



**TOROSO<sup>®</sup>**  
INVESTMENTS

Firm Brochure  
(Part 2A of Form ADV)

**Toroso Investments, LLC**

***DBA Name:***  
**Toroso Asset Management**

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This Firm Brochure (“brochure”) provides information about the qualifications and business practices of Toroso Investments, LLC (“Toroso”), a registered investment adviser.

If you have any questions about the contents of this brochure, please contact us at 844-986-7676 or by email at [dcarlson@torosoinv.com](mailto:dcarlson@torosoinv.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.

Registration with the SEC does not imply a certain level of skill or training. Additional information about Toroso is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

March 28, 2019

## **Material Changes**

Since the last annual amendment brochure filed in 2018, Toroso spun out the division known as Tidal Growth Consultants. As a result of the spin out, Tidal ETF Services, LLC was formed to provide fund administration and other exchange-traded fund (“ETF”) support services. The Tidal ETF Trust became effective in 2018 and is sponsored by Toroso. Therefore, changes were made regarding Toroso’s “doing business as” or “dba” names, as well as the names of certain of its division names. No other material changes were made to this brochure.

# Table of Contents

Material Changes .....	2
Advisory Business.....	4
Firm Description.....	4
Principal Owners .....	4
Types of Advisory Services .....	4
Assets under Management.....	6
Fees and Compensation .....	6
Investment Management Fees .....	6
Non-Discretionary Pension Consulting Fees.....	7
Non-Discretionary Portfolio Consulting Fees .....	8
Fees for Index Provider Services.....	8
Other Fees.....	8
Performance-Based Fees.....	8
Types of Clients .....	8
Methods of Analysis, Investment Strategies and Risk of Loss .....	9
Methods of Analysis and Investment Strategy .....	9
Risk of Loss.....	12
Disciplinary Information.....	17
Other Financial Industry Activities and Affiliations .....	17
Financial Industry Activities.....	17
Affiliations.....	17
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	18
Brokerage Practices.....	18
Selecting Broker Dealers .....	18
Brokerage for Client Referrals .....	19
Directed Brokerage.....	19
Aggregation of Orders.....	19
Review of Accounts .....	19
Periodic Reviews.....	19
Regular Reports .....	20
Client Referrals and Other Compensation .....	20
Custody .....	20
Investment Discretion .....	20
Voting Client Securities.....	21
Financial Information.....	21

## Advisory Business

### Firm Description

Toroso Investments, LLC (“Toroso”) is a Delaware limited liability company founded in March of 2012. Toroso also operates under the following “doing business as” or “DBA” name: Toroso Asset Management.

### Principal Owners

There are currently no outside companies or individuals that own more than 25% of Toroso’s voting rights. Over 50% of the voting rights are with employee members.

### Types of Advisory Services

Toroso is dedicated to understanding, researching and managing assets within the expanding ETF universe. Toroso’s investment philosophy emulates many of the values and benefits inherent in ETFs such as: transparency, liquidity and tax efficiency. Toroso offers fee-only discretionary and non-discretionary investment management services to individuals; high net worth individuals, including family offices; and institutions, which primarily include qualified pension plans, Taft-Hartley plans, and 401(k) plans. Additionally, Toroso provides fee-only non-discretionary pension consulting services to corporate retirement plans and non-discretionary outsourced CIO consulting services to Financial Advisors. Furthermore, Toroso anticipates becoming the adviser to newly issued ETFs that are serviced by its affiliated firm, Tidal ETF Services, LLC. Toroso generally acts under the DBA name **Toroso Asset Management** when providing the foregoing services. ([www.torosoam.com](http://www.torosoam.com))

Toroso also provides bespoke independent financial services to individual investors, retirement plan sponsors and corporations. Toroso provides an ETF focused, diversified asset allocation approach that is outcome focused and strives for consistent performance while embracing the client’s risk tolerance and true time horizon. Toroso generally provides these services via its **Toroso Advisors division**, or **Faro Advisory division**, which is a sub-division of the Toroso Advisors division. ([www.torosoadvisors.com](http://www.torosoadvisors.com) and [www.faroadvisory.com](http://www.faroadvisory.com))

Prospective clients can enter into a discretionary and non-discretionary investment management services agreement directly with Toroso. Direct separate account clients choosing this option will typically participate in one or more interviews that will assist Toroso in obtaining information about the client’s financial situation so that Toroso can recommend one or more of its investment strategies and portfolio options to the client. In general, tailored investment advice will be provided to these clients as to recommended investment strategies and portfolio options; however, the selection of individual securities within each portfolio option is performed on a discretionary basis

by Toroso and will generally be based on the client's investment objectives and risk tolerance.

Toroso offers its discretionary investment management services through various wealth management and/or wrap fee platforms. Clients obtained indirectly through one of these platforms will typically have an unaffiliated third-party investment adviser, who is responsible for making investment recommendations to the client, which may include the selection of one or more of Toroso's investment strategies and portfolio options that are available on the platform. Clients that are obtained through one of these platforms, under these circumstances, will not receive any individualized investment advice from Toroso and will not have the ability to impose any restrictions on the securities or types of securities that Toroso may invest in.

Toroso is also engaged as an index provider, dedicated to developing indexes for ETF providers and institutional investors. Toroso has contracted with Solactive AG to provide calculation index services for Toroso's first index, the Toroso ETF Industry Index ("TETF.Index"). This Index is followed by the ETF Industry Exposure & Financial Services ETF (the "Fund" or "TETF"). TETF is an exchange-traded fund that commenced operations in April 2017. Exchange Traded Concepts, LLC ("ETC"), the investment advisor to the Fund ("Advisor"), and Toroso have entered into a license agreement by which Toroso licenses the index to ETC at no charge for its use in connection with the Fund.

Toroso and other issuers of ETFs, including Exchange Traded Concepts, LLC and Amplify Investments LLC, have entered into agreements to share profits of advisory fees. The existence of these agreements creates material conflicts of interest because they provide Toroso with an incentive to increase each ETF's AUM, which it may do by investing client assets in it. However, where such a conflict of interest exists, Toroso will not charge its advisory fees on client assets invested in the ETFs.

Wealthy families face complexities that require planning and these services are provided by Toroso (typically via its Toroso Advisors division or Faro Advisory sub-division). These complexities of wealth advisory include financial planning and generational wealth planning issues. Toroso works with wealthy individuals and families and can leverage our collective expertise and resources to provide the planning that they require. Jim Hofheimer focuses his expertise on defined contribution plans, defined benefit plans, foundations and endowments, as well as select high net worth individuals. Likewise, Toroso (via its Faro Advisory sub-division) works with individuals and families to leverage our collective expertise and resources to provide the planning that they require. Juan Carlos Avila and Olga Camargo focus their efforts on these clients' needs.

Certain high net worth individuals who own minority interests in Toroso may also be fee paying advisory clients. This may create a potential conflict of interest in that

Toroso may have an incentive to favor these clients over others. It is Toroso's policy, however, to treat all clients fairly at all times, and consequently, Toroso endeavors to avoid any situation where it may appear that preferential treatment is being given to any client with respect to investment opportunities.

Non-discretionary pension consulting services are offered by Toroso Advisors and Faro Advisory primarily to corporate retirement plans. Such services typically include the provision of advice regarding investment strategies, investment policy, asset allocation, asset class specification and investment vehicle selection, as well as portfolio monitoring services.

Toroso and/or its related persons from time to time may recommend to clients, or may buy or sell for client accounts, securities in which our firm or a related person has a material financial interest. Related persons of our firm may buy or sell securities and other investments that are also recommended to clients. In order to minimize conflicts of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics. Further, our related persons will refrain from buying or selling the same securities prior to buying or selling for our clients in the same day. If related persons' accounts are included in a block trade, our related persons' accounts will be traded in the same manner every time.

### Assets under Management

As of December 31, 2018, Toroso had approximately \$297 million in discretionary assets under management, as well as approximately \$548 million in non-discretionary assets under management.

## **Fees and Compensation**

### Investment Management Fees

Toroso offers its investment management services on a fee only basis and does not have a standard fee schedule. All fee arrangements are negotiated on an individual basis with each direct client or with each wealth management and/or wrap fee platform, which applies to all clients obtained through that platform. Direct high net worth individual clients and direct institutional clients will typically be charged an advisory fee in the range of 0.50% to 1.50% of assets under management on an annual basis. Wealth management and/or wrap fee platform clients will also typically pay advisory fees in the range of 0.25% to 1.00% of assets under management on an annual basis, which is separate from any advisory fees that the client may pay to an investment adviser, unaffiliated with Toroso, that recommends and/or recommended that the client allocate some or all of their assets into a Toroso portfolio option and separate from any advisory fees paid to a wealth management platform, if applicable.

With respect to direct clients, advisory fees are paid in advance and typically deducted within fifteen business days of the beginning of each calendar quarter directly from the client's custodial account, based on the custodial market value as of the last day of the prior calendar quarter. Direct clients, however, may elect to be billed for Toroso's advisory fees in lieu of having them deducted from their custodial accounts. With respect to wealth management and/or wrap fee platform clients, fees associated with the platform, including Toroso's advisory fee, are calculated by the platform and are generally directly deducted from the client's custodial account. Wealth management and/or wrap fee platform clients should refer to the disclosure documents from and/or contracts with their platform for information on the frequency of fee billing, whether fees are charged in advance or arrears, and the method of calculation. The amount of advisory fees remitted by a wealth management and/or wrap fee platform to Toroso is based on the aggregate amount of the platform's assets under Toroso's investment management.

Advisory fees are prorated for any new accounts opened during a calendar quarter. In the event that a direct client terminates its investment management services agreement with Toroso prior to the end of a quarter or a wealth management platform client ceases to be a client of the platform, the client will receive a refund of any unearned management fees that were deducted from their custodial account. The amount of the refund will be calculated by dividing the most recent management fee by the number of days in the quarter and multiplying that figure by the number of days left in the quarter following the date of termination.

#### Non-Discretionary Pension Consulting Fees

Fees for Toroso's non-discretionary pension consulting services are negotiated on an individual basis with each pension plan and/or the pension plan's sponsor. Pension plan clients typically pay fees in the range of 0.10% to 1.25% of assets under management on an annual basis, subject to a minimum annual fee, which is also negotiable, of \$3,800 or \$950 per quarter. Toroso's pension consulting fees are generally calculated by the pension plan, which then authorizes payment to Toroso. Pension consulting fees are generally paid in arrears on a quarterly basis, but may be paid fully or partially in advance for the quarter. In the event that a non-discretionary pension consulting client pays Toroso's pension consulting fees for the quarter fully in advance and terminates its pension consulting services agreement with Toroso prior to the end of a quarter, the pension consulting client will receive a refund of any unearned pension consulting fees. The amount of the refund will be calculated by dividing the most recent pension consulting fee by the number of days in the quarter and multiplying that figure by the number of days left in the quarter following the date of termination. If, however, a pension consulting client pays partially in advance and partially in arrears for the quarter and terminates their relationship with Toroso prior to the end of the quarter, the client will receive a refund based on the same calculation methodology noted above, but only if the date of termination occurs after fees for the relevant quarter have been received by Toroso.

## Non-Discretionary Portfolio Consulting Fees

All fees for non-discretionary ETP portfolio consulting services are negotiated on an individual basis with each consulting client, depending on the scope of the engagement. Fee arrangements for ETP portfolio consulting services are typically on an annual or per project fixed fee basis.

## Fees for Index Provider Services

Toroso currently licenses the Toroso ETF Industry Index to Exchange Traded Concepts, LLC and waives its fee for these services. However, Toroso has a profit sharing agreement with ETC, the Advisor of the ETF following this Index. Please see the Advisory Business Section above for more information. Future indexes may have a fixed or variable fee arrangement that will be determined on a case by case basis with the licensee of the index.

## Other Fees

Please see the “Selecting Broker Dealers” section below for a discussion regarding brokerage that may be relevant to this discussion of fees. Client portfolios invest in ETFs, exchange traded notes (“ETNs”) and may invest in mutual funds as part of Toroso’s investment strategies. Investments in ETFs and mutual funds, including closed-end mutual funds, generally include an embedded investment management fee paid to an unaffiliated third-party investment adviser. As such, clients with investments in these types of securities may be subject to two layers of management fees, and in the case of wealth management and/or wrap fee platform clients, three or four layers of management fees.

## Performance-Based Fees

Toroso does not currently enter performance-based fee arrangements with its advisory clients.

## Types of Clients

Toroso offers its investment management services on a direct basis to various wealth management and/or wrap fee platforms, which in turn make Toroso’s investment strategies and portfolio options available to their clients. Toroso (typically, under DBA name **Toroso Asset Management**) also offers its investment management services directly to institutions, which primarily include qualified pension plans, Taft-Hartley plans, and 401(k) plans; pooled investment vehicles, which include collective investment trusts and investment companies registered under the Investment Company Act of 1940; and to high net worth individuals, including family offices. With respect to clients obtained via wealth management and/or wrap fee platforms, there are no minimum account requirements or restrictions on types of clients imposed by Toroso, however, each platform may impose its own restrictions regarding minimum



investment or account opening requirements or the types of clients it will accept.

Pension consulting services are offered primarily to corporate retirement plans.

ETP portfolio consulting services are offered under the DBA name **Toroso Asset Management** to investment advisers and/or investment management companies. ETP portfolio consulting services can be offered as non-discretionary sub advisory or purely consulting fee basis which may present conflicts of interest in certain situations described Advisory Business section above.

Consulting services other than portfolio-related ones are offered to investment advisers and/or investment management companies like registered investment advisers (“RIAs”), Asset Managers or entrepreneurs. We provide a holistic ETF advisory team designed to assist RIAs, ETF issuers, Asset Managers or entrepreneurs increase their assets under management.

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

### **Methods of Analysis and Investment Strategy**

To ETFs, Toroso can act as an ETF Advisor, Sub-advisor or Index Provider. Toroso looks to leverage our experience to help ETFs grow in any role that is appropriate.

1. Toroso serves as the Advisor to the Aware Ultra-Short Duration Enhanced Income ETF (“AWTM”), an actively-managed treasury management ETF. The Fund seeks to maximize current income targeting a yield of 0.75% to 1.00% over the 3-month Treasury Bills while maintaining preservation of capital and daily liquidity.
2. Toroso serves as the Sub-Advisor to the Amplify Transformational Data Sharing ETF (“BLOK”). The BLOK Strategy is an actively managed portfolio seeking to provide total return by investing at least 80% of net assets in equity securities of companies actively involved in development and utilization of blockchain technologies. Toroso strives to outperform the EQM-Emerita Blockchain BLOK 50 Global Index with this strategy.
3. Toroso serves as the Sub-Advisor to the Amplify Advanced Battery Metals and Materials ETF (“BATT”). The strategy for BATT is an actively managed portfolio that seeks to provide exposure to Lithium, Cobalt, Nickel, Manganese and Graphite via publicly-traded stocks. Companies in the portfolio are principally engaged in the business of mining, exploration, production, development, processing or recycling of advanced battery metals and materials. Toroso strives to outperform the EQM Battery Metals and Mining Index with this strategy.

4. Toroso serves as the Index Provider to the ETF Industry Exposure & Financial Services ETF (“TETF”). The ETF Industry Exposure & Financial Services Strategy is designed to provide exposure to publicly-traded companies that derive revenue from the Exchange Traded Funds ecosystem.

To managed accounts, Toroso currently offers three primary investment strategies, (1) the Wealth Preservation Series, (2) the Target Income Series, and (3) the Growth Series. We also offer risk-based models that combine our three outcome-based solutions.

1. The All Weather Plus Series strives to preserve wealth by investing primarily in ETFs that represent four different asset classes: equities, fixed income, inflation beneficiaries such as commodities, and cash equivalents. Clients who select the All Weather Plus Series can then choose from three different portfolio options, which are derived from Harry Browne’s Permanent Portfolio asset allocation concept, depending on how they perceive current economic conditions or their expectations of future economic conditions. Toroso’s three portfolio options are:

All Weather Plus (25% equities, 25% inflation beneficiaries, 25% fixed income, 25% cash);

Prosperity Plus (50% equities, 25% inflation beneficiaries, 12.5% fixed income, 12.5% cash); and

Recession Plus (12.5% equities, 12.5% inflation beneficiaries, 25% fixed income, 50% cash).

When selecting specific ETFs for the All Weather Plus Series, Toroso primarily focuses on index construction and portfolio exposures. Toroso favors ETFs that provide specific exposures that complement the goals of the portfolio and, at a reasonable price, provide an opportunity to grow faster than the overall market. However, Toroso seeks to avoid ETFs that implement tactical asset allocation strategies, ETFs that appear to be overly exposed to specific sectors, and ETFs whose portfolio companies engage in cannibalistic tactics (e.g., companies where the competition creates a zero-sum outcome). ETFs that make it through the first level of review are then evaluated based on attributes such as market capitalization, price-to-book ratios, fees, liquidity, and the availability of options on the ETF. Additionally, Toroso analyzes the index methodologies of each ETF under consideration and evaluates the extent of any overlapping holdings in other ETFs already held within the portfolio.

2. The Target Income Series seeks to replicate the behavior of traditional fixed income type portfolios by investing primarily in ETFs, ETNs, closed- end mutual funds, bonds, preferred stocks, and options. Although the Target Income Series seeks to maximize yield and total return, the primary goal of the strategy is to provide income and the return of principal at a stated date. Clients who select the Target Income Series can choose from three different portfolio options based on a target yield level: 3% yield with a time horizon of

5 years, 5% yield with a time horizon of 10 years, and 7% yield with a time horizon of 15 years. In constructing the models for each portfolio option, Toroso seeks, but is not obligated, to maintain an average duration of 5, 10, and 15 years and an average credit quality of AA, A and BBB, respectively. When selecting securities, Toroso focuses on the following factors: yield, credit quality, duration, liquidity, and, if applicable, the amount of any premium or discount to the fund's NAV.

Although investment advisory representatives of Toroso will generally use Toroso's All Weather Plus or Target Income Series as the core of their clients' portfolios. Toroso's investment advisory representatives have the discretionary flexibility to recommend Growth Strategies and other types of investments as part of a satellite strategy in order to supplement and/or adjust the client's expected return, exposure to certain asset classes, sectors, or issuers, and/or overall risk profile.

3. Toroso offers two different portfolio options for its Growth Strategies – the (A) Sector Opportunities Strategy and the (B) Global Alpha Strategy.

A. The Sector Opportunities Strategy will be offered to clients looking for an all equity investment that strives to outperform the S&P 500 Index. Clients selecting this strategy will have approximately 80% of their account invested in a concentrated allocation of three to six industry sector or sub-sector ETFs that are expected to perform better than the S&P 500 Index. The remaining 20% of the client's account will be invested in ETPs that strive to benefit from market volatility.

B. The Global Alpha Strategy will generally be offered as a satellite strategy to be used in conjunction with a client's existing investment in one of the three All Weather Plus Series portfolio options that will serve as the core of the client's account. The strategy will invest primarily in ETFs and mutual funds, which have volatilities that can exceed the overall market, in order to seek better performance than the market in general. Toroso also strives to minimize overlaps between the portfolio holdings of the client's core wealth preservation type holdings and satellite Global Alpha Strategy holdings. The goal of the Global Alpha Strategy is to provide clients with returns in excess of the iShares MSCI ACWI ETF (Symbol: ACWI).

4. Finally, primarily for third party platforms and collective investment trusts that are used by defined contribution plans, Toroso will offer the Target Risk Series, which consists of five different portfolio options: Conservative Income, Conservative Growth, Moderate Growth, Growth, and Aggressive Growth.

The Conservative Income portfolio option is similar to the Target Income Series in that ETPs are used to create portfolios that seek to replicate the behavior of traditional fixed income securities, but with a target income or yield level. Toroso uses a barbell approach to allocate a portion of the portfolio to higher yielding ETPs while maintaining an allocation to cash equivalents in order to have available funds to tactically increase allocations to higher yielding securities as opportunities arise.

The Conservative Growth portfolio option is nearly identical to the All Weather Plus Series portfolio option, which primarily invests in ETFs to obtain equal-weighted exposure to equities, inflation beneficiaries/commodities, fixed income and cash asset classes. Any differences are as a result of certain ETFs not being made available on all platforms.

The Moderate Growth portfolio option follows a core satellite approach by investing approximately 70% of the portfolio according to the Conservative Growth portfolio option and the remaining 30% to equity-focused ETFs that are selected based on fundamental analysis.

The Growth portfolio option follows the same core satellite approach, but allocates approximately 50% to the Conservative Growth portfolio option and the remaining 50% to equity-focused ETFs that are selected based on fundamental analysis.

The Aggressive Growth portfolio option allocates approximately 90% of the portfolio to equity-focused ETFs that are selected based on fundamental analysis while maintaining a small 10% allocation to the Conservative Growth portfolio option.

## Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. Toroso's investment approach constantly keeps the risk of loss in mind and the firm attempts to mitigate portfolio risk through diversified asset allocation and targeted security selection within asset classes, which seeks to avoid investments in ETFs with index methodologies that are overly exposed to sector risk or tactical knockouts.

The following is not meant to be a complete description of risks. For the ETFs the Toroso provides services to, please see the Prospectus of the ETF for a complete list of the risks specific to that ETF.

Market Risk: The price of any security, including ETFs, equities, bonds or mutual funds may drop in reaction to tangible and intangible events

and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

Liquidity Risk: Liquidity is the ability to readily convert an investment, including ETFs, into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.

Interest-Rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to bonds.

Call Risk: Bonds that are callable carry an additional risk because they may be called prior to maturity depending on current interest rates thereby increasing the likelihood that reinvestment risk may be realized.

Credit Risk: The price of a bond depends on the issuer's credit rating, or perceived ability to pay its debt obligations. Consequently, increases in an issuer's credit risk, may negatively impact the value of a bond investment.

Inflation Risk: When inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

Speculation Risk: The commodities markets are populated by traders whose primary interest is in making short-term profits by speculating whether the price of a security will go up or go down. The speculative actions of these traders may increase market volatility that could drive down the prices of commodities.

Geopolitical Risk: The world's natural resources are located in various continents and the jurisdiction over those commodities lies with sovereign governments, international companies, and many other entities. Disagreements over licensing agreements, tax structures, environmental concerns, employment of indigenous workers, and access to technology could negatively impact the price of commodities. Additionally, international disagreements over the control of natural resources could negatively impact the price of commodities.

Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

Foreign Market Risk: The securities markets of many foreign countries, including emerging countries, have substantially less trading volume than the securities markets in the United States, and securities of some foreign companies are less liquid and more volatile than securities of comparable United States companies. As a result, foreign securities markets may be subject to greater influence by adverse events generally affecting the market or by large investors' trading significant blocks of securities, than as it is in the United States. The limited liquidity of some foreign markets may affect Toroso's ability to acquire or dispose of securities at a price and time it believes is advisable. Further, many foreign governments are less stable than that of the United States. There can be no assurance that any significant, sustained instability would not increase the risks of investing in the securities markets of certain countries.

Counterparty and Broker Credit Risk: Certain assets will be exposed to the credit risk of the counterparties when engaging in exchange-traded or off-exchange transactions. There may be a risk of loss of assets on deposit with or in the custody of a broker in the event of the broker's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions, or the bankruptcy of an exchange clearinghouse.

Personnel Risk: Toroso is heavily dependent on the activities, judgment and availability of Messrs. Carlson and Venuto, each of whom are key to performing certain critical functions relating to Toroso's daily operations. In the event of the death or permanent disability of Mr. Carlson or Mr. Venuto, Toroso's operations may be materially disrupted until a suitable successor is found.

Leverage Risk: Although Toroso does not employ leverage in the implementation of its investment strategies, some ETPs and CEFs employ leverage. Leverage increases returns to investors if the investment strategy earns a greater return on leveraged investments than the strategy's cost of such leverage. However, the use of leverage exposes investors to additional levels of risk and loss that could be substantial.

Manager Risk: Toroso may recommend or utilize the services of other advisers in the management of client accounts, primarily to provide

tactical overlay guidance or recommendations regarding asset allocations. Despite Toroso's efforts, an account's value may decrease if Toroso relies on recommendations received from such investment advisers that do not properly evaluate current economic conditions or do not correctly anticipate changes to economic or market conditions.

Exchange-Traded Funds: ETFs are typically investment companies that are legally classified as open end mutual funds or unit investment trusts ("UITs"). However, they differ from traditional mutual funds, in particular, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies and the market price for a share of an ETF may fluctuate from the value of its underlying securities. Consequently, ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and the ask price is often referred to as the "spread", which generally varies based on the ETF's trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940, some ETFs, in particular those that invest in commodities, are not registered as an investment company.

Exchange-Traded Notes: An ETN is a senior unsecured debt obligation designed to track the total return of an underlying market index or other benchmark. ETNs may be linked to a variety of assets, for example, commodity futures, foreign currency and equities. ETNs are similar to ETFs in that they are listed on an exchange and can typically be bought or sold throughout the trading day. However, an ETN is not a mutual fund and does not have a net asset value; the ETN trades at the prevailing market price. Some common risks associated with ETNs are that the issuer may be unable to repay the principal, interest (if any), and any returns at maturity or upon redemption. In addition, the trading price of an ETN in the secondary market may be adversely impacted if the issuer's credit rating is downgraded. The index or asset class for performance replication in an ETN may be concentrated in a specific sector, asset class or country and may therefore carry specific risks.

Leveraged and Inverse ETFs, ETNs and Mutual Funds: Leveraged ETFs, ETNs and mutual funds, sometimes labeled "ultra" or "2x" for example, are designed to provide a multiple of the underlying index's return, typically on a daily basis. Inverse products are designed to provide the opposite of the return of the underlying index, typically on a daily basis. These products are different from and can be riskier than traditional ETFs, ETNs and mutual funds. Although these products are designed to provide returns that generally correspond to the underlying index, they may not be able to exactly replicate the performance of the index because of fund expenses and other factors. This is referred to as

tracking error. Continual resetting of returns within the product may add to the underlying costs and increase the tracking error. As a result, this may prevent these products from achieving their investment objective. In addition, compounding of the returns can produce a divergence from the underlying index over time, in particular for leveraged products. In highly volatile markets with large positive and negative swings, return distortions are magnified over time. Because of these distortions, these products should be actively monitored, as frequently as daily, and may not be appropriate as an intermediate or long-term holding. To accomplish their objectives, these products use a range of strategies, including swaps, futures contracts and other derivatives. These products may not be diversified and can be based on commodities or currencies. These products may have higher expense ratios and be less tax-efficient than more traditional ETFs, ETNs and mutual funds.

VIX Futures: VIX futures are among the most volatile futures contracts. VIX futures are almost continually in a state of contango, a situation where the futures price is higher than the expected future spot price. ETFs that hold VIX futures on a continuous basis must “roll” their contracts as each expiration date approaches in order to maintain their VIX exposure. Furthermore, as VIX futures are mean reverting, which means that the futures price and the future spot price must converge, eventually the futures price must drop, the future spot price must rise or a combination of the two must occur, but usually involving some drop in the futures price. Consequently, such ETFs must generally sell VIX futures contracts about to expire at a price lower than the price at which it purchases a replacement VIX futures contract to roll their position. In order to generate a profit, ETFs that invest in VIX futures must generate a return that exceeds the costs of contango, which may be substantial and, consequently, ETFs benchmarked to the VIX or investing materially in VIX futures should not be expected to appreciate over extended periods of time.

Digital Commodity Risk: To the extent strategies have exposure to digital commodities through its investments in Blockchain Funds, investment companies or ETFs, the value of those investments is subject to fluctuations in the value of the underlying digital commodity. The value of digital commodities is determined by the supply of and demand for the commodity in the global market for the trading of digital commodities, which consists of transactions on electronic digital commodity exchanges. Pricing on digital commodity exchanges and other venues can be volatile and can adversely affect the value of an investment strategy. Currently, there is relatively small use of digital commodities in the retail and commercial marketplace in comparison to speculators in the asset, thus contributing to price volatility that could adversely affect the investment. Digital commodity transactions are



irrevocable, and stolen or incorrectly transferred digital commodities may be irretrievable. As a result, any incorrectly executed transactions could adversely affect the value of the investment.

## **Disciplinary Information**

Neither Toroso nor any of its supervised persons have been the subject of any legal or disciplinary events that would be material to an evaluation of Toroso or the integrity of Toroso's management.

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

### **Financial Industry Activities**

Toroso does not engage in any other financial industry activities other than its activities as an investment manager, wealth advisor, and ETF portfolio consultant.

### **Affiliations**

Tidal ETF Services, LLC is a newly formed affiliate of Toroso formed in September 2018 and is majority owned by Toroso Investments, LLC.

Michael Venuto is an independent trustee of the Cambria ETF Trust and he receives compensation for his board services.

Olga Camargo (CRD No. 4893843) and Juan Carlos Avila (CRD No. 2058210) are licensed Health and Life Insurance Producers in the state of Illinois. Mr. Avila is also licensed to sell variable contracts. Ms. Camargo is also a licensed Property and Casualty Producer in Illinois. Ms. Camargo and Mr. Avila are affiliated with Alliance Insurance Services, Inc. ("Alliance") and Faro Associates ("Faro") and receive commissions from clients that form insurance relationships with Alliance. There is a potential conflict of interest for Toroso to recommend its clients to Alliance. However, all Alliance insurance relationships existed before those insurance clients became advisory clients of Toroso. Furthermore, no new accounts with Alliance were formed after Ms. Camargo and Mr. Avila joined Toroso. Consequently, Toroso does not currently believe that their status as licensed insurance producers create any conflicts with the interests of Toroso's advisory clients as Toroso believes no clients of Toroso will become clients of either Alliance or Faro. Faro and Toroso are not affiliated.

Neither Toroso nor any of its management persons have any other affiliations with broker-dealers, financial planning firms, commodity pool operators, commodity trading advisers, futures commission merchants, banks, thrift institutions, accounting firms, law firms, insurance companies or agencies, pension consultants, real estate brokers or dealers, or entities that create or package limited partnerships that are material to Toroso's advisory business or clients.

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

Toroso has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes a prohibition on insider trading, provisions requiring all of Toroso's supervised persons to comply with applicable federal securities laws, provisions requiring Toroso's supervised persons to report their personal securities transactions, and provisions requiring Toroso's supervised persons to promptly report any violations of its Code of Ethics. All supervised persons must also acknowledge the terms of the Code of Ethics annually and as amended. A copy of Toroso's Code of Ethics is available for review by clients and prospective clients upon request.

On occasion, Toroso or its supervised persons may invest in the same securities as those recommended to clients. This may create potential conflicts of interest because (1) Toroso or its supervised persons may have an incentive not to recommend the sale of those securities to clients in order to protect the value of their personal investment, and (2) Toroso or its supervised persons may have an incentive to place their orders before those of clients in order to obtain a better price. All Toroso's employees review and acknowledge the Code of Ethics. Toroso's Code of Ethics addresses these potential conflicts of interest by instituting a standard of business conduct for all supervised persons, by prohibiting supervised persons from effecting certain securities transactions without obtaining pre-clearance from Toroso's Chief Compliance Officer and by reviewing personal securities transactions reports filed by supervised persons for potential conflicts of interest.

## **Brokerage Practices**

### **Selecting Broker Dealers**

Toroso places all orders for the purchase or sale of securities with the primary objective of seeking to obtain best execution and only selects brokers that the firm believes are most capable of providing best execution for the particular transaction. Toroso has a high expectation regarding the execution quality it expects to receive and deals only with brokers that can meet that standard. When selecting brokers, Toroso evaluates the broker's expertise in trading ETFs, access to markets, and responsiveness to Toroso, as well as Toroso's overall prior experience with the broker. Additionally, all brokerage institutions with whom Toroso trades must meet broad qualifications regarding professional expertise and competence, competitive pricing, and financial stability.

With respect to orders for the purchase or sale of securities for wealth management and/or wrap fee platform clients, all orders will be conveyed to the platform sponsor, which will be responsible for selecting broker-dealers to execute the transaction in a manner that seeks to obtain best execution for the client.

## Brokerage for Client Referrals

It is Toroso's policy not to select for or recommend to clients any broker-dealer for custodial or execution services based on Toroso's or its supervised persons' receipt of client referrals from a broker-dealer or other third party.

## Directed Brokerage

Clients are permitted to instruct Toroso to direct their brokerage to a particular broker-dealer but should be aware that Toroso may be unable to achieve most favorable execution in those circumstances. When a client directs Toroso to use a particular broker-dealer, that arrangement may cost the client more money than if the client did not direct Toroso to use a particular broker-dealer.

For example, Toroso may be unable to aggregate the client's order with the orders of other clients potentially resulting in higher transaction costs for that client. In other cases, the broker-dealer selected by the client may not have expertise in executing transactions for certain types of securities, such as ETFs, and consequently, the client may receive execution prices that are inferior to those received by other clients.

## Aggregation of Orders

Toroso may aggregate purchase or sale orders for a security for the accounts of multiple direct clients into a single transaction, often times referred to as a block or bunched trade. If a block trade is executed, each participating client typically receives a price that represents the average of the prices at which all of the transactions in a given block were executed. Executing a bunched trade allows transaction costs to be shared typically on a pro rata basis among all of the participating clients. Bunched trading may also allow Toroso to incur lower transaction costs or achieve better execution for clients. If the order is not completely filled, the securities purchased or sold are distributed among participating clients on a pro rata basis or in some other equitable manner.

Block trades are typically placed when the firm reasonably believes that the combination of the transactions provides better prices for clients than placing individual transactions. Toroso is not obligated to include any client account in a bunched trade.

## **Review of Accounts**

### Periodic Reviews

Toroso informally reviews each portfolio's holdings on a daily basis to ensure that each model continues to conform to the respective investment strategy. With respect to individual client accounts, each direct client's account is informally reviewed on a quarterly basis internally and is formally reviewed on an annual basis with the client.

Accounts belonging to clients obtained through wealth management platforms will not be reviewed, formally or informally, by Toroso. All reviews will be performed by Toroso's Chief Investment Officer or the lead portfolio manager.

## **Regular Reports**

Toroso makes available quarterly performance reports to its direct account clients. Quarterly performance reports may include holdings, gain/loss, market value, asset allocation, performance return, and summary account activity information for all accounts that the client has under management with Toroso.

Additionally, Toroso makes available periodic reports to its pension consulting clients, generally on a quarterly basis. Such reports will generally include current performance summaries of the market and specific asset classes, holdings and performance summaries for the pension plan's positions, due diligence information on the pension plan's holdings, and peer benchmark comparisons.

## **Client Referrals and Other Compensation**

Toroso has entered into an agreement to compensate an agent for referrals made to Toroso. The agent's compensation is generally attributable to the amount of assets referred to Toroso and the cost of these referral fees is paid by Toroso.

As a matter of practice, advisory fees paid to Toroso by clients referred by an agent are not increased as a result of any referral.

## **Custody**

All client funds and securities are held at qualified custodians, who are required to send account statements, at least quarterly, directly to each of Toroso's direct and indirect clients. All clients are urged to carefully review those statements and any client who also receives quarterly performance reports from Toroso is urged to compare the information contained within their custodial account statements with the information contained in their quarterly performance reports.

## **Investment Discretion**

Toroso has discretionary authority, pursuant to its written investment management services agreements with clients, to determine, without obtaining specific client consent, the securities to be bought or sold, the amount of the securities to be bought or sold, the brokers or dealers through which transactions will be executed, and the amount of commissions or mark ups or mark downs paid. Clients have the ability to direct which investment strategies and portfolio options that their assets are invested

in, but once allocated, do not have any ability to limit Toroso's discretionary authority with respect to the management of those investment strategies or portfolio options.

## **Voting Client Securities**

Toroso does not have and will not accept the authority to vote client securities on behalf of its advisory clients, with the exception of advisory clients subject to the Employee Retirement Income Security Act of 1974 ("ERISA") for which Toroso serves as a Section 3(38) Investment Manager and clients subject to the Investment Company Act of 1940. Toroso, however, does not expect to receive proxies related to client securities on a frequent basis as Toroso does not recommend individual equity securities.

In those situations where Toroso does accept the authority to vote client securities and receives a proxy, it is Toroso's policy to vote such securities on a case-by-case basis. In general, Toroso will vote in favor of any action that will help Toroso achieve the goals of the respective investment strategy that the security is associated with or any action that will make the security more appropriate for inclusion in the respective investment strategy. Clients may direct Toroso as to how to vote their securities and can obtain a copy of Toroso's proxy voting policies and procedures or information regarding how Toroso voted their proxies by contacting Toroso and submitting a request by phone or email.

There is a possibility that Toroso might occasionally become aware of a material conflict of interest, which might reasonably bring into question Toroso's objectivity in voting a client's securities. In such a case, it is Toroso's policy to request that the respective plan sponsor of a client subject to ERISA vote such proxies on the plan's behalf and if such request is denied, not to vote any such proxies, and with respect to registered investment company clients, it is Toroso's policy to abstain from voting the proxy.

## **Financial Information**

Toroso is not currently subject to any financial condition that is reasonably likely to impair Toroso's ability to meet its contractual commitments to clients and Toroso has not been the subject of a bankruptcy petition since its inception.