

**FIRM BROCHURE**  
(Part 2A of Form ADV)

**March 15, 2020**

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**Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Aperio Group, LLC (“Aperio”, “Aperio Group”, “we”, the “Firm” and/or the “Company”). If you have any questions about the contents of this Brochure, please contact us at (415) 339-4300, and/or [operations@aperiogroup.com](mailto:operations@aperiogroup.com), and/or [www.aperiogroup.com](http://www.aperiogroup.com). The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (SEC) or by any state securities authority.**

**Aperio Group is registered as an investment adviser with the SEC; however, such registration does not imply a certain level of skill or training, and no inference to the contrary should be made.**

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

## **ITEM 1: COVER PAGE**

Please refer to the previous page.

## **ITEM 2: MATERIAL CHANGES**

This Brochure has been revised to reflect the following updates and material changes since the last annual update of our Brochure on March 15, 2019.

*Item 8: Methods of Analysis* – Aperio added “Model Risk and Data Risk” and “Market Disruption, Health Crises, Terrorism and Geopolitical Risk” to its list of client risks.

*Item 12: Brokerage Practices* - We added a description regarding the fact that we are under common control with several other broker-dealers (the “Broker-Dealer Affiliates”), but do not have any business dealings with any of the Broker-Dealer Affiliates in connection with our advisory services. We do not believe that our relationship with the Broker-Dealer Affiliates otherwise materially overlaps our day-to-day business nor do we believe that this fact creates any material conflicts of interest.

*Item 17: Voting Client Securities* – We updated this Item 17 to provide a more robust description of our proxy voting policies.

The previous version of this Brochure is dated March 15, 2019. Aperio Group encourages each client to read the Brochure carefully and to contact us at the telephone number or email address on the cover page of this Brochure with any questions you may have.

Aperio Group will ensure that clients receive a summary of any material changes to this Brochure, along with an offer to provide a full copy of this Brochure upon request, within 120 days of the close of our fiscal year. Additionally, as we may potentially experience certain specific material changes in the future, we will send you a summary of our “Material Changes” under separate cover, along with the same offer. For more information about the Firm, please visit our website at [www.aperiogroup.com](http://www.aperiogroup.com). Additional information about Aperio Group and its investment adviser representatives is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **ITEM 4: ADVISORY BUSINESS**

### **Description of Aperio Group, LLC**

Aperio manages domestic, international, and global equity portfolios for high-net-worth individuals, institutions, and intermediaries such as wealth managers, consultants, and family offices. In addition, Aperio advises a very limited number of individual clients on asset allocation and fund selection. Aperio also advises a limited number of ERISA clients, and provides sub-advisory investment management services to registered mutual funds and pooled investment vehicles, including private funds.

### **Principal Owners**

Aperio Group was founded in August of 1999 and, until January 4, 2016, was entirely owned by its four partners: Patrick Geddes, Guy Lampard, Robert Newman, and Paul Solli.

On August 7, 2018, Aperio entered into a Purchase and Sale Agreement whereby Aperio Holdings, LLC, a newly formed subsidiary of Golden Gate Capital Opportunity Fund, L.P. and Golden Gate Capital Opportunity Fund-A, L.P. (together with certain other investment funds formed to invest alongside such private funds, “GGCOF”), would acquire a majority of Aperio’s outstanding equity interests (the “Transaction”). Golden Gate Private Equity, Inc. (“Golden Gate Capital” or “Golden Gate”), an SEC-registered investment adviser, serves as investment manager with respect to GGCOF. The Transaction closed on October 3, 2018, and resulted in a change of control of Aperio, with GGCOF owning, on an indirect basis, a majority interest of Aperio.

The Transaction has not resulted in any changes to the portfolio managers who manage investments for clients of Aperio, nor has it changed the investment process that underpins it. Furthermore, there were no resulting changes to the senior management personnel at Aperio, although the CEO, Patrick Geddes, now reports to a board of directors, which comprises certain members of senior management from Golden Gate Capital and from Aperio, as well as one independent director. Neither Golden Gate nor any director, officer, or employee of Golden Gate will participate in the day-to-day management or investment recommendations of our business.

Aperio will continue to be led by its founders, Patrick Geddes, Chief Executive Officer and Chief Tax Economist, and Paul Solli, Chief Strategy Officer. Mr. Geddes and Mr. Solli each continue to retain a significant ownership stake in Aperio. Robert Newman and Guy Lampard also continue to retain ownership interests in the firm.

### **Types of Advisory Services**

#### **Separate Account Management**

Aperio Group offers three (3) main equity investment strategies:

- Active Tax Management
- Factor Tilts

- SRI/ESG (Socially Responsible Investing/Environmental, Social and Governance)

Aperio Group creates customized long equity separately managed portfolios for individuals and institutions. Aperio Group uses quantitative models and tools to incorporate client specifications for benchmark, Factor Tilts, SRI/ESG values, and tax management. Clients also have the ability to customize their portfolios to meet specific requirements such as holding restrictions, industry/country limitations, and situation-appropriate tax needs. Benchmarks include broad market equity indexes representing domestic and/or foreign companies. Once a client has selected an investment strategy and benchmark, Aperio provides continuous supervision and management of the assets. Clients are responsible for informing Aperio of any changes to their investment objectives, individual needs, and/or restrictions.

Please refer to Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss for detailed information regarding these strategies.

### **Wealth Management Services**

Aperio Group provides wealth management services on a discretionary basis for a very limited number of client portfolios. This includes advice on asset allocation and asset selection. The wealth management client portfolios are designed and managed based upon each client's particular circumstances including their individual financial goals, investment time horizons, tax situations, funding, and other requirements. We are not accepting new clients for this service and have not for a number of years.

### **Advisory Agreements**

#### **Separate Accounts**

For all Separate Account clients, a written Master Sub-Advisory Agreement or an individual Investment Advisory Agreement governs the terms of the relationship between Aperio Group and its clients. Both agreements describe the advisory services to be provided, the responsibilities of the advisor, and the terms of engagement including fees and termination.

Investment adviser intermediaries, consultants, and wealth managers (collectively, "Intermediaries," and individually, an "Intermediary") acting as the primary advisor may enter into a Master Sub-Advisory Agreement with Aperio when Aperio has been selected to manage portfolios for the Intermediaries' clients as sub-advisor. In this case, the client of the Intermediary (usually a high-net-worth individual investor or foundation/endowment) delegates to the Intermediary the authority to select sub-advisor managers. A list of clients covered by the Master Sub-Advisory Agreement is appended to the agreement and updated regularly. All direct clients managed by Aperio Group enter into an individual Investment Advisory Agreement, which also describes in detail the advisory services to be provided by Aperio Group. In some circumstances, the clients of Intermediaries selecting Aperio Group as a manager on behalf of their clients will enter into an individual Investment Advisory Agreement. Both the Master Sub-Advisory Agreement and the individual Investment Advisory Agreement may be terminated by either party upon written notice to the other party. If Aperio terminates a Master Sub-Advisory Agreement, Aperio agrees to continue service for a specified period in order to facilitate transitioning of

accounts. Both agreements provide for management fees paid in advance to be prorated to the date of termination and any unearned portion of the prepaid fees to be refunded to the client. For services billed in arrears, the client will be billed for services earned but not paid.

### **Wealth Management Services**

Wealth Management Advisory clients enter into an Investment Advisory Agreement with Aperio Group that describes the terms of engagement including fees and termination. The client or Aperio Group may terminate the agreement upon written notice. Upon termination, the agreement provides for management fees paid in advance to be prorated to the date of termination and any unearned portion of the prepaid fees to be refunded to the client. For services billed in arrears, the client will be billed for services earned but not billed.

### **Participation in UMA Program**

We participate in a unified managed account program (the “UMA Program”) sponsored by an unaffiliated investment advisory firm (the “UMA Sponsor”). We provide an investment model to the UMA Sponsor, and the UMA Sponsor implements the investment model by executing trades in the UMA accounts at its discretion. We are responsible for communicating any changes to the investment model to the UMA Sponsor on a timely basis. UMA clients are generally not considered to be Aperio Group clients but rather clients of the UMA Sponsor. Specific to the terms of the UMA Program, Aperio exercises investment discretion while the UMA Sponsor has responsibility for trading. Also, under the terms of the UMA Program, the UMA Sponsor can choose not to execute the trades recommended by Aperio Group. Thus, for the purposes of our SEC reporting, we consider this account to be one of shared investment discretion with the UMA Sponsor, and we count these assets in our AUM in Form ADV reporting.

### **Wrap Program Services**

Aperio Group’s separate account strategies are also offered through certain wrap programs (each, a “Wrap Program”), which are sponsored by unaffiliated multi-service financial institutions (each, a “Wrap Sponsor”). A list of Wrap Programs may be found in Part 1 of our Form ADV. For further information on Wrap Programs, please also refer below to information in Item 5.

Intermediaries may also choose to access Aperio Group’s Separate Accounts through a Wrap Program. Some programs may use a written Master Sub-Advisory Agreement between the Wrap Sponsor and Aperio Group. The Master Sub-Advisory Agreement describes the advisory services to be provided, the responsibilities of the advisor, and the terms of engagement including fees and termination. Other Wrap Sponsors require a Service Agreement with Aperio Group in addition to the individual Investment Advisory Agreement between the Wrap Program client (the “Wrap Client”) and Aperio. The Service Agreement between the Wrap Sponsor and Aperio Group covers items such as use of software provided, data downloads of account information, and electronic trading service terms and conditions.

The individual Investment Advisory Agreement governs the terms of the relationship between Aperio Group and the Wrap Client. Both the Master Sub-Advisory and the individual Investment Advisory Agreement describe the advisory services to be provided, the responsibilities of the advisor, and the terms of engagement including fees and termination. Both the Master Sub-Advisory Agreement and the individual Investment Advisory Agreement may be terminated by either party upon written notice. If Aperio Group terminates a Master Sub-Advisory Agreement, Aperio agrees to continue service for a specified period in order to facilitate transitioning of accounts.

Both agreements provide for management fees paid in advance to be prorated to the date of termination and any unearned portion of the prepaid fees to be refunded to the client. For services billed in arrears, the client will be billed for services earned but not paid.

Generally, a Wrap Client, with the assistance and advice of the Wrap Sponsor, selects an investment adviser, such as Aperio, from a list of Wrap Sponsor approved advisers to provide investment management services for their assets allocated to their Wrap Program account(s). In addition, a Wrap Client may receive certain other services provided by the Wrap Sponsor and/or entities affiliated with the Wrap Sponsor (such as trading execution, custodial services, and in some cases, advisory services). All services are generally provided for a single all-inclusive fee (the "Wrap Fee"). The Wrap Client pays the Wrap Sponsor a Wrap Fee based upon the Wrap Client's assets allocated to their Wrap Program account(s), and the Wrap Sponsor pays the selected adviser, such as Aperio Group, a portion of the Wrap Fee for providing investment management services to the Wrap Client. For the Wrap Programs that we participate in, Wrap Clients enter into a written agreement with the Wrap Sponsor and may also enter into a contract with Aperio Group, depending on the Wrap Program.

Although the types of investment management services provided by Aperio Group to Wrap Clients are generally the same as the types of investment management services provided to our non-Wrap Program clients, certain differences usually exist. For example, the Wrap Sponsor collects each client's investment objectives and assists the client in determining the strategy best suited for the client, and client communications regarding the investment management of a Wrap Client's assets are generally between the Wrap Sponsor and the Wrap Client, with Aperio communicating only with the Wrap Sponsor, unless requested otherwise by the Wrap Client or Wrap Sponsor.

Since the Wrap Fee paid by Wrap Clients is all inclusive, as described above, Aperio believes it is important for each Wrap Client to evaluate whether such a program is suitable for their needs and cost effective, given factors such as the size of the account, frequency of transactions, and the Wrap Client's investment objectives, and also whether or not comparable or similar services are available at a lower cost if provided separately.

### **Amount of Client Assets Managed**

As of December 31, 2019, the following represents the total amount of client assets under management by Aperio:



| Type of Account   | Assets Under Management ("AUM") |
|-------------------|---------------------------------|
| Discretionary     | \$34,486,886,409                |
| Non-Discretionary | \$0                             |
| Total:            | \$34,486,886,409                |

## ITEM 5: FEES AND COMPENSATION

### *Fee Agreements – General*

Aperio has entered into various advisory agreements with investment advisers and other financial Intermediaries with respect to investment programs they offer. Typically, Aperio negotiates fees with the advisers and Wrap Sponsors and not with individuals participating in such programs. However, for specialized portfolio customization, additional fees may be charged based on the size and complexity of the account(s). In the event of fee schedule changes, Aperio reserves the right to continue pre-established fee schedules with current clients that may be more or less advantageous to such clients than the new or changed fee schedules offered to prospective clients. Additionally, Aperio reserves the right to offer prospective clients fee schedules or terms that may be more or less advantageous to such prospective clients than the existing fee schedules offered to its current clients for similar services.

### Separate Account Indexing

Aperio Group charges an annual management fee based on a percentage of a client's account value for all separately managed equity index strategies. However, accounts that track certain specialized indexes may be charged additional fees based on the pass-through cost of licensing such data. Fees are negotiable at the sole discretion of Aperio Group and vary depending on account size, account parameters, and overall relationship. A minimum annual fee of \$3,500 will be applied; however, Aperio has discretion to lower or waive the minimum at any time and for any client(s).

Below is the standard annual advisory fee:

|                          |       |
|--------------------------|-------|
| Domestic Indexes         | 0.35% |
| Foreign/Global Indexes   | 0.40% |
| Domestic SRI             | 0.45% |
| Foreign/Global Index SRI | 0.50% |

### Wealth Management Services

Aperio Group charges a flat fee for its wealth management clients. These specific clients pay a flat fee as initially negotiated at the outset of such relationship, and the fees for such services continue to be governed by such contractual terms. Upon termination, such agreements provide for management fees paid in advance to be prorated to the date of termination and any unearned portion of the prepaid fees to be refunded to the client. This fee is billed quarterly in advance.

### **Wrap Fees**

The annual fees received by Aperio Group from each Wrap Sponsor are generally equal to either:

(a) a percentage of the total assets in the Wrap Sponsor's Wrap Program accounts for which Aperio Group provides investment management services or (b) a percentage of the Wrap Fees actually collected by the Wrap Sponsor from Wrap Clients to whom we provide investment management services. Each Wrap Sponsor generally pays Aperio Group on a quarterly basis, generally in advance, or as outlined in each written agreement between Aperio Group and the Wrap Sponsor. With respect to each Wrap Program in which we participate, the standard fees received by us from each Wrap Sponsor can vary depending on the investment style selected and other factors. The annual fees currently range from 0.15% to 0.50%, depending on the product offered.

Aperio Group is not informed of the specific fee arrangement negotiated between each Wrap Client and the Wrap Sponsor. Wrap Sponsors charge a minimum annual Wrap Fee to each of their Wrap Clients. Complete information on the services provided and fees charged under a Wrap Program can be found in each Wrap Sponsor's Form ADV, Part 2A—Appendix 1, also known as the Wrap Fee Program Brochure. Wrap Clients should carefully evaluate all information in the applicable brochure to determine whether or not the Wrap Fee paid for the services provided exceeds the aggregate cost of such services if they were to be provided separately.

Wrap accounts are generally managed in the same or similar manner as other separately managed accounts. However, Wrap Programs may impose specific restrictions and investment guidelines that are more restrictive than fully discretionary client accounts; this is discussed in the Wrap Sponsor's Wrap Program brochure. In addition, Wrap Programs may mandate that Aperio direct transactions to a specific broker-dealer, which may prohibit Aperio from seeking best execution or aggregating trades. As a result, wrap accounts may not achieve the same performance as fully discretionary accounts. Please refer to Item 12 of this Brochure, which describes our brokerage practices in detail.

Aperio negotiates fees with some clients who pay lower fees than the fees shown above. Also, lower fees for comparable services may be available from other sources.

### **Mutual Fund Clients**

For our sub-advised mutual fund clients, we receive annual sub-advisory fees, which are based on the funds' average daily net assets. The annual sub-advisory fees are paid monthly in arrears by the funds' advisers and range from 0.08% to 0.20%.

### **Deduction of Fees**

The consent for deduction of fees is generally contained in the written agreement the client enters into with Aperio Group. Clients' custodians will deliver a periodic (at least quarterly) account statement directly to clients. The statements will include all transactions that took place in the account during the period covered, and reflect any fees deducted and paid to Aperio.

Clients are encouraged to review their account statements for accuracy and compare them to the reports received from Aperio. Should there be any discrepancies, clients should rely on the information in their custodians' account statements.

### **Other Fees**

Clients should understand that the fees discussed above are specific to what Aperio Group charges and do not include certain charges that may be imposed by third parties, such as custodial fees, mutual fund fees and expenses, and additional fees charged by Wrap Sponsors (although we have generally described some of those additional fees in specific sections of this Brochure.) Client assets also can be, depending on the type of account and the types of investments in the account, subject to asset-based transaction fees, brokerage fees and commissions, and other fees and taxes on brokerage accounts and securities transactions.

Clients should understand that all custodial fees and any other charges, fees, and commissions incurred in connection with transactions for a client's account are generally paid out of the assets in the account and are in addition to the investment management fees charged by Aperio Group. Please refer to Item 12 of this Brochure for additional important information about our brokerage and transactional practices, including considerations for selecting broker-dealers for client transactions.

Clients should review the fees charged to their account(s) to fully understand the total amount of all fees charged. Clients should understand that lower fees for comparable services may be available from other investment advisory firms.

No supervised person of Aperio Group receives transaction-based compensation related to investment recommendations or advice that could be considered a conflict of interest.

### **Fees in Advance**

The management fee is typically billed quarterly in advance based on the account value at the end of the prior quarter. Such invoices may include prorated adjustments for deposits and withdrawals made in the previous quarter. A small number of accounts are billed quarterly in arrears based on the account value at the end of the period. Aperio Group also manages certain accounts that are part of Wrap Programs. Details on Wrap Fees are described in a separate section of Item 5.

Since investment advisory fees are typically billed quarterly in advance, if the agreement is terminated during a quarter, the portion of the fee paid for the remainder of the period will be refunded. The amount refunded will be prorated according to the portion of the quarter that was prepaid and not earned. For fees charged in arrears, the amount billed is prorated for the period in which services were earned.

### **Compensation of Supervised Persons**

No supervised person of Aperio accepts compensation for the sale of securities or other investment products.

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Aperio Group does not charge performance-based fees (i.e., fees calculated based on a share of capital gains on or capital appreciation of the client's assets or any portion of the client's assets). Consequently, Aperio Group does not engage in side-by-side management of accounts that are charged a performance-based fee with accounts that are charged another type of fee (such as fees based on assets under management). As described above, we provide our services based upon a percentage of assets under management, in accordance with Advisers Act Rule 205(a)(1). Notably, accounts that are managed in the same investment style (e.g., based on risk profile) are not always managed the same way due to the client's overall investment objective, discretion of the investment professional assigned to the account, asset size, and account restrictions.

## **ITEM 7: TYPES OF CLIENTS**

### **Description**

Aperio Group clients include the following:

- Registered Investment Advisers and Consultants
- Family and Multi-Family Offices
- Individuals, High-Net-Worth Individuals, and Trusts
- Charitable Organizations including Endowments and Foundations
- Pooled Investment Vehicles and Investment Companies including Registered Mutual Funds
- Wrap Programs and Other Wealth Management Platforms
- Pension and Profit-Sharing Retirement Plans

For ERISA clients, Aperio Group provides certain required disclosures to the "responsible plan fiduciary" (as such term is defined in ERISA) in accordance with Section 408(b)(2), regarding the services we provide and the direct and indirect compensation we receive from such clients. Generally, these disclosures are contained in this Brochure, in the client agreement, and in separate ERISA disclosure documents, and are designed to enable the ERISA plan's fiduciary to: (1) determine the reasonableness of all compensation received by Aperio Group; (2) identify any potential conflicts of interests; and (3) satisfy reporting and disclosure requirements to plan participants.

### **Conditions for Managing Accounts**

For accounts managed by Aperio Group, both through an Intermediary or directly, the client must use the services of a custodian to hold the securities in their account. For Aperio Group to accept an account for management, Aperio Group must have an established relationship with that custodian or alternatively must agree to establish one. The client is required to grant Aperio Group the authority to manage their account by signing a Limited Power of Attorney ("LPOA"). The

LPOA grants Aperio discretionary authority to manage the portfolio according to agreed-upon guidelines, to buy and sell securities, invest cash, implement client instructions, deduct fees, and perform other actions consistent with managing the portfolio.

Wrap Program accounts are usually subject to minimum account sizes and/or fees, which are outlined in the Wrap Sponsor's ADV, Part 2A–Appendix 1.

There may be times when certain restrictions are placed by a client that prevent us from accepting or continuing to service the client's account. Aperio Group reserves the right not to accept and/or to terminate a client's account if it feels that the client-imposed restrictions would limit or prevent it from meeting and/or maintaining its objectives. Furthermore, pursuant to provisions in the Investment Advisory Agreement, Aperio may elect to terminate a client should changes occur to client-imposed restrictions, client investment objectives, and/or other business or regulatory circumstances where Aperio believes it can no longer manage the client's assets effectively.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS**

### **Methods of Analysis**

Aperio Group uses mathematical models and software to manage its client strategies. Investment strategies are typically customized to client specifications and have a defined benchmark and a set of client restrictions/targets. To create portfolios, Aperio Group typically uses broad universes consisting of stocks that are screened for liquidity and capitalization. Portfolios are constructed using optimization techniques and generally hold between 50 and 1,000 stocks, depending on the benchmark, strategy, and client constraints. For taxable clients, portfolios are rebalanced using a tax-efficient approach in order to maximize loss harvesting and minimize capital gains. Aperio's methodologies consider portfolio risk, transactions costs, and taxes when making investment decisions.

### **Investment Strategies**

For the Active Tax Management strategy, Aperio constructs a portfolio comprising individual stocks that track a target benchmark and utilizes software designed to systematically harvest losses within the portfolio and immediately replace the securities sold at a loss with others of similar type and risk. The losses realized are available to offset gains created in other portions of the client's portfolio (including those not managed by Aperio) such as those portions managed by active managers, hedge funds, or through the sale of low-cost-basis stock. Any savings realized by the reduction in taxes paid or postponed can improve returns when measured after-tax. This after-tax return benefit presumes that clients have capital gains from active managers, hedge funds, sale of low-cost-basis stock, or other sources suitable for offset. Changes in tax law and/or the treatment of capital gains could impact the after-tax returns from this strategy.

The Factor Tilts and SRI/ESG strategies are customized portfolios of equity securities that are designed to meet specific client-driven objectives. These strategies are suitable for both taxable and non-taxable portfolios and include SRI/ESG screening as well as other factor strategies. SRI/ESG

portfolios are designed to track the major market indexes using a universe of securities that meet specific criteria and standards of conduct as determined by the values expressed by the client.

Factor Tilts enable clients to gain exposure to quantitative factors like quality, value, momentum, low volatility, etc., in a low-cost, tax-efficient strategy. Clients can also tilt portfolios based on industries, sectors, and countries. Clients can work with Aperio to develop customized factor tilts or choose “standard” customized tilt strategies offered by Aperio.

### **Risk of Loss**

Aperio Group’s separately managed equity portfolios consist of stocks with the objective that the portfolio perform in line with the selected index benchmark. As a result, the value of the managed portfolios will generally rise and fall with the stock markets. With all separately managed portfolios, there is a significant risk that accounts will decline in value from time to time, and clients should be prepared to accept the risk of potential loss. In addition, accounts may hold small amounts of cash.

Aperio Group uses quantitative tools to measure the estimated tracking error of the portfolio versus the benchmark index. Estimated tracking error is a statistic that forecasts how much a portfolio is likely to deviate from the benchmark index on an annualized basis and represents a one-standard-deviation event. For example, if the estimated tracking error of a portfolio is 1% and the benchmark index goes up 10%, there is an approximately 68% chance that the portfolio performance will be between 9% and 11%, assuming what statisticians refer to as a “normal distribution.” There is also the possibility that the account could experience a two-, three-, or higher standard-deviation outcome. While not expected, the risk of a significant deviation from the benchmark index is possible. If the deviation is negative versus the benchmark index, the portfolio will underperform—perhaps significantly—versus the benchmark index. Some accounts will perform worse than the benchmark index due to random variation.

The Factor Tilt strategies add an additional and potentially significant level of tracking error risk as the themes emphasized by these strategies move in and out of favor.

SRI/ESG strategies add an additional level of tracking error risk due to the investing constraints such a style of investing introduces to the management of a portfolio. An optional participation in a shareholder advocacy program requires a commitment from the client to hold its position in the impacted company for a specific period of time. Participation in this program is directed by the client, who accepts the potential for risk of loss due to the holding period requirement.

Some additional general investment risks a client should be aware of include, but are not limited to, the following:

- **Business Risk**: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it (a lengthy process), before they can generate a profit. They carry a higher risk of profitability than an electric company that generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.



- Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- Equity Markets Risk: Since the strategies invest in equity securities, they are subject to the risk that stock prices can fall over short or extended periods of time. Historically, the equity markets have moved in cycles, and the value of each strategy's equity securities may fluctuate drastically from day-to-day. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. These factors contribute to price volatility, which is the principal risk of investing in the strategies we offer.
- Financial Risk: Excessive borrowing to finance business operations may increase the risk of profitability, because a company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations can result in bankruptcy and/or a declining market value.
- Foreign and Emerging Markets Risk: The value of a client portfolio may be adversely affected by changes in currency exchange rates and political and economic developments across multiple borders. In emerging or less developed countries, these risks can be more significant than in major markets in developed countries. Generally, investment markets in emerging countries are smaller, less liquid, and more volatile, and as a result, the value of a portfolio investing in emerging markets may be more volatile. Emerging-market investments often are subject to speculative trading, which typically contributes to volatility. Emerging-market countries also may have relatively unstable governments and economies. Trading in foreign and emerging markets usually involves higher expenses than trading in the United States. A client may have difficulties enforcing legal or contractual rights in a foreign country for any portfolio invested in these markets. Depositary receipts are subject to many of the risks associated with investing directly in foreign securities, including political and economic risks.
- General Investing Risk: Our investment strategies are not intended to be a complete investment program. Clients generally should have a long-term investment perspective and be able to tolerate potentially sharp declines in value and/or investment losses. Investment advisers, other market participants, and many securities markets are subject to rules and regulations and the jurisdiction of one or more regulators. Changes to applicable rules and regulations could have an adverse effect on securities markets and market participants, as well as on the ability to execute a particular investment strategy.
- Model and Data Risk: In the design and execution of our portfolio management strategies, we rely heavily on quantitative models and information and data supplied by third parties ("Models and Data"). Models and Data are specifically used to help us construct portfolios, and the various transactions and investments in the course of our management of client accounts. If the Models and Data we use were ever to be proven to be incorrect or incomplete, any decisions made in reliance thereon expose our clients to potential risks. Some of the models used by Aperio may be predictive in

nature. The use of predictive models has inherent risks. Because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend on the accuracy and reliability of the supplied historical data, and client investments bear the risk that the quantitative models used by Aperio will not be successful in selecting the transactions in securities consistent with client investment objectives. All models rely on correct data inputs. If incorrect data is entered into even a well-founded model, the resulting information will be incorrect. Aperio, in its sole discretion, will continue to test, evaluate and add new models, which may result in the modification of existing models from time to time. There can be no assurance that model modifications will enable clients to achieve their investment objective

- *Political and Legislative Risk:* Companies face a complex set of laws and circumstances in each country in which they operate. The political and legal environment can change rapidly and without warning, with significant impact, especially for companies operating outside the United States or those companies that conduct a substantial amount of their business outside the United States.
- *Market Disruption, Health Crises, Terrorism and Geopolitical Risk:* A client is subject to the risk that war, terrorism, global health crises or similar pandemics, and other related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on world economies and markets generally, as well as adverse effects on issuers of securities and the value of a client's investments. War, terrorism and related geopolitical events, as well as global health crises and similar pandemics have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally. Those events as well as other changes in world economic, political and health conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of a client's investments. At such times, a client's exposure to a number of other risks described elsewhere in this section can increase.
- *Small Companies Risk:* Smaller companies are subject to greater price fluctuations, limited liquidity, higher transaction costs, and higher investment risk. Such companies may have limited product lines, markets, or financial resources; may be dependent on a limited management group; or may lack substantial capital reserves or an established performance record. There is generally less publicly available information about such companies than for larger, more established companies. Stocks of these companies frequently have lower trading volumes, making them more volatile and potentially more difficult to value.
- *SRI/ESG Risk:* Applying SRI/ESG investing goals to investment decisions is qualitative and subjective by nature, and there is no guarantee that the criteria utilized by Aperio or any judgment exercised by Aperio will reflect the beliefs or values of any particular investor. In evaluating a company, we are dependent upon information and data obtained through voluntary or third-party reporting that may be incomplete, inaccurate or unavailable, which could cause Aperio to incorrectly assess a company's practices and/or related risks and opportunities. SRI/ESG-related practices differ by region, industry and issue and are evolving accordingly, and a company's practices or



Aperio's assessment of such practices may change over time. In addition, changes in the regulatory environment may impact Aperio's ability to achieve its SRI/ESG objectives and implement its SRI/ESG strategy.

- *Tax-Managed Investing Risk*: Market conditions may limit the ability to generate tax losses or to generate dividend income taxed at favorable tax rates. A tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses. The ability to utilize various tax-management techniques may be curtailed or eliminated in the future by tax legislation or regulation. The benefit of tax-managed investing to an individual investor is dependent upon the tax liability of that investor. Over time, the ability of an investor in a tax-managed strategy to harvest losses may decrease and gains may build up in a securities portfolio.
- *Tax Risk*: The tax treatment of investments held in a client portfolio may be adversely affected by future tax legislation, U.S. Treasury regulations, and/or guidance issued by the Internal Revenue Service that could affect the character, timing, and/or amount of taxable income or gains attributable to an account.
- *Tracking Error Risk*: Tracking error risk refers to the risk that the performance of a client portfolio may not match or correlate to that of the benchmark index it attempts to track, either on a daily or aggregate basis. Factors that contribute to tracking error include: fees and trading expenses, imperfect correlation between the portfolio's investments and the benchmark index, changes to the composition of the benchmark index, regulatory policies, and high portfolio turnover. Tracking error risk may cause the performance of a client portfolio to be less or more than expected.

There can be no assurance that a client's investment objectives will be obtained, and no inference to the contrary is being made. Prior to entering into an agreement with Aperio Group, a client should carefully consider: (1) committing to management only those assets that the client believes will not be needed for current purposes and that can be invested on a long-term basis, usually a minimum of three to five years; (2) that volatility from investing in the stock market can occur; and (3) that over time, the value of the client's assets can fluctuate and at any time be worth more or less than the amount invested.

Aperio Group does not represent, guarantee, or imply that its services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines.

## **ITEM 9: DISCIPLINARY INFORMATION**

Aperio Group does not have any legal or disciplinary events to disclose.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Aperio Group and our management persons are not registered, and do not have any pending applications to register, as a broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, commodity pool operator, a commodity trading advisor, or

an associated person of the foregoing entities. Aperio Group and our management persons do not have any other outside financial industry activities or financial industry affiliations.

From time to time Aperio Group refers clients or prospects to wealth managers, accountants, tax specialists, attorneys, and other professionals. Furthermore, such professionals have referred and may continue to refer their clients or prospects to Aperio Group. Referrals both to and from Aperio Group are made without any compensation or other commitment, with the exception of a handful of accounts that were opened at Aperio Group before December 31, 2006, as disclosed in Item 14 of this Brochure.

Aperio does not recommend or select other investment advisers for clients.

While as a result of the Transaction with Golden Gate, as described above, Aperio is under common control with several other registered investment advisers (the “Affiliates”), we have no business dealings with any of the Affiliates in connection with advisory services we provide to our clients, do not share personnel, facilities, or operations, do not refer clients or business to the Affiliates, and the Affiliates do not refer prospective clients or business to us, nor is there any reason to believe that Aperio’s relationship with the Affiliates otherwise materially overlaps the day-to-day business of Aperio or with respect to the Affiliates that we believe creates any material conflicts of interest.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

### **Description of Code of Ethics**

The Investment Advisers Act of 1940 (“Advisers Act”) imposes a fiduciary duty on all investment advisers to act in the best interests of their clients. Aperio Group’s clients therefore entrust us to use the highest standards of integrity when dealing with their assets and making investments that impact their financial futures. Our fiduciary duty compels all employees to act with integrity in all of our dealings.

Because our investment professionals occasionally transact in the same securities for their personal accounts as the Company buys or sells for client accounts, it is important to mitigate potential conflicts of interest. To that end, we have adopted personal securities transaction policies in the form of a Code of Ethics (“Code”) that all of our employees must follow. The Code provides such personnel with guidance for ethical obligations regarding their personal securities transactions and fiduciary duties formulating the basis of all of our client dealings. Specifically, the Code classifies all Aperio employees as Access Persons who are required to report all personal trades and holdings in individual equity securities and obtain preclearance of initial public offering and limited offering securities, and prohibits trades in certain restricted securities. The Code also contains procedures for reporting violations and enforcement. The Code is reviewed and distributed to Aperio employees annually. Aperio Group will provide a copy of the Code to any client or prospective client upon written request.

Aperio Group obtains information from a wide variety of publicly available resources. Aperio Group and our personnel do not have, nor claim to have, insider or private knowledge. To ensure insider trading does not take place and to address the conflict of interest regarding obtaining confidential information, we have adopted a Company-wide policy statement outlining insider-trading compliance by us, our supervised persons, and other employees. The policy statement has been distributed to all our supervised persons and other employees and has been signed and dated by each such person.

### **Participation or Interest in Client Transactions**

As allowed under our Code, Aperio Group employees are permitted to purchase for their own or for related accounts the same securities that are recommended and purchased for Aperio Group's clients. Aperio Group's policy is that, in all circumstances, the interests of our clients take precedence over the interests of employees or personal relationships. Any conflicts or potential conflicts of interest must be disclosed. In addition, to address these conflicts, employee trading is continually monitored, with an eye to reasonably prevent conflicts of interest between our clients and us.

Aperio Group is a sub-adviser to mutual funds and could participate in calls or programs informing potential investors about such fund. Since Aperio Group derives investment management fees from the fund, the potential for a conflict of interest would be prominently disclosed as part of any presentation.

Aperio Group does not conduct any principal or agency cross-securities transactions for client accounts, nor do we conduct cross-trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross-transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Should we ever decide to conduct principal trades or cross-trades in client accounts, we will comply with the provisions of Rule 206(3) of the Advisers Act and Rule 17a-7 of the Investment Company Act of 1940, as applicable.

### **Personal Trading**

Aperio Group permits personal account trading, which can include securities being purchased by the Company for its clients. As a part of Aperio Group trading procedures, a liquidity test is performed to determine if Company trading on behalf of clients could materially impact the execution price. Only after determining liquidity does trading commence. To detect and highlight potential conflicts of interest between trading for Aperio Clients and personal trading for Aperio Group employees or related persons, Aperio Group has procedures in place that require review of certain trades flagged by our personal trading portfolio surveillance system and also requires the review of all trades by Aperio Access Persons on a quarterly and annual basis.

The Aperio Group Code of Ethics requires the review of all employee securities account statements and all transactions on a quarterly and annual basis. Aperio Group also maintains a list of securities that employees are restricted from trading for their own or related accounts. Aperio prohibits insider trading and requires compliance with applicable provisions of state and federal law. The Company has adopted a Code of Ethics summarized above that deals with these and other issues regarding personal trading.

## **ITEM 12: BROKERAGE PRACTICES**

### **Selection Criteria**

Selection of the broker-dealer used for executing transactions is dependent on several factors including the choice of custodian, which is typically driven by the client.

- Aperio Group has relationships with many custodians. Aperio will inform clients which custodians are available; however, the clients make the actual selection. When a client chooses a custodian that is compensated for its custodial services through trading commissions, except for very unusual circumstances, it is typically most cost effective for the client to trade through that custodian's broker-dealer.
- The custodian/trading relationships used by Aperio Group offer competitive trading costs, electronic order execution, and competent back-office support including technological links with Aperio Group's information systems. In addition, other products and services are available to Aperio Group from Charles Schwab & Co., Inc. ("Schwab"), National Financial Services LLC and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity"), and other similar custodians/brokers, as discussed (and as defined, in the case of Fidelity), below.
- For broker-dealers where Aperio Group has discretion, the following selection criteria are used, including but not limited to: execution quality, commissions, and clearing and settlement capabilities of the broker-dealer; the broker-dealer's experience and ability to place difficult trades; access to markets; and the reputation, financial strength, and stability of the broker-dealer.

### **Wrap Accounts**

Clients choosing to participate in certain Wrap Programs or platforms may use Aperio Group investment management services. Brokerage and other trading fees in such cases are between the client and the brokerage/custodial firm. In most cases, since the fees paid by the client include commissions, Aperio Group places Wrap Client trades with the Wrap Sponsor for execution.

While Aperio may have discretion to select broker-dealers other than the Wrap Sponsor to execute trades for wrap accounts in a particular program, trades are generally executed through the Wrap Sponsor. A Wrap Sponsor may instruct Aperio not to execute transactions on behalf of the wrap accounts in that program with certain broker-dealers. When a Wrap Sponsor restricts Aperio in this way, it may affect Aperio's ability to negotiate favorable commission rates or volume discounts, the availability of certain spreads, and the timeliness of execution. This may consequently result in a less advantageous price being realized by the account. Aperio endeavors to treat all wrap

accounts fairly and equitably over time in the execution of client orders. Depending on various factors, such as the size of the order and the type and availability of a security, orders for wrap accounts may be executed throughout the day. When orders are placed with broker-dealers, such trades may experience sequencing delays and market impact costs, which Aperio attempts to minimize.

### **Matters Impacting Charles Schwab, Fidelity, and Other Similar Custodian/Broker Relationships**

Firms such as Charles Schwab and Fidelity generally do not charge separately for custody services but are compensated by charging commissions or other fees on trades that they execute or that settle into their accounts. For some accounts, these firms may charge a percentage of the dollar amount of assets in the account in lieu of commissions. These firms' commission rates and asset-based transaction fees are negotiated by the client. In addition to commissions or asset-based fees, custodians such as Schwab charge a flat dollar amount as a "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a client's Schwab or other similar custodian's account. These fees are in addition to the commissions or other compensation clients pay the executing broker-dealer. Because of this, in order to minimize client trading costs, we have the custodian/broker execute most trades for client accounts.

### **Soft Dollar Arrangements**

Aperio currently has no third-party soft dollar arrangements in place with any broker-dealers. Soft dollars mean the benefits received by Aperio other than client execution services, such as research or brokerage services, provided to Aperio in exchange for executing client transactions through a particular broker-dealer. Broker-dealers and other parties sometimes provide those benefits to advisers through arrangements involving soft dollar credits based on the price and volume of trades executed through the broker-dealer. Soft dollar benefits can create a conflict of interest for advisers in executing client trades through broker-dealers that provide those benefits rather than selecting best execution for the client.

Although certain soft dollar benefits are permitted by applicable law, Aperio does not have any such arrangements. Aperio will send trades to brokers that provide brokerage services that directly relate to the execution of trades and that otherwise are expected to satisfy Aperio's selection criteria for providing best execution.

Broker-dealers do, however, provide unsolicited research and brokerage services that could be considered to be soft dollar benefits for Aperio, some of which are provided on a standard basis to many clients that use those broker-dealers. Some of these services provide no benefit to Aperio, and others have some value. These brokerage services include trading software used to route orders electronically to market centers and the provision of FIX connections used to electronically effect securities transactions. These brokerage services are provided at no cost to Aperio. Aperio will only continue to use such services when it believes any higher commission is reasonable given the value of the research or brokerage services received, consistent with Section 28(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). Other examples of services include electronic access to account information, trade order processing systems, trade analysis software, on-line pricing

services, communication services relating to execution, clearing and settlement and message services used to transmit orders, and conferences and seminars.

There are times when Aperio, in order to manage client portfolios, expresses a preference that a client establish brokerage accounts with firms that offer automated reconciliation and trading, such as Fidelity and/or Schwab, to maintain custody of clients' assets and to effect trades for their accounts. Schwab and Fidelity are both SEC-registered broker-dealers and members of the Financial Industry Regulatory Authority/Securities Investor Protection Corporation ("FINRA/SIPC"). There is no direct link between the investment advice given to clients and Aperio's recommendation to use the custodial or brokerage services of Fidelity or Schwab, although certain benefits are received by Aperio due to this arrangement.

Aperio has adopted written policies and procedures regarding our trading practices, including but not limited to best execution and soft dollar reviews.

### **Brokerage for Client Referrals**

Aperio does not seek or receive client referrals from any discretionary broker-dealers and does not consider client referrals in selecting or recommending discretionary broker-dealers.

### **Aperio's Interest in Schwab's Services**

Due to the size of client assets maintained with Aperio, Aperio does not have to pay for Schwab's services. While Aperio does not recommend specific custodians, the benefits provided by Schwab for maintaining accounts there has the potential to be a conflict of interest.

We believe, however, that Aperio's support for clients who have chosen to use Schwab as their custodian and broker is consistent with being in the best interests of our clients. This is primarily due to the scope, quality, and price of Schwab's overall services and not Schwab's services that benefit only us. We have a significant amount of client assets under management at Schwab as well as at other custodians and do not believe that maintaining assets at Schwab is related in any way to Aperio's avoiding the payment of service fees to Schwab or presents a material conflict of interest. It is important for clients to consider and compare the significant differences between having assets held with a broker-dealer, bank, or other custodian prior to opening an account with Aperio Group. Some of these differences include, but are not limited to, total account costs, trading freedom, commission rates, and security and technology services.

### **Fidelity Custodian Arrangement**

Aperio has an arrangement with Fidelity through which Fidelity provides Aperio with Fidelity's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping, and related services that are intended to support intermediaries like Aperio in conducting business and in serving the best interests of their clients but that also benefit Aperio. Aperio is not affiliated with Fidelity.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., commissions are charged for individual equity and debt securities transactions).



Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers. As part of the arrangement between Fidelity and Aperio, Fidelity also makes available to Aperio, at no additional charge to us, certain brokerage services, which are used by Aperio in the management of accounts for which Aperio has investment discretion.

Aperio also receives additional services, which include services that do not directly benefit Aperio clients. As a result of receiving these services for no additional cost, Aperio has an incentive to continue to use or expand the use of Fidelity's services, which creates a conflict of interest. Aperio examined this conflict when it chose to enter into the relationship with Fidelity and has determined that the relationship is in the best interests of clients. As part of the custodian arrangement, a client may pay a commission/transaction fee that is higher than another qualified broker-dealer might charge to effect the same transaction where Aperio determines in good faith that the commission/transaction fee is reasonable in relation to the value of the brokerage services received.

### **Best Execution**

For a client using a traditional bank or trust company custodian but without the trade execution, broker-dealer selection is at the discretion of Aperio Group and will be based on, among other things, low transaction costs, the quality of executions, and electronic order and trade settlement capabilities. While Aperio is under common ownership with certain entities, which include one or more broker-dealers (the "Broker-Dealer Affiliates"), Aperio does not have any business dealings with the Broker-Dealer Affiliates in connection with any of the advisory services we provide to our clients, we do not share operations with any of the Broker-Dealer Affiliates, we do not refer clients or business to the Broker-Dealer Affiliates and the Broker-Dealer Affiliates do not provide business or clients to us, we do not share supervised persons or premises with the Broker-Dealer Affiliates, and have no reason to believe that our relationship with the Broker-Dealer Affiliates otherwise creates a conflict of interest with our clients. We do not consider the promotion or sale of investment products affiliated with or managed by Aperio or our affiliates when selecting brokers to execute client transactions.

As a fiduciary, Aperio has an obligation to use its best efforts to seek to obtain the best qualitative available price and most favorable execution given the circumstances, with respect to all portfolio transactions placed by Aperio on behalf of its clients. Thus, Aperio carefully monitors and evaluates transaction costs and the quality of execution across all strategies and client portfolios. This process is commonly referred to as seeking "best execution." Aperio conducts its best execution analysis on a regular basis through its Best Execution Committee, whose members are its Head of Portfolio Trading, Director of Portfolio Management, the Chief Compliance Officer, and the Chief Investment Officer.

In analyzing best overall execution, the Best Execution Committee considers various factors, including but not limited to: specific market and trading impact, number of shares being traded relative to market volume, execution price, trading costs, and other material inputs.

Other specific factors considered in the best execution analysis include: the nature of the portfolio transaction; the size of the transaction; the execution, clearing, and settlement capabilities of the broker-dealer; the broker-dealer's experience and ability to place difficult trades; access to markets; the reputation, financial strength, and stability of the broker-dealer; availability of alternative trading platforms; the desired timing of the transaction; and the importance placed on confidentiality. Aperio always seeks to effect transactions at the price and commission that provide the most favorable total overall cost or proceeds reasonably attainable given the circumstances.

Unless otherwise agreed to, Aperio has discretion to place buy and sell orders with or through such brokers or dealers as it deems appropriate. Our general policy is to place clients' trades with their broker custodian (e.g., Fidelity, Schwab, etc.) as we believe, based on our reviews, the broker custodian is providing the best overall deal for the client and it remains competitive in relation to executions and the cost of each transaction. We also continually monitor the broker custodian performance in the Best Execution Committee review, as discussed above.

For transactions for our registered investment company (mutual fund) clients, Aperio places trades with brokers that we believe can provide best execution, and in accordance with each mutual fund's written policies and procedures regarding brokerage selection and soft dollars.

Although Aperio seeks to obtain best execution for clients' securities transactions, we are not required to solicit competitive bids and we are not obligated to seek the lowest available commission cost. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, as stated above. Consistent with the foregoing, Aperio may not necessarily obtain the lowest possible commission rates for client transactions.

Aperio's Trade Oversight Committee performs periodic evaluations of our trading practices and utilized brokers/custodians in an ongoing effort to help ensure that Aperio is fulfilling its best execution obligation.

### **Directed Brokerage**

A client may instruct Aperio Group to execute some or all securities transactions for its account with or through one or more brokers designated by the client.

In such cases, the client is generally responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by such broker and his or her own satisfaction with such terms and conditions. Aperio Group will, if requested by the client, attempt to negotiate the terms and conditions relating to the services provided by the broker.

Under these arrangements, we do not assume any responsibility for obtaining the best prices or any particular commission rates for transactions with or through any such broker for such client's account. The client must recognize that it may not obtain commission rates as low as it might



otherwise obtain if we had discretion to select brokers other than those chosen by the client and, as a result, may not receive best execution on transactions due to the client's direction.

Clients should also be aware that conflicts may arise between a client's interest in receiving best execution with respect to transactions effected for the client's account and our interest in potentially receiving future client referrals from the broker. To mitigate these conflicts, Aperio's Trade Oversight Committee, in accordance with Aperio's fiduciary duty, performs periodic reviews of client trade execution and brokerage services provided to help ensure clients are receiving the best overall execution on their transactions.

### **Order Aggregation**

Although each client account is individually managed, Aperio often purchases and/or sells the same securities for several accounts at the same time. Aperio aggregates contemporaneous transactions in the same securities for clients. Aperio aggregates trades at regular intervals throughout the day and considers all trades in a particular interval to be contemporaneous. When it does so, participating accounts are allocated the resulting securities or proceeds (and related transaction expenses) on an average price basis. Aperio believes combining orders in this way is, over time, advantageous to all participating clients.

However, the average price resulting from any particular aggregated transaction could be less advantageous to a particular client than if the client had been the only account effecting the transaction or had completed its transactions in the security before the other participants.

Despite the advantages that can arise from aggregation of orders, in many cases, Aperio is not able to aggregate orders for all clients seeking to buy or sell the same security. This is often due to the fact that orders for directed brokerage clients generally must be or should be executed by the applicable program sponsor (or its affiliated or designated brokers). Aperio is unable to aggregate transactions executed through different program sponsors and/or through different brokerage firms that Aperio selects for non-directed brokerage clients on the basis of execution quality. In addition, one or more clients may direct Aperio to use a particular broker-dealer for some or all of that client's transactions, preventing Aperio from aggregating that client's transactions with transactions executed with other broker-dealers. Clients whose transactions are filled before or after other clients' transactions may receive less favorable prices.

Where Aperio cannot aggregate all trades, it will typically follow a random rotation sequence of order placement for all executing brokers.

## **ITEM 13: REVIEW OF ACCOUNTS**

Aperio Group monitors client accounts on a daily basis for cash reinvestment and tax loss-harvesting opportunities. Accounts are rebalanced at least once per quarter to take advantage of tax-loss harvesting opportunities, reduce forecast tracking error, and maintain consistency with the investment strategy and other client constraints. On a monthly basis, Aperio's performance reporting team monitors each account to determine if any account's active returns exhibit statistically significant deviations from expectations based on forecast

tracking error. On a quarterly basis, the Chief Investment Officer, Director of Portfolio Management, and Manager of Portfolio Research review the performance of all of Aperio's investment strategies and any accounts whose performance shows statistically significant deviations from expectations.

In addition to Aperio's periodic account reviews, client accounts are also reviewed when there are any changes to client investment strategy, constraints, or circumstances.

Aperio Group prepares and provides to each investment management client written monthly performance summary reports. Included in the performance summary reports are specific period returns for each portfolio compared to its relevant benchmark (both pre- and after-tax, if applicable), summary portfolio characteristics, portfolio sector weightings and country/region weightings (if applicable) versus the benchmark, as well as summary tax information for taxable accounts. The custodian also delivers monthly or quarterly reports to clients showing current investment positions and account activity during the previous period.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Prior to December 31, 2006, Aperio Group received client referrals from Charles Schwab & Co., Inc. ("Schwab") through Aperio Group's participation in Schwab Advisor Network (the "Service"). Aperio Group no longer receives new referrals through the Service, and has fewer than five accounts as of the date of this Brochure that are still subject to this arrangement. It should be noted that with respect to these accounts, Aperio pays Schwab a Participation Fee, all of which were for client referrals received through the Service prior to December 31, 2006.

#### **ITEM 15: CUSTODY**

Aperio Group does not maintain custody of client assets except that pursuant to Rule 206(4)-2 of the Advisers Act, Aperio Group is deemed to have custody of client funds solely because the Company has the authority and ability to debit its fees directly from clients' accounts. To mitigate any potential conflicts of interests, all of Aperio's client account assets are maintained with an independent qualified custodian.

Notably, in most cases, a client's broker-dealer also may act as the custodian of the client's assets for little or no extra cost. Clients should be aware, however, of the differences between having their assets held with a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting, and technology.

Aperio Group will implement Aperio's investment management recommendations only after the client has arranged for and furnished Aperio with all information and authorizations regarding its accounts held at the designated qualified custodian.

Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements

and compare them to the statements provided by Aperio Group. Aperio statements can vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please refer to Item 12 for additional important disclosure information relating to our brokerage practices and relationships with custodians.

## **ITEM 16: INVESTMENT DISCRETION**

Investment management clients whose portfolios are managed directly by Aperio Group execute and enter into individual Investment Advisory Agreements with Aperio Group. These agreements specifically grant Aperio the authority to manage their portfolios on a discretionary basis and according to agreed-upon guidelines, to buy and sell securities, invest cash, implement client instructions, deduct fees, and perform other actions consistent with managing the portfolios.

With respect to those client accounts managed by Aperio Group through an arrangement with intermediaries, such as registered investment advisers (“RIAs”) that are considered Aperio’s clients, such RIAs enter into a Master Sub-Advisory Agreement with Aperio. The advisory relationship between the RIA and the RIA’s client is governed by a separate advisory Wrap Program agreement or other agreement between the RIA and the RIA’s client. The intermediary, through its authority to select an investment manager under its advisory agreement with its end client, delegates discretionary authority to Aperio Group to manage the portfolio according to agreed-upon guidelines, to buy and sell securities, invest cash, implement client instructions, deduct fees, and perform other actions consistent with managing the portfolio. In certain situations, the RIA’s client also executes an agreement directly with Aperio to govern the specific management of the client’s investment portfolio by Aperio, and such arrangements are referred to as “dual contract” arrangements. Wrap Program agreements are also discussed in Item 4 of this Brochure. Aperio also sub-advises UMA accounts wherein Aperio has shared investment discretion with the UMA Sponsor. The details of the UMA Program are discussed further in Item 4.

## **ITEM 17: VOTING CLIENT SECURITIES**

### **Proxy Voting Policy**

Aperio Group’s policy is to vote proxies for clients, unless directed otherwise by the client in writing. Aperio Group uses third-party services to vote proxies consistent with what the Company determines is in the best interests of Aperio Group’s clients. Aperio Group offers two proxy voting policies: Standard and SRI.

The Standard policy will generally cast proxy votes in favor of proposals that increase shareholder value and will generally cast proxy votes against proposals having the opposite effect. Aperio favors transparency of information and, therefore, the Standard proxy voting policy typically favors resolutions that increase transparency of information. However, this preference is not an absolute. In cases of high cost, proprietary information, or requests for specific policy change, Aperio’s Standard proxy voting policy is inclined to oppose resolutions even when framed as requests for reports, disclosure, or transparency. Aperio’s Standard policy will also vote against

management when certain criteria is not met related to gender diversity on the Board of Directors and the compensation of named executive officers.

Aperio's SRI Proxy Voting policy applies criteria provided by a third-party service provider - Institutional Shareholder Services (ISS) - and can differ from votes cast for other clients' portfolios managed by Aperio Group. On matters of social and environmental import, the guidelines seek to reflect a broad consensus of the socially responsible investing community. On matters of corporate governance, executive compensation, and corporate structure, ISS Social Advisory Services' SRI guidelines are based on a commitment to create and preserve economic value and to advance principles of good corporate governance consistent with responsibilities to society as a whole.

In exceptional cases where a client requests that we vote in a specific way on a particular company issue, Aperio Group will make a best effort to work with the client to set up client specific voting programs.

Aperio Group may choose not to vote proxies in certain situations or for certain accounts, such as: (1) where a client has informed Aperio Group that it wishes to retain the right to vote the proxy, in which case, Aperio Group will instruct the custodian to send the proxy material directly to the client; (2) where Aperio Group deems the cost of voting would exceed any anticipated benefit to the client; (3) where a proxy is received for a client account that has been terminated with Aperio Group; (4) where a proxy is received for a security Aperio Group no longer manages (i.e., the entire position was previously sold); or (5) when voting a proxy would restrict the ability to trade the shares.

Aperio's Proxy Voting Committee monitors for and seeks to resolve potential material conflicts ("Material Conflicts") in the course of proxy voting. Specifically, the Committee seeks to identify potential Material Conflicts including, but not limited to, those presented by (a) public company status of Aperio clients, intermediaries, custodians, and/or key service providers; and (b) other existing and/or potential relationships between Aperio (and/or Aperio employees) and publicly traded companies. In addition, Aperio makes available to its investment advisory clients a service facilitating the submission of shareholder proposals through a third-party representative. It is generally expected that such proposals will be voted consistent with the principles set forth in Aperio's proxy voting policies, including these conflict of interest provisions. Aperio's policy is to vote proxies presenting potential Material Conflicts as it would vote any other proxy, in a manner consistent with its proxy voting policies and the proposal-specific criteria set forth in those policies. The Committee will regularly review all voting of proxies identified as presenting potential Material Conflicts at its regularly scheduled meetings to seek to ensure adherence to this standard.

A client can request a complete copy of our current Proxy Voting policies and procedures and voting guidelines, or information on how we have voted proxies by policy, by contacting Aperio Group by phone at (415) 339-4300 or by email to [operations@aperiogroup.com](mailto:operations@aperiogroup.com).

### **No Authority to Vote Proxies**

As noted above, certain clients may elect to vote their own proxies. In these instances, the client handles all aspects associated with proxy voting directly and independent of Aperio.

## **ITEM 18: FINANCIAL INFORMATION**

Aperio Group does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore is not required to provide a balance sheet.

There is no financial condition that impairs our ability to meet contractual commitments to clients.