

# **DISCLOSURE BROCHURE**

(FORM ADV, PART 2A)

**TD AMERITRADE INVESTMENT MANAGEMENT, LLC**

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This brochure provides prospective clients with information about TD Ameritrade Investment Management, LLC that should be considered before or at the time of obtaining advisory services from TD Ameritrade Investment Management, LLC. If you have any questions about the contents of this brochure, please contact us at 888-310-7921. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Please be advised that TD Ameritrade Investment Management, LLC will not assign its duties to you to any other party without your consent.

Additional information about TD Ameritrade Investment Management, LLC is also available on the SEC's website at [adviserinfo.sec.gov](http://adviserinfo.sec.gov). The IARD/CRD number for TD Ameritrade Investment Management, LLC is 111514.

TD Ameritrade Investment Management, LLC is registered with the United States Securities and Exchange Commission as a Registered Investment Advisor. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

Please print a copy of this brochure and retain it for your future reference.

### **Summary of Material Changes**

This section highlights revisions made since the last annual amendment dated December 15, 2017 to the Disclosure Brochure:

- TD Ameritrade Investment Management, LLC was the survivor of a merger with Scottrade Investment Management, Inc. and became the manager of the Scottrade Investment Management Guidance Solutions Portfolios. See *A. Services Provided, ii. Guidance Solutions Portfolios – General Description*.
- We entered into a referral agreement with TD Bank, N.A. See *Client Referrals and Other Compensation*.
- We added the Personalized Portfolios service. See *Services Provided* for details.

TD Ameritrade Investment Management, LLC

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## Advisory Business

TD Ameritrade Investment Management, LLC ("TDAIM," or "we," "us," or "our") provides a variety of goal-planning and advisory services to clients. The advisory services are: i) The TDAIM Core Mutual Fund, Core ETF, Supplemental Income, Opportunistic, and Managed Risk Portfolios services ("Selective Portfolios") with asset allocation involving ETFs or mutual funds, along with cash and cash alternatives, and are provided only on a discretionary basis; ii) The Essential Portfolios, which use ETFs for investors seeking a primarily online basic asset allocation discretionary service; iii) The Personalized Portfolios, which offer a more tailored discretionary portfolio service, with the client working with a dedicated TDAIM Portfolio Consultant; and iv) Guidance Solutions Portfolios (from our merger with Scottrade Investment Management, Inc. ("Scottrade Investment Management")), also a discretionary service with asset allocations involving ETFs. The services are described in detail below.

We were formed in November 1997 as PFN Investment Management, LLC. TDAIM operated under the name Amerivest Investment Management, LLC from April 2003 to December 2016. TDAIM is wholly owned by Financial Passport, Inc., which is wholly owned by TD Ameritrade Online Holdings Corp. TD Ameritrade Online Holdings Corp. is a wholly owned subsidiary of TD Ameritrade Holding Corporation, a publicly traded company. Approximately 40% of TD Ameritrade Holding Corporation is owned by The Toronto-Dominion Bank, a publicly traded company.

### **A. SERVICES PROVIDED:**

TDAIM provides discretionary services known as Selective Portfolios, Essential Portfolios, Personalized Portfolios, and Guidance Solutions Portfolios (collectively known as the "Portfolios") to retail clients of TD Ameritrade. The services are offered only on a discretionary basis that involves the continuous management of client accounts. As of February 28, 2018, TDAIM was providing discretionary advisory services to clients with approximately \$19,400,000,000 in assets. We assume all investment duties with respect to the Portfolios held in the client's TD Ameritrade Investing Account and have discretion with respect to such assets, including the initial allocation and ongoing rebalancing (buy, sell, exchange, or otherwise trade) based upon the client's selected strategy and according to TDAIM's investment policy for that strategy. We do not take discretion over assets that are not compatible with the Portfolios.

#### **1. Selective and Essential Portfolios – General Description**

The Selective and Essential Portfolios discretionary services involve the use of Morningstar Investment Management LLC ("Morningstar Investment Management") as a consultant to TDAIM. In performing its services, Morningstar Investment Management may engage the services of its affiliate, Morningstar Investment Services, Inc. ("MIS"), a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Neither Morningstar Investment Management nor MIS acts in the capacity of advisor to our clients. Morningstar Investment Management's services to TDAIM with respect to the Selective and Essential Portfolios include but are not limited to:

1. Development of annual Capital Market Assumptions that are used to produce portfolio allocations;
2. Generation of strategic asset allocations for each approved model;
3. Selection of appropriate mutual funds and ETFs for the various portfolio models, including as to mutual fund share classes;
4. Performance of ongoing due diligence of the funds used in the model portfolios;
5. Provision of recommendations for periodic tactical changes to the portfolio models based on changing market and economic conditions;
6. Provision of periodic recommendations for adding or removing funds from the models (such as: performance concerns, fund manager departures, market exposures, tactical positioning, etc.); and
7. Production of periodic client-facing marketing materials that typically contain market and portfolio analysis.

TDAIM will recommend an appropriate strategy to Selective and Essential Portfolios clients according to the client's planned funding, investment objectives, risk tolerance, investment time horizon, age (in certain circumstances), employment status, likelihood of significant withdrawals from the account, any supplemental information, and any reasonable restrictions (collectively, "Profile Information"). In any case, TDAIM clients will either enter their Profile Information online or convey it to TD Ameritrade Financial Consultants and Senior Financial Consultants (collectively known as "FCs"), who will help prospects become TDAIM clients. This may involve more extended discussions around goal planning. Changes in the client's Profile Information may result in a new recommended strategy or strategies. While FCs may have more detailed goal planning discussions with Selective Portfolios clients, Essential Portfolios clients primarily enter their Profile Information and open their corresponding TD Ameritrade Investing Account with little or no assistance from FCs, and then monitor their portfolio electronically through an Internet/mobile application. Clients who enter a relatively short time horizon will receive a relatively conservative portfolio recommendation regardless of their risk tolerance.

If the client wishes to use the Selective Portfolios or Essential Portfolios service, the client must authorize TDAIM to exercise discretionary trading authority over the assets dedicated to the client's selected strategy, which includes the initial allocation and ongoing rebalancing and portfolio reallocation. The discretionary authority allows TDAIM to buy, sell, or otherwise trade recommended and approved assets in the client's strategy or previously recommended TDAIM securities without prior client approval of each transaction. We are not authorized to withdraw cash or securities from the client's account other than in connection with the payment of our advisory fees as described in the *Fees and Compensation* and *Custody* sections below.

TDAIM's discretionary decisions generally are made without considering potential tax consequences to the client, but such consequences may be taken into account in connection with possible fund substitutions within the same mutual fund family. The client is responsible for any tax liabilities resulting from transactions (including any arising from the addition of assets to or withdrawal of assets from the client's account). We make no representation regarding the likelihood or probability that any proposed investing plan will in fact achieve a particular investment goal. We are unable to predict or forecast market fluctuations or other uncertainties that may affect the value of any investment. Clients are urged to seek the advice of tax professionals and to use all available resources to educate themselves about investing in general, as well as the investments and the overall portfolio composition suggested by TDAIM. See response below at *Methods of Analysis, Investment Strategies, and Risk of Loss* of this disclosure brochure.

In order to participate in the Selective Portfolios or Essential Portfolios Service, the client will need to open a dedicated brokerage account (known as a TD Ameritrade Investing Account) at TD Ameritrade. Clients will be able to invest in one strategy per account and will retain ownership of all cash and securities in their accounts. To the extent that a client decides to implement any TDAIM recommendation through his or her TD Ameritrade brokerage account, TD Ameritrade acts solely as a broker on an unsolicited basis in connection with such transactions and is not acting as an advisor to the client.

In addition to the recommended funds, TDAIM will maintain a portion of the account in cash, the amount of which generally will be 1% to 3% of the total account. The cash buffer ensures the availability of cash for payment of our fee and provides liquidity to cover potential price changes in market orders. In taxable accounts, the cash sweep vehicle is the TD Ameritrade FDIC Insured Deposit Account ("IDA") provided by one or more banks ("Program Banks"). Two of the Program Banks are TD Bank, N.A. and TD Bank USA, N.A., both affiliates of TD Ameritrade, Inc. and TDAIM through their respective parent companies. (See *Client Referrals and Other Compensation* below.) The IDA is insured up to the applicable limits. In non-taxable accounts, the cash sweep vehicle is a U.S. Government money market fund, the Vanguard Treasury Money Market Fund. Investments in money market funds are subject to restrictions, charges, and expenses described in the prospectus. Money market funds are securities that may increase or decrease in value. They are not insured or guaranteed by the FDIC, any government agency, TDAIM or its affiliates, and there can be no assurance that such funds will be able to maintain a stable net asset value of \$1 per share. Clients will receive periodic statements for sweep transactions involving money market funds in lieu of immediate confirmations. TDAIM's advisory fee applies to the portion of the account maintained in cash. (See *Fees and Compensation* below.) TD Ameritrade Investing Accounts are opened as cash accounts rather than margin accounts and margin is not available. In addition, we generally do not allow clients to fund their TD Ameritrade Investing Accounts with cash borrowed from a margin account, whether from another TD Ameritrade brokerage account or another unrelated broker dealer account.

#### **a. Selective Portfolios Using Mutual Fund Investments**

##### **i. Selective Core Mutual Fund Portfolios Powered by Morningstar Investment Management Details**

Selective Core Mutual Fund Portfolios Powered by Morningstar Investment Management are based on the online asset allocations recommended by Morningstar Investment Management and use mutual funds as the primary investment vehicles. The portfolio models are: Conservative, Moderate, Moderate Growth, Growth, and Aggressive. The service allocates assets among domestic equity, international, specialty, and fixed-income mutual funds. Selective Core Mutual Fund Portfolios positions are intended to be long-term investments (a minimum investment time horizon of one year) consisting primarily of approximately 20-30 mutual funds with the balance consisting of cash and cash alternatives (approximately 1%-3%). The actual portfolio allocations from time to time may differ from the target allocations as a result of market movements or TDAIM's adjustments. The cash will be held in a designated cash sweep vehicle. The underlying mutual funds may also contain a residual cash position.

##### **ii. Selective Supplemental Income Portfolios Powered by Morningstar Investment Management Details**

The Selective Supplemental Income Portfolios Powered by Morningstar Investment Management service use mutual funds as the primary investment vehicles. The asset allocations are based on recommendations from Morningstar Investment Management. The Supplemental Income Portfolios are generally for more conservative investors who may want supplemental income for retirement or other purposes or as a complement to other investment strategies with a secondary goal of growth. Due to the conservative nature of the portfolios, TDAIM has created only two models: Conservative and Moderate. The models will allocate assets among domestic equity, international, specialty, and fixed-income mutual funds with a focus on investing in income generating securities.

The Supplemental Income Portfolios positions are intended to be long-term investments (a minimum investment time horizon of one year) consisting primarily of approximately 10-20 mutual funds with the balance consisting of cash and cash alternatives (approximately 1%-3%). The actual portfolio allocations from time to time may differ from the target allocations as a result of market movements or TDAIM's adjustments. The cash will generally be held in a designated cash sweep vehicle. The underlying mutual funds may also contain a residual cash position.

The Supplemental Income portfolios offer investment strategies designed to provide both income and total returns while limiting your exposure to volatility. The portfolios are not cash vehicles, cash alternatives, or money market funds and are not for short-term investing (less than one year) and should not be viewed or used for these objectives. The Supplemental Income Portfolios hold equity and bond mutual funds that have risks inherent to investing in these securities, including market and credit risk, and possible loss of value as described in the *Methods of Analysis, Investment Strategies, and Risk of Loss* section below.

##### **iii. Asset Allocations**

Pursuant to an agreement and as described in *i. Selective and Essential Portfolios—General Description* above, Morningstar Investment Management provides asset allocation and investment selection services to TDAIM for Selective and Essential Portfolios.

Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM asset allocations for the portfolios. The asset allocation methodology is based on risk and return parameters relying on historic, current, and forecasted data and on implied risk and return estimates. The Selective Portfolios using mutual fund asset allocations use a strategic asset allocation approach. They generally consist of broadly diversified asset allocations that Morningstar Investment Management will reassess at least annually or more frequently as warranted by market conditions or different portfolio strategies.

TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. We may deviate from Morningstar Investment Management's recommendations: (i) for noninvestment and nonperformance related reasons such as tax considerations or reasonable client restrictions; or (ii) to the extent so required for TDAIM to fulfill its fiduciary duty to clients. Our review will involve verifying the inputs and risk analysis to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

Morningstar Investment Management will strive to meet the asset allocation targets as closely as possible while accounting for fund-specific attributes. However, the actual allocations will fluctuate (for example, in response to changing market conditions). That is because of the nature of mutual fund investment activity and changes in the underlying holdings. In addition, the allocations are subject to change without notice. Morningstar Investment Management establishes the fund allocations using asset classifications as defined by its parent company, Morningstar, Inc. If alternative classification methods are used, the allocations may not meet the asset allocation targets. Morningstar Investment Management is not affiliated with TDAIM or TD Ameritrade. Morningstar Investment Management is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Morningstar Investment Management provides consultancy services to TDAIM with respect to the fund allocations for the model portfolios. In performing its services, Morningstar Investment Management may engage the services of its affiliate, MIS, a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Neither Morningstar Investment Management nor MIS acts in the capacity of advisor to our clients. TDAIM, as licensee, will compensate Morningstar Investment Management (licensor) for its services. See response below at *Methods of Analysis, Investment Strategies, and Risk of Loss* of this disclosure brochure.

#### **iv. Mutual Fund Recommendations**

Morningstar Investment Management will provide TDAIM with initial mutual fund investment recommendations and quarterly strategy evaluations for the Selective Portfolios. Morningstar Investment Management will reassess the model portfolios quarterly (or more frequently as warranted by market conditions) and provide us with recommended updates to them.

Morningstar Investment Management works with TD Ameritrade to establish a set of criteria for an appropriate fund universe. The fund universe was originally based on the Premier List that Morningstar Investment Management supplies to TD Ameritrade. Through the growth of the Selective Portfolios service, the fund universe has expanded and now includes the thousands of mutual funds available on the TD Ameritrade platform. The funds are carefully screened and analyzed by Morningstar Investment Management investment consultants. Morningstar Investment Management uses a set of qualitative and quantitative factors including but not limited to risk-adjusted performance, variance of returns, tax efficiency, expenses (including as to different expense levels associated with different mutual fund share classes), style consistency, and style purity. Once the funds have been scored, Morningstar Investment Management investment consultants specializing in each fund category check the quality and consistency of management and industry events (for example, potential merger or shifts in personnel) that might impact the fund's performance. Morningstar Investment Management also considers funds that complement each other and whose underlying holdings have minimal unnecessary overlap. After Morningstar Investment Management completes its analysis, TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. Our review will involve taking steps to verify the data is reasonable in an effort to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

TDAIM will attempt to obtain waivers of short-term redemption fees and purchase minimums where possible, as well as access to lower expense share classes, where available. We will attempt to ensure that the lowest expense share class available to our clients on the TD Ameritrade platform is being selected. If a selected mutual fund has a lower expense share class that is available to TDAIM clients, we will select it for use in the Selective Portfolios, so long as we determine the share class is suitable for our clients. TDAIM, TD Ameritrade, and our affiliates do not accept 12b-1 fees, other service related fees, or revenue sharing payments from the mutual fund companies or funds utilized in our advisory service.

TDAIM may, in its discretion, accept mutual funds owned by the client into his or her TD Ameritrade Investing Accounts if the mutual funds were previously recommended by us. We may accept and use a compatible mutual fund in the client's portfolio, even if the mutual fund share is of a different share class than the share class of the mutual fund approved for use in the Selective Portfolios service. For example, if a client transfers in a retail share class mutual fund and TDAIM uses a lower expense share class of the same mutual fund, we may retain the retail share class of the mutual fund in the client's portfolio. Accepting the retail share class mutual fund will benefit clients as they will be able to invest in their portfolio more quickly. In addition, it may help reduce potential tax liabilities from selling the retail class shares and then buying the lower expense share class. On a weekly basis, TDAIM will review client accounts that transferred in different share classes of compatible mutual funds and will convert share classes to the approved share class where we believe doing so would be beneficial to the client (for example to help lower the client's expenses). The limitations on compatible mutual funds contained in this paragraph apply to both initial and subsequent contributions. TDAIM will assume discretion as to the compatible mutual funds, and the client acknowledges that all or a portion of the contributed mutual funds may be redeemed, either initially or during the course of management of his or her strategy.

The dividends and capital gains from the mutual funds generally will be reinvested. However, clients will have the option to request systematic withdrawals including dividend and interest disbursements. Requests for systematic withdrawals that may invade principal by going beyond dividend and interest income will be reviewed and we reserve the right to not accept the request.

Furthermore, if the client's account falls below \$10,000 as a result of taking systematic withdrawals, the client acknowledges that TDAIM retains the right to cancel the client's systematic withdrawal request. Mutual funds can provide a diversified portfolio that may limit exposure to large price fluctuations of individual stocks or bonds. Mutual funds do not provide complete protection from price volatility in the event of broad market declines, however, and individual securities may outperform mutual funds.

TDAIM also reserves the right to accept ETFs that were previously recommended for a portfolio. In such cases, the client grants TDAIM discretion to liquidate the ETFs and invest the proceeds in the client's selected Core Mutual Fund strategy. The client further acknowledges that there may be tax implications from the redemption, sale, or exchange of the compatible securities, and will be responsible for any tax liabilities that result from the transactions. In the event that the redemption (or exchange) of compatible mutual funds would otherwise give rise to contingent deferred sales charge ("CDSC"), the client will be responsible for the CDSC.

#### **v. Incompatible Securities**

In certain circumstances, clients will transfer incompatible mutual funds into their TD Ameritrade Investing Account: i) If a client deposits an incompatible mutual fund into a newly funded TD Ameritrade Investing Account, we will not start charging our advisory fee until the incompatible asset is removed from the account; ii) If a client deposits an incompatible mutual fund into an existing TD Ameritrade Investing Account, we will provide a fee credit for the amount of time the incompatible mutual fund was held in the TD Ameritrade Investing Account. For example, if an existing client deposits an incompatible mutual fund into his/her account on the 15th of the month and the fund remains in the account through the 31st of the month, TDAIM will credit back the fees for the days the incompatible fund was in the account. In addition, if the incompatible fund remains in the account through a new quarterly billing cycle, we will not bill advisory fees until the incompatible fund is removed from the account. When the incompatible fund is removed from the account, we will reinstate billing on a pro rata basis from the day the incompatible asset was removed from the account until the end of the current billing quarter. iii) If the TD Ameritrade Investing Account is restricted (for example estate, divorce, court order, etc.) and holds mutual fund shares that charge 12b-1 or other service related fees, TDAIM will provide a fee credit from the time we are notified of the restriction. For example, if TDAIM is notified of the restriction on the 15th of the month, we will provide a fee credit from the 15th of the month to the end of the current billing quarter and will stop billing advisory fees on the account going forward until the restriction is resolved.

To the extent that the client deposits securities other than ones compatible with their strategy into their TD Ameritrade Investing Account, TDAIM will not assume discretion as to such securities. The client must either sell or transfer the incompatible securities promptly. Transactions regarding any incompatible securities or other assets to fund the client's TD Ameritrade Investing Account are the client's decision and are not based upon recommendations from us. If the securities are sold, TD Ameritrade will generally charge commissions and the sale will generally be on an unsolicited



basis. Clients also have the option to grant TD Ameritrade time and price discretion to liquidate incompatible securities. Any sale of securities or other assets to fund the client's TD Ameritrade Investing Account may result in expenses, fees, or other charges (such as contingent deferred sales charges) as well as tax liabilities. The client is responsible for seeking the advice of a tax professional prior to selling any securities or other assets. If the client's TD Ameritrade Investing Account has a cash balance equal or greater than \$10,000, TDAIM may enter the transactions to implement the client's selected portfolio using the available cash balance and work with the client to promptly remove the incompatible securities. We do not charge advisory fees on incompatible securities in the client's TD Ameritrade Investing Account. See response below at *Fees and Compensation* of this disclosure brochure.

#### **vi. Placement of Trades**

In order to begin placing trades for a client's account, the client's TD Ameritrade Investing Account application (including related forms) and other required paperwork must first be received and approved. Next, after the client deposits cash in their TD Ameritrade Investing Account in the amount at or above \$10,000, the recommended trades will be placed in the account during the next trading window (TDAIM intends to enter the transactions with TD Ameritrade Clearing, Inc. at approximately the same time every business day on which securities markets are open, but reserves the right to change the time when appropriate. The orders will be executed at the end of the day).

However, in certain market conditions such as: 1) significant market losses or gains (generally based on important economic news), 2) significant trading volume, or 3) when clients may receive a price advantage, we reserve the right to open an additional or earlier trading window or multiple trading windows over consecutive trading days. We also reserve the right to open an additional trading window if there is a considerable amount of client-initiated requests to liquidate positions and the clients do not wish to wait for the next scheduled daily trading window and we determine it is not to the benefit of the clients to enter the orders on an individual account basis.

Since mutual funds trade at a daily NAV, clients participating in the daily trading windows will receive the same average price.

### **b. Selective Portfolios Using Exchange Traded Funds ("ETF") Investments**

#### **i. Selective Core ETF Portfolios Powered by Morningstar Investment Management Details**

The Selective Core ETF Portfolios are similar to the Selective Core Mutual Fund Portfolios as to asset allocations but use ETFs as the primary investment vehicle. The Selective Core ETF Portfolios are designed for clients who are concerned more about costs and tax efficiency than about accessing actively managed mutual funds. ETFs generally seek to match the performance of a specific market index, asset class, or sector. They usually have lower annual expenses than mutual funds as they require little if any manager oversight (passively managed). They generally are more tax-efficient than mutual funds.

Similar to the Selective Core Mutual Fund Portfolios, the Selective Core ETF Portfolios are based on the online asset allocations recommended by Morningstar Investment Management. The portfolio models are called: Conservative, Moderate, Moderate Growth, Growth, and Aggressive. In each model, the service allocates assets among domestic equity, international, specialty, and fixed-income ETFs. Selective Core ETF Portfolio positions are intended to be long-term investments (a minimum investment time horizon of one year) consisting primarily of approximately 15-25 ETFs with the balance consisting of cash and cash alternatives (approximately 1%-3%). The actual portfolio allocations from time to time may differ from the target allocations as a result of market movements or TDAIM's adjustments. The cash will be held in a designated cash sweep vehicle.

#### **ii. Opportunistic Portfolios Powered by Morningstar Investment Management Details**

The Opportunistic Portfolios seek long-term growth with a more tactically managed investment approach. They are designed for clients who may be more aggressive investors or prefer a more active portfolio as a complement to other investment strategies.

Unlike the portfolios described above that use a strategic asset allocation method, the Opportunistic Portfolios use a tactical investment approach with an additional equity sector rotation strategy. Strategic asset allocations generally consist of broadly diversified asset allocations that are reassessed at least annually or more frequently as warranted by market conditions or different portfolio strategies. The Opportunistic Portfolios use a tactical asset allocation method with more defined asset classes, and generally involve a more active portfolio management strategy to pursue short-term opportunities in different sectors or countries based on changes in the market.

Similar to the strategic portfolios, the Opportunistic Portfolios utilize diversified asset allocations recommended by Morningstar Investment Management including asset classes, such as domestic equity, international, alternative, and fixed income. However, since the Opportunistic Portfolios have a tactical investment approach, there is a wider diversity of asset classes with industry sectors compared to the strategic portfolios. The expanded asset classes allow for tactical shifts (reallocating). This allows for reallocating assets into sectors with potential larger returns and decreasing assets in sectors with lower potential opportunities. The goal of a tactical portfolio is to outperform relative to a comparison benchmark.

Due to the more aggressive nature of the portfolios, TDAIM has created only two models: Moderate Growth and Aggressive. The portfolios are typically expected to be rebalanced or reallocated monthly. Since strategies using a tactical approach have more frequent trading, they may also have greater tax implications for taxable portfolios.

The Opportunistic Portfolios use ETFs as the primary investment vehicle. Opportunistic Portfolio positions consist primarily of approximately 20-30 ETFs with the balance consisting of cash and cash alternatives (approximately 2%). The actual portfolio allocations from time to time may differ from the target allocations as a result of market movements or TDAIM's adjustments. There is one ETF recommended for each asset class. The cash will be held in a designated cash sweep vehicle.

#### **iii. Asset Allocations**

Pursuant to an agreement, and as described in *i. Selective and Essential Portfolios—General Description* above, Morningstar Investment Management will provide asset allocation and investment selection services to TDAIM. Morningstar Investment Management provides consulting services to TDAIM but is not acting in the capacity of advisor to individual investors.

Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM the same asset allocations for the portfolios. The Selective Core ETF Portfolios asset allocation methodology is based on risk and return parameters relying on historic, current, and forecasted data, and on implied risk and return estimates. The Selective Core ETF Portfolios asset allocations use a strategic asset allocation approach and generally consist of broadly diversified asset allocations that Morningstar Investment Management will reassess at

least annually or more frequently as warranted by market conditions or different portfolio strategies. Morningstar Investment Management will provide TDAIM with initial ETF recommendations and, at a minimum, annual strategy evaluations including reviewing the asset allocation and ETFs utilized. Morningstar Investment Management may also review the model portfolios quarterly (or more frequently) as warranted by market conditions and may provide us with recommended updates to the portfolios.

With the Opportunistic Portfolios, Morningstar Investment Management performs a qualitative calculation which is a fundamental analysis of the global markets. Next, they perform qualitative calculations to determine the momentum/volatility of the whole equity market and each asset class. Finally, they review the fundamental dynamic asset allocation, which determines the overall equity and fixed income changes. The calculations produce the adjustments to the portfolios. Morningstar Investment Management will provide TDAIM with initial ETF recommendations and, at a minimum, monthly strategy evaluations including reviewing the asset allocation and ETFs utilized. Morningstar Investment Management reviews the model portfolios monthly (or more frequently) as warranted by market conditions and may provide us with recommended updates to the portfolios. We will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them.

TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. We may deviate from Morningstar Investment Management's recommendations: (i) for noninvestment and nonperformance related reasons such as tax considerations or reasonable client restrictions; or (ii) to the extent so required for TDAIM to fulfill its fiduciary duty to clients. Our review will involve verifying the inputs and risk analysis to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

The process Morningstar Investment Management uses to select ETFs is similar to that for mutual funds. Morningstar Investment Management analyzes the ETFs available through TD Ameritrade. In making the ETF recommendations, however, Morningstar Investment Management puts a greater focus on evaluating the particular risk characteristics of ETFs (such as trading volume, liquidity, and discounts). Morningstar Investment Management also spends time determining how best to combine ETFs, as their strategies can be much more narrowly focused than mutual funds and may offer less asset class coverage. As the ETFs that are used in the service are passively managed, manager history is not considered in the evaluations.

TDAIM may in its discretion accept ETFs owned by the client into his or her TD Ameritrade Investing Accounts if the ETFs are compatible with his or her strategy. We reserve the right to accept and utilize in the client's portfolio ETFs that were previously recommended by us. This may result in TDAIM maintaining different sets of ETFs in client portfolios. For example, if a client was in a Self-Directed Portfolio and switched to a Selective Core ETF Portfolio and moved previously recommended ETFs from his Self-Directed Portfolio to the new Core ETF Portfolio, TDAIM may retain the ETFs if they are valid for the new portfolio even though the ETF may not be the number one ranked ETF for the asset class. Maintaining previously recommended ETFs in the new Core ETF Portfolio may be a benefit to the client as it may reduce potential tax liabilities. The limitations on compatible and previously recommended ETFs contained in this paragraph apply to both initial and subsequent contributions. We will assume discretion as to the compatible and previously recommended ETFs, and the client acknowledges that all or a portion of the contributed ETFs may be redeemed, either initially or during the course of management of his or her strategy. In cases where the client transfers into their TD Ameritrade Investing Account two or more compatible ETFs that are appropriate for a single asset class, we will retain the higher ranked ETF for the asset class and the lower ranked ETFs will be liquidated and rebalanced accordingly. The client further acknowledges that there may be tax implications from the redemption, sale, or exchange of the securities and will be responsible for any tax liabilities that result from the transactions.

#### **iv. Incompatible Securities**

To the extent that the client deposits securities other than ones compatible with their strategy into their TD Ameritrade Investing Account, TDAIM will not assume discretion as to such securities. The client must either sell or transfer the incompatible securities promptly. Transactions regarding any incompatible securities or other assets to fund the client's TD Ameritrade Investing Account are the client's decision and are not based upon recommendations from us. If the securities are sold, TD Ameritrade will generally charge commissions and the sale will generally be on an unsolicited basis. Clients also have the option to grant TD Ameritrade time and price discretion to liquidate incompatible securities. Any sale of securities or other assets to fund the client's TD Ameritrade Investing Account may result in expenses, fees, or other charges (such as contingent deferred sales charges) as well as tax liabilities. The client is responsible for seeking the advice of a tax professional prior to selling any securities or other assets. If the client's TD Ameritrade Investing Account has a cash balance equal to or greater than \$10,000, we may enter the transactions to implement the client's selected portfolio using the available cash balance and work with the client to promptly remove the incompatible securities. We do not charge advisory fees on incompatible securities in the client's TD Ameritrade Investing Account.

#### **v. ETF Transactions**

In order to begin placing trades for a client's account, the client's TD Ameritrade Investing Account application (including related forms) and other required paperwork must first be received and approved. Next, after the client deposits cash in their TD Ameritrade Investing Account in the amount at or above \$10,000, the recommended trades will be placed in the account during the next trading window. (TDAIM intends to enter the transactions with TD Ameritrade at approximately the same time every business day on which securities markets are open, but reserves the right to change the time when appropriate). We will aggregate orders of recommended purchases and sells and enter the orders with TD Ameritrade Clearing, Inc. (See response below at *Brokerage Practices* of this disclosure brochure.)

However, in certain market conditions such as: 1) significant market losses or gains (generally based on important economic news), 2) significant trading volume, or 3) when clients may receive a price advantage, we reserve the right to open an additional or earlier trading window or multiple trading windows over consecutive trading days. We also reserve the right to open an additional trading window if there is a considerable amount of client-initiated requests to liquidate positions and the clients do not wish to wait for the next scheduled daily trading window and we determine it is not to the benefit of the clients to enter the orders on an individual account basis. These orders will be aggregated and will receive an average price that is separate from the regular daily trading job. We also reserve the right to execute ETF transactions using market orders per client request or extenuating circumstances lead to an account missing a trading window. For example, when a client requests an immediate liquidation and distribution from an account after the daily trading window has closed and before the next trading day.



In addition, the dividends from the ETFs generally will not be reinvested and clients will have the option to request systematic withdrawals including dividend disbursements. However, requests for systematic withdrawals that may invade principal will be reviewed and we reserve the right to not accept the request. Furthermore, if the client's account falls below \$10,000 as a result of taking systematic withdrawals, the client acknowledges that TDAIM retains the right to cancel the client's systematic withdrawal request. ETFs can provide a diversified portfolio. However, ETFs are subject to risk similar to those of stocks. Portfolio investment returns will fluctuate and are subject to market volatility.

### **c. Managed Risk Portfolio Powered by Morningstar Investment Management**

#### **i. Details**

The Managed Risk Portfolio Powered by Morningstar Investment Management service uses mutual funds as the primary investment vehicles. The asset allocations and mutual fund selections are based on recommendations from Morningstar Investment Management. The portfolio is designed for investors seeking relatively consistent growth and preservation of capital rather than maximization of returns.

The Managed Risk Portfolio service seeks to limit portfolio volatility in an effort to provide protection against declines in the equity markets. The service seeks to pursue this goal by investing in selected mutual funds that, when combined in a single portfolio, are expected to provide the desired volatility characteristics and return expectations. The service seeks to provide diversified exposures across asset classes, geographies, economic sectors, and time horizons. The service is not designed to outperform stocks and bonds in strong markets. There is no guarantee the underlying mutual funds will achieve positive returns or that the service's objectives will be achieved.

The strategy seeks mutual funds that directly or indirectly (as through other mutual funds) invest in a variety of exchange traded financial instruments, including but not limited to:

1. Stocks
2. Bonds
3. Commodities
4. Derivatives
5. Cash

The strategy may also use a wide variety of mutual funds that use nontraditional investment strategies, including but not limited to the following:

1. Long-only
2. Long-short
3. Merger Arbitrage
4. Convertible Arbitrage
5. Tactical asset allocation
6. Managed Futures
7. Multistrategy
8. Commodities
9. Multisector fixed income
10. Risk parity

The Managed Risk Portfolio service is intended for long-term investors (a minimum investment time horizon of one year). The portfolio will consist primarily of between 5 and 15 mutual funds, with the balance consisting of cash and cash alternatives (generally 1%-3%). The actual portfolio allocations from time-to-time may differ from the target allocations as a result of market movements or TDAIM's adjustments pursuant to Morningstar Investment Management's recommendations. The cash will be held in a designated cash sweep vehicle. The underlying mutual funds may also contain a residual cash position. Some of the mutual funds used in the portfolio will invest in affiliated funds rather than underlying individual securities. Some of the portfolio funds and some of the funds they invest in will be "nondiversified." That means they may invest in a small number of issuers, sectors, or locations, making them more susceptible to risks affecting such areas of concentration than a more diversified fund might be.

The Managed Risk Portfolio service is not a cash vehicle, cash alternative, or money market fund equivalent and is not for short-term investing (less than one year). It should not be viewed as similar to or used for these objectives.

The mutual funds used in the Managed Risk Portfolio service invest in securities (including mutual funds) and strategies with inherent risks, including market, credit, geographical, and derivatives risk. The funds entail possible loss of value as described in the *Methods of Analysis, Investment Strategies, and Risk of Loss* section below.

#### **ii. Asset Allocations**

Pursuant to an agreement and as described in *i. Selective and Essential Portfolios—General Description* above, Morningstar Investment Management provides asset allocation and investment selection services for the portfolios. Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM asset allocations and funds for the portfolios. As described above, the Managed Risk Portfolio service uses an "absolute return" strategy designed to limit volatility and provide diversified exposure across geographies, sectors, and time horizons. The strategy seeks mutual funds with a lower correlation to the equity market (funds that do not move in lockstep with the market). Combining funds that perform differently than the market may help to boost overall (absolute) returns while reducing risk.

TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. We may deviate from Morningstar Investment Management's recommendations: (i) for noninvestment and nonperformance related reasons such as tax considerations or reasonable client restrictions; or (ii) to the extent so required for TDAIM to fulfill its fiduciary duty to clients. Our review will involve verifying the inputs and risk analysis to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

Morningstar Investment Management is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc.

Morningstar Investment Management provides consultancy services to TDAIM with respect to the fund allocations for the model portfolios, but is not

acting in the capacity of advisor to individual investors. In performing its services, Morningstar Investment Management may engage the services of its affiliate, MIS, a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Neither Morningstar Investment Management nor MIS acts in the capacity of advisor to TDAIM's clients.

TDAIM, as licensee, will compensate Morningstar Investment Management (licensor) for its services. See response below at *Methods of Analysis, Investment Strategies, and Risk of Loss* of this disclosure brochure.

### **iii. Mutual Fund Recommendations**

Morningstar Investment Management will provide TDAIM with initial mutual fund investment recommendations and quarterly strategy evaluations for the portfolios. Morningstar Investment Management will reassess the model portfolios quarterly (or more frequently as warranted by market conditions) and provide us with recommended updates to them.

Morningstar Investment Management works with TD Ameritrade to establish a set of criteria for an appropriate fund universe. The fund universe includes the thousands of mutual funds available on the TD Ameritrade platform. The funds are carefully screened and analyzed by Morningstar Investment Management investment consultants. Morningstar Investment Management uses a set of qualitative and quantitative factors including but not limited to risk adjusted performance, variance of returns, tax efficiency, expenses (including as to different expense levels associated with different mutual fund share classes), style consistency, and style purity. Once the funds have been scored, Morningstar Investment Management investment consultants specializing in each fund category check the quality and consistency of management and industry events (for example, potential merger or shifts in personnel) that might impact the fund's performance. Morningstar Investment Management also considers funds that complement each other and whose underlying holdings have minimal unnecessary overlap. After Morningstar Investment Management completes its analysis, TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. Our review will involve taking steps to verify the data is reasonable in an effort to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

TDAIM will attempt to obtain waivers of short-term redemption fees and purchase minimums where possible, as well as access to lower expense share classes, where available. We will attempt to ensure that the lowest expense share class available to our clients on the TD Ameritrade platform is being selected. If a selected mutual fund has a lower expense share class that is available to our clients, we will select it for use in the portfolios, so long as we determine the share class is suitable for our clients. TDAIM, TD Ameritrade, and our affiliates do not accept 12b-1 fees, other service related fees, or revenue sharing payments from the mutual fund companies or funds utilized in our advisory service.

TDAIM may, in its discretion, accept mutual funds owned by the client into his or her TD Ameritrade Investing Accounts if the mutual funds were previously recommended by us. We may accept and use a compatible mutual fund in the client's portfolio, even if the mutual fund share is of a different share class than the share class of the mutual fund approved for use in the Selective Portfolios service. For example, if a client transfers in a retail share class mutual fund and TDAIM uses a lower expense share class of the same mutual fund, we may retain the retail share class of the mutual fund in the client's portfolio. Accepting the retail share class mutual fund will benefit clients as they will be able to invest in their portfolio more quickly. In addition, it may help reduce potential tax liabilities from selling the retail class shares and then buying the lower expense share class. On a weekly basis, TDAIM will review client accounts that transferred in different share classes of compatible mutual funds and will convert share classes to the approved share class where we believe doing so would be beneficial to the client (for example to help lower the client's expenses). The limitations on compatible mutual funds contained in this paragraph apply to both initial and subsequent contributions. TDAIM will assume discretion as to the compatible mutual funds, and the client acknowledges that all or a portion of the contributed mutual funds may be redeemed, either initially or during the course of management of his or her strategy.

The dividends and capital gains from the mutual funds generally will be reinvested. However, clients will have the option to request systematic withdrawals including dividend and interest disbursements. Requests for systematic withdrawals that may invade principal by going beyond dividend and interest income will be reviewed and we reserve the right to not accept the request.

Furthermore, if the client's account falls below \$10,000 as a result of taking systematic withdrawals, the client acknowledges that TDAIM retains the right to cancel the client's systematic withdrawal request. Mutual funds can provide a diversified portfolio that may limit exposure to large price fluctuations of individual stocks or bonds. Mutual funds do not provide complete protection from price volatility in the event of broad market declines, however, and individual securities may outperform mutual funds.

TDAIM also reserves the right to accept ETFs that were previously recommended for a portfolio. In such cases, the client grants TDAIM discretion to liquidate the ETFs and invest the proceeds in the client's selected Managed Risk strategy. The client further acknowledges that there may be tax implications from the redemption, sale, or exchange of the compatible securities, and will be responsible for any tax liabilities that result from the transactions. In the event that the redemption (or exchange) of compatible mutual funds would otherwise give rise to contingent deferred sales charge ("CDSC"), the client will be responsible for the CDSC.

### **iv. Incompatible Securities**

In certain circumstances, clients will transfer incompatible mutual funds into their TD Ameritrade Investing Account: i) If a client deposits an incompatible mutual fund into a newly funded TD Ameritrade Investing Account, we will not start charging our advisory fee until the incompatible asset is removed from the account; and ii) If a client deposits an incompatible mutual fund into an existing TD Ameritrade Investing Account, we will provide a fee credit for the amount of time the incompatible mutual fund was held in the TD Ameritrade Investing Account. For example, if an existing client deposits an incompatible mutual fund into his/her account on the 15th of the month and the fund remains in the account through the 31st of the month, TDAIM will credit back the fees for the days the incompatible fund was in the account. In addition, if the incompatible fund remains in the account through a new quarterly billing cycle, we will not bill advisory fees until the incompatible fund is removed from the account. When the incompatible fund is removed from the account, we will reinstate billing on a pro rata basis from the day the incompatible asset was removed from the account until the end of the current billing quarter. iii) If the TD Ameritrade Investing Account is restricted (for example estate, divorce, court order, etc.) and holds mutual fund shares that charge 12b-1 or other service related fees, TDAIM will provide a fee credit from the time we are notified of the restriction. For example, if TDAIM is notified of the restriction on the 15th of the month, we will provide a fee credit from the 15th of the month to the end of the current billing quarter and will stop billing advisory fees on the account going forward until the restriction is resolved.

To the extent that the client deposits securities other than ones compatible with their strategy into their TD Ameritrade Investing Account, TDAIM will not assume discretion as to such securities. The client must either sell or transfer the incompatible securities promptly. Transactions regarding any incompatible securities or other assets to fund the client's TD Ameritrade Investing Account are the client's decision and are not based upon recommendations from us. If the securities are sold, TD Ameritrade will generally charge commissions and the sale will generally be on an unsolicited basis. Clients also have the option to grant TD Ameritrade time and price discretion to liquidate incompatible securities. Any sale of securities or other assets to fund the client's TD Ameritrade Investing Account may result in expenses, fees, or other charges (such as contingent deferred sales charges) as well as tax liabilities. The client is responsible for seeking the advice of a tax professional prior to selling any securities or other assets. If the client's TD Ameritrade Investing Account has a cash balance equal or greater than \$10,000, we may enter the transactions to implement the client's selected portfolio using the available cash balance and work with the client to promptly remove the incompatible securities. We do not charge advisory fees on incompatible securities in the client's TD Ameritrade Investing Account. See response below at *Fees and Compensation* of this disclosure brochure.

#### **v. Placement of Trades**

In order to begin placing trades for a client's account, the client's TD Ameritrade Investing Account application (including related forms) and other required paperwork must first be received and approved. Next, after the client deposits cash in their TD Ameritrade Investing Account in an amount at or above \$10,000, the recommended trades for the portfolios will be placed in the account during the next trading window (TDAIM intends to enter the transactions with TD Ameritrade at approximately the same time every business day on which securities markets are open, but reserves the right to change the time when appropriate. The orders will be executed at the end of the day).

However, in certain market conditions such as: 1) significant market losses or gains (generally based on important economic news), 2) significant trading volume, or 3) when clients may receive a price advantage, we reserve the right to open an additional or earlier trading window or multiple trading windows over consecutive trading days. We also reserve the right to open an additional trading window if there is a considerable amount of client-initiated requests to liquidate positions and the clients do not wish to wait for the next scheduled daily trading window and we determine it is not to the benefit of the clients to enter the orders on an individual account basis.

Since mutual funds trade at a daily NAV, clients participating in the daily trading windows will receive the same average price.

#### **d. Essential Portfolios – General Description**

##### **i. Details**

The Essential Portfolios are a discretionary advisory service. The Essential Portfolios are offered electronically via the Internet as the primary channel of interaction with TDAIM and may be referred to as a robo-advisory service. Accordingly, Essential Portfolios clients need Internet access for activities such as monitoring their portfolio, updating their Profile Information, conducting cash and securities transfers, and communicating with the Essential Portfolios specialists. Essential Portfolios clients agree to receive notices including disclosure brochures, regulatory communications, and other materials electronically in lieu of paper communications. The communications will be delivered electronically to the email address provided on the client's TD Ameritrade Investing Account application. The Essential Portfolios service uses ETFs as the sole investment vehicles. ETFs generally seek to match the performance of a specific market index, asset class, or sector. They usually have lower annual expenses than mutual funds as they require little if any manager oversight (passively managed). They generally are more tax-efficient than mutual funds.

The Essential Portfolios are based on asset allocations recommended by Morningstar Investment Management. The portfolio models are: Conservative, Moderate, Moderate Growth, Growth, and Aggressive. In each model, the service allocates assets among domestic equity, international equity, emerging markets, domestic, and international fixed income ETFs. TDAIM will recommend one ETF for each of the five asset classes, with the balance consisting of cash and cash alternatives (approximately 1%-3%). In comparison, the Selective Core ETF Portfolios utilize additional asset classes and consist of approximately 15-25 ETFs. The Essential Portfolios are intended to be long-term investments (a minimum investment time horizon of one year). The actual portfolio allocations from time to time may differ from the target allocations as a result of market movements or TDAIM's adjustments. The cash will be held in a designated cash sweep vehicle.

##### **ii. Asset Allocations**

Pursuant to an agreement, and as described in *ii. Selective and Essential Portfolios - General Description* above, Morningstar Investment Management will provide asset allocation and investment selection services to TDAIM. Morningstar Investment Management provides consulting services to TDAIM but is not acting in the capacity of advisor to individual investors.

Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM the same asset allocations for the portfolios. The Essential Portfolios asset allocation methodology is based on risk and return parameters relying on historic, current, and forecasted data, and on implied risk and return estimates. The asset allocations use a strategic asset allocation approach and generally consist of broadly diversified asset allocations that Morningstar Investment Management will reassess at least annually or more frequently as warranted by market conditions or different portfolio strategies. Morningstar Investment Management will provide TDAIM with initial ETF recommendations and, at a minimum, annual strategy evaluations including reviewing the asset allocation and ETFs utilized. Morningstar Investment Management may also review the model portfolios quarterly (or more frequently) as warranted by market conditions and may provide us with recommended updates to the portfolios.

TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. We may deviate from Morningstar Investment Management's recommendations: (i) for noninvestment and nonperformance related reasons such as tax considerations or reasonable client restrictions; or (ii) to the extent so required for TDAIM to fulfill its fiduciary duty to clients. Our review will involve verifying the inputs and risk analysis to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

The process Morningstar Investment Management uses to select ETFs is similar to the one it uses for mutual funds. Morningstar Investment Management analyzes the ETFs available through TD Ameritrade. In making the ETF recommendations, however, Morningstar Investment Management puts a greater focus on evaluating the particular risk characteristics of ETFs (such as trading volume, liquidity, and discounts).

Morningstar Investment Management also spends time determining how best to combine ETFs, as their strategies can be much more narrowly focused than mutual funds and may offer less asset class coverage. As ETFs that are used in the service are passively managed, manager history is not considered in the evaluations.

TDAIM may in its discretion accept ETFs owned by the client into his or her TD Ameritrade Investing Accounts if the ETFs are compatible with his or her strategy. We reserve the right to accept and utilize in the client's portfolio ETFs that were previously recommended by us. This may result in TDAIM maintaining different sets of ETFs in client portfolios. For example, if a client was in a Self-Directed Portfolio and switched to an Essential Portfolio and moved previously recommended ETFs from a Self-Directed Portfolio to the new Essential Portfolio, TDAIM may retain the ETFs if they are valid for the new portfolio even though the ETF may not be the number one ranked ETF for the asset class. Maintaining previously recommended ETFs in the new Essential Portfolio may be a benefit to the client as it may reduce potential tax liabilities. The limitations on compatible and previously recommended ETFs contained in this paragraph apply to both initial and subsequent contributions. We will assume discretion as to the compatible and previously recommended ETFs, and the client acknowledges that all or a portion of the contributed ETFs may be redeemed, either initially or during the course of management of his or her strategy. In cases where the client transfers into their TD Ameritrade Investing Account two or more compatible ETFs that are appropriate for a single asset class, we will retain the higher ranked ETF for the asset class and the lower ranked ETFs will be liquidated and rebalanced accordingly. The client further acknowledges that there may be tax implications from the redemption, sale, or exchange of the securities and will be responsible for any tax liabilities that result from the transactions.

### **iii. Incompatible Securities**

To the extent that the client deposits securities other than ones compatible with their strategy into their TD Ameritrade Investing Account, TDAIM will not assume discretion as to such securities. The client must either sell or transfer the incompatible securities promptly. Transactions regarding any incompatible securities or other assets to fund the client's TD Ameritrade Investing Account are the client's decision and are not based upon recommendations from TDAIM. If the securities are sold, TD Ameritrade will generally charge commissions and the sale will generally be on an unsolicited basis. Clients also have the option to grant TD Ameritrade time and price discretion to liquidate incompatible securities. Any sale of securities or other assets to fund the client's TD Ameritrade Investing Account may result in expenses, fees, or other charges (such as contingent deferred sales charges) as well as tax liabilities. The client is responsible for seeking the advice of a tax professional prior to selling any securities or other assets. If the client's TD Ameritrade Investing Account has a cash balance equal or greater than \$4,000, we may enter the transactions to implement the client's portfolio using the available cash balance and work with the client to promptly remove the incompatible securities. We do not charge advisory fees on incompatible securities in the client's TD Ameritrade Investing Account.

### **iv. ETF Transactions**

In order to begin placing trades for a client's Essential Portfolio, the client's TD Ameritrade Investing Account application (including related forms) and other required forms must first be received and approved. Next, after the client deposits cash in their TD Ameritrade Investing Account in the amount at or above \$4,000, the recommended trades will be placed in the account during the next trading window. (TDAIM intends to enter the transactions with TD Ameritrade at approximately the same time every business day on which securities markets are open, but reserves the right to change the time when appropriate). We will aggregate orders of recommended purchases and sells and enter the orders with TD Ameritrade Clearing, Inc. (See response below at Brokerage Practices of this disclosure brochure.)

However, in certain market conditions such as: 1) significant market losses or gains (generally based on important economic news), 2) significant trading volume, or 3) when clients may receive a price advantage, we reserve the right to open an additional or earlier trading window or multiple trading windows over consecutive trading days. We also reserve the right to open an additional trading window if there is a considerable amount of client-initiated requests to liquidate positions and the clients do not wish to wait for the next scheduled daily trading window and we determine it is not to the benefit of the clients to enter the orders on an individual account basis. These orders will be aggregated and will receive an average price that is separate from the regular daily trading job. We also reserve the right to execute ETF transactions using market orders per client request or extenuating circumstances lead to an account missing a trading window. For example, when a client requests an immediate liquidation and distribution from an account after the daily trading window has closed and before the next trading day.

In addition, the dividends from the ETFs generally will not be reinvested and clients will have the option to request systematic withdrawals including dividend disbursements. However, requests for systematic withdrawals that may invade principal will be reviewed and we reserve the right to not accept the request. Furthermore, if the client's account falls below \$4,000 as a result of taking systematic withdrawals, the client acknowledges that TDAIM retains the right to cancel the client's systematic withdrawal request. ETFs can provide a diversified portfolio. However, ETFs are subject to risk similar to those of stocks. Portfolio investment returns will fluctuate and are subject to market volatility.

### **e. Tax-Loss Harvesting**

TDAIM offers a tax-loss harvesting ("TLH") feature. It is a strategy designed to help manage your portfolio in a tax-efficient manner by seeking to lower your taxes by selling securities at a loss to offset potential capital gains. Tax-loss harvesting is not appropriate for all investors. It generally is more beneficial to investors in higher tax brackets and high tax states.

The TLH feature is currently only available in taxable accounts utilizing the Essential Portfolios or Selective Portfolios services which use ETFs as the investments. The minimum initial investment is generally \$5,000 for Essential Portfolios and \$25,000 for Selective Portfolios.

For clients who have enrolled in the TLH feature, each trading day, TDAIM will review your account for any investments that have unrealized losses. Specifically, we look at the individual tax lot to identify investment losses meeting or exceeding a specified loss threshold. If the threshold is met, that tax lot will be sold. To replace the sold security, we will buy shares of a replacement security that is closely correlated to the sold security to help maintain your portfolio's asset allocation and risk characteristics. TDAIM does not represent or guarantee that the objectives of the TLH feature will be met. The performance of the replacement security may be better or worse than the performance of the security that is sold for TLH purposes.

**TDAIM and its affiliates do not provide tax advice. We suggest you consult with a tax-planning professional with regard to your personal circumstances as to whether the TLH feature is appropriate for you.**

You should educate yourself regarding the Internal Revenue Service ("IRS") wash sale rule. The IRS identifies the specifics of this rule in IRS Publication 550. In brief summation, the IRS established the wash sale rule to limit an investor's ability to claim a tax loss. If you do not have any capital gains or you have more losses than gains, you can use up \$3,000 of investment losses to offset your income.



The IRS prohibits an investor from claiming a tax loss if an investor repurchases the same security (or a substantially similar security) either 30 days before OR 30 days after selling a security for a loss. To evaluate whether an investor violated the wash sale rule or not, the entire trading activity of an investor must be reviewed. Our TLH feature is only available on an account basis and does not apply to other TDAIM portfolios you may have. Each eligible TDAIM portfolio must be enrolled separately in the TLH feature. Accordingly, we do not base tax loss situations on activity that happens in your other TDAIM portfolios or any other brokerage account. So it is important to review all your taxable and non-taxable accounts including your spouse's accounts and accounts of business entities controlled by you to determine if you run the risk of violating the wash sale rule. The wash sale rule postpones losses on a sale, if replacement shares are bought around the same time.

#### **f. Drift-Based Rebalancing**

Depending on your selected model, there will generally be an annual, quarterly or monthly rebalancing of your portfolio along with automatic drift-based rebalancing designed to keep the portfolio close to its target allocations during higher market volatility.

### **2. Personalized Portfolios – General Description**

The Personalized Portfolios discretionary service involves the use of Morningstar Investment Management as a consultant to TDAIM, as described under A. *Services Provided i. Selective and Essential Portfolios – General Description.*

TDAIM will recommend an appropriate long-term asset allocation strategy to Personalized Portfolios clients according to the client's planned funding, investment objectives, risk tolerance, investment time horizon, age (in certain circumstances), employment status, likelihood of significant withdrawals from the account, any supplemental information, and any reasonable restrictions (collectively, "Profile Information"). In any case, TDAIM clients will convey their Profile Information to an FC who will help prospects become TDAIM clients. Then the FC will forward the client's Profile Information to a TDAIM Portfolio Consultant ("PC") to have more extended discussions around goal planning. The PC will work with the client to build a tailored portfolio based on the client's Profile Information. The client will initially be recommended a Core Strategy (Conservative, Moderate, Moderate Growth, Growth and Aggressive) using a combination of ETFs and mutual funds. However, after further discussing their needs with a PC, the PC may recommend another strategy that may be more appropriate for the client because of client imposed investment restrictions, client preferences, or management style. The other strategies include Tax-Aware, Socially Aware, Ultra-Conservative, Ultra-Aggressive, Multi-Asset Income, and Equity Dividend Income Portfolios and/or the client may be recommended a +/- 5% variance on the recommended Strategy's equity allocation. Clients who enter a relatively short time horizon will receive a relatively conservative portfolio recommendation regardless of their risk tolerance.

Securities in a strategy may include, but are not limited to, ETFs, closed-end funds, open-end mutual funds, common or preferred stock, convertible stocks or bonds, options, warrants, and rights as well as corporate, municipal, or government bonds, notes, or bills. We may also recommend allocating portions of your account into a Separately Managed Account ("SMA"). TDAIM will place uninvested cash in your account into a cash sweep vehicle. The portion of your portfolio in cash generally will be 1% to 3% of the total portfolio, but in certain portfolios may be as high as 35%. The cash buffer ensures the availability of cash for payment of our advisory fee and provides liquidity to cover potential price changes in market orders. In taxable accounts, the cash sweep vehicle is the TD Ameritrade FDIC Insured Deposit Account ("IDA") provided by one or more banks ("Program Banks"). Two of the Program Banks are TD Bank, N.A. and TD Bank USA, N.A., both affiliates of TD Ameritrade, Inc. and TDAIM through their respective parent companies. The IDA is insured up to the applicable limits. In non-taxable accounts, the cash sweep vehicle is a US Government money market fund, the Vanguard Treasury Money Market Fund. Investments in money market funds are subject to restrictions, charges, and expenses described in the prospectus. Money market funds are securities that may increase or decrease in value. They are not insured or guaranteed by the FDIC, any government agency, TDAIM, or its affiliates, and there can be no assurance that such funds will be able to maintain a stable net asset value of \$1 per share. You understand that you will receive periodic statements for sweep transactions involving money market funds in lieu of immediate confirmations. TDAIM's advisory fee applies to the portion of the account maintained in cash. (See Fees and Compensation below.) TD Ameritrade Investing Accounts are opened as cash accounts rather than margin accounts and margin is not available. In addition, we generally do not allow clients to fund their TD Ameritrade Investing Accounts with cash borrowed from a margin account, whether from another TD Ameritrade brokerage account or another unrelated broker-dealer account.

In order to participate in the Personalized Portfolios Service, the client will need to open a dedicated brokerage account (known as a TD Ameritrade Investing Account) at TD Ameritrade. The client grants TDAIM discretion in the TD Ameritrade Investing Account to buy, sell, or otherwise trade securities or other investments in the account without discussing the transactions with the client in advance. To the extent that a client decides to implement any TDAIM recommendation through his or her TD Ameritrade brokerage account, TD Ameritrade acts solely as a broker on an unsolicited basis in connection with such transactions and is not acting as an advisor to the client. TDAIM will make investment decisions for the account according to the investment objectives and financial circumstances described in the client's Profile Information or such documents that outline the client's assets, goals, investment time horizon, and risk tolerance. In addition, the client grants TDAIM the authority to delegate any or all of its discretionary authority and any other rights, powers and functions granted to TDAIM to the sub-advisor described below, which will assist TDAIM in providing services to client. We are not authorized to withdraw cash or securities from the client's account other than in connection with the payment of our advisory fees as described in the *Fees and Compensation* and *Custody* sections below.

TDAIM's discretionary decisions generally are made without considering potential tax consequences to the client, but such consequences may be taken into account in connection with possible fund substitutions within the same mutual fund family. The client is responsible for any tax liabilities resulting from transactions (including any arising from the addition of assets to or withdrawal of assets from the client's account). We make no representation regarding the likelihood or probability that any proposed investing plan will in fact achieve a particular investment goal. We are unable to predict or forecast market fluctuations or other uncertainties that may affect the value of any investment. Clients are urged to seek the advice of tax professionals and to use all available resources to educate themselves about investing in general, as well as the investments and the overall portfolio composition suggested by TDAIM. See response below at *Methods of Analysis, Investment Strategies, and Risk of Loss* of this disclosure brochure.

TDAIM has appointed Sawtooth Solutions, LLC, a federally registered investment advisor, as sub-advisor to the client (hereinafter, the "Sub-Advisor"). The Sub-Advisor has been selected to provide additional services to the client including portfolio management services such as trading, account monitoring, and performance reporting as well as for the selection, due diligence, and access to the Model Managers in the Sub-Advisor's Managed Account Program. The Sub-Advisor has the discretionary authority to (i) invest and reinvest the assets in the account, and (ii) implement the models in the Managed Account Program described below. The Sub-Advisor shall bear no responsibility or liability for any portions of the client accounts it does not manage.

The Sub-Advisor offers the Managed Account Program (the "Program"). The Program provides the client with access to the investment management services of the Sub-Advisor, which includes the selection of (i) individual securities, or (ii) one or more proprietary model portfolios, or (iii) the model portfolios of various third-party investment advisors. A third-party investment advisor, or "Model Manager," provides the research and development for their model portfolio as well as continuous monitoring of the selection and allocation of securities utilized in the model portfolio. The Sub-Advisor will receive from the Model Manager all purchase and sale recommendations for the model portfolios that will enable the Sub-Advisor to manage client assets in accordance with a Model Manager's recommendations. In the event the Sub-Advisor's proprietary model portfolio is utilized in the client's account, the Sub-Advisor will provide the related purchase and sale recommendations.

The Sub-Advisor will monitor the performance of the client's account and may reallocate client's account assets among the available Model Manager's model portfolios, according to the individual needs and circumstances of the client. The Sub-Advisor will have full discretion to allocate and reallocate the account and to increase or decrease the portion of the account allocated to each Model Manager, including itself. The Sub-Advisor also acts as a "manager of managers" by retaining and replacing any third-party Model Manager, by allocating and reallocating the account among the Model Managers in the Program, or by allocating to individual securities.

Under certain circumstances, the Sub-Advisor may offer the client the ability to utilize a proprietary model developed by a third-party advisor. In such cases, the Sub-Advisor will implement standard Model Manager due diligence on the advisor, including but not limited to; examining the experience, expertise, investment philosophies, and past performance of the advisor to determine if it has demonstrated an ability to invest over a period of time and in different economic conditions. The Sub-Advisor reserves the right to decline any advisor's proposed strategy for any reason. If accepted, the Sub-Advisor will enter into a standard Model Portfolio Agreement with the advisor to provide third-party research that will include purchase and sale recommendations in the form of a model portfolio to be used in the management of the investments in the Client's Account.

TDAIM and TD Ameritrade provide periodic comprehensive reporting services via ByAllAccounts, which can incorporate all of the client's investment assets including those investment assets that are not part of the assets managed by TDAIM (the "Excluded Assets") (assets over which the client maintains trading authority vs. trading authority designated to another investment professional). The service relative to the Excluded Assets is limited to reporting services only, which does not include investment implementation. Because TDAIM and TD Ameritrade do not have trading authority for the Excluded Assets, to the extent applicable to the nature of the Excluded Assets, the client (and/or the other investment professional), and not TDAIM or TD Ameritrade shall be exclusively responsible for directly implementing any recommendations relative to the Excluded Assets.

Furthermore, the client and the client's advisors that maintain trading authority, and not TDAIM or TD Ameritrade, shall be exclusively responsible for the investment performance of the Excluded Assets. Without limiting the above, TDAIM and TD Ameritrade shall not be responsible for any implementation error (timing, trading, etc.) relative to the Excluded Assets.

#### **a. Asset Allocations**

Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM the asset allocations for the portfolios. The asset allocations use a strategic asset allocation approach and generally consist of broadly diversified asset allocations that Morningstar Investment Management will reassess at least annually or more frequently as warranted by market conditions or different portfolio strategies. Morningstar Investment Management will provide TDAIM with initial recommendations and, at a minimum, annual strategy evaluations including reviewing the asset allocation and securities utilized. Morningstar Investment Management may also review the model portfolios quarterly (or more frequently) as warranted by market conditions and may provide us with recommended updates to the portfolios.

TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. We may deviate from Morningstar Investment Management's recommendations: (i) for noninvestment and nonperformance related reasons such as tax considerations or reasonable client restrictions; or (ii) to the extent so required for TDAIM to fulfill its fiduciary duty to clients. Our review will involve verifying the inputs and risk analysis to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

Morningstar Investment Management will strive to meet the asset allocation targets as closely as possible while accounting for fund-specific attributes. However, the actual allocations will fluctuate (for example, in response to changing market conditions). That is because of the nature of mutual fund investment activity and changes in the underlying holdings. In addition, the allocations are subject to change without notice. Morningstar Investment Management establishes the fund allocations using asset classifications as defined by its parent company, Morningstar, Inc. If alternative classification methods are used, the allocations may not meet the asset allocation targets. Morningstar Investment Management is not affiliated with TDAIM or TD Ameritrade. Morningstar Investment Management is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Morningstar Investment Management provides consultancy services to TDAIM with respect to the fund allocations for the model portfolios. In performing its services, Morningstar Investment Management may engage the services of its affiliate, MIS, a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Neither Morningstar Investment Management nor MIS acts in the capacity of advisor to our clients. TDAIM, as licensee, will compensate Morningstar Investment Management (licensor) for its services. See response below at *Methods of Analysis, Investment Strategies, and Risk of Loss* of this disclosure brochure.

#### **b. ETF and Mutual Fund Recommendations**

The client will initially be recommended a Core Strategy (Conservative, Moderate, Moderate Growth, Growth, and Aggressive) using a combination of ETFs and mutual funds.

Morningstar Investment Management works with TD Ameritrade to establish a set of criteria for an appropriate fund universe. The fund universe includes the thousands of mutual funds and ETFS available on the TD Ameritrade platform. The funds are carefully screened and analyzed by Morningstar Investment Management investment consultants. Morningstar Investment Management uses a set of qualitative and quantitative factors including but not limited to risk-adjusted performance, variance of returns, tax efficiency, expenses (including as to different expense levels associated with different mutual fund share classes), style consistency, and style purity. Once the funds have been scored, Morningstar Investment Management investment consultants specializing in each fund category check the quality and consistency of management and industry events (for example, potential merger or shifts in personnel) that might impact the fund's performance. Morningstar Investment Management also considers funds that complement each other and whose underlying holdings have minimal unnecessary overlap. After Morningstar Investment Management completes its



analysis, TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. Our review will involve taking steps to verify the data is reasonable in an effort to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

TDAIM will attempt to obtain waivers of short-term redemption fees and purchase minimums where possible, as well as access to lower expense share classes, where available. We will attempt to ensure that the lowest expense share class available to our clients on the TD Ameritrade platform is being selected. If a selected mutual fund has a lower expense share class that is available to TDAIM clients, we will select it for use in the Selective Portfolios, so long as we determine the share class is suitable for our clients. TDAIM, TD Ameritrade, and our affiliates do not accept 12b-1 fees, other service related fees, or revenue sharing payments from the mutual fund companies or funds utilized in our advisory service.

TDAIM may, in its discretion, accept mutual funds owned by the client into his or her TD Ameritrade Investing Accounts if the mutual funds were previously recommended by us. We may accept and use a compatible mutual fund in the client's portfolio, even if the mutual fund share is of a different share class than the share class of the mutual fund approved for use in the Selective Portfolios service. For example, if a client transfers in a retail share class mutual fund and TDAIM uses a lower expense share class of the same mutual fund, we may retain the retail share class of the mutual fund in the client's portfolio. Accepting the retail share class mutual fund will benefit clients as they will be able to invest in their portfolio more quickly. In addition, it may help reduce potential tax liabilities from selling the retail class shares and then buying the lower expense share class. On a weekly basis, TDAIM will review client accounts that transferred in different share classes of compatible mutual funds and will convert share classes to the approved share class where we believe doing so would be beneficial to the client (for example to help lower the client's expenses). The limitations on compatible mutual funds contained in this paragraph apply to both initial and subsequent contributions. TDAIM will assume discretion as to the compatible mutual funds, and the client acknowledges that all or a portion of the contributed mutual funds may be redeemed, either initially or during the course of management of his or her strategy.

The process Morningstar Investment Management uses to select ETFs is similar to that for mutual funds. Morningstar Investment Management analyzes the ETFs available through TD Ameritrade. In making the ETF recommendations to TDAIM, however, Morningstar Investment Management puts a greater focus on evaluating the particular risk characteristics of ETFs (such as trading volume, liquidity, and discounts). Morningstar Investment Management also spends time determining how best to combine ETFs, as their strategies can be much more narrowly focused than mutual funds and may offer less asset class coverage. As the ETFs that are used in the service are passively managed, manager history is not considered in the evaluations.

TDAIM may in its discretion accept ETFs owned by the client into his or her TD Ameritrade Investing Accounts if the ETFs are compatible with his or her strategy. We reserve the right to accept and utilize in the client's portfolio ETFs that were previously recommended by us. This may result in TDAIM maintaining different sets of ETFs in client portfolios. TDAIM may retain the ETFs if they are valid for the new portfolio even though the ETF may not be the number one ranked ETF for the asset class. Maintaining previously recommended ETFs may be a benefit to the client as it may reduce potential tax liabilities. The limitations on compatible and previously recommended ETFs contained in this paragraph apply to both initial and subsequent contributions. We will assume discretion as to the compatible and previously recommended ETFs, and the client acknowledges that all or a portion of the contributed ETFs may be redeemed, either initially or during the course of management of his or her strategy. In cases where the client transfers into their TD Ameritrade Investing Account two or more compatible ETFs that are appropriate for a single asset class, we will retain the higher ranked ETF for the asset class and the lower ranked ETFs will be liquidated and rebalanced accordingly. The client further acknowledges that there may be tax implications from the redemption, sale, or exchange of the securities and will be responsible for any tax liabilities that result from the transactions.

If the client's account falls below \$250,000 as a result of taking systematic withdrawals, the client acknowledges that TDAIM retains the right to cancel the client's systematic withdrawal request. ETFs can provide a diversified portfolio. However, ETFs are subject to risk similar to those of stocks. Portfolio investment returns will fluctuate and are subject to market volatility.

### **c. Tax-Loss Harvesting**

TDAIM offers a tax-loss harvesting ("TLH") feature. It is a strategy designed to help manage your portfolio in a tax efficient manner by seeking to lower your taxes by selling securities at a loss to offset potential capital gains. Tax-loss harvesting is not appropriate for all investors. It generally is more beneficial to investors in higher tax brackets and high tax states.

With Personalized Portfolios, the TLH feature is currently only available with the ETF portion of taxable accounts. The minimum initial investment is generally \$50,000 per account and \$250,000 for a portfolio.

For clients who have enrolled in the TLH feature, each trading day, TDAIM will review your account for any ETFs that have unrealized losses. Specifically, we look at the individual tax lot to identify investment losses meeting or exceeding a specified loss threshold. If the threshold is met, that tax lot will be sold. To replace the sold security, we will buy shares of a replacement security that is closely correlated to the sold security to help maintain your portfolio's asset allocation and risk characteristics. TDAIM does not represent or guarantee that the objectives of the TLH feature will be met. The performance of the replacement security may be better or worse than the performance of the security that is sold for TLH purposes.

**TDAIM and its affiliates do not provide tax advice. We suggest you consult with a tax-planning professional with regard to your personal circumstances as to whether the TLH feature is appropriate for you.**

You should educate yourself regarding the Internal Revenue Service ("IRS") wash sale rule. The IRS identifies the specifics of this rule in IRS Publication 550. In brief summation, the IRS established the wash sale rule to limit an investor's ability to claim a tax loss. If you do not have any capital gains or you have more losses than gains, you can use up \$3,000 of investment losses to offset your income.

The IRS prohibits an investor from claiming a tax loss if an investor repurchases the same security (or a substantially similar security) either 30 days before OR 30 days after selling a security for a loss. To evaluate whether an investor violated the wash sale rule or not, the entire trading activity of an investor must be reviewed. Our TLH feature is only available on an account basis and does not apply to other TDAIM portfolios you may have. Each eligible TDAIM portfolio must be enrolled separately in the TLH feature. Accordingly, we do not base tax loss situations on activity that happens in your other TDAIM portfolios or any other brokerage account. So it is important to review all your taxable and non-taxable accounts, including your spouse's accounts and accounts of business entities controlled by you, to determine if you run the risk of violating the wash sale rule. The wash sale rule postpones losses on a sale, if replacement shares are bought around the same time.

#### **d. Drift-Based Rebalancing**

Through natural market movements, a security may drift from its target allocation. Drift-based rebalancing is designed to automatically bring an allocation back to its target allocation. When certain parameters are triggered, a rebalance occurs to bring the security back to its target allocation and reallocate/rebalance across the portfolio.

#### **3. Guidance Solutions Portfolios – General Description**

In February 2018, TDAIM was the survivor of a merger with Scottrade Investment Management and became the manager of the Scottrade Investment Management Guidance Solutions Portfolios. The portfolios include the Conservative, Moderate Conservative, Moderate, Moderate Growth, Growth, Enhanced Growth, Income Generation, and Purchasing Power Preservation models. TDAIM will continue with portfolio management guidelines and strategy similar to the ones in place. TDAIM assumed discretionary trading authority over the assets dedicated to the client's selected strategy, which includes the ongoing rebalancing and portfolio reallocation. The discretionary authority allows TDAIM to buy, sell, or otherwise trade recommended and approved assets in the client's strategy without prior client approval of each transaction. We are not authorized to withdraw cash or securities from the client's account other than in connection with the payment of our advisory fees as described in the *Fees and Compensation* and *Custody* sections below.

The TDAIM discretionary services involve the use of Morningstar Investment Management LLC as a consultant to TDAIM. In performing its services, Morningstar Investment Management may engage the services of its affiliate, MIS, a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Neither Morningstar Investment Management nor MIS acts in the capacity of advisor to our clients. Morningstar Investment Management's services to TDAIM include but are not limited to:

1. Development of annual Capital Market Assumptions that are used to produce portfolio allocations;
2. Generation of strategic asset allocations for each approved model;
3. Selection of appropriate ETFs for the various portfolio models;
4. Performance of ongoing due diligence of the funds used in the model portfolios;
5. Provision of recommendations for periodic tactical changes to the portfolio models based on changing market and economic conditions;
6. Provision of periodic recommendations for adding or removing funds from the models (such as: performance concerns, fund manager departures, market exposures, tactical positioning, etc.); and
7. Production of periodic client-facing marketing materials that typically contain market and portfolio analysis.

Over time, TDAIM will rebalance the Guidance Solutions Portfolios to an appropriate Selective Core ETF Portfolio that corresponds to the client's planned funding, investment objectives, risk tolerance, investment time horizon, age (in certain circumstances), employment status, likelihood of significant withdrawals from the account, any supplemental information, and any reasonable restrictions (collectively, "Profile Information"). Changes in the client's Profile Information may result in a new recommended strategy or strategies. Clients who enter a relatively short time horizon will receive a relatively conservative portfolio recommendation regardless of their risk tolerance.

TDAIM's discretionary decisions generally are made without considering potential tax consequences to the client. The client is responsible for any tax liabilities resulting from transactions (including any arising from the addition of assets to or withdrawal of assets from the client's account). We make no representation regarding the likelihood or probability that any proposed investing plan will in fact achieve a particular investment goal. We are unable to predict or forecast market fluctuations or other uncertainties that may affect the value of any investment. Clients are urged to seek the advice of tax professionals and to use all available resources to educate themselves about investing in general, as well as the investments and the overall portfolio composition suggested by TDAIM. See response below at *Methods of Analysis, Investment Strategies, and Risk of Loss* of this disclosure brochure.

In addition to the recommended funds, TDAIM will maintain a portion of the account in cash, the amount of which generally will be 1% to 3% of the total account. The cash buffer ensures the availability of cash for payment of our fee and provides liquidity to cover potential price changes in market orders. In taxable accounts, the cash sweep vehicle is the TD Ameritrade FDIC Insured Deposit Account ("IDA") provided by one or more banks ("Program Banks"). Two of the Program Banks are TD Bank, N.A. and TD Bank USA, N.A., both affiliates of TD Ameritrade, Inc. and TDAIM through their respective parent companies. (See Client Referrals and Other Compensation below.) The IDA is insured up to the applicable limits. In non-taxable accounts, the cash sweep vehicle is a U.S. Government money market fund, the Vanguard Treasury Money Market Fund. Investments in money market funds are subject to restrictions, charges, and expenses described in the prospectus. Money market funds are securities that may increase or decrease in value. They are not insured or guaranteed by the FDIC, any government agency, TDAIM or its affiliates, and there can be no assurance that such funds will be able to maintain a stable net asset value of \$1 per share. Clients will receive periodic statements for sweep transactions involving money market funds in lieu of immediate confirmations. TDAIM's advisory fee applies to the portion of the account maintained in cash. (See Fees and Compensation below.) TD Ameritrade Investing Accounts are opened as cash accounts rather than margin accounts and margin is not available. In addition, we generally do not allow clients to fund their TD Ameritrade Investing Accounts with cash borrowed from a margin account, whether from another TD Ameritrade brokerage account or another unrelated broker-dealer account.

#### **i. Asset Allocations**

Pursuant to an agreement, and as described in *i. Selective and Essential Portfolios—General Description* above, Morningstar Investment Management will provide asset allocation and investment selection services to TDAIM. Morningstar Investment Management provides consulting services to TDAIM but is not acting in the capacity of advisor to individual investors.

Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM the same asset allocations for the portfolios. The asset allocation methodology is based on risk and return parameters relying on historic, current, and forecasted data, and on implied risk and return estimates. The asset allocations use a strategic asset allocation approach and generally consist of broadly diversified asset allocations from Morningstar Investment Management. Morningstar Investment Management will provide TDAIM with the strategy evaluations including reviewing the asset allocation and ETFs utilized. The portfolios will be periodically rebalanced throughout the year based on market and allocation changes.

TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. We may deviate from Morningstar Investment Management's recommendations: (i) for noninvestment and nonperformance related reasons such as tax considerations or reasonable client restrictions; or (ii) to the extent so required for TDAIM to fulfill its fiduciary duty to clients.

Our review will involve verifying the inputs and risk analysis to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

The process Morningstar Investment Management uses to select ETFs is similar to that for mutual funds. Morningstar Investment Management analyzes the ETFs available through TD Ameritrade. In making the ETF recommendations, however, Morningstar Investment Management puts a greater focus on evaluating the particular risk characteristics of ETFs (such as trading volume, liquidity, and discounts). Morningstar Investment Management also spends time determining how best to combine ETFs, as their strategies can be much more narrowly focused than mutual funds and may offer less asset class coverage. As the ETFs that are used in the service are passively managed, manager history is not considered in the evaluations.

TDAIM may in its discretion accept ETFs owned by the client into his or her TD Ameritrade Investing Accounts if the ETFs are compatible with his or her strategy. We reserve the right to accept and utilize in the client's portfolio ETFs that were previously recommended by us. This may result in TDAIM maintaining different sets of ETFs in client portfolios. The limitations on compatible and previously recommended ETFs contained in this paragraph apply to both initial and subsequent contributions. We will assume discretion as to the compatible and previously recommended ETFs, and the client acknowledges that all or a portion of the contributed ETFs may be redeemed, either initially or during the course of management of his or her strategy. In cases where the client transfers into their TD Ameritrade Investing Account two or more compatible ETFs that are appropriate for a single asset class, we will retain the higher ranked ETF for the asset class and the lower ranked ETFs will be liquidated and rebalanced accordingly. The client further acknowledges that there may be tax implications from the redemption, sale, or exchange of the securities and will be responsible for any tax liabilities that result from the transactions.

## **ii. Incompatible Securities**

To the extent that the client deposits securities other than ones compatible with their strategy into their TD Ameritrade Investing Account, TDAIM will not assume discretion as to such securities. The client must either sell or transfer the incompatible securities promptly. Transactions regarding any incompatible securities or other assets to fund the client's TD Ameritrade Investing Account are the client's decision and are not based upon recommendations from us. If the securities are sold, TD Ameritrade will generally charge commissions and the sale will generally be on an unsolicited basis. Clients also have the option to grant TD Ameritrade time and price discretion to liquidate incompatible securities. Any sale of securities or other assets to fund the client's TD Ameritrade Investing Account may result in expenses, fees, or other charges (such as contingent deferred sales charges) as well as tax liabilities. The client is responsible for seeking the advice of a tax professional prior to selling any securities or other assets. If the client's TD Ameritrade Investing Account has a cash balance equal to or greater than \$10,000, we may enter the transactions to implement the client's selected portfolio using the available cash balance and work with the client to promptly remove the incompatible securities. We do not charge advisory fees on incompatible securities in the client's TD Ameritrade Investing Account.

## **iii. ETF Transactions**

TDAIM intends to enter the transactions with TD Ameritrade at approximately the same time every business day on which securities markets are open, but reserves the right to change the time when appropriate. We will aggregate orders of recommended purchases and sells and enter the orders with TD Ameritrade Clearing, Inc. (See response below at Brokerage Practices of this disclosure brochure.)

However, in certain market conditions such as: 1) significant market losses or gains (generally based on important economic news), 2) significant trading volume, or 3) when clients may receive a price advantage, we reserve the right to open an additional or earlier trading window or multiple trading windows over consecutive trading days. We also reserve the right to open an additional trading window if there is a considerable amount of client-initiated requests to liquidate positions and the clients do not wish to wait for the next scheduled daily trading window and we determine it is not to the benefit of the clients to enter the orders on an individual account basis. These orders will be aggregated and will receive an average price that is separate from the regular daily trading job. We also reserve the right to execute ETF transactions using market orders per client request or extenuating circumstances lead to an account missing a trading window. For example, when a client requests an immediate liquidation and distribution from an account after the daily trading window has closed and before the next trading day.

In addition, the dividends from the ETFs generally will not be reinvested and clients will have the option to request systematic withdrawals including dividend disbursements. However, requests for systematic withdrawals that may invade principal will be reviewed and we reserve the right to not accept the request. Furthermore, if the client's account falls below \$10,000 as a result of taking systematic withdrawals, the client acknowledges that TDAIM retains the right to cancel the client's systematic withdrawal request. ETFs can provide a diversified portfolio. However, ETFs are subject to risk similar to those of stocks. Portfolio investment returns will fluctuate and are subject to market volatility.

## **e. Tax-Loss Harvesting**

TDAIM offers a tax-loss harvesting ("TLH") feature. It is a strategy designed to help manage your portfolio in a tax-efficient manner by seeking to lower your taxes by selling securities at a loss to offset potential capital gains. Tax-loss harvesting is not appropriate for all investors. It generally is more beneficial to investors in higher tax brackets and high tax states.

The TLH feature is currently only available in taxable accounts utilizing the Essential Portfolios or Selective Portfolios services which use ETFs as the investments. The minimum initial investment is generally \$25,000 for Guidance Solutions Portfolios.

For clients who have enrolled in the TLH feature, each trading day, TDAIM will review your account for any investments that have unrealized losses. Specifically, we look at the individual tax lot to identify investment losses meeting or exceeding a specified loss threshold. If the threshold is met, that tax lot will be sold. To replace the sold security, we will buy shares of a replacement security that is closely correlated to the sold security to help maintain your portfolio's asset allocation and risk characteristics. TDAIM does not represent or guarantee that the objectives of the TLH feature will be met. The performance of the replacement security may be better or worse than the performance of the security that is sold for TLH purposes.

**TDAIM and its affiliates do not provide tax advice. We suggest you consult with a tax-planning professional with regard to your personal circumstances as to whether the TLH feature is appropriate for you.**

You should educate yourself regarding the Internal Revenue Service ("IRS") wash sale rule. The IRS identifies the specifics of this rule in IRS Publication 550. In brief summation, the IRS established the wash sale rule to limit an investor's ability to claim a tax loss. If you do not have any capital gains or you have more losses than gains, you can use up \$3,000 of investment losses to offset your income.

The IRS prohibits an investor from claiming a tax loss if an investor repurchases the same security (or a substantially similar security) either 30 days before OR 30 days after selling a security for a loss. To evaluate whether an investor violated the wash sale rule or not, the entire trading activity of an investor must be reviewed. Our TLH feature is only available on an account basis and does not apply to other TDAIM portfolios you may have. Each eligible TDAIM portfolio must be enrolled separately in the TLH feature. Accordingly, we do not base tax loss situations on activity that happens in your other TDAIM portfolios or any other brokerage account. So it is important to review all your taxable and non-taxable accounts including your spouse's accounts and accounts of business entities controlled by you to determine if you run the risk of violating the wash sale rule. The wash sale rule postpones losses on a sale, if replacement shares are bought around the same time.

## Fees and Compensation

### i. Financial Planning

Clients will be notified in the event that TDAIM charges fees for financial planning, as they are not currently being charged.

### ii. Selective Portfolios Using Mutual Fund Investments

#### **a. Core Mutual Fund Portfolios and Managed Risk Portfolio Fee Schedule**

| Account Value                       | Annual Advisory Fee* |
|-------------------------------------|----------------------|
| First \$250,000                     | 1.00%                |
| Next \$250,000 (or portion thereof) | 0.70%                |
| Additional assets above \$500,000   | 0.55%                |

#### **b. Supplemental Income Portfolios Fee Schedule**

| Account Value                       | Annual Advisory Fee* |
|-------------------------------------|----------------------|
| First \$100,000                     | 0.75%                |
| Next \$150,000 (or portion thereof) | 0.60%                |
| Next \$250,000 (or portion thereof) | 0.45%                |
| Additional assets above \$500,000   | 0.30%                |

\* In connection with this fee, TD Ameritrade charges no commissions for all eligible transactions in TD Ameritrade Investing Accounts. The minimum initial investment is generally \$25,000 and \$100,000 for certain business accounts. However, clients can fund an account and implement a portfolio with \$10,000 or more. The maximum initial investment will vary depending on the model and suitability considerations.

Please note that TDAIM's advisory fees may be waived, in whole or in part, at our sole discretion, including in connection with promotional efforts or special pricing arrangements. In addition, the fee may be waived, in whole or in part, for employees and certain former employees of TD Ameritrade and its affiliates. Such employees also may be allowed to open related TD Ameritrade accounts at levels below the standard \$25,000 minimum. We also reserve the right to negotiate pricing in individual circumstances for clients with large accounts or multiple accounts, not assess the minimum annual fee in certain circumstances, provide offers to new and prospective clients, and may grandfather the annual advisory fee of pre-existing advisory relationships. We also reserve the right to waive advisory fees for accounts with an account value of \$1,000 or less. All pricing is subject to change on reasonable notice.

The applicable TDAIM fee will be assessed at the beginning of each quarter, in advance for that quarter. Clients will implement our advice through a dedicated brokerage account (known as a TD Ameritrade Investing Account) at its affiliated brokerage firm, TD Ameritrade, and the fee will be deducted from the assets in the related introducing account held at the affiliated clearing brokerage firm, TD Ameritrade Clearing, Inc. If the client opens their related TD Ameritrade account during a quarter, we will collect a prorated fee for the balance of the quarter upon account funding. Advisory fees are not charged on assets that are not directly under our management. This means that fees are not charged on (i) cash outside of the portfolio strategy (for example, client-initiated transactions to raise cash for future withdrawal) or (ii) on incompatible securities that are temporarily held in the related TD Ameritrade account. Advisory fees will be charged for all other assets, including cash held within the portfolio strategy.

If the client closes their related TD Ameritrade account during a quarter, TDAIM will refund to the client the unearned portion of the previously collected fee, which will be calculated on a prorated basis by days. The Core Mutual Fund, Supplemental Income Portfolios, and Managed Risk Portfolio may use mutual funds or share classes that may not be available to you as a retail investor. If you terminate your advisory relationship with TDAIM, we reserve the right to redeem any and all shares of such funds and you may incur a gain or loss from the liquidation. In lieu of liquidation, if available, we reserve the right to convert the shares into a share class for which you are eligible and you will be subject to the terms and conditions including expenses per the mutual fund prospectus and there may be tax consequences.

The above pricing is in the context of clients who deal directly with TDAIM and TD Ameritrade. We reserve the right to provide its services to other types of clients (such as participants in 401(k) plans) and in other contexts. We also reserve the right to vary its fee structure for such other types of clients and in such other contexts, as well as for TD Ameritrade employees.

If the market value of a client's account falls below the minimum for his or her strategy due to him or her withdrawing assets from the account, TDAIM may require the client to deposit additional money to bring the account up to the required minimum, and we reserve the right to discontinue the advisory relationship and transfer the securities into a like-titled brokerage account with TD Ameritrade.

Mutual fund companies utilized by the Selective Portfolios service reserve the right to charge fund-imposed, short-term redemption fees as detailed in the fund prospectus on transactions initiated due to client requests to raise cash. The mutual funds available in the Selective Portfolios may be available directly from the fund companies, per the terms of the fund prospectuses and without paying the TDAIM advisory fees. However, the mutual funds may be subject to applicable sales charges and other restrictions. Please refer to the fund prospectus for more information. Conversely, TDAIM may provide access to mutual funds or classes of funds that clients may not be qualified to purchase outside of our advisory service.

Clients are also responsible for paying the mutual fund expenses of the underlying funds. The expenses include underlying fund advisory fees and other fund service fees. Please see the fund prospectuses for more information. The mutual fund expenses are separate and apart from the TDAIM advisory fee.

The maximum investment amount will vary depending on the model selected and the client's Profile Information. If the investment amount exceeds the maximum for the model, the client will be contacted by a TDAIM representative to discuss the suitability of the model. If we are unable to contact the client within 30 days, we reserve the right to restrict trading and billing on the account until the client is contacted and the issue is resolved.

### **iii. Selective Portfolios Using Exchange Traded Fund Investments**

#### **a. Core Exchange Traded Funds Portfolios Fee Schedule**

| <b>Account Value</b>                | <b>Annual Advisory Fee*</b> |
|-------------------------------------|-----------------------------|
| First \$250,000                     | 1.00%                       |
| Next \$250,000 (or portion thereof) | 0.70%                       |
| Additional assets above \$500,000   | 0.55%                       |

#### **b. Opportunistic Portfolios Fee Schedule**

| <b>Account Value</b>                | <b>Annual Advisory Fee*</b> |
|-------------------------------------|-----------------------------|
| First \$250,000                     | 1.25%                       |
| Next \$250,000 (or portion thereof) | 0.95%                       |
| Additional assets above \$500,000   | 0.80%                       |

\* In connection with this fee, TD Ameritrade charges no commissions for all eligible transactions in TD Ameritrade Investing Accounts. TD Ameritrade will charge a Regulatory Fee on certain transactions. These charges are typically based on fees assessed under various regulations applicable to transactions. It may include any of the following: a sales fee on certain sell transactions (assessed at a rate consistent with Section 31 of the Securities Exchange Act of 1934), the Options Regulatory Fee (applicable to options transactions), and the Trading Activity Fee (assessed at a rate consistent with Section 1 of Schedule A of FINRA's By-Laws), among other charges. Transactions in foreign securities (including foreign company ADRs that trade in the U.S.) may include taxes and fees charged by the foreign markets or governments, which may be reflected in the price of the security or charged as an independent line item on your monthly statement.

| <b>Regulatory Fees</b>              |   |
|-------------------------------------|---|
| "Section 31" Fee <sup>1</sup>       | \$0.0000231 per \$1.00 of transaction proceeds  |
| Options Regulatory Fee <sup>2</sup> | \$0.02 per options contract   |
| Trading Activity Fee <sup>3</sup>   | \$0.000119 per equity share<br>\$0.002 per options contract<br>\$0.00075 per bond<br>\$0.00000075 x value per asset-backed security trade |

<sup>1</sup> Applies to certain sell transactions, assessed at a rate consistent with Section 31 of the Securities Exchange Act of 1934. TD Ameritrade remits these fees to certain self-regulatory organizations and national securities exchanges, which in turn make payment to the SEC. These fees are intended to cover the costs incurred by the government, including the SEC, for supervising and regulating the securities markets and securities professionals. The rate is subject to annual and mid-year adjustments which may not be immediately known to TD Ameritrade; as a result, the fee assessed may differ from or exceed the actual amount of the fee applicable to your transaction. Any excess may be retained by TD Ameritrade. Fees are rounded to the nearest penny.

<sup>2</sup> This fee varies by options exchange, where an options trade executes, and whether the broker responsible for the trade is a member of a particular exchange. As a result, TD Ameritrade calculates a blended rate that equals or slightly exceeds the amount it is required to remit to the options exchanges.

<sup>3</sup> This fee is assessed at a rate consistent with Section 1 of Schedule A of FINRA's By-Laws for trading activity. Current rates are: \$0.000119 per share for each sale of a covered equity security, with a maximum charge of \$5.95 per trade; \$0.002 per contract for each sale of an option; \$0.00075 per bond for each sale of a covered TRACE-



Eligible Security (other than an Asset-Backed Security) and/or municipal security, with a maximum charge of \$0.75 per trade; \$0.00000075 times the value, as reported to TRACE, of a sale of an Asset-Backed Security, with a maximum charge of \$0.75 per trade. Fees are rounded to the nearest penny.

The minimum initial investment is generally \$25,000 and \$100,000 for certain business accounts. However, clients can fund an account and implement a portfolio with \$10,000 or more. The maximum initial investment will vary depending on the model and suitability considerations.

Please note that TDAIM's advisory fees may be waived, in whole or in part, at our sole discretion, including in connection with promotional efforts or special pricing arrangements. In addition, the fee may be waived, in whole or in part, for employees and certain former employees of TD Ameritrade and its affiliates. Such employees also may be allowed to open related TD Ameritrade accounts at levels below the standard \$25,000 minimum. We also reserve the right to negotiate pricing in individual circumstances for clients with large accounts or multiple accounts, not assess the minimum annual fee in certain circumstances, provide offers to new and prospective clients, and may grandfather the annual advisory fee of pre-existing advisory relationships. We also reserve the right to waive advisory fees for accounts with an account value of \$1,000 or less. All pricing is subject to change on reasonable notice.

The applicable TDAIM fee will be assessed at the beginning of each quarter, in advance for that quarter. Clients will implement our advice through a dedicated brokerage account (known as a TD Ameritrade Investing Account) at its affiliated brokerage firm, TD Ameritrade. The fee will be deducted from the assets in the related introducing account held at the affiliated clearing brokerage firm, TD Ameritrade Clearing, Inc. If the client opens their related TD Ameritrade account during a quarter, TDAIM will collect a prorated fee for the balance of the quarter upon account funding. Advisory fees are not charged on assets that are not directly under our management. This means that fees are not charged on (i) cash outside of the portfolio strategy (for example, client-initiated transactions to raise cash for future withdrawal) or (ii) on incompatible securities that are temporarily held in the related TD Ameritrade account. Advisory fees will be charged for all other assets, including cash held within the portfolio strategy. If the client closes their related TD Ameritrade account during a quarter, TDAIM will refund to the client the unearned portion of the previously collected fee which will be calculated on a prorated basis by days.

The above pricing is in the context of clients who deal directly with TDAIM and TD Ameritrade. We reserve the right to provide our services to other types of clients (such as participants in 401(k) plans) and in other contexts. We also reserve the right to vary its fee structure for such other types of clients and in such other contexts, as well as for TD Ameritrade employees.

If the market value of a client's account falls below the minimum for his or her strategy due to the client withdrawing assets from the account, TDAIM may require the client to deposit additional money to bring the account up to the required minimum, and we reserve the right to discontinue the advisory relationship and transfer the securities into a like-titled brokerage account with TD Ameritrade.

Clients are also responsible for the fees and expenses for owning the ETFs. The expenses may include underlying fund advisory fees and other fund service fees. Please see the fund prospectuses for more information. The ETF expenses are separate and apart from the TDAIM advisory fee. ETFs are available outside of our services without paying the advisory fee but will be subject to trade commission and/or other transactions charges. Conversely, we may provide access to funds or classes of funds that clients may not be qualified to purchase outside of our advisory service.

The maximum investment amount will vary depending on the model selected and the client's Profile Information. If the investment amount exceeds the maximum for the model, the client will be contacted by a TDAIM representative to discuss the suitability of the model. If we are unable to contact the client within 30 days, we reserve the right to restrict trading and billing on the account until the client is contacted and the issue is resolved.

#### **iv. Essential Portfolios**

| <b>Annual Advisory Fee*</b> |
|-----------------------------|
| 0.30%                       |

\* In connection with this fee, TD Ameritrade charges no commissions for all eligible transactions in TD Ameritrade Investing Accounts. TD Ameritrade will charge a Regulatory Fee on certain transactions. Please see the description of Regulatory Fees under *Fees and Compensation, iii. Selective Portfolios Using Exchange Traded Fund Investments*.

Please note that TDAIM's advisory fees may be waived, in whole or in part, at our sole discretion, including in connection with promotional efforts or special pricing arrangements. In addition, the fee may be waived, in whole or in part, for employees and certain former employees of TD Ameritrade and its affiliates. Such employees also may be allowed to open related TD Ameritrade accounts at levels below the standard \$5,000 minimum. We also reserve the right to negotiate pricing in individual circumstances for clients with large accounts or multiple accounts, not assess the minimum annual fee in certain circumstances, provide offers to new and prospective clients, and may grandfather the annual advisory fee of pre-existing advisory relationships. We also reserve the right to waive advisory fees for accounts with an account value of \$5,000 or less. All pricing is subject to change on reasonable notice.

The applicable TDAIM fee will be assessed at the beginning of each quarter, in advance for that quarter. Clients will implement our advice through a dedicated brokerage account (known as a TD Ameritrade Investing Account) at its affiliated brokerage firm, TD Ameritrade. The fee will be deducted from the assets in the related introducing account held at the affiliated clearing brokerage firm, TD Ameritrade Clearing, Inc. If the client opens their related TD Ameritrade account during a quarter, we will collect a prorated fee for the balance of the quarter upon account funding. Advisory fees are not charged on assets that are not directly under our management. This means that fees are not charged on (i) cash outside of the portfolio strategy (for example, client-initiated transactions to raise cash for future withdrawal) or (ii) on incompatible securities that are temporarily held in the related TD Ameritrade account. Advisory fees will be charged for all other assets, including cash held within the portfolio strategy. If the client closes their related TD Ameritrade account during a quarter, TDAIM will refund to the client the unearned portion of the previously collected fee which will be calculated on a prorated basis by days.

The above pricing is in the context of clients who deal directly with TDAIM and TD Ameritrade. We also reserve the right to vary our fee structure for such other types of clients and in such other contexts, as well as for TD Ameritrade employees.



If the market value of a client's account falls below the minimum for his or her strategy due to the client withdrawing assets from the account, TDAIM may require the client to deposit additional money to bring the account up to the required minimum, and we reserve the right to discontinue the advisory relationship and transfer the securities into a like-titled brokerage account with TD Ameritrade.

Clients are also responsible for the fees and expenses for owning the ETFs. The expenses may include underlying fund advisory fees and other fund service fees. Please see the fund prospectuses for more information. The ETF expenses are separate and apart from the TDAIM advisory fee. ETFs are available outside of our services without paying the advisory fee but will be subject to trade commission and/or other transactions charges. Conversely, we may provide access to funds or classes of funds that clients may not be qualified to purchase outside of our advisory service.

The maximum investment amount will vary depending on the model selected and the client's Profile Information. If the investment amount exceeds the maximum for the model, the client will be contacted by a TDAIM representative to discuss the suitability of the model. If we are unable to contact the client within 30 days, we reserve the right to restrict trading and billing on the account until the client is contacted and the issue is resolved.

#### **v. Guidance Solutions Portfolios**

| <b>Account Value</b> | <b>Annual Advisory Fee*</b> |
|----------------------|-----------------------------|
| First \$75,000       | 0.90%                       |
| Next \$75,000        | 0.80%                       |
| Next \$200,000       | 0.75%                       |
| Next \$650,000       | 0.65%                       |
| Above \$1,000,000    | 0.55%                       |

\* In connection with this fee, TD Ameritrade charges no commissions for all eligible transactions in TD Ameritrade Investing Accounts. TD Ameritrade will charge a Regulatory Fee on certain transactions. Please see the description of *Regulatory Fees under Fees and Compensation, iii. Selective Portfolios Using Exchange Traded Fund Investments*. The minimum initial investment is generally \$25,000 and \$100,000 for certain business accounts. However, clients can fund an account and implement a portfolio with \$10,000 or more. The maximum initial investment will vary depending on the model and suitability considerations.

Please note that TDAIM's advisory fees may be waived, in whole or in part, at our sole discretion, including in connection with promotional efforts or special pricing arrangements. In addition, the fee may be waived, in whole or in part, for employees and certain former employees of TD Ameritrade and its affiliates. Such employees also may be allowed to open related TD Ameritrade accounts at levels below the standard \$25,000 minimum. We also reserve the right to negotiate pricing in individual circumstances for clients with large accounts or multiple accounts, not assess the minimum annual fee in certain circumstances, provide offers to new and prospective clients, and may grandfather the annual advisory fee of pre-existing advisory relationships. We also reserve the right to waive advisory fees for accounts with an account value of \$1,000 or less. All pricing is subject to change on reasonable notice.

The applicable TDAIM fee will be assessed at the beginning of each quarter, in advance for that quarter. Clients will implement our advice through a dedicated brokerage account (known as a TD Ameritrade Investing Account) at its affiliated brokerage firm, TD Ameritrade. The fee will be deducted from the assets in the related introducing account held at the affiliated clearing brokerage firm, TD Ameritrade Clearing, Inc. If the client opens their related TD Ameritrade account during a quarter, TDAIM will collect a prorated fee for the balance of the quarter upon account funding. Advisory fees are not charged on assets that are not directly under our management. This means that fees are not charged on (i) cash outside of the portfolio strategy (for example, client-initiated transactions to raise cash for future withdrawal) or (ii) on incompatible securities that are temporarily held in the related TD Ameritrade account. Advisory fees will be charged for all other assets, including cash held within the portfolio strategy. If the client closes their related TD Ameritrade account during a quarter, TDAIM will refund to the client the unearned portion of the previously collected fee which will be calculated on a prorated basis by days.

The above pricing is in the context of clients who deal directly with TDAIM and TD Ameritrade. We reserve the right to provide our services to other types of clients (such as participants in 401(k) plans) and in other contexts. We also reserve the right to vary its fee structure for such other types of clients and in such other contexts, as well as for TD Ameritrade employees.

If the market value of a client's account falls below the minimum for his or her strategy due to the client withdrawing assets from the account, TDAIM may require the client to deposit additional money to bring the account up to the required minimum, and we reserve the right to discontinue the advisory relationship and transfer the securities into a like-titled brokerage account with TD Ameritrade.

Clients are also responsible for the fees and expenses for owning the ETFs. The expenses may include underlying fund advisory fees and other fund service fees. Please see the fund prospectuses for more information. The ETF expenses are separate and apart from the TDAIM advisory fee. ETFs are available outside of our services without paying the advisory fee but will be subject to trade commission and/or other transactions charges. Conversely, we may provide access to funds or classes of funds that clients may not be qualified to purchase outside of our advisory service.

The maximum investment amount will vary depending on the model selected and the client's Profile Information. If the investment amount exceeds the maximum for the model, the client will be contacted by a TDAIM representative to discuss the suitability of the model. If we are unable to contact the client within 30 days, we reserve the right to restrict trading and billing on the account until the client is contacted and the issue is resolved.

## vi. Personalized Portfolios

| Account Value                       | Annual Advisory Fee |
|-------------------------------------|---------------------|
| First \$500,000                     | 0.90%               |
| Next \$500,000                      | 0.75%               |
| Additional assets above \$1,000,000 | 0.60%               |

The client's annual advisory fee is based on a percentage of the value of assets in the client's account that are allocated for the client's Personalized Portfolio. The advisory fee is calculated monthly, applied in arrears, and deducted from the client's account. It is determined by the average daily balance of assets under management in the client's account, is charged in the following month. In connection with this fee, TD Ameritrade charges no commissions for all eligible transactions in the accounts. The minimum initial investment is \$250,000 for a portfolio, consisting of one or more individual accounts, each having at least a \$50,000 minimum. If the market value of the client's account falls below its respective minimum, due to the client's withdrawal of assets, TDAIM may require the client to deposit additional money to bring the Account back to the required minimum. We reserve the right to discontinue its advisory relationship with the client and transfer the securities to a like-titled brokerage account with TD Ameritrade.

Please note that TDAIM's advisory fees may be waived, in whole or in part, at our sole discretion, including in connection with promotional efforts or special pricing arrangements. In addition, the fee may be waived, in whole or in part, for employees and certain former employees of TD Ameritrade and its affiliates. We also reserve the right to negotiate pricing in individual circumstances for clients with large accounts or multiple accounts, not assess the minimum annual fee in certain circumstances, provide offers to new and prospective clients, and may grandfather the annual advisory fee of pre-existing advisory relationships. All pricing is subject to change on reasonable notice.

The TDAIM annual advisory fee does not include underlying ETF, closed-end fund, or open-end mutual fund expenses taken at the individual fund level. These are the standard expenses that all shareholders pay. The expenses include underlying fund advisory fees and other fund service fees. The mutual funds available in the portfolio may be available directly from the fund companies, per the terms of the fund prospectuses and without paying our advisory fees. However, the mutual funds may be subject to applicable sales charges and other restrictions. Please refer to the fund prospectus for more information. ETFs are available outside of TDAIM without paying the "Annual Advisory Fee" and "Sub-Advisor's Fee" but will be subject to trade commission and/or other transaction charges. Conversely, TDAIM may provide access to mutual funds or classes of funds that our clients may not be qualified to purchase outside of our advisory service. Our annual advisory fee covers TDAIM's ongoing advisory services for your portfolio. TD Ameritrade will charge a Regulatory Fee on certain transactions. Please see the description of Regulatory Fees under Fees and Compensation, iii. Selective Portfolios Using Exchange Traded Fund Investments. The annual advisory fee also does not cover charges resulting from transfer taxes, exchange fees, Securities and Exchange Commission (SEC) fees, odd-lot differentials, handling charges, electronic fund and wire transfer fees, and any other charges imposed by law or otherwise agreed to with regard to your account, in connection with our advisory service.

In addition to the "Annual Advisory Fee," the "Sub-Advisor's Fee" is for the services provided by the Sub-Advisor, as described in this Agreement, including servicing, trading, and reporting on the client's account as well as the selection, due diligence, and access to the Model Managers in the Program. It should be noted that a change in the allocation amongst the model portfolios and other assets utilized in the client's account may change the overall Sub-Advisor's Fee that will be charged to the client's account. The Sub-Advisor's Fee is reflected in the Initial Investment Strategy Allocation Form provided in Exhibit A of the Investment Management Agreement, which outlines the initial allocation of assets in the client's account.

## Performance-Based Fees and Side-By-Side Management

TDAIM does not receive performance-based fees or participate in side-by-side management. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Our fees are calculated as described in the *Advisory Business* and the *Fees and Compensation* sections above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

## Types of Clients

TDAIM generally provides financial planning and asset allocation services to individuals and trusts, but may provide such services to institutions, as well. These services are provided through the Internet or software applications to a national clientele. The financial planning services are incidental to the asset allocation services.

The TDAIM asset allocation services are made available to brokerage clients of TD Ameritrade. The minimum initial investment for the Selective Portfolios and Guidance Solutions Portfolios services required for a TD Ameritrade Investing Account is generally \$25,000 (minimum investment amount for corporate/business accounts is \$100,000). The minimum initial investment for the Essential Portfolios service required for a TD Ameritrade Investing Account is \$5,000 (*minimum investment amount for corporate/business accounts is \$100,000*). The minimum initial investment for the Personalized Portfolios service required for a TD Ameritrade Investing Account is \$250,000 for a portfolio, consisting of one or more individual accounts, each having at least a \$50,000 minimum. In addition, if the market value of a client's account falls below the minimum for his or her strategy due to he or she withdrawing assets from the account: 1) the client's asset allocation of his or her portfolio may vary from the target asset allocation due to the lack of funds, and 2) TDAIM may require the client to deposit additional money to bring the account up to the required minimum, and we reserve the right to discontinue the advisory relationship and transfer the securities into a like-titled brokerage account with TD Ameritrade. Furthermore, the terms and conditions applicable to a TD Ameritrade Investing Account will apply to any brokerage activities in such an account.

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

### i. Selective Portfolios Using Mutual Fund Investments and the Managed Risk Portfolio

TDAIM has retained Morningstar Investment Management to provide asset allocation and security selection of the portfolios. The Core Mutual Fund Portfolios Powered by Morningstar Investment Management are diversified asset allocation portfolios. The Supplemental Income Portfolios Powered by Morningstar Investment Management are diversified asset allocation portfolios generally for more conservative investors who may want supplemental income for retirement or other purposes or as a complement to other investment strategies with a secondary goal of growth. Due to the conservative nature of the portfolios, TDAIM has created only two models: Conservative and Moderate. The Managed Risk Portfolio is designed to use an absolute return strategy to limit volatility and provide protection against a decline in the equity markets. Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM the asset allocations. The asset allocation methodology is based on two factors: 1) an estimate of risk/return parameters relying on historic, current, and forecasted data; and 2) the use of a tactical asset allocation tool based on modern portfolio theory.

Morningstar Investment Management will provide TDAIM with initial investment options and quarterly strategy evaluations.

Morningstar Investment Management will reassess the model portfolios quarterly (or more frequently as warranted by market conditions) and provide us with the updates to the portfolios. The fund universe includes the thousands of mutual funds available on the TD Ameritrade platform. The funds are carefully screened and analyzed by Morningstar Investment Management investment consultants. Morningstar Investment Management uses a set of qualitative and quantitative factors including but not limited to risk-adjusted performance, variance of returns, tax efficiency, expenses (including as to different expense levels associated with different mutual fund share classes), style consistency, and style purity as described above in *Advisory Business iv. Mutual Fund Recommendations*.

The selected funds are generally no-load or load-waived mutual funds on the TD Ameritrade platform. The classes of these funds may include retail, institutional, or other share classes, depending on TD Ameritrade's agreement with a particular mutual fund or its service providers. We will attempt to obtain waivers of short-term redemption fees and purchase minimums where possible, as well as to access to lower expense share classes, where available. We will attempt to ensure that the lowest expense share class available to clients on the TD Ameritrade platform is being selected. We generally select the lowest expense share class available to clients on the TD Ameritrade platform. Selecting a lower expense share class helps to reduce the amount of service-related fees charged by the mutual funds to clients. In some cases, however, the less expensive share class may not be available to TDAIM clients.

After Morningstar Investment Management completes its analysis, TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. Our review will involve taking steps to verify the data is reasonable in an effort to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates. TDAIM's oversight of the asset allocation and security selections conducted by Morningstar Investment Management will use the following methods:

- Verifying all calculations that will be used to derive the investment frontiers, not limited to:
  - Verifying all inputs such as tracking error, expense ratio, and average premium/discount using third-party data sources; and
  - Verifying that the securities (ETFs) selected by Morningstar Investment Management qualify for the advisory service.
- Reconstructing risk analysis to validate that appropriate risk/return is being determined by Morningstar Investment Management.

Information used in making the goal planning and TDAIM asset allocation recommendations is based upon industry accepted methods and criteria for evaluating a client's investment goals, based upon information provided by the client relating solely to the assets each client chooses to invest in accordance with a financial plan or a TDAIM asset allocation model.

TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. Our review will involve verifying the inputs and risk analysis to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly.

The principal TDAIM investment strategy is the long-term purchase of funds (investment time horizon of more than one year). However, depending on the circumstances, and as a result of factors such as client liquidity needs, rebalancing, profile changes, and allocation model adjustments, not all mutual funds purchased may be held for at least a year.

If the client chooses to use Selective Portfolios, the client must authorize TDAIM to exercise discretionary trading authority over the assets in the client's strategy, which includes the initial allocation and ongoing rebalancing for the strategy. This discretionary authority allows TDAIM to buy, sell, exchange, or otherwise trade the assets in the client's strategy without the approval of each transaction in the client's dedicated brokerage account (known as a TD Ameritrade Investing Account) at TD Ameritrade. After the client's TD Ameritrade Investing Account application (including related forms) and other required paperwork are received and approved and the client deposits cash in his or her TD Ameritrade Investing Account in the amount at or above \$10,000, the recommended trades will be placed in the account during the trading window. Clients will be able to invest in one strategy per account.

### ii. Selective Portfolios Using ETF Investments, Essential Portfolios, and Guidance Solutions Portfolios

TDAIM has retained Morningstar Investment Management to provide asset allocation and security selection service for the Selective Portfolios and the Guidance Solutions Portfolios. The Core ETF Portfolios and the Guidance Solutions Portfolios Powered by Morningstar Investment Management are diversified asset allocation portfolios. Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM the asset allocations. The principal TDAIM investment strategy is for clients to make long-term purchases of ETFs. However, depending on the circumstances, and as a result of factors such as client liquidity needs, rebalancing, profile changes, and allocation model adjustments, not all ETFs purchased may be held for at least a year. Morningstar Investment Management will provide TDAIM with initial investment options and annual strategy evaluations. However, Morningstar Investment Management will reassess the model portfolios quarterly (or more frequently as warranted by market conditions) and provide us with the updates to the portfolios. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

The Opportunistic Portfolios Powered by Morningstar Investment Management seek long-term growth with a tactical investment approach and additional equity sector rotation strategy. The use of a tactical investment approach generally involves a more active portfolio management strategy to pursue short-term opportunities in different sectors or countries based on changes to the market. The Opportunistic Portfolios have additional asset classes that allow for tactical shifts (rebalancing). This allows for rebalancing assets into sectors with potential larger returns and decreasing assets in sectors with lower potential opportunities. Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM the asset allocations. The qualitative calculations determine the momentum/volatility of the whole equity market and each asset class. The quantitative calculations review the fundamental dynamic asset allocation which determines the overall equity and fixed income changes. The calculations produce the adjustments to the portfolios. Morningstar Investment Management will provide TDAIM with initial ETF investment recommendations and monthly strategy evaluations. Morningstar Investment Management will reassess the ETFs in the model portfolios at least monthly (or more frequently as warranted by market conditions) and provide us with recommended updates to the portfolios. TDAIM will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

Essential Portfolios Powered by Morningstar Investment Management are diversified asset allocation portfolios and maybe referred to as a robo-advisory service. Morningstar Investment Management will use its proprietary qualitative and quantitative methodology to construct and recommend to TDAIM the asset allocations. The principal TDAIM investment strategy is for clients to make long-term purchases of ETFs. However, depending on the circumstances, and as a result of factors such as client liquidity needs, rebalancing, profile changes, and allocation model adjustments, not all ETFs purchased may be held for at least a year. The service allocates assets among the following five asset classes: domestic equity, international equity, emerging markets, domestic, and international fixed income ETFs. We will recommend one ETF per asset class, with the balance consisting of cash and cash alternatives (approximately 1%-3%) for the Essential Portfolios, compared to the Selective Core ETF Portfolios that utilizes additional asset classes and consists of approximately 15-25 ETFs. Morningstar Investment Management will provide TDAIM with initial investment options and annual strategy evaluations. However, Morningstar Investment Management will reassess the model portfolios quarterly (or more frequently as warranted by market conditions) and provide us with the updates to the portfolios. We will process the transactions for all applicable clients in the applicable models within a reasonable time frame from receipt of the updates.

The asset allocation methodology is based on two factors: 1) an estimate of risk/return parameters relying on historic, current, and forecasted data; and 2) the use of a tactical asset allocation tool based on modern portfolio theory. In addition, Morningstar Investment Management reviews the available ETFs using factors such as: tracking error, excess return over benchmark, fund net assets, net expense ratio, and the average premium/discount over the 12-month period.

TDAIM's oversight of the asset allocation and security selections conducted by Morningstar Investment Management will use the following methods:

- Verifying all calculations that will be used to derive the investment frontiers, not limited to:
  - ° Verifying all inputs such as tracking error, expense ratio, and average premium/discount using third-party data sources; and
  - ° Verifying that the securities (ETFs) selected by Morningstar Investment Management qualify for the advisory service.
- Reconstructing risk analysis to validate that appropriate risk/return is being determined by Morningstar Investment Management.

Information used in making the goal planning and TDAIM asset allocation recommendations is based upon industry-accepted methods and criteria for evaluating a client's investment goals, based upon information provided by the client relating solely to the assets each client chooses to invest in accordance with a financial plan or a TDAIM asset allocation model.

TDAIM will review the proposed asset allocation and investment selection recommendations from Morningstar Investment Management and may request modifications to them. Our review will involve verifying the inputs and risk analysis to validate that the asset allocations and securities recommendations by Morningstar Investment Management are appropriate. If we approve the recommendations, the portfolios will be updated accordingly.

If the client chooses to use a Selective Portfolio or an Essential Portfolio, the client must authorize TDAIM to exercise discretionary trading authority over the assets in the client's strategy, which includes the initial allocation and ongoing rebalancing for the strategy. This discretionary authority allows TDAIM to buy, sell, exchange, or otherwise trade the assets in the client's strategy without the approval of each transaction in the client's dedicated brokerage account (known as a TD Ameritrade Investing Account) at TD Ameritrade. With a Selective Portfolio using ETF investments, after the client deposits cash in his or her TD Ameritrade Investing Account in the amount at or above \$10,000, the recommended trades will be placed in the account during the trading window. Clients will be able to invest in one strategy per account. With an Essential Portfolio, after the client deposits cash in his or her TD Ameritrade Investing Account in the amount at or above \$4,000, the recommended trades will be placed in the account during the trading window. Clients will be able to invest in one strategy per account.

## **Types of Investments**

### **i. Essential Portfolios**

The Essential Portfolios service currently recommends asset allocation models utilizing specific index products, typically specific types of ETFs. They are typically ETFs designed to track indices for selected categories of investments, such as the Russell 2000, International Emerging Markets, and 7-10-year U.S. Treasury Bonds.

ETFs are investment companies that are registered under the Investment Company Act of 1940, typically as open-end funds or unit investment trusts ("UITs"). They have the flexibility of trading intraday. Most ETFs are passively managed and may provide investors with diversification, cost and tax efficiency, liquidity, and marginability. ETFs sell and redeem their shares at net asset value ("NAV") only in large blocks of shares (such as 50,000) called "Creation Units" and track specific domestic and foreign market indices. Institutional investors create or redeem the Creation Units. After creation, the ETF shares trade between investors like a stock. Because ETF shares trade freely and continuously, the market determines prices, and investors can buy or sell shares at any time that the markets are open. ETFs are priced continuously by the market, so there is a potential for trading to take place at a price other than the NAV. However, because large institutions can create or redeem ETFs at any time, these large institutions take advantage of any significant mispricing through a simultaneous purchase and sale transaction called arbitrage. Arbitrage offers a small but risk-free profit to the institution, while forcing prices to remain close to their NAV.

An index-based ETF seeks to track the performance of its corresponding index by either replicating the securities in the index or holding a representative sample of the securities in the index. Because ETFs are passively managed, their expenses are typically lower than the expenses of



actively managed mutual funds, which generally have higher management fees and brokerage expenses due to portfolio trading. In addition, ETF expenses are often lower than the expenses of index funds. However, investors who purchase and sell ETF shares in secondary market transactions generally pay brokerage commissions in connection with those transactions.

ETFs may be used as long-term investments, as they are for TDAIM asset allocation purposes. ETFs also may be used by others as short-term investments. For those investors who trade more frequently, ETFs offer the ability to purchase and sell ETF shares in the secondary market at a known price anytime during the trading day, to purchase ETF shares on margin, and to sell ETF shares short without regard to the "up-tick" rule.

*Risks Associated with Investing in ETFs.* Equity-based ETFs are subject to risks similar to those of stocks, and fixed-income-based ETFs are subject to risks similar to those of bonds. Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Foreign-based ETFs have unique and greater risks than domestic-based ETFs including fluctuations due to changes in a currency's exchange rate and political risk. Equity ETF risks include possible pricing delays in times of extreme market volatility, liquidity risk, and market risk. Fixed-income ETF risks include:

- Credit risk: the risk that a company or bond issuer may fail to pay principal and interest payments in a timely manner.
- Interest rate risk: the risk that the market value of the bonds will go down when interest rates go up.
- Prepayment risk: the risk that a bond will be paid off early.
- Liquidity risk: the risk that certain assets may not be readily converted into cash due to lack of demand in the market.
- Market risk: the risk that the value of an investment may decline due to changes in general economic or market conditions.

Please note that **past performance is no guarantee of future results.**

## **ii. Selective Portfolios**

### **a. Selective Core Mutual Fund Portfolios Powered by Morningstar Investment Management**

The Selective Core Mutual Fund Portfolios Powered by Morningstar Investment Management service recommends mutual funds as part of an asset allocation model. They primarily include equity and fixed-income mutual funds with investment objectives that closely match the asset/subasset classes of the asset allocation models used by TDAIM.

Mutual funds are investment companies that are registered under the Investment Company Act of 1940. Most mutual funds are managed by investment advisors who research, select, and monitor the securities in the fund. Mutual funds sell and redeem their shares at NAV. The mutual funds recommended in the Selective Portfolios Powered by Morningstar Investment Management are selected from the mutual funds available on the TD Ameritrade platform. The classes of these funds may include retail, institutional, or other share classes, depending on the applicable mutual fund and TD Ameritrade's agreement with the particular mutual fund or its service providers.

TDAIM generally selects the lowest expense share class available to our clients on the TD Ameritrade platform.

*Risks Associated with Investing in Mutual Funds.* Equity-based mutual funds are subject to risks similar to those of stocks, including market risk, which is the risk that investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. International mutual funds are subject to fluctuations due to changes in a currency's exchange rate and political risk. Fixed-income mutual funds (bond funds) fluctuate with the bond market. Fixed-income risks include:

- Credit risk: the risk that a company or bond issuer may fail to pay principal and interest payments in a timely manner.
- Interest rate risk: the risk that the market value of the bonds will go down when interest rates go up.
- Prepayment risk: the risk that a bond will be paid off early.

### **b. Core ETF Portfolios and Guidance Solutions Portfolios Powered by Morningstar Investment Management**

The Core ETF Portfolios and the Guidance Solutions Portfolios Powered by Morningstar Investment Management use ETFs as part of an asset allocation model as described under *i. Essential Portfolios* of this section.

### **c. Supplemental Income Portfolios Powered by Morningstar Investment Management**

The Supplemental Income portfolios offer investment strategies designed to provide both income and total returns while limiting your exposure to volatility. The portfolios are not cash vehicles, cash alternatives, or money market funds and are not for short-term investing (less than one year) and should not be viewed or used for these objectives. The Supplemental Income Portfolios hold equity and bond mutual funds that have risks inherent to investing in these securities, including market and credit risk, and possible loss of value as described under *ii.a. Core Mutual Fund Portfolios Powered by Morningstar Investment Management* of this section.

### **d. Opportunistic Portfolios Powered by Morningstar Investment Management**

Opportunistic Portfolios Powered by Morningstar Investment Management use ETFs as part of an asset allocation model as described under *i. Essential Portfolios* of this section.

### **e. Managed Risk Portfolio Powered by Morningstar Investment Management**

The Managed Risk Portfolio service seeks to limit portfolio volatility in an effort to provide protection against a decline in the equity markets. The service seeks to pursue this goal by investing in certain mutual funds that, when combined in a single portfolio, provide the desired volatility characteristics and return expectations. The service is not designed to outperform stocks and bonds in strong markets. There is no guarantee the underlying mutual funds will achieve positive returns or that the service's objectives will be achieved. The Managed Risk Portfolio service is not a cash vehicle, cash alternative, or money market fund equivalent, and is not for short-term investing (less than one year). It should not be viewed or used for these objectives. The mutual funds used in the Managed Risk Portfolio service invest in securities (including mutual funds) and strategies with inherent risks, including market, credit, geographical, and derivatives risk. The funds entail possible loss of value as described under *ii.a. Core Mutual Fund Portfolios Powered by Morningstar Investment Management* of this section.

The underlying mutual fund managers may use investment mandates which allow them to consider a variety of opportunities for their mutual funds including, but are not limited to:

1. Stocks
2. Bonds
3. Commodities
4. Derivatives
5. Cash

Funds used in the service may include the following types of financial instruments in their portfolios: derivative instruments, including options, futures, swaps, structured securities, and other derivative instruments which may involve a high degree of financial risk. Commodity linked mutual funds are investments intended to provide exposure to one or more physical commodities or commodities indices. The value of a commodity linked mutual fund may be affected by market movements and factors specific to a particular commodity or industry, such as weather, embargoes, and international economic, political, and regulatory developments. Derivatives are securities derived from an underlying asset. The most common types of derivatives are futures contracts, options, and swaps. The risks of investing in a derivative include liquidity, interest rate, market, credit, and management risks. Also, the value of a derivative may not correlate with the underlying asset. The funds may also pursue an arbitrage strategy and have the risk that securities purchased pursuant to the strategy intended to take advantage of a perceived relationship between the value of two securities may not perform as expected. In addition, the funds may invest in foreign securities, which may be more volatile than investments in U.S. securities and will be subject to fluctuation and sudden economic and political developments. Furthermore, the funds used may have wide flexibility as to asset allocation as governed by their prospectuses and their chosen asset allocations may prove to have been undesirable. While the funds have flexibility as to their allocation, from time to time, it may be possible that multiple funds used in the Managed Risk Portfolio may invest in a similar asset class(es) to pursue market opportunities. This may result in the overall portfolio allocations being more highly concentrated in a small number of asset classes.

### iii. Personalized Portfolios

The Personalized Portfolios use ETFs and mutual funds as part of an asset allocation model as described above in this section. In addition, SMAs may be used to provide diversification or specialization within a particular sector of the market. Due to direct equity ownership, SMAs have risks including (but not limited to):

- Market risk: the risk that the value of an investment may decline due to changes in general economic or market conditions.
- Credit risk: the risk that a company or bond issuer may fail to pay principal and interest payments in a timely manner.
- Interest rate risk: the risk that the market value of the bonds will go down when interest rates go up.
- Prepayment risk: the risk that a bond will be paid off early.
- Liquidity risk: the risk that certain assets may not be readily converted into cash due to lack of demand in the market.
- Sector risk: the risk that all of the securities in an entire sector will be affected by economic or other factors which pertain to that sector more specifically than other sectors.
- Currency risk: the risk that arises from the change in price of one currency against another.
- Commodity risk: the uncertainty that stems from changing prices that adversely impact the financial results of those who both use and produce that commodity.

Please note that **past performance is no guarantee of future results.**

### Risk of Loss

The TDAIM asset allocation service and recommendations have been developed based on historical performance of the standard asset classes (stocks, bonds, and cash) and of representative index fund products, including ETFs, mutual funds, and index funds, as well as concepts of modern portfolio theory. Modern Portfolio Theory ("MPT") suggests that investors can limit the volatility in their portfolio, while improving its performance, by spreading the risk among different types of securities that do not always behave the same way. It is a principle of investing that higher potential returns carry higher risk, and conversely, for lower risk, investors must accept lower expected returns. According to MPT, a portfolio (a combination of individual investments) exhibits risk and return characteristics based on its composition and the way those components correlate with each other. For each level of risk, there is an "optimal" asset allocation that is designed to produce the best balance of risk versus return. An optimal portfolio will provide neither the highest returns, nor the lowest risk of all possible portfolio combinations—it will attempt to balance the lowest risk for a given level of return and the greatest return for an acceptable level of risk.

The investment analysis information generated by the TDAIM service is hypothetical, does not reflect actual investment results and does not guarantee future results. Our analysis primarily focuses on mutual funds and index ETFs that track to broad indices, including foreign equity, domestic equity, and bond indices, and may provide investors with diversification, cost and tax efficiency, and liquidity. Other investment vehicles that are not included in the modeling process may have characteristics similar or superior to mutual funds, ETFs, or index funds.

Investing in securities involves risk of loss that the client should be prepared to bear. TDAIM does not represent or guarantee that its asset allocation services and recommendations can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that a client's financial goals and objectives will be met. Past performance is in no way an indication of future performance.

TDAIM's recommendations are made without considering potential tax consequences to the client. The client is responsible for any tax liabilities resulting from transactions (including any arising from the addition of assets to or withdrawal of assets from the client's account). We make no representation regarding the likelihood or probability that any proposed investing plan will in fact achieve a particular investment goal. We are unable to predict or forecast market fluctuations or other uncertainties that may affect the value of any investment. Clients are urged to seek the advice of tax professionals and to use all available resources to educate themselves about investing in general, as well as the investments and the overall portfolio composition suggested by TDAIM.



## Disciplinary Information

Form ADV Part 2 requires investment advisors such as TDAIM to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business and/or our management. Neither TDAIM nor any of our management persons have been involved in any disciplinary events that would be material to a client's or prospective client's evaluation of TDAIM or the integrity of its management.

## Other Financial Industry Activities and Affiliations

TDAIM is an indirect wholly owned subsidiary of TD Ameritrade Holding Corporation ("Corporation") through Financial Passport, Inc. ("FPI"). Because FPI is a wholly owned subsidiary of the Corporation, we are indirectly owned by the Corporation. The Corporation also owns TD Ameritrade and TD Ameritrade Clearing, Inc., registered broker-dealers, the former being an introducing broker and the latter being a clearing broker for TD Ameritrade.

Per an intercompany agreement between TDAIM and TD Ameritrade Clearing, Inc. and TD Ameritrade, Inc., TD Ameritrade Clearing, Inc. and TD Ameritrade, Inc. provide services and support to TDAIM. In addition, TD Ameritrade, Inc. shares certain employees with TDAIM necessary to the operation of the company. Therefore, management persons of TDAIM generally are also employees of TD Ameritrade, Inc. and most management persons are also dually registered as registered representative of TD Ameritrade, Inc. The furnishing of services to TDAIM is undertaken under our oversight, review, approval, supervision, and control. Neither TD Ameritrade Clearing, Inc. nor TD Ameritrade, Inc. provide any investment advice or otherwise perform any function on behalf of TDAIM. We maintain all necessary records and information relating to the services it provides to meet its legal and contractual obligations.

TD Ameritrade FCs are dually registered as broker-dealer registered representatives of TD Ameritrade and as investment advisor representatives of TDAIM.

To implement a portfolio, TDAIM clients will need to open a dedicated brokerage account (known as a TD Ameritrade Investing Account) at TD Ameritrade. See response below to *Code of Ethics, Participation, or Interest in Client Transactions and Personal Trading* of this disclosure brochure.

From time to time, TD Ameritrade may provide offers to existing and/or prospective clients with TD Ameritrade Investing Accounts related to the deposit of additional funds into their account or the opening of a new TD Ameritrade Investing Account.

TD Ameritrade is registered with the SEC as both a broker-dealer and an investment advisor. As a broker-dealer, TD Ameritrade may receive certain fees and commissions for effecting customer transactions. TD Ameritrade, acting in such a broker-dealer capacity, will forward orders from its advisory clients to TD Ameritrade Clearing, Inc., its clearing broker, for execution on a fully disclosed basis. TD Ameritrade and certain affiliates underwrite securities, but TD Ameritrade, in its capacity as an investment advisor, does not recommend these securities to its advisory clients. In addition, the cash allocation in taxable TD Ameritrade Investing Accounts is held in the TD Ameritrade FDIC Insured Deposit Account provided by one or more Program Banks. Two of the Program Banks are TD Bank, N.A. and TD Bank USA, N.A., both affiliates of TD Ameritrade, Inc. and TDAIM through their respective parent companies TD Bank, N.A. and TD Bank USA, N.A. may receive an economic benefit from the cash held in the TD Ameritrade FDIC Insured Deposit Account and may compensate TD Ameritrade in connection with such accounts. See response below to *Code of Ethics, Participation, or Interest in Client Transactions and Personal Trading* of this disclosure brochure. In non-taxable accounts, the cash sweep vehicle is a U.S. Government money market fund, the Vanguard Treasury Money Market Fund. Investments in money market funds are subject to restrictions, charges, and expenses described in the prospectus. Money market funds are securities that may increase or decrease in value. They are not insured or guaranteed by the FDIC, any government agency, TDAIM or its affiliates, and there can be no assurance that such funds will be able to maintain a stable net asset value of \$1 per share. Clients with taxable accounts have the option to switch from the Insured Deposit Account to the Vanguard Treasury Money Market Fund.

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

TDAIM adopted a Code of Ethics as of January 31, 2005, pursuant to Rule 204A-1 under the Investment Advisors Act of 1940. The Code is based on the fiduciary duty principle that clients' interests come first. The Code requires TDAIM's personnel to adhere to high standards of honest and ethical conduct and, among other things, to comply with various reporting and approval requirements as to securities transactions. Copies of the Code are available to clients or prospective clients upon request.

TDAIM's broker-dealer affiliate, TD Ameritrade, will effect transactions for compensation for clients. Once a client selects an asset allocation model, the advisory client may implement the model recommendations through a dedicated brokerage account at TD Ameritrade known as a TD Ameritrade Investing Account. Commissions may be charged for ETF and mutual fund transactions effected through TD Ameritrade, including those to implement, rebalance, or reallocate a TDAIM asset allocation model, although they are not currently being charged.

TD Ameritrade is registered with the SEC as both a broker-dealer and an investment advisor. As a broker-dealer, TD Ameritrade may receive certain fees and commissions for effecting customer transactions. TD Ameritrade, acting in such a broker-dealer capacity, will forward orders from its advisory clients to TD Ameritrade Clearing, Inc., its clearing broker, for execution on a fully disclosed basis. TD Ameritrade and certain affiliates underwrite securities, but TD Ameritrade, in its capacity as an investment advisor, does not recommend these securities to its advisory clients. See response above to *Other Financial Industry Activities and Affiliations* of this disclosure brochure.

In its investment advisory capacity, TD Ameritrade provides services with respect to its AdvisorDirect® advisor referral service, which generally has a \$500,000 minimum investment requirement. The AdvisorDirect service refers eligible TD Ameritrade retail clients to one or more independent investment advisory firms that offer traditional investment management and/or financial planning services. Such firms are clients of TD Ameritrade's Institutional division and have been screened for participation in AdvisorDirect. TD Ameritrade's clients could potentially receive advisory services from such independent advisors or receive advisory services from its affiliated advisor TDAIM. As a result, TD Ameritrade may have a conflict of interest when it guides prospects toward these services. TD Ameritrade has adopted incentive plan arrangements for its FCs as described in *Client Referrals and Other Compensation* below. TD Ameritrade also has implemented procedures to mitigate the conflict of interest and to help ensure its clients are referred to the appropriate advisory service. The procedures include qualification criteria designed, among other things, to identify the client's desire for the traditional services of an independent investment advisory firm or for the TDAIM service based on a number of factors to help ensure the appropriate advisory service is selected.

TDAIM prospects investing assets of an employee benefit plan subject to Title 1 of the Employee Retirement Income Security Act of 1974 ("ERISA") and/or Section 4975 of the Internal Revenue Code, including assets held in Individual Retirement Accounts ("IRAs"), Keogh plans, and other similar accounts should be aware that they are solely responsible for selecting TDAIM as the advisor for their plan or account. TD Ameritrade will not make that decision for them. Such prospects should seek information to enable them to independently determine whether our service is appropriate for them. Among the factors to be considered in making that determination are: (i) the role that TDAIM would play in the investment portfolio as a whole; (ii) the risk of loss and the opportunity for gain (or other return) associated with using our service; (iii) the composition of the plan's or account's investment portfolio with regard to diversification; (iv) the liquidity and current return of the plan's or account's investment portfolio relative to its anticipated cash flow requirements; and (v) the projected return on the plan's or account's investment portfolio relative to the prospect's investment objectives for the plan or account. TD Ameritrade will not make a decision for a retirement account prospect as to the prospect becoming a TDAIM client.

TDAIM's affiliates and TD Ameritrade associates (collectively "Associates") are allowed to invest in our portfolios through the same interactive software that is available to all clients. Associates may purchase the portfolios in the same manner as retail clients given our limited business model which deals exclusively with asset allocation models involving index products such as ETFs, mutual funds available on the TD Ameritrade platform, and cash alternatives and does not involve any individual equity or fixed-income securities recommendations. In addition, Associates are subject to the TD Ameritrade Trading Policy, including the prohibition to not buy or sell securities on the basis of material nonpublic information.

Related persons of TDAIM are restricted from purchasing or selling any security (or derivative thereof) that they know or reasonably should know will be recommended in any of the Portfolios (a) in their personal accounts and (b) in accounts as to which they have beneficial ownership (which include (1) the accounts of a spouse, minor children, other persons living in their household, and nonemancipated adult children [collectively, "family members"], (2) trusts established for the related person's benefit, family members, or any other relative as to which trusts the related person has sole or shared voting or investment power and (3) entities in which the related person or his/her family members have sole voting or investment power or as to which the related person or his/her family members have shared voting or investment power and pecuniary interests.) However, the restriction does not apply to securities listed on the S&P 500 or other large cap issues with a market capitalization or net assets of \$5 billion or more or reasonable trading volume where a transaction in the security will not likely move the market.

Supervised Persons are subject to the trading restrictions as described above. In addition, as associates of TD Ameritrade, they are subject to the TD Ameritrade Trading Policy. Our discretionary ETF transactions are entered as block orders with TD Ameritrade and, if applicable, Associate accounts will be included in the block orders and will receive the same average price as clients to help ensure Associates do not benefit unfairly to the disadvantage of the clients. Furthermore, the list of recommended ETFs will be included on a "restricted list" and reviewed and compared against the personal trades of the Access Persons per the trading restrictions.

## Brokerage Practices

To implement any of the Portfolios, clients are required to open a TD Ameritrade Investing Account and use TD Ameritrade, Inc. as the broker-dealer.

Use of the discount brokerage service is a condition to implementing the discretionary investment advice provided through TDAIM. We feature TD Ameritrade as a broker to use in making securities transactions, and TD Ameritrade provides separate, dedicated brokerage accounts to facilitate tracking of client positions in TDAIM-related securities. Brokerage services provided by TD Ameritrade, Inc. The discretionary transactions will be executed during daily trading windows on an individual account basis. TD Ameritrade currently charges no commissions in connection with the discretionary transactions in associated TD Ameritrade accounts. TD Ameritrade will charge a Regulatory Fee on certain transactions. Please see the description of Regulatory Fees under *Fees and Compensation, iii. Selective Portfolios Using Exchange Traded Fund Investments*. Requiring the use of TD Ameritrade, Inc. as the dedicated broker-dealer may prevent TDAIM from achieving the most favorable execution for client transactions, which may cost clients more money. Please see response above at *Code of Ethics, Participation, or Interest in Client Transactions and Personal Trading* of this disclosure brochure. Also see response below at *Additional Compensation*.

### Aggregation of Trades

#### a. Selective Portfolios Using Mutual Fund Investments and the Managed Risk Portfolio

With the Core Mutual Fund, Managed Risk, and Supplemental Income Portfolios, TDAIM does not aggregate the orders. The discretionary transactions will be executed during daily trading windows on an individual account basis as mutual funds sell and redeem their shares at NAV. TD Ameritrade currently charges no commissions in connection with Selective Portfolios discretionary transactions in clients' associated TD Ameritrade accounts.

Based on the quarterly recommendations (or more frequently as warranted by market conditions) of Morningstar Investment Management, TDAIM may rebalance the portfolios. There may be instances when the rebalance will entail a significant amount of transactions across all client accounts; we reserve the right to place the transactions over two or more consecutive trading days in order to reduce large price fluctuations that may occur by executing the trades on a single trading day. We will randomly select the portfolio models that will be traded on each of the two or more consecutive trading days if two consecutive days are needed to minimize price fluctuations. It is our policy that such transactions will be entered in a fair and equitable manner. There is no preferential treatment given to any one client account.

### Trade Error Policy

In the event TDAIM makes an error that has a financial impact on a client's account, we will seek to correct the error as soon as possible and in such a manner that the affected client is not disadvantaged and bears no loss. We will evaluate each situation independently.

#### b. Selective Portfolios Using ETF Investments, Essential Portfolios, and Guidance Solutions Portfolios

With the Core ETF, Opportunistic Portfolios, Essential Portfolios, and Guidance Solutions Portfolios, TDAIM typically aggregates orders for more than one client in the Selective, Essential, and Guidance Solutions Portfolios if it determines that aggregation is in the best interests of the clients. Clients participating in aggregated transactions will receive an average share price with all transaction costs shared on a pro-rata basis.

TDAIM intends to enter the aggregated orders for the transactions during the trading window at approximately the same time every business day on which securities markets are open. Our trade allocation policy is to allocate the purchase and sales of the recommended ETFs in a fair and equitable manner. The policy prohibits any trade allocation to favor one group or any particular client(s) more favorably than another group or any similar clients.

On a typical trading day, TDAIM generates a list of accounts that require a recommended initial allocation or rebalancing transactions. The list also includes accounts for client-initiated transactions resulting from the client requesting a raise cash (liquidate securities), invest raise cash or the client selecting a new model after the previous day's trading aggregation job. Generally, the list does not include accounts in which client-initiated requests made to the TDAIM Support Team during market hours in which the client does not wish to wait for the next trading window. In addition, the list will not include accounts with open orders, unresolved investment restrictions, incompatible assets or model, values below the required minimum or above the required maximum, or in "do not trade" or Regulation T status.

However, in certain market conditions such as: 1) significant market losses or gains (generally based on important economic news), 2) significant trading volume, or 3) when clients may receive a price advantage, TDAIM reserves the right to open an additional or earlier trading window or multiple trading windows over consecutive trading days. We also reserve the right to open an additional trading window if there is a considerable amount of client-initiated requests to liquidate positions and the clients do not wish to wait for the next scheduled daily trading window and we determine it is not to the benefit of the clients to enter the orders on an individual account basis. These orders will be aggregated and will receive an average price that is separate from the regular daily trading job.

The aggregated orders are placed with TDAIM's affiliated broker-dealer TD Ameritrade Clearing, Inc. We reconcile the orders by the next business day. Client cash or securities may be held collectively for settlement purposes but no longer than necessary to settle the purchase or sale.

TD Ameritrade provides each client with an account statement and trade confirmations that reflect the securities that have been purchased and sold for the clients. TDAIM also maintains books and records reflecting the securities held by, or bought or sold for, clients' accounts that participate in the aggregations.

The accounts of our associated persons may participate in aggregated orders. The associates will receive the same average share price and will pay any applicable commissions and other transaction costs on a pro-rata basis.

#### **Written Aggregation Statement**

Each trading day, as described above, TDAIM generates a list of accounts for the daily aggregated order(s). The orders are sent to TD Ameritrade Clearing, Inc. The order is generally filled in its entirety and clients receive their allotted allocation. ETFs sell and redeem their shares at NAV in Creation Units. Therefore, if additional shares of an ETF are required, a Creation Unit(s) may be used to fill the aggregated order. Once the order is executed, the shares will be allocated back to the clients' accounts participating in the order.

In rare instances, if an order is not filled in its entirety as stated above, the shares will be allocated on a percentage pro-rata basis among the participating clients. However, adjustments may be made to avoid odd amounts of shares held in any client account. If an order is allocated in a manner other than that stated herein, a written explanation for the change must be provided to and approved by the Chief Operating Officer and/or Chief Compliance Officer no later than the morning of the next business day following the execution of the order.

#### **Trade Error Policy**

In the event TDAIM makes an error that has a financial impact on a client's account, we will seek to correct the error as soon as possible and in such a manner that the affected client is not disadvantaged and bears no loss. We will evaluate each situation independently.

#### **c. Personalized Portfolios**

With Personalized Portfolios, TDAIM typically aggregates orders for more than one client if it determines that aggregation is in the best interests of the clients. Clients participating in aggregated transactions will receive an average share price with all transaction costs shared on a pro-rata basis.

TDAIM intends to enter the aggregated orders for the transactions during the trading window at approximately the same time every business day on which securities markets are open. Our trade allocation policy is to allocate the purchase and sales of the recommended securities in a fair and equitable manner. The policy prohibits any trade allocation to favor one group or any particular client(s) more favorably than another group or any similar clients.

On a typical trading day, TDAIM generates a list of accounts that require a recommended initial allocation or rebalancing transactions. The list also includes accounts for client-initiated transactions resulting from the client requesting a raise cash (liquidate securities), invest raise cash, or the client selecting a new model after the previous day's trading aggregation job. Generally, the list does not include accounts in which client-initiated requests made to the TDAIM Support Team during market hours in which the client does not wish to wait for the next trading window. In addition, the list will not include accounts with open orders, unresolved investment restrictions, incompatible assets or model, values below the required minimum or above the required maximum, or in "do not trade" or Regulation T status.

However, in certain market conditions such as: 1) significant market losses or gains (generally based on important economic news), 2) significant trading volume, or 3) when clients may receive a price advantage, TDAIM reserves the right to open an additional or earlier trading window or multiple trading windows over consecutive trading days. We also reserve the right to open an additional trading window if there is a considerable amount of client-initiated requests to liquidate positions and the clients do not wish to wait for the next scheduled daily trading window and we determine it is not to the benefit of the clients to enter the orders on an individual account basis. These orders will be aggregated and will receive an average price that is separate from the regular daily trading job. There is no preferential treatment given to any one client account.

The aggregated orders are placed with TDAIM's affiliated broker-dealer TD Ameritrade Clearing, Inc. We reconcile the orders by the next business day. Client cash or securities may be held collectively for settlement purposes but no longer than necessary to settle the purchase or sale.

TD Ameritrade provides each client with an account statement and trade confirmations that reflect the securities that have been purchased and sold for the clients. TDAIM also maintains books and records reflecting the securities held by, or bought or sold for, clients' accounts that participate in the aggregations.

The accounts of our associated persons may participate in aggregated orders. The associates will receive the same average share price and will pay any applicable commissions and other transaction costs on a pro-rata basis.

As to mutual fund transactions, TDAIM does not aggregate mutual fund orders. The discretionary transactions will be executed during daily trading windows on an individual account basis as mutual funds sell and redeem their shares at NAV. TD Ameritrade currently charges no commissions in connection with discretionary transactions in clients' associated TD Ameritrade accounts. There may be instances when the rebalance will entail a significant amount of transactions across all client accounts; we reserve the right to place the transactions over two or more consecutive trading days

in order to reduce large price fluctuations that may occur by executing the trades on a single trading day. We will randomly select the portfolio models that will be traded on each of the two or more consecutive trading days if two consecutive days are needed to minimize price fluctuations. It is our policy that such transactions will be entered in a fair and equitable manner. There is no preferential treatment given to any one client account.

#### **Trade Error Policy**

In the event TDAIM makes an error that has a financial impact on a client's account, we will seek to correct the error as soon as possible and in such a manner that the affected client is not disadvantaged and bears no loss. We will evaluate each situation independently.

## **Review of Accounts**

### **A. Reviews**

#### **Selective Portfolios, Personalized Portfolios, and Guidance Solutions Portfolios Clients**

TDAIM will request updated Profile Information from clients informally on a quarterly basis and more formally on an annual basis. Members of TDAIM Support Team will run reports periodically to identify clients who have updated their Profile Information. They then will see whether the updated information would indicate that a change to the client's portfolio might be appropriate. They also will run periodic reports to identify portfolios in various circumstances such as portfolios with incompatible assets or incomplete paperwork. If so, a member of the Support Team will contact the client to pursue the matter. In addition, members of the Support Team who are knowledgeable about the service will be available to consult periodically with clients about their portfolios.

Additionally, TDAIM has designed a program where Support Team members may contact clients to discuss whether their current portfolio continues to reflect the client's investment objectives and financial situation and/or whether a different portfolio may be more appropriate. The program involves random and targeted calls to clients generally based on length of time in our service. With the program, not all clients may be called.

#### **Essential Portfolios Clients**

TDAIM will request updated Profile Information from its Essential Portfolios clients informally on a quarterly basis and more formally on an annual basis. Members of the Support Team will run reports periodically to identify clients who have updated their Profile Information. They then will see whether the updated information would indicate that a change to the client's portfolio might be appropriate. They also will run periodic reports to identify portfolios in various circumstances such as portfolios with incompatible assets or incomplete paperwork. The Essential Portfolios are offered electronically via the Internet as the primary channel of interaction with TDAIM. Accordingly, Essential Portfolios clients need Internet access for activities such as monitoring their portfolio, updating their Profile Information, conducting cash and securities transfers, communicating with the Support Team. Essential Portfolio clients agree to receive notices including disclosure brochures, regulatory communications, and other materials electronically in lieu of paper communications. The communications will be delivered electronically to the email address provided on the client's TD Ameritrade Investing Account application.

### **B. Reports**

#### **Selective Portfolios, Essential Portfolios, Personalized Portfolios, and Guidance Solutions Portfolios Clients**

TDAIM does not provide written reports to clients. Clients may view their TD Ameritrade Investing Accounts online to see current account information. Such information includes asset allocation information as of the current business day. TD Ameritrade will also provide a written account statement (at least quarterly) detailing the positions and activity in a client's TD Ameritrade Investing Account, and clients will receive trade confirmations for each buy, sell, or exchange transaction in their accounts.

## **Client Referrals and Other Compensation**

**A.** TD Ameritrade Holding Corporation (or its subsidiaries or affiliates) provides to TDAIM office space, use of its phone system, use of its Internet website and other general office, clerical, managerial, and legal support. Our advisory service is designed to work with TD Ameritrade, a registered broker-dealer under common control with TDAIM. Currently, TD Ameritrade does not charge commissions for implementing our recommendations. In addition, the Corporation's affiliates, TD Bank USA, N.A. and TD Bank, N.A., receive an economic benefit from the cash held in their FDIC Insured Deposit Account by our clients, and compensate TD Ameritrade in connection with such accounts.

**B.** TD Ameritrade FCs are dually registered as broker-dealer registered representatives of TD Ameritrade and as investment advisor representatives ("IARs") of TDAIM. They are generally located in TD Ameritrade branch offices or in a call center.

As a registered representative, FC compensation from TD Ameritrade is based on several components including total assets, net new assets as to products and services offered through TD Ameritrade and incentive payments tied to corporate metrics (like client satisfaction scores). A portion of the total and net new assets related to products and services includes the use of advisory services from TDAIM. This portion of the compensation is paid to the FC by TDAIM for acting as an IAR. FCs are also be compensated based on the retention of existing client assets that may include TDAIM assets. This may create a conflict in that the compensation could potentially provide FCs an incentive to make recommendations for asset retention with a view to their compensation rather than the best interest of clients. In addition, TD Ameritrade Branch Office managers receive additional compensation if the FCs in their office make successful referrals to our service or play a role in investors' decisions to deposit additional assets in their related TD Ameritrade Investing Accounts. Consequently, FCs and Branch Office managers have incentives to encourage you to implement a Selective or Essential portfolio or to move or deposit additional assets to your TD Ameritrade Investing Account. Those incentives could lead them to refer you to TDAIM or deposit additional assets into your TD Ameritrade Investing Account instead of choosing other investment options for your assets. To mitigate the potential conflicts of interest described above, TD Ameritrade and TDAIM policies and procedures and supervision are in place to help the focus be on the most appropriate solution for a client.

TD Ameritrade FCs who are IARs of AdvisorDirect have the ability to refer clients to AdvisorDirect and receive compensation for such referrals. All FCs are trained to direct clients to the most appropriate financial solution based on the client's suitability and preferences. The compensation arrangements for referrals to TDAIM or to AdvisorDirect are designed to make the compensation to the FC neutral as between referrals to those services.

Furthermore, TD Ameritrade client service personnel who are appropriately registered may receive modest additional compensation for making service transfers to TD Ameritrade FCs that result in new assets to TD Ameritrade. These payments are paid to the client service personnel from TD Ameritrade.



TDAIM has a referral agreement with TD Bank, N.A. ("TD Bank"). TDAIM and TD Bank are affiliated through their parent firms, but are separate entities and provide separate services. TD Bank connects prospective clients to TD Ameritrade and a TD Ameritrade FC will help the prospective clients find the products and services, including the advisory services from TDAIM, that align with their goals. TD Bank and its personnel do not provide investment advice regarding the products and services offered through TD Ameritrade. If the client is interested in TD Ameritrade's products and services, the client will complete a Consent to Contact form and a TD Ameritrade FC will contact the client to discuss their financial needs. After the prospective client discusses their financial needs with a TD Ameritrade FC, if the client opens a TD Ameritrade Investing Account using the advisory services from TDAIM, TD Bank will receive a referral fee. The referral fee is 25% of the investment advisory fee that you pay to TDAIM and TD Bank will continue to receive the fee as long as you are a TDAIM client. You will not pay an additional fee because of this referral agreement. TD Ameritrade has implemented procedures to mitigate any conflict of interest to help ensure its clients are referred to the appropriate product or service. The procedures include qualification criteria designed, among other things, to identify the client's desire for traditional brokerage services from TD Ameritrade or advisory services from TDAIM.

## Custody

Clients will implement TDAIM's advice through a dedicated brokerage account (known as a TD Ameritrade Investing Account) at its affiliated brokerage firm, TD Ameritrade. Our fee will be deducted from the assets in the related account held at the affiliated clearing brokerage firm, TD Ameritrade Clearing, Inc.

Per the Intercompany Agreement (see *Other Financial Industry Activities and Affiliations*), TD Ameritrade Clearing, Inc. agrees to collect, on behalf of TDAIM, any fees charged by us to clients using TD Ameritrade Investing Accounts. Clients will receive written account statements from TD Ameritrade at least quarterly detailing the positions and activity in a client's TD Ameritrade Investing Account, and clients will receive trade confirmations for each buy, sell, or exchange transaction in their accounts. The account statements from TD Ameritrade will indicate the amount of our advisory fees deducted from a client's account(s) each billing period. Clients should carefully review account statements for accuracy. See response above to *Code of Ethics, Participation, or Interest in Client Transactions and Personal Trading* of this disclosure brochure.

## Investment Discretion

### Selective Portfolios, Essential Portfolios, Personalized Portfolios, and Guidance Solutions Portfolios

With Selective, Essential, and Personalized Portfolios, the client must authorize TDAIM to exercise discretionary trading authority over the assets in the client's strategy. This includes the initial allocation and ongoing rebalancing of the strategy based on the strategy evaluation of a third party. Clients grant the authority to TDAIM by signing/agreeing to the TDAIM Service Agreement. The discretionary authority allows us to buy, sell, exchange, or otherwise trade the eligible assets in the client's strategy without the approval of each transaction. We are not authorized to withdraw cash or securities from a client's account other than for the payment of advisory fees as described in the *Fees and Compensation* and *Custody* sections above.

With Guidance Solutions Portfolios, TDAIM assumed discretionary trading authority over the assets in the client's strategy through the merger with Scottrade Investment Management. The discretionary authority allows us to buy, sell, exchange, or otherwise trade the eligible assets in the client's strategy without the approval of each transaction. We are not authorized to withdraw cash or securities from a client's account other than for the payment of advisory fees as described in the *Fees and Compensation* and *Custody* section above.

TDAIM may, in its discretion, accept mutual funds owned by the client into his or her TD Ameritrade Investing Accounts if the mutual funds were previously recommended by us. We may accept and use a compatible mutual fund in the client's portfolio, even if the mutual fund share is of a different share class than the share class of the mutual fund approved for use in the Selective Portfolios service. For example, if a client transfers in a retail share class mutual fund and TDAIM uses a lower expense share class of the same mutual fund, we may retain the retail share class of the mutual fund in the client's portfolio. Accepting the retail share class mutual fund will benefit clients as they will be able to invest in their portfolio more quickly. In addition, it may help reduce potential tax liabilities from selling the retail class shares and then buying the lower expense share class. On a weekly basis, TDAIM will review client accounts that transferred in different share classes of compatible mutual funds and will convert share classes to the approved share class where we believe doing so would be beneficial to the client (for example to help lower the client's expenses). The limitations on compatible mutual funds contained in this paragraph apply to both initial and subsequent contributions. TDAIM will assume discretion as to the compatible mutual funds, and the client acknowledges that all or a portion of the contributed mutual funds may be redeemed, either initially or during the course of management of his or her strategy.

In certain circumstances, clients will transfer incompatible mutual funds into their TD Ameritrade Investing Account: i) If a client deposits an incompatible mutual fund into a newly funded TD Ameritrade Investing Account, we will not start charging our advisory fee until the incompatible asset is removed from the account; ii) If a client deposits an incompatible mutual fund into an existing TD Ameritrade Investing Account, we will provide a fee credit for the amount of time the incompatible mutual fund was held in the TD Ameritrade Investing Account. For example, if an existing client deposits an incompatible mutual fund into his/her account on the 15th of the month and the fund remains in the account through the 31st of the month, TDAIM will credit back the fees for the days the incompatible fund was in the account. In addition, if the incompatible fund remains in the account through a new quarterly billing cycle, we will not bill advisory fees until the incompatible fund is removed from the account. When the incompatible fund is removed from the account, we will reinitiate billing on a pro rata basis from the day the incompatible asset was removed from the account until the end of the current billing quarter. iii) If the TD Ameritrade Investing Account is restricted (for example estate, divorce, court order, etc.) and holds mutual fund shares that charge 12b-1 or other service related fees, TDAIM will provide a fee credit from the time we are notified of the restriction. For example, if TDAIM is notified of the restriction on the 15th of the month, we will provide a fee credit from the 15th of the month to the end of the current billing quarter and will stop billing advisory fees on the account going forward until the restriction is resolved.

TDAIM may in its discretion accept ETFs owned by the client into his or her TD Ameritrade Investing Accounts using the Core ETF Portfolio and Essential Portfolio services if the ETFs are compatible with his or her strategy. We reserve the right to accept and utilize in the client's portfolio ETFs that were previously recommended by us. The limitations on compatible and previously recommended ETFs contained in this paragraph apply to both initial and subsequent contributions. We will assume discretion as to the compatible and previously recommended ETFs, and the client acknowledges that all or a portion of the contributed ETFs may be redeemed, either initially or during the course of management of his or her strategy. In cases where the client transfers into their TD Ameritrade Investing Account two or more compatible ETFs that are appropriate for a single asset class.

We utilize the higher ranked ETF for the asset class and the lower ranked ETF is liquidated and rebalanced accordingly. The client further acknowledges that there may be tax implications from the redemption, sale, or exchange of the securities and will be responsible for any tax liabilities that result from the transactions.

To the extent that the client deposits securities other than ones compatible with their strategy into their TD Ameritrade Investing Account, TDAIM will not assume discretion as to such securities. The client must either sell or transfer the incompatible securities promptly. Transactions regarding any incompatible securities or other assets to fund the client's TD Ameritrade Investing Account are the client's decision and are not based upon recommendations from us. If the securities are sold, TD Ameritrade will generally charge commissions and the sale will generally be on an unsolicited basis. Clients also have the option to grant TD Ameritrade time and price discretion to liquidate incompatible securities. Any sale of securities or other assets to fund the client's TD Ameritrade Investing Account may result in expenses, fees, or other charges (such as contingent deferred sales charges) as well as tax liabilities. The client is responsible for seeking the advice of a tax professional prior to selling any securities or other assets, and the client will be unable to invest in a strategy until the incompatible securities are removed from their TD Ameritrade Investing Account.

Clients are entitled to impose reasonable restrictions on TDAIM's management of their portfolios pursuant to Investment Company Act Rule 3a-4. Any management restriction they may wish to impose is subject to our review and approval.

The base TDAIM investment strategy is the recommendation of diversified asset allocation portfolios across a broad range of asset classes. TDAIM has no influence or control over the mix of securities held by any mutual fund or ETF in which client portfolios may be invested. Therefore, restrictions such as no nuclear energy, gambling, tobacco, or firearm securities may not be honored.

TDAIM generally honors the following restrictions:

- No margin
- No options
- No futures (in ETF Portfolios)
- No leverage
- No shorting
- Cash position amount (limit the cash position or invest less in the mutual funds and ETFs and more in cash, other than long-term market timing)
- Delay investing

With the portfolios, clients may be able to restrict the purchase of a particular fund or fund family provided such restriction is not inconsistent with our investment strategy or is not fundamentally inconsistent with the nature or operation of the service. If we honor the restriction, assets will be invested in a manner that is appropriate given your restriction. The funds designated for restriction by client will be replaced with alternatives selected by us. Accounts with imposed management restrictions may experience different performance from accounts without restrictions, possibly producing lower overall results.

Use of the discount brokerage service is a condition to implementing the discretionary portfolios investment advice provided through TDAIM. We feature TD Ameritrade as a broker to use in making securities transactions, and TD Ameritrade provides separate, dedicated brokerage accounts to facilitate tracking of client positions in TDAIM-related securities. Brokerage services provided by TD Ameritrade, Inc.

TD Ameritrade, Inc. and TDAIM, LLC are both wholly owned subsidiaries of TD Ameritrade Holding Corporation. The discretionary transactions will be executed during daily trading windows on an individual account basis. TD Ameritrade currently charges no commissions in connection with the discretionary transactions in clients' associated TD Ameritrade accounts. TD Ameritrade will charge a Regulatory Fee on certain transactions. Please see the description of Regulatory Fees under *Fees and Compensation, iii. Selective Portfolios Using Exchange Traded Fund Investments*.

## Voting Client Securities

TDAIM does not have authority over and specifically disclaims responsibility for voting proxies for securities in client accounts. Since we do not have proxy voting authority over securities in client accounts, we are not required to, and do not have, policies and procedures in place to govern the voting of proxies.

## Financial Information

We are not required to provide financial information to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.



