



Envestnet Asset Management, Inc.

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This Brochure provides information about the qualifications and business practices of Envestnet Asset Management, Inc. ("Envestnet"). If you have any questions about the contents of this Brochure, please contact us at 312-827-2800. 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.

Additional information about Envestnet also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## **Item 2 – Material Changes**

There have been no material changes in the business of Envestnet since the filing of its last brochure in March 2011. The format and certain required contents have changed since that time, per changes in SEC requirements that are first effective with this filing.

In the future, Item 2 will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes.

Currently, our Brochure may be requested by contacting Timothy S. Stearns, SVP, Chief Compliance Officer at 312-827-7950 or [tim.stearns@investnet.com](mailto:tim.stearns@investnet.com). Our Brochure is also available on our web site ([investnet.com](http://investnet.com)), also free of charge.



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#### **Item 4 – Advisory Business**

Envestnet is an investment management firm founded in 1999 that provides investment management and investment advisory services through independent investment advisors (“Advisor”) for use with Advisors’ clients (each a “Client”). Envestnet also serves institutional clients such as pension or profit-sharing plans, trusts, estates, and corporations. As of December 31, 2010, Envestnet has \$14.5 billion in assets under management and services \$49.2 billion in non-discretionary assets under administration.

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

Envestnet provides Advisors with an extensive range of investment advisory services for use by Advisors with their Clients through its Private Wealth Management programs, including Separately Managed Accounts (“SMA”), PMC Sigma Mutual Fund Solutions (“MFS”), PMC Strategic ETF Solutions, Unified Managed Account (“UMA”), the PMC Multi-Manager Account (“MMA”), Manager Blends, PMC Select Portfolios and PMC Select Dynamic Portfolios™, PMC Tactical ETF Portfolios, PMC Dynamic ETF Portfolios™, PMC Enhanced Portfolio Strategies and PMC Ultra Short-Term Fixed Income Portfolios and Third-Party Fund Strategists (together, the “Programs” and individually a “Program”). Investment strategies that are prefaced with “PMC” or “Sigma” designate that the investment strategy is a proprietary strategy of Envestnet, as opposed to the many third-party investment strategies that we also make available in the SMA, UMA and Third-Party Fund Strategists programs. The Programs generally are made available by Envestnet through each Client’s independent Advisor, and in certain limited instances, directly to the Client. In addition to the Envestnet advisory services offered in the Programs, Envestnet also offers Advisors many advisory service tools, whereby Envestnet provides only administrative and technology services. A Client’s Advisor determines which services and Programs of Envestnet to utilize with its Clients and may utilize the services of other third-party services providers in conjunction with the Programs; Clients should therefore consult their Advisors’ Form ADV Part 2 for a fuller description of that Advisor’s specific use of Envestnet and the Programs. The services offered by Envestnet include:

- Assessment assistance of the Client’s investment needs and objectives
- Investment policy planning assistance
- Assistance in development of an asset allocation strategy designed to meet the Client’s objectives
- Recommendations on suitable style allocations
- Identification of appropriate managers and investment vehicles suitable to the Client’s goals
- Evaluation of asset managers and investment vehicles meeting style and allocation criteria
- Engagement of selected asset managers and investment vehicles on behalf of the Client
- Ongoing monitoring of individual asset manager’s performance and management for “Approved” investment strategies (See Item 6)
- Review of Client accounts to ensure adherence to policy guidelines and asset allocation
- Recommendations for account rebalancing, if necessary
- Online reporting of Client account’s performance and progress
- Fully integrated back office support systems to advisors, including interfacing with Client’s custodian, trade order placement, and confirmation and statement generation either through independent sources or through Portfolio Brokerage Services, Inc. (“PBS”), Envestnet’s affiliated broker/dealer.

#### ***The Programs***

For all Programs, Client and Advisor compile pertinent financial and demographic information to develop an investment program that will meet the Client’s goals and objectives. Utilizing the Envestnet platform tools, Advisor will allocate the Client’s assets among the different options in the Program and determine the suitability of the asset allocation and investment options for each Client, based on the Client’s needs and objectives, investment time horizon, risk tolerance and any other pertinent factors. Envestnet’s research



team uses a number of proprietary analytical tools and commercially available optimization software applications in developing its asset allocation strategies. Among the factors considered in designing these strategies are historical rates of risk and return for various asset classes, correlation across asset classes and risk premiums. For all Programs, Client directly owns the underlying securities, mutual funds or Exchange Traded Funds ("ETFs") in each of the Program's investment strategies. Mutual funds ETFs, closed-end funds, unit investment trusts and real estate investment trusts exchange traded funds are collectively referred to throughout this document generally as a "Fund" or "Funds."

For Clients selecting the SMA program, the Client is offered access to an actively managed investment portfolio chosen from a roster of independent asset managers (each a "Sub-Manager") from a variety of disciplines. Unlike a mutual fund, where the funds are commingled, a separately managed account is a portfolio of individually owned securities that can be tailored to fit the Client's investing preferences. Envestnet will assist Advisor in identifying individual asset managers and investment vehicles that correspond to the proposed asset classes and styles or Advisor may independently identify asset managers. Envestnet retains the Sub-Managers for portfolio management services in connection with the SMA program through separate agreements entered into between Envestnet and the Sub-Manager on terms and conditions that Envestnet deems appropriate. For certain Sub-Managers, Envestnet has entered into a licensing agreement with the Sub-Manager, whereby Envestnet performs administrative and/or trade order implementation duties pursuant to the direction of the Sub-Manager. In such situation the Sub-Manager is acting in the role of a Model Provider (as defined below).

Clients may also select individual Funds through the SMA program.

For Clients selecting the MFS program Envestnet manages a mutual fund asset allocation based on Envestnet's recommended investment strategy. MFS is a fully discretionary, mutual fund asset allocation program offering a series of model portfolios positioned at various points along the risk/return spectrum that corresponds to the individual Client's goals and objectives. Once the Client's assets are invested, Envestnet may add, remove or replace mutual funds at its discretion.

For Clients selecting the PMC Select Portfolios, Envestnet utilizes its proprietary mutual fund family, the PMC Funds, for the appropriate investments based on the Client's corresponding investment objectives and risk profile. Where appropriate, Envestnet may also utilize non-proprietary mutual funds in the PMC Select Portfolios. Envestnet is responsible for developing, constructing and monitoring the asset allocation and strategy for each portfolio. Envestnet serves as the investment advisor of the PMC Funds and manages the PMC Funds in a "manager of managers" approach by selecting and overseeing multiple sub-advisors to the funds who manage distinct segments of a market, asset class or investment style.

The PMC Select Dynamic Portfolios are centered around the strategic allocations of the PMC Funds used by the PMC Select Portfolios, as described above, but also allow for an underweighting or overweighting between the PMC Funds for each portfolio. Envestnet manages the PMC Select Portfolios with sub-advisory services currently provided by Singer Partners, LLC.

For Clients utilizing the PMC Strategic ETF Solutions, Envestnet manages portfolios of exchange-traded funds based on Envestnet's recommended investment strategy. The PMC Strategic ETF Solutions is a fully discretionary, exchange-traded fund asset allocation program offering a series of model portfolios positioned at various points along the risk/return spectrum that correspond to the individual Client's goals and objectives. Once the Client's assets are invested, Envestnet may add, or remove or replace exchange-traded funds at its discretion.

For Clients choosing the PMC Tactical ETF Portfolios, Envestnet develops a diversified strategic portfolio of exchange-traded funds, using a blend of asset allocation technologies. The portfolio is then actively traded at Envestnet's discretion pursuant to a tactical strategy based on a series of macroeconomic, fundamental, risk and technical variables with the aim of adjusting asset class exposures opportunistically with market



movements. The PMC Tactical ETF Portfolio Portfolios are managed by Envestnet with sub-advisory services currently provided by Innealta Capital, a division of AI Frank Asset Management Inc.

For Clients selecting the PMC Dynamic ETF Portfolios™, Envestnet develops diversified portfolios of exchange traded funds that provide exposure to global asset classes, market sectors using a broad range of ETFs. The portfolios are actively managed to overweight or underweight market sectors to take advantage of market opportunities. The PMC Dynamic ETF Portfolios™ are managed by Envestnet with sub-advisory services currently provided by Singer Partners, LLC.

For Clients using the UMA program, the Client is offered a single portfolio that accesses multiple asset managers and Funds, representing various asset classes, that is customized by the Client's financial advisor. Utilizing the Envestnet tools, Advisor customizes the asset allocation models for a particular Client or selects Envestnet's proposed asset allocations for types of investors fitting Client's profile and investment goals. The Advisor then further customizes the portfolio by selecting the specific, underlying investment strategies or Funds in the portfolio to meet the Client's needs. Once the Advisor has established the content of the portfolio, Envestnet provides overlay management services for UMA accounts and implements trade orders based on the directions of the investment strategies contained in the UMA portfolio.

Client's Advisor may also offer a version of the UMA, whereby Advisor does not exercise investment discretion in the selection of the asset allocation or the specific, underlying investment vehicles and investment strategies used in each sleeve of the UMA portfolio (a "Client-Directed UMA"). In the Client Directed UMA, the Advisor will provide Client with recommendations regarding the appropriate asset allocation and the underlying investment vehicles or investment strategies to meet the Client's objectives, but the Client is directing the investments and changes made to Client's UMA portfolio and is ultimately responsible for the selection of the appropriate asset allocation and the underlying investment vehicles or investment strategies. As described above, Envestnet provides overlay management services for UMA accounts and implements trade orders based on the directions of the investment strategies contained in the UMA portfolio.

Envestnet also offers its proprietary UMA strategy, the PMC Equity Foundation Portfolio.™ This investment strategy provides a portfolio composed of optimized allocations across global equity asset classes created and managed by Envestnet. Although the PMC Equity Foundation Portfolio™ is suitable as a standalone portfolio for Clients that only desire equity exposure, it is designed to be combined with fixed income or other strategies as selected by Client and/or Advisor to tailor the risk characteristics to match the Client's investment objectives. For portions of some of the PMC Equity Foundation Portfolio™, Envestnet may also utilize proprietary strategies such as the PMC Dynamic ETF Portfolios™ or the Enhanced Portfolio Strategies.

For Clients in the MMA program, the Client is offered a single portfolio created and managed by Envestnet that accesses multiple asset managers and Funds representing various asset classes. Envestnet allocates the portfolio across investment asset classes and complementary asset managers to create a blend that fits the Client's investment profile and risk tolerance. Envestnet includes Funds in the MMA program to complete the asset class exposure of the asset managers utilized. For portions of some of the MMA portfolio, Envestnet may also utilize proprietary strategies such as PMC Dynamic ETF Portfolios™, Enhanced Portfolio Strategies or a PMC Fund (see more on use of PMC Funds in MMA program below).

A portion of the assets that make up the MMA program may be invested in the PMC Funds, where appropriate, in conjunction with using multiple asset managers and other Funds that comprise the MMA portfolios. Since Envestnet serves as the investment advisor to the PMC Funds, the amount that Envestnet receives with respect to MMA program assets that are invested in the PMC Funds may be greater than just the portion of the MMA program fee remitted to Envestnet. In order to address the economic incentive that Envestnet may have in investing MMA Program assets in PMC Funds, when PMC Funds are utilized in an MMA portfolio, Envestnet makes a corresponding fee reduction to the fee that Envestnet normally charges for managing the MMA portfolios in order to offset the fees it receives as a result of those MMA assets being



invested in the PMC Funds. Envestnet may still recognize ancillary benefits in investing MMA assets in PMC Funds.

For Clients selecting the Manager Blends, the Client is offered portfolios consisting of investment models from multiple asset managers created and managed by Envestnet. By combining multiple managers across style and asset classes into one portfolio, Manager Blends can deliver broader diversification than a single asset manager within an individual style category or asset class.

For Clients using Enhanced Portfolio Strategies, the Client is offered a portfolio designed to provide the characteristics of alternative investments in the form of a portfolio of registered Funds. The portfolio's attributes include little or no correlation with public equities and fixed income markets, low volatility relative to equities, a favorable return/risk profile, and the ability to enhance overall portfolio diversification. The portfolio is constructed using a diversified group of Funds spanning many different style categories, such as, bear market, world bond, domestic equities and emerging markets.

The PMC Ultra Short-Term Fixed Income Portfolio is designed to provide investors with an attractive alternative to money market fund yields. The portfolio is for investors who seek higher returns than those offered by money market funds and are willing to accept some principal fluctuation risk in pursuit of higher returns. The portfolio is comprised of a diversified group of highly rated short and ultra short-term bond funds selected by Envestnet and combined to offer a combination of liquidity, yield and quality. The portfolio is not a money market fund, nor is it FDIC insured.

Envestnet also makes available asset allocation strategies of a variety of mutual fund and ETF asset managers in the Third-Party Fund Strategists program. Each portfolio may consist solely of mutual funds or ETFs or may combine both types of funds to pursue different investment strategies and asset class exposures. Pursuant to a licensing agreement entered into with the asset manager, Envestnet provides overlay management of the portfolios and performs administrative and trade order implementation duties pursuant to the direction of the asset manager.

### ***Third Party Models and Model Providers***

Many of the asset managers available in the Programs described above are accessed through the use of investment models ("Third Party Models"), whereby the asset manager, acting as a "Model Provider," constructs an asset allocation and selects the underlying investments for each portfolio. Envestnet performs overlay management of the Third Party Models by implementing trade orders, periodically updating and rebalancing each Third Party Model pursuant to the direction of the Model Provider. Envestnet may, from time to time, replace existing Model Providers or hire others to create Third Party Models and cannot guarantee the continued availability of Third Party Models created by particular Model Providers.

In managing the Third Party Models, certain Model Providers may pursue an investment strategy that utilizes underlying mutual funds or exchange traded funds advised by the Model Provider or its affiliate(s) ("Proprietary Funds"). In such situations, the Model Provider or its affiliate(s) may receive fees from the Proprietary Funds for serving as investment advisor or other service provider to the Proprietary Fund (as detailed in the Proprietary Fund's prospectus). These fees will be in addition to the management fees that a Model Provider receives for its ongoing management of the Third Party Models and creates a financial incentive for the Model Provider to utilize Proprietary Funds. Clients should discuss any questions with or request further information from their Advisor concerning the use of Proprietary Funds in Third Party Models or the conflict of interest this creates.

### ***Portfolio Overlay***

Envestnet also provides Third Party Model overlay services. The tax overlay and management services seek to consider tax implications that may detract from the Client's after-tax returns. The Socially Responsible





Investing overlay screens integrate Environmental, Social and Governance (ESG) factors into the Client's investments.

### ***Mutual Funds***

Envestnet also serves as the investment advisor two mutual fund families: The PMC Funds, consisting of the PMC Core Fixed Income Fund and the PMC Diversified Equity Fund (information available at [www.investpmc.com](http://www.investpmc.com)); and the 3to1 Funds, consisting of the 3to1 Diversified Equity Fund and the 3to1 Strategic Income Fund (information available at [www.3to1funds](http://www.3to1funds)).

### ***Account Customization and Investment Restrictions***

The Programs are intended to comply with Rule 3a-4 under the Investment Company Act of 1940. Each Client's account is managed on the basis of the Client's financial situation and stated investment objectives, in accordance with the Client's reasonable investment restrictions imposed by Client on the management of the assets in the account. In addition, Clients will be contacted at least annually by their Advisor, and notified quarterly to contact Advisor, in order to confirm whether there have been any changes to the Client's financial situation, investment objectives or if Client would like to impose or modify investment restrictions on the account.

### ***Wrap Fee Programs***

Envestnet also offers the Programs as a "wrap fee program" and provides portfolio management services. Envestnet manages the wrap fee programs in the same manner as described in this document and receives fees for its portfolio management services as described in Appendix 1 of its Form ADV Part 2A.

## **Item 5 – Fees and Compensation**

Clients in the Programs pay a program fee (each, a "Program Fee") to Envestnet from which Envestnet pays the Sub-Managers, Model Providers and the account administration fee. Depending on the services utilized by the Advisor, the Program Fee also includes investment management services comprised of client profiling assistance, strategic asset allocation assistance, style allocation assistance, research and evaluation of Approved investment strategies and Funds, account performance calculations, account rebalancing, account reporting, account billing administration and other operational and administrative services. However, Clients whose Advisors perform or utilize a third-party to perform certain of these services listed above pay a lower Program Fee.

As one of its services, Envestnet performs account billing administration, whereby Envestnet, acting as billing service provider deducts the Program Fee, fees charge by Advisor and the custodian fee from the Clients account and pays the applicable parties. However, as agreed upon with Client, Advisor and custodians may choose to independently deduct fees from the Client's accounts. Advisory fees may be collected by Envestnet but are paid directly to the Advisor. Clients should separately refer to Advisor's Form ADV Part 2A for a description of Advisor's fees.

Certain fees are not included in the Program Fee, the most significant of which is the fee charged by the Advisor. Even if Client is utilizing custodial asset-based pricing, certain fees charged by a broker or custodian may also be assessed (described more fully below in "Other Issues Relating to Fees"). The Program Fees shown below include assumed brokerage, clearing and custody fees based on a percentage of Client's assets held in the Program, but do not include assume fees charged by the Advisor. Clients will generally pay an asset-based fee for the brokerage/custody/clearing services provided by the broker/custodian (as opposed to transaction-based fees such as commissions). For certain custodial relationships, Envestnet is able to present the asset based fee as part of the Client's fee schedule in the client agreement. To the extent





that such fees are not included in the fee schedule, the client will be so informed in writing. Clients, through coordination with their Advisor, may utilize transaction-based pricing for clearing and custody services. In that case, those fees will be disclosed separately to the Client in the applicable custodian's clearing and custodial paperwork.

The standard fee schedules for Envestnet's Programs are as follows, but lower fees may be separately negotiated by the Advisor:

#### SMA Portfolios

Amount	Equity/Balanced SMA Portfolios	Fixed Income SMA Portfolios	Funds*	Enhanced Portfolio Strategies*
First \$250,000	1.00%-1.81%	0.75%-1.50%	0.30%-0.69%**	0.50%-0.63%
Next \$250,000	0.85%-1.56%	0.70%-1.31%	0.30%-0.50%**	0.50%-0.63%
Next \$500,000	0.78%-1.50%	0.62%-1.25%	0.25%-0.41%**	0.50%-0.63%
Next \$1,000,000	0.67%-1.36%	0.54%-1.21%	0.23%-0.38%**	0.50%-0.63%
Next \$3,000,000	0.59%-1.26%	0.53%-1.20%	0.23%-0.36%**	0.50%-0.63%
Over \$5,000,000	0.58%-1.26%	0.53%-1.20%	0.23%-0.35%**	0.50%-0.63%

\* The fee charged depends on the manager(s) selected. Fees are calculated on a per account basis. Mutual funds, ETFs and alternative investments charge their own fees for investing the pool of assets in the respective investment vehicle. Please see the prospectus or related disclosure document for information regarding these fees.

\*\* Envestnet or its affiliates may receive 12b-1 fees from mutual funds in which Clients invest. Fees charged with respect to mutual funds will be credited with the amount of any distribution or Rule 12b-1 fees Envestnet receives.

#### Asset Allocation Programs

Amount	MFS*	PMC Strategic ETF Solutions*	PMC Dynamic and Tactical ETF Portfolios	PMC Ultra Short-Term Fixed Income	Third Party Fund Strategist
First \$250,000	0.65%-0.81%**	0.40%-1.00%	0.65%-0.90%	0.20%-0.25%	0.40%-0.94%
Next \$250,000	0.50%-0.63%**	0.33%-0.81%	0.63%-0.87%	0.20%-0.25%	0.33%-0.75%
Next \$500,000	0.45%-0.56%**	0.27%-0.76%	0.61%-0.85%	0.20%-0.25%	0.27%-0.66%



Next \$1,000,000	0.37%- 0.46%**	0.23%-0.73%	0.59%-0.83	0.20%-0.25%	0.23%-0.59%
Next \$3,000,000	0.31%- 0.39%**	0.19%-0.70%	0.57%-0.81	0.20%-0.25%	0.19%-0.51%
Over \$5,000,000	0.30%- 0.38%**	0.19%-0.69%	0.55%-0.79	0.20%-0.25%	0.19%-0.50%

\* The fee charged depends on the manager(s) selected. Fees are calculated on a per account basis. Mutual funds, ETFs and alternative investments charge their own fees for investing the pool of assets in the respective investment vehicle. Please see the prospectus or related disclosure document for information regarding these fees.

\*\* Envestnet or its affiliates may receive 12b-1 fees from mutual funds in which Clients invest. Fees charged with respect to mutual funds will be credited with the amount of any distribution or Rule 12b-1 fees Envestnet receives.

### Multi-Style Accounts

Amount	Unified Managed Accounts (UMA)*	Multi-Manager Accounts
First \$250,000	0.55%-0.88%	1.10%-1.56%
Next \$250,000	0.45%-0.63%	1.00%-1.31%
Next \$500,000	0.38%-0.56%	0.88%-1.19%
Next \$1,000,000	0.32%-0.49%	0.77%-1.05%
Next \$3,000,000	0.28%-0.44%	0.66%-0.91%
Over \$5,000,000	0.25%-0.41%	0.65%-0.91%

\* Add an additional 0.35% - 0.60% for each Third Party Model used in the UMA portfolio. However, certain Third-Party Models may have higher fees.

### Fee Billing Calculation

For the majority of Envestnet's Advisor relationships, the Program Fees charged are calculated as an annual percentage of assets based on the market value of the account at the end of quarter. Unless otherwise agreed to by the Client with Advisor, Program Fees are charged on a calendar quarter basis in advance and prorated to the end of the quarter upon inception of the account. Clients may have different billing arrangements set up with the Advisors which will be detailed in the client agreement. The level of the Program Fee will vary with the amount of assets under management and the particular investment styles and investment options chosen or recommended. Clients may receive comparable services from other sources for fees that are lower or higher than those charged by Envestnet.



### ***Termination***

The client agreement terms and conditions for each Program contain termination provisions. An agreement may be canceled by either party at any time, for any reason, upon receipt of 30 days prior written notice. Clients will receive a prorated refund of any pre-paid quarterly program fee, based upon the number of days remaining in the quarter after the termination date. Clients are not charged a liquidation fee if securities are to be delivered in-kind, otherwise certain commissions and/or fees may be charged by the broker-dealer liquidating security positions.

### ***Other Issues Relating to Fees***

In the agreement entered into by Client with Advisor, the Program Fee may also contain administration fees for services performed by the individual Advisor representative's corporate office. Envestnet also acts as the advisory technology platform for broker-dealers that coordinate support services for Advisors. In such cases the Program Fee as stated in the client agreement will also contain fees for such services that are paid to the broker-dealer. Clients should separately refer to Advisor's Form ADV Part 2A or Appendix for a description of these types of fees.

The cost of investment advisory services provided through the Programs may be more or less than the cost of purchasing similar services separately. Among the factors impacting the relative cost of the program to a particular Client include the size of the account; the type of account (*i.e.*, equity or fixed income); the size of the assets devoted to a particular strategy; and the managers selected.

In some cases, Advisors who recommend the Programs to their Clients may receive compensation from Envestnet as a result of their Clients' participation in the programs. This compensation may be more than what the Advisor would receive if the Client participated in other programs or paid separately for investment advice, brokerage and other services. Such Advisors may therefore have a financial incentive to recommend the Program over other programs or services. While this fee may be paid from Program Fees collected by Envestnet, the Program Fees have not been increased to cover fees paid to those Advisors.

The Program Fee does not cover certain charges associated with securities transactions in Clients' accounts, including: (i) dealer markups, markdowns or spreads charged on transactions in over-the-counter securities; (ii) costs relating to trading in certain foreign securities; (iii) the internal charges and fees that may be imposed by any Funds, (such as fund operating expenses, management fees, redemption fees, 12b-1 fees and other fees and expenses. Further information regarding charges and fees assessed by Funds may be found in the appropriate prospectus or offering document) or other regulatory fees; (iv) brokerage commissions or other charges imposed by broker-dealers or entities other than the custodian if and when trades are cleared by another broker-dealer; (v) the charge to carry tax lot information on transferred mutual funds or other investment vehicles, postage and handling charges, returned check charges, transfer taxes; stock exchange fees or other fees mandated by law, and (vi) any brokerage commissions or other charges, including contingent deferred sales charges ("CDSC"), imposed upon the liquidation of "in-kind assets" that are transferred into the Program. With respect to this latter type of charge, Envestnet may liquidate such assets transferred into a Program in its sole discretion. Clients should thus be aware that if they transfer in-kind assets into a Program, Envestnet may liquidate such assets immediately or at a future point in time and Clients may incur a brokerage commission or other charge, including a CDSC. Clients also may be subject to taxes when Envestnet liquidates such assets. Accordingly, Clients should consult with their financial advisor and tax consultant before transferring in-kind assets into a Program.

In addition to the redemption fees described above, a Client may incur redemption fees, when the portfolio manager to an investment strategy determines that it is in the Client's overall interest, in conjunction with the stated goals of the investment strategy, to divest from certain Funds prior to the expiration of the minimum holding period of the Funds. Some mutual funds also assess redemption fees to investors upon the short-



term sale of its funds. Depending on the particular mutual fund, this may include sales for rebalancing purposes. Please see the prospectus for the specific mutual fund for detailed information regarding such fees. The Program Fee does not cover certain custodial fees that may be charged to Clients by the Custodian. Clients also may be charged for specific account services, such as ACAT transfers, electronic fund and wire transfer charges, and for other optional services elected by Clients. Accounts may be subject to transaction-based ticket charges assessed by the custodian for the purchase of certain mutual funds. Similarly, the Program Fee does not cover certain non-brokerage-related fees such as individual retirement account ("IRA") trustee or custodian fees and tax-qualified retirement plan account fees and annual and termination fees for retirement accounts (such as IRAs).

For smaller accounts, a minimum account fee may apply to the Program Fee or fees charged by the custodian. Minimum accounts fees are expressed in annual amounts, but are determined and assessed based on the account asset value at the beginning of each quarter. For example, if an account has a \$100 minimum annual account Program Fee, it will be assessed a minimum of \$25 every quarter. Therefore, if a client has large asset inflows or outflows during the year that cross the minimum asset value threshold, it is possible for an account to be assessed a minimum fee for a particular quarter even if at the end of the year a look back over the account's average balance for the entire year would have placed it above the minimum asset value threshold.

When Client selects a Sub-Manager or Model Provider, the Program Fee encompasses the fees paid to the Sub-Manager or Model Provider for their services in addition to the Envestnet fees associated with making those strategies accessible and administering them in the Program. Envestnet separately negotiates the agreements between Sub-Managers and Model Providers, including fees paid, on terms and conditions that it deems acceptable. The pricing terms are routinely re-negotiated with individual Sub-Managers and Model Providers, whereby Envestnet, Sub-Manger or Model Provider may receive a greater or lesser percentage of the Program Fee than the current percentage at the time Client selected a particular investment strategy. In general, this reapportionment does not increase the Program Fee that the Client pays. In the rarer case where the Program Fee negotiations results in a need to increase the Program Fee, Client and/or Client's Advisor (if such Advisor has investment discretion to act on behalf of the Client) would be notified in advance of any increase in Program Fees, with full opportunity to select another strategy in the Program or otherwise change Client's account.

See Item 12 below for a description of the factors that Envestnet considers in utilizing broker-dealers for *Client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

Envestnet does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a Client).

#### **Item 7 – Types of Clients**

As described above under Programs, Envestnet provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, private investment funds, trust programs, sovereign funds, foreign funds such as UCITs and SICAVs, and other U.S. and international institutions. As described above, the Programs generally are made available by Envestnet through each Client's independent Advisor, and in certain limited instances, directly to the Client.



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

### ***Methods of Analysis***

Envestnet provides Advisors with a variety of portfolio construction methods utilizing an analytics module that allows choice of multiple programs and products to blend a solution that best meets Client requirements. For constructing Envestnet's proprietary strategies (PMC and Sigma strategies) and in assisting Advisor with selecting asset allocations and portfolio construction Envestnet uses the capital markets assumptions construction process of Black-Litterman and inverse optimization methods to estimate the expected returns for asset classes. This process results in the construction of optimized, diversified portfolios across a wide set of risk tolerances and preferences that can be employed by the Advisor. The Advisor can select investment strategies using a variety of search screens on the Envestnet technology platform that are configurable to create Advisor specific selection criteria.

In assisting Advisor with asset allocation and portfolio construction, Envestnet uses demographic and financial information provided by the Client and Advisor to assess the Client's risk profile and investment objectives. Envestnet uses proprietary analytical tools and commercially available optimization software applications to develop its asset allocation strategies. Factors used as inputs in the asset allocation process include historical rates of risk and return on various asset classes, correlation across asset classes, and risk premiums, among others. However, the Advisor has the flexibility to choose Envestnet recommended asset allocations and portfolios or independently find potential investment solutions for their Clients through the Advisor's own research.

Envestnet also has the ability to utilize asset allocation from third party sources to assist in the construction of portfolios for Advisors. This asset allocation "overlay" capability can be applied to one account or multiple accounts across a household or group of households, and can also be "attached" to a variety of product types.

### ***Investment Strategy and Fund Research and Due Diligence***

In the Programs, Envestnet provides access to two types of SMA investment strategies, Third Party Models and Funds to Advisors and Clients, "Approved" and "Available." For Approved SMA strategies, Third Party Models and Funds, Envestnet employs a multi-phase approach in its evaluation ("Due Diligence"). Among the types of information analyzed are historical performance, investment philosophy, investment style, historical volatility and correlation across asset classes. Also reviewed are the manager's Form ADV Part 2, as well as portfolio holdings reports that help demonstrate the manager's securities selection process and the prospectuses of the Funds.

While Envestnet provides Advisor with recommendations on "Approved" products and investment strategies, the Advisor is responsible for determining whether any particular Fund or investment strategy is suitable for use with a particular Client.

In addition to Approved SMA strategies, Third-Party Models and Funds, Envestnet also provides access to certain SMA strategies, Third-Party Models and Funds with respect to which Envestnet has not performed Due Diligence. For SMA strategies, Third-Party Models and Funds categorized as "Available," Envestnet has performed no review of the investments strategy or Fund and Envestnet makes no recommendations concerning the use of them. Instead, Client's Advisor is responsible for determining that it has sufficient information about SMA strategies, Third-Party Models and Funds to select them for use with Clients.

### ***"Approved" SMA investment strategies, Third Party Models and Funds***

Envestnet evaluates managers specializing in each of the asset categories listed, including equities (both domestic and foreign); corporate debt; commercial paper; certificates of deposit; municipal securities; mutual funds; real estate investment trusts; government securities; options; and futures. The investment



professionals at the investment management firms are a primary source of information to Envestnet, providing quantitative and qualitative information. In addition, Envestnet employs several publicly available databases from independent sources. These databases are used to verify the information provided by the managers. However, Envestnet does not independently review the performance calculations of asset managers and performance information of all of the managers may not be calculated on a uniform basis.

The manager approval process differs for SMAs, mutual funds, and ETFs. Both SMAs and mutual funds are reviewed using Envestnet's proprietary research methodology. This process uses the PMC Quantitative Risk/Return Ranking Model with three or five (depending on Envestnet's peer group) years of actual monthly performance to select managers that perform at the top of their peer group. Any manager and mutual fund available on the Envestnet platform that ranks in the top 40% of its peer group as measured against all managers in the appropriate set of Morningstar categories is added to the Approved universe. Approved managers and mutual funds that fall below the top 50% list are removed from the Approved list and revert to the Available list unless overridden by the PMC Manager Research team and approved by Envestnet's "PMC Investment Committee." ETFs have their own approval process described in a section below.

Envestnet's approach combines the following three sources of information in an optimal approach to benchmark analysis: Morningstar peer grouping analysis, statistical search for potentially better-fitting benchmarks, and the manager's self-declared benchmark.

PMC's proprietary Quantitative Risk/Return Ranking Model uses the following key characteristics based on historical returns: (i) Consistent Active Value – Portfolios that have consistently beaten their benchmark over time; (ii) Effective and Consistent Risk Control – Portfolios that have consistently tracked their respective benchmark over time (iii) An Efficient Risk/Return Profile – Portfolios that have generated meaningful active returns relative to the risk taken.

In addition to this quantitative-based approval process, the Envestnet research analysts work to provide additional insight across this approved universe by strategically performing additional analytics, including but not limited to: (i) manager interviews to gain a clearer understanding of the investment process; (ii) holdings-based analysis using a factor model to calculate performance attribution; (iii) finding statistically significant alpha scores using a custom Returns-Based Style Analysis (RBSA) process and advanced statistical techniques (based on "Monte Carlo simulation") to calculate the confidence intervals for the manager's alpha. PMC research analysts contact managers they determine should be examined and conduct interviews to help evaluate if the factors pertinent to a successful investment organization and strategy are changing. Some of the topics that may be covered include: (i) organizational stability; (ii) investment personnel tenure and experience (iii) an understanding of the financial economics employed in the investment selection process that creates consistent active value; (iv) an understanding of the benchmark risk control philosophy and methods (v) systems and trading capabilities.

### ***Index Managers***

Index managers are removed from each peer group and evaluated using a separate tracking error calculation. Index managers whose tracking error is below 1% are designated "Approved." Other than a compliance review, no other subjective review is performed on these approved managers.

### ***Approved ETFs***

The set of potential candidate ETFs is identified using a multi-step process, including: (i) identification of the market segment for desired exposure; (ii) evaluation of index providers that provide applicable market coverage relative to the index used internally for capital markets assumptions; (iii) further evaluation of index methodologies to ensure proper exposure and a thorough understanding of the ETF (iv) screen of the Morningstar universe for ETFs that track the desired index (v) if no ETF is available for a desired index, further analysis is conducted to determine whether another ETF has the appropriate level of correlation and





risk/return characteristics to provide the desired exposure; (vi) a short list is generated for further evaluation.

The evaluation of ETFs generally follows a screening process similar to that previously described for the Approved managers and mutual funds, with a focus on a distinct set of investment metrics. Key criteria used in evaluating ETFs include: liquidity, tracking error, premium and discount spreads, costs, track record, tax liability. A full qualitative analysis is conducted consistent with Envestnet's process for mutual funds and SMAs. The unique qualitative factors desired for ETF providers include: the managers' experience with ETFs, an efficient creation and redemption process, index expertise, management style (replication vs. optimization), tax liability approach

For more information on Envestnet's evaluation process Client should request a copy from Advisor.

### ***Exceptions and Conflict of Interests***

PMC may make exceptions for managers on the Approved list. For these exceptions, Envestnet analysts use the qualitative and quantitative tools listed described above to make the determination that while the manager does not make the 50% cut-off list described above, the manager otherwise warrants to remain on the Approved list. For example, the SMA strategy may not have a track record of sufficient length, but the portfolio manager has a proven track record. Envestnet's "PMC Investment Committee" approves or disapproves all exceptions and can remove managers from the Approved list at any time within its sole discretion.

Manager's that have a significant affiliation with a client of Envestnet or are a direct client of Envestnet must be reviewed as exceptions and must be approved by the PMC Investment Committee to ensure that Envestnet has confidence in recommending these managers as "Approved." Like any other exception, the PMC Investment Committee can remove managers from the Approved list at any time within its sole discretion.

As described in Item 4, Envestnet acts as portfolio manager for several of the strategies in the Program. Envestnet's proprietary investments strategies are prefaced by "PMC" or "Sigma." All PMC and Sigma are listed as "Approved" since Envestnet actively manages these products and the PMC Investment Committee is confident in its investment methodology. The conflict of rating a proprietary strategy as "Approved" is mitigated because the PMC and Sigma products are based on a "manager-of-managers" approach. In this regard, strategies like MFS or Manager Blends are selecting a combination of underlying asset managers and/or Funds and are not acting as traditional "stock-pickers." Should the PMC Investment Committee lose confidence in one of the underlying asset managers or Funds, that asset manager or Fund is replaced with one that better complements the overall portfolio.

Please also see Item 4 above describing the use of PMC Funds in the MMA program

### ***Investment Strategies***

Envestnet provides Advisors with access to a large variety of investment strategies and Funds as a core tenet of our capability. While many different investment strategies and Funds can be selected, Envestnet provides Advisors with the ability to utilize our technology platform to assess portfolios holistically and across multiple programs, custodians, and registrations, allowing the Advisor to make a household assessment of their Client's needs. This analysis capability allows Advisors to consider multiple options for investment strategies and Funds as they seek to match their Client's needs with the features and benefits of each program

For a description of the Envestnet Programs, please refer to Item 4 above.





### ***Risk of Loss***

Investing in securities involves risk of loss (including loss of principal) that each client should be prepared to bear. Typical investment risks include market risk typified by a drop in a security's price due to company specific events (such as an earnings disappointment or a downgrade in the rating of a bond) or general market activity (such as occurs in a "bear" market when stock values fall in general). Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Fixed-income strategies are subject to interest rate risk and the inherent credit risk related to the underlying credit worthiness of the various issuers and the volatility of the bond market.

Envestnet seeks managers and Funds with a variety of investment strategies in an effort to make a wide range of investment strategies available to Advisors and Clients. Some strategies may be high-risk strategies. Such strategies usually have the potential for substantial returns; however, there are correspondingly significant risks involved in the strategies and are not intended for all types of Clients. Clients who choose to follow high-risk strategies should be aware that there is the possibility of significant losses up to and including the possibility of the loss of all assets placed in the strategies. It is strongly recommended that Clients diversify their investments and do not place all of their investments in high-risk investment strategies.

Certain types of investment strategies have particular types of risk. Strategies that invest in international securities involve special additional risks, including currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks. Strategies that invest in small capitalized companies involve risks, including relatively low trading volumes, a greater degree of change in earnings, and greater short-term volatility. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Growth strategies can perform differently from the market as a whole and from other types of stocks and can be more volatile than other types of stocks. High-yield bond strategies invest in lower-rated debt securities (commonly referred to as junk bonds) and involve additional risks because of the lower credit quality of the securities in the portfolio. Clients should be aware of the possible higher level of volatility and increased risk of default. Concentrated, non-diversified or sector strategies invest more of their assets in a few holdings involve additional risks, including share price fluctuations, because of the increased concentration of investments. The lack of industry diversification subjects the Client to increased industry-specific risks. Finally, municipal investment strategies can be affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities.

Certain ETFs in the PMC Dynamic ETF Portfolios™, PMC Tactical ETFs and Third-Party Models utilize leveraged equity ETFs. The use of leverage by an ETF increases the risk to the portfolio. The more a portfolio invests in leveraged instruments, the more the leverage will magnify gains or losses on those investments. Due to the complexity and structure of these portfolios, they may not perform over time in direct or inverse correlation to their underlying index.

Tactical and dynamic investment strategies involve more frequent trading than the traditional "buy-and-hold" investment strategies. Such trading can increase transaction costs and create more short-term tax gains than Client may be used to seeing in other types of strategies.

### **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Envestnet or the integrity of Envestnet's management. Envestnet has no legal or disciplinary action that must be disclosed in response to this Item.



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

Envestnet also provides other products and services to Advisors and other financial professionals in the role as a third-party service provider to assist them with administering their business needs.

### ***Consulting Services and Software Tools***

Envestnet provides a customizable asset management software program through a web-enabled platform ("Platform") primarily to other large investment advisors, broker-dealers and financial services companies ("Institutions").

Envestnet provides consulting services and software tools to selected Institutions. In addition, Envestnet licenses the Platform to certain Institutions. The Platform is typically customized and private labeled in the name of the applicable Institution. Institutions provide the Platform to advisors, who can use the Platform to manage the accounts of their respective Clients.

The Platform provides Institutions the ability to offer their clients a separate accounts program, various asset allocation programs and account reporting services. Envestnet also allows Institutions to combine these programs to suit the needs of their clients.

### ***Advisor Directed Models***

Envestnet offers Advisors the ability to create their own investment model portfolios for Clients (an "Advisor Directed Model"). For Client's using an Advisor Directed Model, Envestnet is providing only administrative services, provides no advisory services and is not responsible for the selection of the specific investment choices made with respect to an Advisor Directed Model. For certain types of Advisor Directed Models, Envestnet will also place trade orders pursuant to the direction of the Advisor ("Advisor Proprietary Models") but does not exercise discretion over the Client accounts or act as an advisor to the Client.

The Advisor may configure the Advisor Directed Models program so that neither Advisor nor Envestnet will exercise investment discretion in relation to the Client's investment model portfolio (a "Non-Discretionary Advisor Directed Models Program"). In a Non-Discretionary Advisor Directed Models Program, the Client has the ability to create his/her own model portfolios from among a group of designated investment vehicles. Advisors will review investment model strategies with Client to determine that the use of a particular investment strategy is appropriate and suitable for Client. Client will then approve any subsequent changes to the investment model.

### ***Alternative Investments***

Envestnet makes investment managers of non-traditional or alternative investment strategies accessible to Advisors for recommendation to Clients meeting the appropriate suitability criteria. Examples of such investments include so-called "hedge" products and private equity placements. Unless otherwise disclosed in writing to Client, Envestnet is solely providing administrative services in connection with non-traditional or alternative investment strategies and Client will be required to enter into a separate client agreement with the third-party alternative portfolio manager, containing separate terms and conditions and important disclosures.

### ***Reporting Only Services***

Envestnet offers reporting and data aggregation services to allow Institutions and Advisors the ability to monitor their clients' accounts. Advisors are able to examine their clients' holdings, allocation of assets and portfolio performance. Performance reporting is calculated according to industry standards and is applied to each account or combination of several related accounts for a household's or family's assets.



### ***Back Office Processing/ Billing and Custodial Services***

Envestnet provides back-office functions including daily account reconciliation and asset transfers. Envestnet uses electronic data feeds from trading/clearing/custodial firms to streamline the account reconciliation process.

Envestnet's billing software automates billing for Institutions and Advisors. The Platform can accommodate a billing structure to include house-holding of accounts to capture scaling rates, several layers of combined accounts and assets, flat fee billing, credits, advance or arrear billing, daily weighted average billing and event triggered billing.

Envestnet has arrangements that are material to its advisory business or its Clients with a related entity. PBS is a registered broker/dealer and affiliate of Envestnet. PBS conducts some trade execution services for Envestnet as described herein and receives a fee from Envestnet. PBS may, from time to time, execute transactions at the request of and for the account of Sub-Managers in one or more of Envestnet's Programs for which PBS will receive compensation in the form of commissions. In certain circumstances, PBS may enter into prime brokerage arrangements with other brokers that are providing brokerage services to Clients. Prime brokerage allows PBS to facilitate the consummation of certain brokerage transactions initiated by Sub-Managers by acting as an executing broker.

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

Portfolio Brokerage Services, Inc. ("PBS"), Registered Broker/Dealer  
1999 Broadway, 42nd Floor, Denver, Colorado 80202  
Firm CRD #18554

Portfolio Management Consultants, Inc., Registered Investment Advisor  
1999 Broadway, 42nd Floor, Denver, Colorado 80202  
Firm CRD #107747

Oberon Financial Technology, Inc. ("Oberon") Registered Investment Advisor  
150 Mathilda Place, Suite 306, Sunnyvale, CA 94086  
Firm CRD #104547

Portfolio Management Consultants, Inc. and PBS are wholly-owned subsidiaries of PMC International, Inc. ("PMCI") whose principal business address is 1999 Broadway, 42nd Floor, Denver, CO 80202. Envestnet, PMCI and Oberon are wholly-owned subsidiaries of Envestnet, Inc., whose principal business address is 35 E. Wacker Drive, Suite 2400, Chicago, IL 60601.

Envestnet also serves as the investment advisor to two mutual fund families: The PMC Funds, consisting of the PMC Core Fixed Income Fund and the PMC Diversified Equity Fund (information available at [www.investpmc.com](http://www.investpmc.com)); and the 3to1 Funds, consisting of the 3to1 Diversified Equity Fund and the 3to1 Strategic Income Fund (information available at [www.3to1funds.com](http://www.3to1funds.com)).

See Item 4 above concerning the potential conflict of interest that Envestnet has when it utilizes PMC Funds in the MMA program.

### **Item 11 – Code of Ethics**

Envestnet employees or related persons may have accounts with investment managers that Envestnet recommends to Clients as part of its investment programs. This means that Envestnet employees or related



persons may buy or sell securities that Clients also own in their accounts. Investment decisions for Envestnet personnel may not be made at the same time or in the same manner as those made for Clients. Envestnet or a related person of Envestnet may purchase or sell securities that are recommended to, or purchased, or sold for, Clients. Personal securities transactions by persons associated with Envestnet are subject to Envestnet's Code of Ethics. The Code of Ethics includes various reporting, disclosure and approval requirements, described in summary below. Envestnet designed these requirements to prevent or mitigate actual or potential conflicts of interest with Clients. The Code of Ethics applies not only to transactions by the individual, but also to transactions for accounts in which such person or the person's spouse, minor children or other dependents residing in the same household have an interest. Compliance with the Code of Ethics is a condition of employment.

In accordance with Securities and Exchange Commission rules relating to recordkeeping by investment advisors, Envestnet requires prompt reports of all securities transactions identified in the Code of Ethics as "Reportable Securities" transactions. Envestnet further requires that all brokerage account relationships be disclosed, that Envestnet receive duplicate confirmations of transactions and custodial account statements, and annual certifications of compliance with the Code of Ethics from all access persons. Transactions in U.S. government securities, bankers acceptances, bank certificates of deposit, commercial paper, high quality short-term instruments, including repurchase agreements, index-based futures/options, options/futures on treasury notes and bills or currency options/futures, shares of open-end mutual funds and commodities are excluded from the reporting requirements.

The responsibilities of Envestnet's Chief Compliance Officer (or designee) include overseeing the regular monitoring and verification of compliance of covered persons with the requirements of the Code of Ethics, and reporting material violations to Envestnet's senior management. Covered transactions of the Chief Compliance Officer will be approved by another officer (or designee) of Envestnet. In addition to reporting and recordkeeping requirements, the Code of Ethics imposes various substantive and procedural restrictions on Reportable Securities transactions. The Chief Compliance Officer may recommend to management the imposition of more severe sanctions, including suspension of personal investing privileges, or termination of employment, in the case of certain types of violations.

A copy of Envestnet's Code of Ethics can be obtained by contacting the following individual at Envestnet:

Timothy S. Stearns  
SVP, Chief Compliance Officer  
35 E. Wacker Drive, Suite 2400  
Chicago, Illinois 60601  
(312) 827-2800

### ***Potential Conflict of Interest***

Envestnet's CEO, Judson Bergman, is a Trustee for the RS Guardian Funds. The RS Guardian Funds (GBEMX) is an approved mutual fund on the Envestnet platform. The RS Guardian Funds resulted from the merger of The Guardian Life Insurance Company of America and RS Investments in May 2006. Investments in the RS Guardian Funds made through the Envestnet platform may be viewed as an accommodation to Mr. Bergman.

### **Item 12 – Brokerage Practices**

Envestnet operates the Programs as a directed brokerage subject to most favorable execution of client transactions. Envestnet does not require a Client to utilize any particular broker/custodian and currently has relationships with many brokers/custodians that provide brokerage, clearing and custody services to Clients in the Programs. The choice of which broker/custodian to utilize is determined by Client in consultation with their Advisor and a Client enters into a separate contractual relationship with the selected broker/custodian. Advisors may limit their Clients to a subset of broker/custodians. Those Advisors may be affiliated with one



or more of these brokers/custodians and may require their Clients to contract with that broker/custodian. If an Advisor requires a Client to utilize the services of an affiliated broker/custodian, the Advisor may benefit and Client should review the Advisor's Form ADV Part 2A for a description of any potential conflicts of interests.

Clients will generally pay an asset-based fee for the brokerage/custody/clearing services provided by the broker/custodian (as opposed to transaction-based fees such as commissions). For certain custodial relationships, Envestnet is able to present the asset-based fee as part of the Client's fee schedule in the client agreement. To the extent that such fees are not included in the fee schedule, the client will be so informed in writing. Such fees may be charged directly to the Client. Several of the available brokers/custodians have minimum fees for Client accounts which will be fully disclosed to Clients in the applicable account documentation.

### ***Best Execution***

By directing brokerage, Clients may not receive the benefit of the lowest trade price then available for any particular transaction or Client account trade orders may not be able to be aggregated to reduce transactional costs. For the Programs, Sub-Managers and Envestnet will have the authority to effect transactions for Client accounts with or through a broker, dealer or bank other than that directed by Client, if Envestnet or Sub-Manager believes that "best execution" of transactions may be obtained through such other broker, dealer or bank, including any broker-dealer that is affiliated with Advisor, Envestnet or Sub-Manager. In such cases, commissions or other compensation to the brokers in such transactions will be in addition to the Program Fee (see Item 5 above, "Other Issues Relating to Fees").

In placing orders for purchase and sale of securities and directing brokerage to effect these transactions, Envestnet's primary objective is to obtain prompt execution of orders at the most favorable prices reasonably obtainable. In doing so, Envestnet considers a number of factors, including, without limitation, the overall direct net economic result to the Client, the financial strength, reputation and stability of the broker, the efficiency with which the transaction is effected, the ability to effect the transaction at all, the availability of the broker to stand ready to execute possibly difficult transactions in the future and other matters involved in the receipt of brokerage services.

Envestnet has in place procedures to monitor transactions by Sub-Managers and orders placed by Envestnet. A Best Execution Committee meets quarterly to review the results of the documented monitoring conducted during the quarter.

### ***Trade Allocations***

Sub-Managers and Advisors performing trade order placement, trading rotation and allocation are managed by the Sub-Managers and Advisor. These Sub-Managers and Advisors have their own allocation policy and will direct how partial executions are allocated. Envestnet has no input or supervisory responsibility for these policies.

### ***Envestnet Supported Trade Allocations***

#### ***Separately Managed Accounts***

Certain trade orders are created by the Sub-Manager and sent directly to the appropriate custodian according to their own trade rotation policies. However, if a Sub-Manager chooses not to send the orders directly, the following trade rotation procedure is followed by Envestnet. Orders created in the amount of 2000 shares or less for the various custodians will be sent simultaneously since most market centers provide automatic execution guaranteed fills for most equities of this size or less. For custodial orders above 2000 shares, orders will be placed in order of size going from smallest to largest. To ensure compliance with this policy, on a bi-



monthly basis Envestnet will maintain a log showing receipt and trade submission for trades during the review period.

If the Sub-Manager directs Envestnet to allocate orders within each custodian, the partial fill will be pro-rata allocated among the individual Client accounts. Sub-Managers may aggregate Client trades with their own directed trades or trades for other Clients. Please refer to each Sub-Manager's Form ADV for any policies they may have regarding aggregation of trades.

#### **Model-Based**

For trade order placed by Envestnet for Envestnet's proprietary strategies or Third- Party Models, the custodial trade rotation is a process that provides objective preference to custodians by submitting trades for each custodian in sequence starting with a different custodian on each series of block trades. The starting custodian moves down one position on the list at the start of each new trading day.

Envestnet maintains a daily record of custodial order file transmissions which comprises each day's rotation list. Upon receipt of a new custodian block order, the order is submitted to the next custodian on the rotation list. A rotation queue checklist is maintained to document the daily rotation process.

Once orders are filled, the Platform generates block allocations for the respective block trades. Envestnet then submits the allocation files to the respective custodians before 8:00PM EST for allocation to the respective Clients.

#### ***Block Trading***

Block trading is permitted where the following conditions are met and if Envestnet has determined, on an individual basis that the securities order is:

1. In the best interests of each Client participating in the order.
2. Consistent with Envestnet's duty to obtain best execution.
3. Consistent with the terms of the investment advisory agreement of each participating Client.

In addition, the following conditions must apply:

1. Any investment by one Client shall not be dependent or contingent upon the willingness or ability of another Client to participate in such transaction.
2. The terms negotiated for the block transaction should apply equally to each participating Client.
3. The allocation of securities purchased or sold in a block trade must be made in accordance with Envestnet's allocation procedures.
4. The books and records of Envestnet must reflect, for each bunched order, the securities held by, purchased and sold for each Client.

#### ***Errors***

Although Envestnet takes reasonable steps to avoid errors, occasionally errors do occur. Envestnet seeks to identify errors and works with the Client's Advisor, Sub-Manager and/or qualified custodian to correct the error affecting any Client account as quickly as possible, in order to put the Client in the position they would have been in had the error not occurred. All losses to a Client resulting from an error will be reimbursed to the Client's account immediately after corrections are made, while any market gains that result from the correction of such error will inure to the benefit of the Client unless the error is identified prior to settlement and is moved to the error account of the Client's Advisor, Sub-Manager, custodian or Envestnet.





### **Item 13 – Review of Accounts**

Envestnet performs nightly reconciliation of Client accounts on the Platform against data provided by the Client's custodian. Exceptions are researched and appropriate corrections are made when necessary. Completely reconciled accounts are made available at the beginning of the next business morning.

Clients receive statements from the custodian at least quarterly providing a detailed list of holdings with valuations and account activity as well as confirmations of all securities transactions from the clearing firm. In addition, depending on the Advisor, Clients may also receive a quarterly performance report prepared by Envestnet showing the allocation of the assets in the account as well as the performance of the account during the previous quarter.

Advisors are required to contact Client on an annual basis to determine if there have been any changes to the Client's financial situation and stated investment objectives or if the Client wishes to impose any reasonable investment restrictions on the management of the assets in the account.

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

Envestnet, through its affiliated broker-dealer, may receive Rule 12b-1 fees from mutual funds in which Clients invest. The amount of the 12b-1 fee Envestnet receives will be credited against the Private Wealth Management program fee paid by the Client.

Envestnet may compensate Advisors or advisory firms for recommending or referring Clients to the Programs. While the fee may be paid from the Program Fee, the Program Fee has not been increased to cover the fee paid to those Advisors or advisory firms.

### **Item 15 – Custody**

If provided with the authority through its billing services for certain accounts, Envestnet has the ability to debit advisory, manager, platform and other fees directly from Client accounts however, Envestnet does not have authority to possess or take actual custody of Clients' funds or securities. Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains Client's investment assets. Depending on the Advisor, Clients may also receive a quarterly performance report prepared by Envestnet and Envestnet urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

Clients that participate in the Programs are required to grant full discretionary investment authority to Envestnet. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular Client account.

When selecting securities and determining amounts, Envestnet observes the investment policies, limitations and restrictions of the Clients. For registered investment companies, Envestnet's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and impose restrictions on certain types of investments (e.g., illiquid securities) and favor the holding of investments once made. Investment guidelines and restrictions must be provided to Envestnet in writing. Envestnet will generally limit the exercise of its investment discretion to the following circumstances:





- For SMA, Envestnet generally will only use this grant of discretion to replace Funds and investment strategies, including Sub-Managers, when it deems such a change is necessary or appropriate; to rebalance a Client's account and place trade orders as directed by the applicable Model Provider; and to liquidate sufficient assets to pay the Program Fee when necessary and advisable.
- For MFS, PMC Select Portfolios and PMC Select Dynamic Portfolios, Envestnet will generally use this grant of discretion to invest in, hold and sell shares in various mutual funds; to liquidate any "in kind" assets that are transferred into the MFS program; and to liquidate sufficient assets to pay the Program Fee when necessary and advisable.
- For PMC Strategic ETF Solutions, PMC Dynamic ETF Portfolios™ and PMC Tactical ETF Portfolios (collectively the "ETF Portfolios"), Envestnet will generally use this grant of discretion to invest in, hold and sell shares in various exchange traded funds; to liquidate any "in kind" assets that are transferred into the ETF Portfolios program; and to liquidate sufficient assets to pay the Program Fee when necessary and advisable.
- For UMA, MMA, Manager Blends, PMC Ultra Short-Term Fixed Income Portfolio and Enhanced Portfolio Strategies and Third-Party Fund Strategists, Envestnet generally will only use this grant of discretion as described in the previous circumstances for SMA, MFS and ETF Solution.

### Item 17 – Voting Client Securities

Envestnet generally delegates proxy voting to the Sub-Managers to whom it allocates Client assets. Envestnet shall maintain copies of the Sub-Manager's proxy voting procedures on file for so long as Envestnet has Clients whose assets are being managed by such asset managers.

For Programs in which Envestnet is providing overlay management services, including when a Sub-Manager is acting in the role of a Model Provider, Envestnet is responsible for voting proxies relating to securities held by Clients. Envestnet has developed appropriate principles, policies and procedures to ensure that such proxies are voted in the best interests of Clients. These policies and procedures are relatively general in nature to allow Envestnet the flexibility and discretion to use its business judgment in making appropriate decisions with respect to Client proxies. It is Envestnet's policy to vote Client shares primarily in conformity with Glass Lewis & Co. (Glass Lewis) recommendations, in order to limit conflict of interest issues between Envestnet and its Clients. Glass Lewis is a neutral third party that issues recommendations based on its own internal guidelines. Envestnet votes Client shares via ProxyEdge, an electronic voting platform provided by Broadridge Financial Solutions Inc. Additionally, ProxyEdge retains a record of proxy votes for each Client. Envestnet acknowledges and agrees that it has a fiduciary obligation to Clients to ensure that any proxies for which it has voting authority are voted solely in the best interests and for the exclusive benefit of its Clients. The policies are intended to guide Envestnet and its personnel in ensuring that proxies are voted in such manner without limiting Envestnet or its personnel in specific situations to vote in a pre-determined manner. These policies are designed to assist Envestnet in identifying and resolving any conflicts of interest it may have in voting Client proxies.

Because Envestnet does not act as a financial advisor for Client assets invested in the Advisor Directed Models, Envestnet does not vote proxies relating to securities held. Proxy voting responsibilities for the Advisor Models are either voted by Advisor or directly by Client.

Upon request, Clients can receive a copy of Envestnet's proxy voting procedures, Glass Lewis's proxy voting guidelines or a copy of the record of how a proxy vote was cast by contacting the following individual at Envestnet:

Timothy S. Stearns  
SVP, Chief Compliance Officer  
35 E. Wacker Drive, Suite 2400  
Chicago, Illinois 60601  
(312) 827-2800



#### **Item 18 – Financial Information**

Registered investment advisors are required in this Item to provide you with certain financial information or disclosures about Envestnet's financial condition. Envestnet has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and has not been the subject of a bankruptcy proceeding.