possible combination of the following nine asset classes: US equities, foreign developed markets equities, emerging markets equities, dividend growth equities, real estate, treasury inflation protected securities (TIPS), corporate bonds, emerging markets bonds and US government bonds. Mean Variance Optimization uses the expected return and volatility for each asset class and the covariance among asset classes to find the combination that delivers the highest possible expected return for any given standard deviation of a portfolio's returns.



Wealthfront Advisers' software-based 529 investment advisory service generally includes preselected municipal fund securities (each with a single underlying ETF) for each asset class within the plan recommended to a Client by Wealthfront Advisers. Wealthfront Advisers does not allow Clients to select their own municipal fund securities because each municipal fund security and asset class is considered to be part of the overall investment plan. Investors with specific restrictions are not permitted to become Clients.

Wealthfront Advisers continuously monitors our Clients' 529 portfolios and periodically rebalances them back to the Clients' target mix in an effort to optimize returns for the intended level of risk as well as the applicable glide path. We may consider the volatility associated with each of our chosen asset classes when deciding when and how to rebalance.

Wealthfront Advisers does not charge performance-based fees. Our advisory fees are only charged as disclosed above in Item 4.F.

### **Risk Considerations**

Wealthfront Advisers cannot guarantee any level of performance or that any Client will avoid a loss of Account assets. **Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear.**

When evaluating risk, financial loss may be viewed differently by each Client and may depend on many different risk items, each of which may affect the probability of adverse consequences and the magnitude of any potential losses. The following risks may not be all inclusive but should be considered carefully by a prospective Client before retaining Wealthfront Advisers' services in respect of the Plan. These risks should be considered as possibilities, with additional regard to their actual probability of occurring and the effect on a Client if there is in fact an occurrence.

**Market Risk** – The price of any security or the value of an entire asset class can decline for a variety of reasons outside of Wealthfront Advisers' control, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, or social events. If a Client has a high allocation in a particular asset class, it may negatively affect overall performance to the extent that the asset class underperforms relative to other market assets. Conversely, a low allocation to a particular asset class that outperforms other asset classes in a particular period will cause that Client Account to underperform relative to the overall market.

**Advisory Risk** – There is no guarantee that Wealthfront Advisers' judgment or investment decisions about particular securities or asset classes will necessarily produce the intended results. It is possible that Clients or Wealthfront Advisers itself may experience computer equipment failure, loss of internet access, viruses, or other events that may impair access to Wealthfront Advisers' software-based investment advisory service. Wealthfront Advisers and its representatives

are not responsible to any Client for losses unless caused by Wealthfront Advisers' breach of its fiduciary duty.

**Software Risk** – Wealthfront Advisers delivers its investment advisory services entirely through software. Consequently, Wealthfront Advisers rigorously designs, develops and tests its software extensively before putting such software into production with actual Client accounts and assets and periodically monitors the behaviors of such software after its deployment. Notwithstanding this rigorous design, development, testing and monitoring, it is possible that such software may not always perform exactly as intended or as disclosed on the Site, mobile app, blogs or other Wealthfront Advisers disclosure documents, especially in certain combinations of unusual circumstances. For example, there may be occasions where a number of Client accounts may not experience TLH (even if TLH had been activated for such accounts) or rebalancing back to the Client's target asset allocation for extended periods of time, due to certain errors in the deployment of the software. Wealthfront Advisers continuously strives to monitor, detect and correct any software that does not perform as expected or as disclosed.

**Volatility and Correlation Risk** – Wealthfront Advisers' asset selection process is based in part on a careful evaluation of past price performance and volatility in order to evaluate future probabilities. It is possible that different or unrelated asset classes may exhibit similar price changes in similar directions which may adversely affect a Client's Account and may become more acute in times of market upheaval or high volatility. **Past performance is no guarantee of future results, and any historical returns, expected returns, or probability projections may not reflect actual future performance.**

**Valuation Risk** – High volatility and/or the lack of deep and active liquid markets for some securities (including the ETFs underlying the Plan municipal fund securities) that hold or trade financial instruments may be adversely affected by liquidity issues as they manage their portfolios, which may lead to valuation difficulties. While the Plan's custodian and recordkeeper value the municipal fund securities (and their underlying ETFs) held in Client Accounts based on reasonably available exchange-traded security data, they may from time to time receive or use inaccurate data, which could adversely affect security valuations, transaction size for purchases or sales, and/or the resulting advisory fees paid by a Client to Wealthfront Advisers.

**Legislative and Tax Risk** - Performance may directly or indirectly be affected by government legislation or regulation, which may include, but is not limited to: changes in investment adviser or securities trading regulation; change in the U.S. government's guarantee of ultimate payment of principal and interest on certain government securities; and changes in the tax code that could affect interest income, income characterization and/or tax reporting obligations.

**Foreign Investing and Emerging Markets Risk** - Foreign investing involves risks not typically associated with investments, and the risks may be exacerbated further in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry. Investments in foreign countries could be

affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws or tax withholding requirements, unique trade clearance or settlement procedures, and potential difficulties in enforcing contractual obligations or other legal rules that jeopardize shareholder protection. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.

**Inflation, Currency, and Interest Rate Risks** - Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of an investor's future interest payments and principal. Inflation also generally leads to higher interest rates, which in turn may cause the value of many types of fixed income investments to decline. In addition, the relative value of the U.S. dollar-denominated assets primarily managed by Wealthfront Advisers may be affected by the risk that currency devaluations affect Client purchasing power.

**No Guarantee of Principal Or Earnings; No Insurance** - The value of a Client's 529 Account may increase or decrease over time based on the performance the municipal fund securities that constitute the Client's portfolio. It is possible that, at any given time, the Client's portfolio value may be less than the total amount contributed. None of the Plan, the state trust, Wealthfront Advisers or other Plan-related entities or individuals is an insurer of, makes any guarantee of, or has any legal obligations to ensure, a particular level of investment return. The Client should be aware that she could lose all or a portion of her investment, depending on market conditions.

An investment in the Plan is not a bank deposit. The Plan is not insured or guaranteed. None of the Account, the principal the Client invests, nor any investment return is insured or guaranteed by the Plan, the state trust, Wealthfront Advisers or other Plan-related entities or individuals, the federal government, the Federal Deposit Insurance Corporation, or any other governmental agency.

Relative to investing for retirement, the holding period for college investors is very short (e.g., 5-20 years versus 30-60 years). Also, the need for liquidity during the withdrawal phase (to pay for qualified higher education expenses) generally is very important. The Client should strongly consider the level of risk she wishes to assume when completing the risk questionnaire upon Account opening.

**Limited Investment Direction** - The Client may not direct the underlying investments in an Account. The ongoing money management is the responsibility of Wealthfront Advisers. The only manner in which the Client can affect the money management is to change her risk score, which is limited to two times per year, or upon the change of the Beneficiary. The choice of the underlying investments of the municipal fund securities is subject to the approval of the board of trustees of the state 529 plan trust (the "Board"). Automatic investment exchanges that occur as the Client's assets move through the glide path do not count towards your twice per calendar year investment exchange limit.

**Liquidity** - Investments in a 529 Plan are considered less liquid than other types of investments (e.g., investments in mutual fund shares) because the circumstances in which an Account owner may withdraw money from a 529 Plan account without a penalty or adverse tax consequences are

significantly more limited.

**Potential Changes to the Plan** - The Board reserves the right, in its sole discretion, to discontinue the Plan or to change any aspect of the Plan. For example, the Board may change the Plan's fees and expenses; add, subtract, or merge the municipal fund securities; close a particular municipal fund security to new investors; or change the Plan's program manager or the underlying investment(s) of a municipal fund security. Depending on the nature of the change, the Client may be required to, or prohibited from, participating in the change with respect to Accounts established before the change. The current program manager for the Plan may not necessarily continue as Plan's program manager, and Wealthfront Advisers may not necessarily continue as investment adviser and distributor to the Plan (although Wealthfront Advisers will continue as the Client's investment adviser until either Wealthfront Advisers or the Client terminates that investment advisory relationship).

If the Client has established Accounts prior to the time such changes are made to the Plan, the Client may be required to participate in such changes or may be prohibited (according to Section 529 regulations or other guidance issued by the Internal Revenue Service) from participating in such changes, unless the Client opens a new Account. Furthermore, the Board may terminate the Plan by giving written notice to the Client, but the Plan may not thereby be diverted from the exclusive benefit of the Client and the Beneficiary.

During the transition from one underlying investment to another underlying investment, a Plan municipal fund security may be temporarily uninvested and lack market exposure to an asset class. The transaction costs associated with any liquidation, as well as any market impact on the value of the securities being liquidated, will be borne by the Plan municipal fund security and Client Portfolios holding that Plan municipal fund security.

**Status of Federal And State Law And Regulations Governing The Plan** - Federal and state law and regulations governing the administration of 529 plans could change in the future. In addition, federal and state laws on related matters, such as the funding of higher education expenses, treatment of financial aid, and tax matters are subject to frequent change. It is unknown what effect these kinds of changes could have on an Account or the Plan. The Client should also consider the potential impact of any other state laws on the Client's Account. The Client should consult your tax advisor for more information.

**No Indemnification** - Neither the Plan, the state trust, Wealthfront Advisers or other Plan-related entities or individuals, nor any other person will indemnify the Client or the Beneficiary against losses or other claims arising from the official or unofficial acts, negligent or otherwise, of Board members or state employees.

**Eligibility for Financial Aid** - The treatment of Account assets may have an adverse effect on the Beneficiary's eligibility to receive assistance under various federal, state, and institutional financial aid programs.

- In making decisions about eligibility for financial aid programs offered by the U.S.

government and the amount of such aid required, the U.S. Department of Education takes into consideration a variety of factors, including among other things the assets owned by the student (i.e., the Beneficiary) and the assets owned by the student's parents. The U.S. Department of Education generally expects the student to spend a substantially larger portion of his or her own assets on educational expenses than the parents.

- For federal financial aid purposes, Account assets will be considered (i) assets of a student's parent, if the student is a dependent student and the owner of the Account is the parent or the student, or (ii) assets of the student, if the student is the owner of the Account and not a dependent student.
- For purposes of financial aid programs offered by states, other non-federal sources, and educational institutions, the treatment of Account assets may follow or differ from the treatment described above for federal financial aid purposes. Clients and Beneficiaries are advised to consult a financial aid professional and/or the state or educational institution offering a particular financial aid program, to determine how assets held in an Account may affect eligibility for financial aid.
- Under Nevada law, assets in an Account are not taken into consideration in determining the eligibility of the Beneficiary, parent or guardian of the Account for a grant, scholarship or work opportunity that is based on need and offered or administered by a state agency, except as otherwise required by the source of the funding of the grant, scholarship or work opportunity.

The federal and non-federal financial aid program treatments of assets in a 529 plan are subject to change at any time. Clients therefore should check and periodically monitor the applicable laws and other official guidance, as well as particular program and institutional rules and requirements, to determine the impact of 529 plan assets on eligibility under particular financial aid programs.

**No Guarantee That Investments Will Cover Qualified Higher Education Expenses; Inflation and Qualified Higher Education Expenses** - There is no guarantee that the money in the Client's Account will be sufficient to cover all of a Beneficiary's qualified higher education expenses, even if contributions are made in the maximum allowable amount for the Beneficiary. The future rate of increase in qualified higher education expenses is uncertain and could exceed the rate of investment return earned by an Account over any relevant period of time.

**Education Savings and Investment Alternatives** - In addition to the Plan, there are many other 529 plans, including programs designed to provide prepaid tuition and certain other educational expenses, as well as other education savings and investment alternatives. These alternative programs may offer different investment vehicles and may result in different tax and other consequences. They may have different eligibility requirements and other features, as well as fees and expenses that may be more or less than those charged by the Plan. Clients should consider other investment alternatives before establishing an Account.

**No Guarantee of Admittance** - Participation in the Plan does not guarantee or otherwise provide

a commitment that the Beneficiary will be admitted to, allowed to continue to attend, or receive a degree from any educational institution. Participation in the Plan also does not guarantee that a Beneficiary will be treated as a state resident of any state for tuition or any other purpose.

**Medicaid and Other Federal And State Benefits** - The effect of an Account on eligibility for Medicaid or other state and federal benefits is uncertain. There can be no assurance that an Account will not be viewed as a “countable resource” in determining an individual’s financial eligibility for Medicaid. Withdrawals from an Account during certain periods may also have the effect of delaying the disbursement of Medicaid payments. Clients should consult a qualified advisor to determine how an Account may affect eligibility for Medicaid or other state and federal benefits.

**Suitability and Education Savings Alternatives** - Neither the Board nor the Plan’s program manager makes any representations regarding the suitability or appropriateness of the municipal fund securities or Client’s portfolio as an investment. Other types of investments may be more appropriate depending upon an individual’s financial status, tax situation, risk tolerance, age, investment goals, savings needs, and investment time horizons of the Client or the Beneficiary.

There are programs and investment options other than the Plan available as education investment alternatives. They may entail tax and other fee or expense consequences and features different from the Plan including, for example, different investments and different levels of Client control. Anyone considering investing in the Plan may wish to consider these alternatives prior to opening an Account.

**Differences Between Performances of Plan Municipal Fund Securities And Underlying ETFs**

- The performances of the Plan municipal fund securities will differ from the performances of the ETFs underlying the Plan municipal fund securities. This is primarily due to differences in expense ratios and differences in the trade dates of municipal fund securities purchases and the purchases of the underlying ETFs. The Plan municipal fund securities and the underlying ETFs have different expense ratios over comparable periods of time, so, all other things being equal, there also will be performance differences between the Plan municipal fund securities and the underlying ETFs. Performance differences also are caused by differences in the trade dates of the Client’s Plan municipal fund securities purchases and the underlying ETF purchases. When the Client invests money in a Plan municipal fund security, the Client will receive state trust interests as of the appropriate trade date. The state trust will use that money to purchase the underlying ETFs to be held in the municipal fund security(ies) that make up a Client’s portfolio. However, the trade date for the state trust’s purchase of the underlying ETF typically will be one (1) business day after the trade date for the Client’s purchase of trust interests of the selected municipal fund security. Depending on the amount of cash flow into or out of the Plan municipal fund security and whether the underlying ETF is going up or down in value, this timing difference will cause the Plan municipal fund security’s performance either to trail or exceed the underlying ETF’s performance.

**Differences Between Performances Of Client Portfolios and Municipal Fund Securities** - The performance of each Client’s portfolio will differ from the Plan municipal fund securities because it is a mix of one or more of the Plan municipal fund securities. Thus, a Client portfolio’s

performance may lag that of any one Plan municipal fund security due to the lower performances of other Plan municipal fund securities included in the Client's portfolio.

**Municipal Fund Securities Investment Risk** - Accounts are subject to a variety of investment risks that will vary depending upon the municipal fund security and the ETF underlying that Plan municipal security. See the Plan Description and Participation Agreement available at [www.wealthfront.com/529](http://www.wealthfront.com/529) for further discussions of the investment objective and principal risks of each underlying ETF Investment. With respect to the underlying ETF, please remember that the information is only a summary of the main risks of each underlying ETF Investment; please consult each underlying ETFs prospectus and statement of additional information for additional risks that apply to each underlying ETF.

**ETF Risks, including Net Asset Valuations and Tracking Error** - ETF performance may not exactly match the performance of the index or market benchmark that the ETF is designed to track because 1) the ETF will incur expenses and transaction costs not incurred by any applicable index or market benchmark; 2) certain securities comprising the index or market benchmark tracked by the ETF may, from time to time, temporarily be unavailable; and 3) supply and demand in the market for either the ETF and/or for the securities held by the ETF may cause the ETF shares to trade at a premium or discount to the actual net asset value of the securities owned by the ETF. Certain ETF strategies may from time to time include the purchase of fixed income, commodities, foreign securities, American Depositary Receipts, or other securities for which expenses and commission rates could be higher than normally charged for exchange-traded equity securities, and for which market quotations or valuation may be limited or inaccurate.

An ETF typically includes embedded expenses that may reduce the ETF's net asset value, and therefore directly affect the ETF's performance, thereby affecting the related Plan municipal fund security's performance, and indirectly affecting a Client's portfolio performance or an index benchmark comparison. Expenses of the ETF may include investment adviser management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront Advisers discloses each underlying ETF's current information, including expenses, in the Plan Description and Participation Agreement available at [www.wealthfront.com/529](http://www.wealthfront.com/529). ETF tracking error and expenses may vary.

Clients should be aware that to the extent they invest in Plan municipal fund securities, which investment in turn invests in ETF securities, they will pay two levels of compensation – advisory fees charged by Wealthfront Advisers plus any management fees charged by the Plan recordkeeper and the Board at the municipal security level, plus any management fees charged by the adviser or sponsor of the ETF at the ETF level. This scenario may cause a higher advisory cost (and potentially lower investment returns) than if a Client purchased the ETF directly.

**Client Portfolio Investment Risk** - Accounts are subject to a variety of investment risks that will vary depending upon the Plan municipal fund security(ies) that constitute a Client's portfolio. See the Plan Description and Participation Agreement available at [www.wealthfront.com/529](http://www.wealthfront.com/529). Moreover, it is possible that various risks of Plan municipal fund securities could combine to present greater risks than any single Plan municipal fund security.

## **Item 7 Client Information Provided to Portfolio Managers**

On a periodic basis, Wealthfront Advisers contacts each Client to remind them to review and update the profile information they previously provided. Wealthfront Advisers also requests that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client's current information and contact information for the Wealthfront Advisers support team. Currently the Wealthfront Advisers team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Chief Compliance Officer with help from Client Services.

Wealthfront Advisers conducts separate reviews related to the ETFs used for the Plan municipal fund securities making up Client 529 portfolios. These reviews are approved by Wealthfront Advisers' Investment Committee, which has the authority, if necessary, to recommend to the Board for the Board's action, in its sole discretion, up to and including the removal, addition or replacement of an ETF, from the Plan municipal fund securities making up the portfolios advised by Wealthfront Advisers.

## **Item 8 Client Contact with Portfolio Managers**

All client contacts and communications regarding participation in the Wrap Fee Program will occur through contact with Wealthfront Advisers via email or the Site. Subject to the tax limitation of only two changes to the Client's risk score and profile per tax year or upon a change of Beneficiary, Wealthfront Advisers will promptly make any changes to Client's goals and financial situation. If tax law prevents a change to the Client's risk score and profile, the Client will bear the risk and consequences of the Client's portfolio potentially not corresponding to the risk score and profile corresponding to Client's changed circumstances until such time as applicable law permits the change to the Client's risk score and profile.

## **Item 9 Additional Information**

### **Disciplinary Information**

On December 21, 2018, Wealthfront Advisers reached a settlement with the Securities and Exchange Commission. The settlement order found that Wealthfront Advisers improperly retweeted certain clients' positive tweets from its corporate account and had made compensation to some bloggers for client referrals without proper disclosures. Additionally, the settlement order found that Wealthfront Advisers did not have proper disclosures in its TLH whitepaper concerning monitoring for any and all wash sales that could occur in client accounts. A wash sale prevents the tax benefit of having sold the asset to realize a loss. Thus, a wash sale can diminish the effectiveness of TLH by deferring to a future year a tax loss that could have been used to offset income or capital gains in the current year. In Wealthfront's TLH program, wash sales could occur, or were permitted, in certain circumstances relating to the management of a client account such as rebalancing a client portfolio or client directed transactions. The SEC order noted that a significant percentage of client accounts enrolled in Wealthfront Advisers' TLH strategy experienced wash sales in the period from



October 2012 to May 2016 and that wash sales represented approximately 2.3% of tax losses harvested for clients in the period from January 2014 to December 2016.

The settlement order found that Wealthfront Advisers violated the antifraud, advertising, compliance, and other provisions of the Investment Advisers Act of 1940. Without admitting or denying the SEC's findings, Wealthfront Advisers consented to the entry of the SEC's order censuring it, requiring it to cease and desist from further violations, and imposing a \$250,000 penalty.

### **Other Financial Industry Activities and Affiliations**

Wealthfront Advisers utilizes its affiliate, Wealthfront Brokerage, to effect transactions on behalf of the Clients. In respect to the Plan, Wealthfront Brokerage instructs the Plan's recordkeeper and custodian on behalf of Wealthfront Advisers, where applicable, to provide execution services for the Client's 529 Account transactions pursuant to the authority the Client has given under the applicable 529 Client Agreement and Brokerage Agreement.

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

Wealthfront Advisers' paramount ethical, professional, and legal duty is to act at all times as a fiduciary to its Clients. This means that Wealthfront Advisers puts the interests of its Clients ahead of its own, and carefully manages for any perceived or actual conflict of interest that may arise in relation to its advisory services. Wealthfront Advisers has adopted a Code of Ethics, which is designed to ensure that we meet our fiduciary obligation to Clients, enhance our culture of compliance within the firm, and detect and prevent any violations of securities laws.

Wealthfront Advisers' Code of Ethics (the "Code") establishes standards of conduct for all Wealthfront Advisers' "Employees" (as defined in the Code), including all officers, directors, employees, certain contractors and others, and is consistent with the code of ethics requirements of Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code includes general requirements that all Employees comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest, and confidentiality of client information.

Each new Wealthfront Advisers' Employee receives a copy of the Code when hired or engaged by Wealthfront Advisers. Wealthfront Advisers sends copies of any amendments to the Code to all Supervised Persons, who must acknowledge in writing having received the Code and the amendments. Annually or as otherwise required, each Supervised Person must confirm to Wealthfront Advisers that he or she has complied with the Code during such preceding period.

Wealthfront Advisers' Employees may personally invest in securities recommended by Wealthfront Advisers, specifically the ETFs recommended for each asset class and individual large and mid-capitalization stocks recommended for advanced forms of TLH. Transactions in ETFs have been pre-approved for trading by Wealthfront Advisers' Chief Compliance Officer based on the security's liquidity profile and structural characteristics. Wealthfront Advisers' Employees may also buy or sell specific securities for their own accounts that are not purchased or sold for

Clients. Wealthfront Advisers monitors the securities transactions of all Employees to determine whether there have been any improper use of client trading information by Employees. It also requires all Employees to report any violations of the Code promptly to Wealthfront Advisers' Chief Compliance Officer. The complete Code of Ethics is available to any client or prospective Client upon request.

### **Review of Accounts**

Wealthfront Advisers provides all Clients with continuous access via the Site where Clients can access their Account documents, such as account statements, and review their time-weighted and money-weighted returns. Clients may also receive periodic e-mail communications describing portfolio performance, Account information, and product features.

Wealthfront Advisers' software based 529 investment advisory service assumes that a portfolio created using MPT-based techniques will not stay optimized over time and must be periodically rebalanced back to its original targets to maintain the intended risk level and asset allocations. Wealthfront Advisers reviews each Client's Account when it is opened and using software, continuously monitors and periodically rebalances each Client's portfolio to seek to maintain a Client's targeted risk tolerance and optimal return for the Client's risk level. Wealthfront Advisers also conducts reviews when Clients make changes to their risk profiles. Wealthfront Advisers also determines how the Client's portfolio's allocations of Plan municipal fund securities will change over time pursuant to the assigned glide path. Each glide path gradually shifts the asset allocations of the municipal fund securities in the Client's portfolio to progressively decreasing levels of expected risk as the expected matriculation date of the Beneficiary approaches.

On a periodic basis, Wealthfront Advisers contacts each Client to remind them to review and update personal profile information they previously provided. Wealthfront Advisers also requests that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client's current information and contact information for the Wealthfront Advisers support team. Currently the Wealthfront Advisers team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Client Services Manager and the Client Services team.

Wealthfront Advisers periodically reviews the ETFs used for the municipal fund securities making up Client 529 portfolios. Wealthfront Advisers' Investment Committee, a committee comprised of Andrew Rachleff and certain other Wealthfront Advisers officers who are not members of Wealthfront Advisers investment research team, approves of these reviews. The committee has the authority, if necessary, to remove, add or replace an ETF from the municipal fund securities making up the portfolios advised by Wealthfront Advisers.

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

Wealthfront Advisers expects from time to time to run promotional campaigns to attract Clients to open 529 Accounts on the Site. These promotions may include additional Account services or products offered on a limited basis to select Clients, more favorable fee arrangements, and/or

reduced or waived advisory fees for Clients, including Wealthfront Advisers' Invite Program pursuant to which Clients may invite friends, family and others to open an account with Wealthfront Advisers. Wealthfront Advisers waives its advisory fee on \$5,000 of Account assets for both the referring Client and the referred Client for each referral. Wealthfront Advisers may also invite non-Clients to open an account with Wealthfront Advisers via the Invite Program. For non-Clients who become Clients via direct invitation from Wealthfront Advisers, Wealthfront Advisers will waive its advisory fee on a predetermined amount of the Client's Account assets.

These arrangements may create an incentive for a third-party or other existing Client to refer prospective Clients to Wealthfront Advisers, even if the third-party would otherwise not make the referral. These arrangements may also create a conflict of interest for a Client to maintain a certain level of assets managed through Wealthfront Advisers if doing so would result in eligibility to receive an incentive, bonus or additional compensation.

In the past, Wealthfront Advisers had certain arrangements in which it paid bloggers and others who posted advertisements for Wealthfront Advisers based on the assets initially deposited by individuals responding to such advertisements. Currently, Wealthfront Advisers has certain arrangements in which it pays bloggers and others who post advertisements for Wealthfront a flat fee per client responding to such advertisements who opens an account regardless of whether said client funds the account.

### **Voting Client Securities**

Wealthfront Advisers, as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the Clients. Our firm maintains policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm's proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making information available to clients about the voting of proxies for their portfolio securities and maintaining relevant and required records. Clients may request information regarding how Wealthfront Advisers voted a Client's proxies, and Clients may request a copy of the firm's proxy policies and procedures by emailing [support@wealthfront.com](mailto:support@wealthfront.com). Clients should not become or continue as a Client if they wish to vote such proxies.

### **Financial Information**

This Item is not applicable because Wealthfront Advisers does not require or solicit the prepayment of any advisory fees and does not have any adverse financial condition that is reasonably likely to impair our ability to continuously meet our contractual commitments to our Clients.