

# Vestmark Advisory Solutions, Inc.

100 Quannapowitt Pkwy, Suite 205  
Wakefield, MA 01880

<https://www.vestmark.com/>

March 31, 2023

**This brochure provides information about the qualifications and business practices of Vestmark Advisory Solutions, Inc. (“VAS,” “Firm” or “the Adviser”). If you have any questions about the contents of this brochure, please contact us at 888-355-0477.**

**The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration as a registered investment advisor does not imply a certain level of skill or training.**

**Additional information about Vestmark Advisory Solutions, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2   Material Changes**

The following items noted are the material changes to the Firm's Brochure since the last annual amendment that was filed on March 31, 2022:

Item 4: The section was updated to reflect that Adhesion Wealth Advisor Solutions, Inc. is no longer an affiliate under common control with VAS. Vestmark, Inc., the parent company of VAS, sold Adhesion Wealth Advisor Solutions, Inc. on December 14, 2022. VAS's principal place of business was also changed from Jersey City, NJ to Wakefield, MA.

Item 17: The section was updated to reflect that Vestmark votes proxies where such authority is delegated, and to describe the related policies and procedures.

### Item 3 Table of Contents

Item 1	Cover Page .....	1
Item 2	Material Changes .....	2
Item 3	Table of Contents .....	3
Item 4	Advisory Business .....	4
Item 5	Fees and Compensation .....	7
Item 6	Performance-Based Fees and Side-by-Side Management .....	8
Item 7	Types of Clients .....	8
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9	Disciplinary Information.....	17
Item 10	Other Financial Industry Activities and Affiliations .....	17
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	17
Item 12	Brokerage Practices .....	18
Item 13	Review of Accounts.....	19
Item 14	Client Referrals and Other Compensation .....	19
Item 15	Custody .....	19
Item 16	Investment Discretion .....	19
Item 17	Voting Client Securities.....	20
Item 18	Financial Information.....	20

#### **Item 4 Advisory Business**

Vestmark Advisory Solutions, Inc. (“VAS” or the “Adviser”) is a corporation organized under the laws of Delaware in October 2014. VAS is registered as an investment advisor with the U.S. Securities & Exchange Commission (“SEC”) since September 2018. VAS is wholly owned by Vestmark, Inc. and has its principal office in Wakefield, Massachusetts.

VAS provides fee-only investment sub-advisory services on either a discretionary basis (i.e., Overlay Management, Direct Indexing) or non-discretionary basis (i.e., Manager Model Delivery, Separate Account Management), as described below, to businesses that sponsor their own investment management programs (“Sponsors”). VAS primarily serves clients who are classified as institutional clients inclusive of financial institutions, broker-dealers, registered investment advisors and others who manage investors’ accounts or portfolios. In these cases, VAS provides its services either directly to Sponsors or as a sub-advisor to Sponsors for their customers (“Customers”). In some cases, VAS enters into dual-contract arrangements with Sponsors and their individual investors where the individuals are considered to be “retail clients” of both the Sponsor and VAS.

VAS typically contracts with an array of third-party asset managers (“Managers”) and offers Sponsors access to those Managers’ proprietary discretionary and non-discretionary investment strategies and advisory services to Customers in three ways:

1. Manager Models Delivery: VAS obtains recommendations for the purchase or sale of securities from the Manager (the “Manager Models” and formerly “Manager Signals”) and supplies those Manager Models to the Sponsor upon request. Sponsor makes the ongoing decision to invest the Customer’s assets based entirely or in part on the Manager Models.
2. Separate Account Management: Sponsor communicates to VAS the decision to select an investment strategy of a particular Manager for a Customer’s account. VAS facilitates the selected investment strategy by arranging for the selected Manager to purchase and sell securities within the Customer’s account pursuant to Manager’s contract with VAS (“Separate Account Management”). VAS does not verify any information received from Sponsor regarding the selection of a particular investment strategy and VAS is expressly authorized by Sponsor to act based on Sponsor’s instructions.
3. Overlay Management: Sponsor selects one or more strategies of participating Managers and specifies the percentage weight for each strategy to be implemented within a Customer’s portfolio. VAS provides overlay management services, which includes discretionary or non-discretionary implementation of trades to maintain with reasonable precision both (a) the Sponsor-specified allocation percentages among strategies and (b) the Manager-specified holdings within each strategy. VAS also offers the following enhancements within its Overlay Management services:

- **Direct Indexing:** Sponsor communicates to VAS the decision to select a particular index exposure (or combination of index exposures) for inclusion in a Customer's account. The index may be customizable and regularly tax-managed, or it may be a prepackaged index, or it may be a combination of both. VAS implements (with full discretion) the selected index exposure(s) by arranging to purchase and sell securities within the Customer's account in accordance with any Customer-specified restrictions and preferences. VAS does not verify any information received from Sponsor regarding the selection of a particular investment strategy and VAS is expressly authorized by Sponsor to act based on Sponsor's instructions. Where it has dual-contract arrangements, VAS would have a limited role in verifying the suitability of client strategies.
- **Tax-Aware Transition Services:** To aid in the recruitment and onboarding of established financial advisors, Sponsor selects one or more target strategies of participating Managers into which Customer accounts can be transferred. VAS recommends tax-optimal transitions of legacy security positions into target models and provides overlay management services. This service includes discretionary implementation of trades to maintain with reasonable precision and tax efficiency of both (a) the Sponsor-specified allocation percentages among strategies, and (b) the Manager-specified holdings within each strategy.

In addition, VAS may offer Sponsors complementary technology services ("Tech Services") and business process outsourcing services ("BPO") through arrangements VAS has with affiliated companies. The Tech Services consist of the various account and practice management tools that make up the wealth management solution called the VestmarkONE platform, offered by VAS's parent company, Vestmark, Inc. BPO consists of a range of middle-office and back-office capabilities, to assist clients in managing their internal operations. BPO may include hands-on operation of the Tech Services to the extent a client desires a more comprehensive solution. BPO is offered by Vestmark Outsourcing Solutions, Inc., whose parent company is also Vestmark, Inc. Clients who purchase Tech Services or BPO will be billed separately at the rates indicated below in Item 5.

Where VAS provides Manager Model Delivery, it obtains recommendations for the purchase or sale of securities from the Manager (the "Manager Models") and supplies those Manager Models to the Sponsor upon request. Sponsor makes the ongoing decision to invest the Customer's assets based entirely or in part on the Manager Models. The Customer may impose restrictions on investing in certain securities or types of securities. Sponsor is responsible for ascertaining such restrictions from the Customer and ensuring that accounts are managed in accordance with such restrictions. VAS provides the Manager Model Delivery service but does not count underlying assets as either discretionary or non-discretionary as this service does not encompass the mandatory requirements to allow such assets to be classified as RAUM.

Where VAS provides Separate Account Management, Sponsor determines which third-party Managers' investment strategies to employ within the Customer's account, and discretion is accordingly delegated to the selected Managers so that they can buy and sell securities within that account to implement the strategy or strategies selected by the Sponsor. Once such a discretionary arrangement is established for a given account, it shall continue until terminated or modified by the Sponsor or Customer. Where VAS provides Separate Account Management, VAS delegates to the selected Manager or Managers compliance with trade restrictions communicated by the Sponsor. VAS provides Separate Account Management on a non-discretionary basis.

Where VAS provides Overlay Management, Sponsor determines which third-party Managers' investment strategies to employ within the Customer's account, and discretion is accordingly delegated to VAS so that VAS can buy and sell securities within that account to implement the strategy or strategies selected by the Sponsor and to maintain the Sponsor-specified allocation among strategies selected by the Sponsor. Where VAS provides Overlay Management, VAS assumes responsibility for compliance with trade restrictions communicated by the Sponsor. VAS provides Overlay Management on a discretionary basis. Once such a discretionary arrangement is established for a given account, it shall continue until terminated or modified by the Sponsor.

Where VAS provides Direct Indexing services, Sponsor determines which index exposure(s) to employ within the Customer's account, and discretion is accordingly delegated to VAS (as overlay manager) so that VAS can buy and sell securities within that account to implement the index exposure(s) selected by the Sponsor. Once such a discretionary arrangement is established for a given Customer account, it shall continue until terminated or modified by the Sponsor or the Customer. Where VAS provides discretionary Direct Indexing Overlay Management services, VAS will comply with trade restrictions communicated by the Sponsor on a best-efforts basis.

Where VAS provides Tax-Aware Transition services, Sponsor determines which target strategies to employ within the incoming Customer's account, and discretion is accordingly delegated to VAS (as overly manager) so that VAS can buy and sell securities within that account to transition inbound assets into the target strategies selected by the Sponsor. Once such a discretionary arrangement is established for a given Customer account, it shall continue until terminated or modified by the Sponsor or the Customer. Where VAS provides Overly Management, VAS will comply with trade restrictions communicated by the Sponsor where VAS has determined such restrictions can be accommodated.

While VAS is not a tax or legal advisor and does not provide tax advice or legal advice, VAS will make its best efforts to conduct trading in the most tax-efficient way possible for each Customer account. This includes using portfolio optimization techniques to harvest tax losses within Customer accounts and minimize the tax consequences of portfolio trades.

VAS maintains and makes available to Sponsors a list of approved Managers and strategies. Approved Managers and their strategies are subjected to a program of limited

operational due diligence and ongoing monitoring, which VAS makes available to Sponsors through an online portal interface.

When exceptions to VAS's due diligence requirements are noted, VAS either: (a) discloses such exceptions to Sponsors, or (b) elects to exclude the Manager or strategy from the list of available Managers and strategies. This due diligence and monitoring program is limited in scope and is not designed to assess or predict investment performance or verify regulatory compliance by Managers.

In most cases, the Sponsor, and not VAS, is responsible for the following:

1. Understanding, in connection to the Sponsor Customers, Customers' investment objectives and restrictions with respect to specific securities;
2. Determining the suitability of any investment for the Sponsor Customer;
3. Performing appropriate anti-money laundering and know-your-client procedures;
4. Communicating and meeting with the Sponsor Customer with a frequency that satisfies the Sponsor's fiduciary duties;
5. Designating a custodian and/or broker dealer for the Sponsor Customer and ensuring compliance with applicable rules and industry practices regarding best execution of trades.
6. Delivering Brochures of participating Managers to the Sponsor Customers.

VAS does, in limited circumstances, consider restrictions with respect to specific securities for individual accounts where it is contractually obligated to do so pursuant to its Investment Management Agreement with a given Sponsor.

In exchange for VAS's services, each Sponsor pays to VAS a portion of the investment advisory fee received from Sponsor Customers for allocated assets.

As of December 31, 2022, VAS had \$ 3,492,429,365 total regulatory assets under management ("RAUM"), including \$3,222,240,609 in discretionary client assets under management and \$270,188,756 in non-discretionary assets under management. These RAUM amounts include Separate Account Management for non-discretionary assets and Overlay Management for discretionary assets; however, it does not include assets managed in connection to Manager Model Delivery services as these particular advisory services do not meet the requirements to count as part of a registered investment adviser's RAUM.

## **Item 5 Fees and Compensation**

VAS typically calculates fees and invoices Sponsors quarterly in arrears but does permit Sponsors to have fees and invoices calculated in advance on a quarterly basis. As a

general standard, fees are based on either the average daily balance or the quarter-end balance of each account, as negotiated as follows:

Manager Model Delivery:	between 0 bps and 15 bps
Separate Account Management:	between 0 bps and 30 bps
Overlay Management:	between 4 bps and 20 bps
Direct Indexing:	between 0 bps and 30 bps
Manager Fees:	between 10 bps and 100 bps
Tech Services and BPO:	between 0 bps and 50 bps

Each invoice includes: (i) VAS's fees for Manager Model Delivery, Separate Account Management, Overlay Management, and/or Direct Indexing; (ii) Manager fees for the strategies selected by Sponsor for its Customer accounts; and (iii) fees for any Tech Services and/or BPO purchased by Sponsor. Manager fees will vary depending on the Managers and strategies selected.

If more than one Manager is deployed within a single account, VAS allocates the invoiced Manager fees among the selected Managers based on the average daily percentage of the account assigned to each Manager's strategy.

Each Sponsor is responsible for deducting from or billing its own Customers as appropriate. The fees set forth above are in addition to advisory, brokerage, custody and other transaction costs that may be charged by Sponsor or other entities unrelated to VAS. See Item 12, Brokerage Practices, for additional information on brokerage costs.

Some Managers may reduce the fees they charge for their services as part of the Managers' business relationship with VAS, based on asset volume or other factors. VAS may in its discretion pass such discounts on to Sponsors or not, on a case-by-case basis.

VAS may charge Sponsors different fee levels for similar services based on objective and subjective factors, including asset levels, engagement complexity, levels of service provided, and the overall business relationship. The services provided by VAS may be available from other advisors at lower fees.

#### **Item 6 Performance-Based Fees and Side-by-Side Management**

Neither VAS nor any of its supervised persons accepts performance-based fees. Certain Managers may charge performance-based fees, but no such fees will be accepted by or shared with VAS.

#### **Item 7 Types of Clients**

As noted above in Item 4, VAS serves Customers who are classified as institutional



clients (inclusive of financial institutions, broker-dealers, registered investment advisors and others who manage their own investors' accounts or portfolios). Where dual-contract agreements are in place, VAS will also serve Customers who are classified as retail clients. VAS provides its services either directly to Sponsors or as a sub-advisor to Sponsors for their Customers. VAS does not offer financial planning, investment advisory, tax planning or other services directly to Customers other than those described herein, unless a dual-contract agreement is in place.

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

Investing in securities involves risk of loss that investors should be prepared to bear. Different investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and investment strategies recommended or undertaken by VAS) will be profitable or will achieve any specific performance levels.

As described in Item 4, VAS performs certain functions designed to provide limited monitoring and approval of Managers with whom VAS enters into contracts for the services it offers to Sponsors. The monitoring functions performed by VAS are not designed to assess or predict investment performance by a Manager. Each Manager adheres to its own protocol for analysis and risk measurement.

The limited monitoring of Managers performed by VAS is designed to complement, not replace, thorough due diligence and analysis by each Sponsor. The decision to allocate Customer assets to a Manager's strategy is made by Sponsor based primarily on Sponsor's analysis and risk assessment.

In addition to managing its own Direct Index strategies, VAS makes available strategies of Managers who purchase and sell securities or recommend the purchase and sale of securities. Each Manager determines in which markets to invest and which securities to trade within a strategy. Accordingly, each strategy carries unique risks which are listed below.

#### **Market Risk**

The profitability of a significant portion of our recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that our will be able to predict those price movements accurately.

#### **Volatility Risk**

The prices and values of investments can be highly volatile, and are influenced by, among other things, interest rates, general economic conditions, the condition of the financial markets, the financial condition of the issuers of such assets, changing supply and demand relationships, and programs and policies of governments.

#### **Cash Management Risk**

VAS may invest some of a client's assets temporarily in money market funds or other similar types of investments, during which time an advisory account may be prevented from achieving its investment objective.

#### Mutual Funds and ETFs Risk

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and potentially more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

#### Equity Risk

The prices of equity securities rise and fall daily. These price movements may result from factors affecting individual companies, industries or the securities market as a whole. 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. In addition, markets tend to move in cycles, which may cause stock prices to fall over short or extended periods of time.

#### Fixed Income Risk

In general, the bond market is volatile, and fixed income securities carry interest rate risk. As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities. Fixed income securities also carry inflation risk,

liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. Leverage can increase market exposure and magnify investment risk.

#### Market Capitalization

Securities issued by companies of different market capitalizations tend to go in and out of favor based on market and economic conditions. In addition, there may be less trading volume in securities issued by mid- and small-cap companies than those issued by larger companies and, as a result, trading volatility may have a greater impact on the value of securities of mid- and small-cap companies. Smaller companies generally face higher risks due to their limited product lines, markets and financial resources. Securities issued by large-cap companies, on the other hand, may not be able to attain the high growth rates of some mid- and small-cap companies. During a period when securities of a particular market capitalization fall behind other types of investments an account's performance could be impacted.

#### Focused Portfolio Risk

Portfolios that hold a smaller number of securities may be more volatile than more diversified portfolios, since gains or losses from each security will have a greater impact on the portfolio's overall value. Due to their concentrated nature, focused portfolios may also miss opportunities for returns from other non-model securities. Additionally, investors with pre-existing concentrations in particular securities may be exposed to concentration risk for which VAS cannot be held responsible.

#### Portfolio Turnover Risk

Portfolio turnover refers to the rate at which investments are replaced. The higher the rate, the higher the transactional and brokerage costs associated with the turnover which may reduce the return, unless the securities traded can be bought and sold without corresponding commission costs. Active trading of securities may also increase your realized capital gains or losses, which may affect the taxes you pay.

#### Index-Related Risks

There is no assurance that investment products based upon indices designated by financial advisors will accurately track index performance or provide positive investment returns. Inclusion of a security within an index is not a recommendation by VAS to buy, sell, or hold such security, nor is it considered to be investment advice. The past performance of a designated index is not a guide to future performance. VAS and its affiliates do not guarantee the accuracy or the completeness of the designated index or any data included therein and VAS and its affiliates have no liability for any errors, omissions or interruptions therein. VAS and its affiliates make no warranty, express or implied, to any person or entity as to results to be obtained from the use of the designated index or any data included therein.

Index providers do not provide any warranty as to the timeliness, accuracy or completeness of any data relating to any index utilized by VAS. Errors relating to the index, including index data, computations and/or construction, may occur from time to time and may not be identified by the index provider for a period of time or at all. Losses resulting from index errors may be borne by investor accounts. In addition, market disruptions could cause delays in an index's rebalancing schedule that may result in the index and, in turn, an account experiencing returns different than those that would have been achieved under a normal rebalancing schedule. VAS permits personalization of portfolios in accounts, including the option for an investor to designate portfolio restrictions like Do Not Buy and Do Not Sell. These requests may cause an account's holdings and performance to deviate from that of a designated index.

#### Tracking Error Risk

Certain portfolios seek to track the performance of the designated model(s) or benchmark(s) by attempting to mimic the characteristics of the designated model(s) or benchmark(s), such as the designated model(s)'s or benchmark(s)'s exposure and risk characteristics, although they may not be successful in doing so. The divergence between the performance of an investor's account and the designated model(s) or benchmark(s), positive or negative, is called "tracking error." Historical tracking error is a measure of the standard deviation of the annualized monthly excess return (which itself may be positive or negative) of the portfolio relative to its underlying model(s) or benchmark(s). Tracking error, therefore, indicates the range within which portfolio returns have deviated from benchmark returns roughly 68% of the time (one standard deviation). Expected tracking error, conversely, is a forward-looking estimate of the range within which the proposed portfolio is expected to deviate from its model or benchmark roughly 68% of the time (one standard deviation).

Tracking error can be caused by many factors, such as restrictions imposed by a client or financial advisor on the types of securities held in the account: available loss harvesting opportunities, regulatory, operational, custodial or liquidity constraints; corporate transactions; asset valuations; transaction costs and timing; tax considerations; and model(s) or benchmark(s) rebalancing. In addition, cash flows into and out of an account, expenses and trading costs all affect the ability of an account to track the performance of the model(s) or benchmark(s), because the model(s) or benchmark(s) does not have to manage cash flows and does not incur any costs.

#### Optimization Tools Risks

There are limitations inherent in the use of an optimization methodology to manage accounts relative to a designated index; for instance, the optimization tools are not designed to account for current market conditions and any short-term market fluctuations. The optimization tools may seek to estimate individual tax circumstances but cannot incorporate all individual tax information, potentially leading to inaccuracies. Its functions consist of identifying opportunities for tax-loss harvesting and rebalancing relative to an investor's designated index, and initiating buy/sell orders accordingly. There is also a risk that the optimization tools and related software used for accounts may not perform within intended parameters, which may result in a portfolio that does not

mimic the characteristics of the designated index, and trigger at inappropriate or suboptimal times or fail to initiate at appropriate or optimal times, rebalancing and/or tax-loss harvesting trading.

#### Outside Management Risks

Portfolios sub-advised by VAS may include investment strategies managed by outside managers. VAS has no due diligence, selection, or supervisory responsibility with respect to such outside managers. VAS makes no representations or guarantees as to the suitability of any investment in any illustration, nor to the management skill or continuity of outside managers. The responsibility for evaluating outside managers and the suitability of their strategies is the responsibility of an investor's financial advisor or financial intermediary, and not of VAS.

#### Liquidity Risks

Liquidity risk exists when particular investments may become difficult to purchase, sell or value, especially during stressed market conditions. The market for certain investments may become illiquid due to specific adverse changes in the conditions of a particular issuer or under adverse market or economic conditions independent of the issuer. In such cases, an account with limitations on investments in illiquid securities and the difficulty in readily purchasing and selling such securities at favorable times or prices, may decline in value, experience lower returns and/or be unable to achieve its desired level of exposure to a certain issuer or sector. Further, transactions in illiquid securities may entail transaction costs that are higher than those for transactions in liquid securities. Liquidity risk also includes the risk that market conditions or large redemptions may impact the ability of an account to meet redemption requests. In order to meet such redemption requests, an account may be forced to sell securities at inopportune times or prices.

#### Frequent Trading Risk

Recommendations may result in frequent trading by accounts. To the extent VAS engages in frequent trading, portfolio turnover rate and transaction costs will rise, which may lower performance and may have tax consequences.

#### Counterparty Risks

There may be a risk of an executing broker failing to deliver securities, especially if there is a large volume of step-out transactions with broker-dealers other than the program sponsor or investor-selected broker-dealer/custodian. This may result in a loss to the investor.

#### Tax Risks

VAS is not a tax advisor, and its strategies are not designed to address client-specific tax objectives. VAS considers the potential federal and state capital gains tax consequences to individuals of holding, buying and selling securities within the strategies VAS sub-advises. VAS does not consider other taxes, including (but not limited to) alternative minimum tax, foreign taxes (including those applied to dividends and potential reclaim), tax rules that apply to entities, estate taxes, gift taxes, or generation-skipping taxes.

Federal and state laws are complex and subject to change, and any such changes may have a material impact on pretax and/or after-tax investment results. Investors should seek professional tax advice.

VAS relies on information provided by financial advisors and their investor clients in an effort to provide tax optimization services, and does not offer tax advice. Investors are responsible for all tax liabilities arising from transactions in their accounts, for the adequacy and accuracy of any positions taken on tax returns, for the actual filing of tax returns, and for the remittance of tax payments to taxing authorities.

While VAS seeks to avoid “wash sales” in its Direct Index accounts, there is the risk that the investment management activity in an investor's account before or after a tax-loss sale may result in additional realized gains that partially or completely offset the tax benefit realized from the tax-loss sale.

VAS can implement trades in accounts that may trigger significant tax consequences as it seeks to manage accounts consistently with strategy investment objectives, including, if required, to sell securities used to fund an investor's account. Therefore, assets in accounts may be sold for a taxable gain or loss at any time. While VAS makes a good-faith effort to make tax-optimal investment recommendations for investors, VAS cannot guarantee the effectiveness of its tax-efficient optimization methodologies in serving to reduce or minimize an investor's overall tax liability. Additionally, while VAS will monitor for wash sales within an account, VAS does not prevent wash sales in all cases, and as a result, wash sales may occur from trading in multiple accounts held by an investor, including multiple accounts held by the same investor. Furthermore, VAS cannot prevent wash sales that may occur due to investor or financial advisor requests that impact trading in a particular account, including trades that may occur within 31 days preceding or following account inception. While VAS attempts to apply the investor's anticipated federal and state tax rates based on information provided by the financial advisor, an investor's actual tax rates may differ from those used by VAS. There is a material risk that investors' actual tax rates, the presence of current or future capital loss carryforwards, and other investor tax circumstances may materially and negatively affect the investor's actual returns.

#### Tax Loss Harvesting Risks

There are several investment-related risks associated with tax loss harvesting. There is potential that the tax loss harvesting may: (i) negatively affect the overall performance of an investor's portfolio; and (ii) result in a temporary overweight and/or underweight of certain sectors, securities, and/or cash in an investor's portfolio that influences performance, and VAS will not consider any other account that the investor may have. Tax-loss harvesting involves the risks that the new investment could perform worse than the original investment and that transaction costs could offset the tax benefit. VAS may repurchase securities after the end of the tax loss “wash sale” period at a price higher than that for which they were sold. Securities sold for the purpose of tax loss may or may not be repurchased by VAS following the 30-day wash sale period. VAS cannot prevent

wash sales that may occur in other accounts besides the account to which the tax loss harvesting was applied. Furthermore, VAS cannot prevent wash sales that may occur due to investor or financial advisor requests that impact trading in the account.

## ESG Risk

Portfolios that utilize an index that considers certain environmental, social and governance (“ESG”) metrics may perform differently than strategies that do not screen for ESG attributes. The strategy’s use of an index that incorporates ESG considerations in the index construction process may exclude securities of certain issuers for non-investment reasons and therefore the strategy may forgo some market opportunities available to strategies that do not screen for ESG attributes. Additionally, the criteria used to select companies for inclusion in the index that the strategy utilizes may result in exposure to certain sectors and/or types of investments that may adversely impact the strategy’s performance depending on whether such sectors or investments are in or out of favor in the market. In addition, there is a risk that the companies identified for inclusion in the index do not operate as expected when addressing ESG issues.

ESG is not a uniformly defined characteristic and applying ESG criteria often involves a subjective assessment. A company’s ESG performance may change over time, which could cause an investor to temporarily hold securities that do not comply with the investor’s responsible investment criteria. Successful application of an investor’s responsible investment strategy will depend on their financial advisor’s skill in properly identifying and analyzing material ESG issues.

## Operational Risks

Accounts are subject to operational risks arising from various factors, including but not limited to, processing errors, communication failures, human errors, inadequate or failed internal or external processes, fraud by employees or other parties, limitations or failure in systems and technology, changes in personnel and errors caused by third-party service providers. Accounts that are managed by investment personnel across multiple offices are subject to greater operational risks due to different systems and technology, potential communication failures and personnel changes. VAS seeks to reduce these operational risks through controls and procedures believed to be reasonably designed to address these risks. However, these controls and procedures cannot address every possible risk and may not fully mitigate the risks that they are intended to address.

## Cybersecurity and Disaster Recovery Risk

With the increased use of technologies such as the Internet and the dependence on computer systems to perform necessary business functions, we and our service providers may be susceptible to operational, information security and related risks. These systems are subject to a number of different threats or risks that could adversely affect the clients and their accounts, despite the efforts of VAS and service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as

well as the confidentiality, integrity and availability of information belonging to the clients and the investors. In general, cyber incidents can result from deliberate attacks or unintentional events. Unintentional events may have similar effects. The risks associated with unintentional acts include power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through “hacking” or malicious software coding) for purposes of misappropriating assets or sensitive information, stealing or corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of our systems to disclose sensitive information in order to gain access to Clear our data or that of the client. Cyber incidents affecting us and our respective service providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, impediments to trading, fraudulent trading activity, cause information and technology systems to become inoperable for extended periods of time or to cease to function properly, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, financial losses, reputational damage, reimbursement or other compensation costs, or additional compliance costs. There is also a risk that cybersecurity breaches may not be detected. The information and technology systems of VAS and its service providers may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches (e.g., “hacking” or malicious software coding). The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our or our service providers’ operations, potentially resulting in financial losses, the inability to transact business, or a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to clients. Such a failure could harm to VAS’s reputation or subject it to legal claims and otherwise affect its business and financial performance. While VAS and its service providers have established business continuity plans in the event of, and risk management systems to prevent or reduce the impact of cyber-attacks, there are inherent limitations in such plans and systems due in part to the ever-changing nature of technology and cyber security attack tactics, including the possibility that certain risks have not been identified and prepared for. Furthermore, we cannot control the cyber security and business continuity plans and systems put in place by service providers or any other third parties whose operations may affect our clients and could be negatively impacted as a result. Although we and all of our service providers have implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the relevant party may have to make a significant investment to fix or replace them.

#### Pandemic Risk

The recent COVID-19 pandemic has caused and continues to cause disruptions in economies and individual companies and volatility in financial markets throughout the world, including those in which VAS’ clients (“Clients”) invest. The impact of the



pandemic and resulting economic disruptions may negatively impact Clients and the performance of their portfolios due to, among other things, (i) interruption of business operations resulting from travel restrictions, reduced consumer spending, and quarantines of employees, customers and suppliers in areas affected by the outbreak, (ii) closures of manufacturing facilities, warehouses and logistics supply chains, and (iii) uncertainty about the duration of the virus' impact on global financial markets. Governments and central banks throughout the world have responded to the pandemic and resulting economic disruptions with a variety of fiscal and monetary policy changes, including direct capital infusions into companies and other issuers, new monetary policy tools and lower interest rates, but the ultimate impact of these efforts is uncertain. It is not possible to determine the duration or severity of the disruption in financial markets or the long-term economic impact of the COVID-19 pandemic, or other future epidemics or pandemics, which may adversely affect Clients' performance and investment strategies and significantly reduce available investment opportunities.

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

Neither VAS nor its supervised persons have been the subject of any disciplinary actions.

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

VAS's parent company, Vestmark, Inc., provides middle and back-office technology solutions, including portfolio accounting and trading tools, to institutional clients, some of whom separately contract with VAS.

#### **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

VAS has adopted a Code of Ethics ("Code") pursuant to SEC Rule 204A-1 that sets forth the basic policies of ethical conduct for individuals subject to the VAS Code (or "Access Persons"). VAS requires that all individuals act in accordance with all applicable federal and state regulations governing investment advisory practices. VAS's Code of Ethics also includes the Firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to discipline or termination. VAS will provide a copy of the Code to any client or prospective client upon request via telephone at 888-355-0477.

Access Persons are required to routinely submit brokerage account statements containing the preceding quarter's personal securities transactions for review by the Chief Compliance Officer ("CCO"). The Code, moreover, compels Access Persons to request pre-clearance for certain transactions (e.g., IPOs, limited offerings) from the CCO. The Code is designed to govern personal securities transactions conducted by each Access Person to help ensure that securities transactions are conducted in a manner that avoids any existing or potential conflict of interest between such Access Persons and the Adviser's clients. VAS reviews records of securities holdings and securities transactions conducted by Access Persons to identify and resolve conflicts of interest.

Access Persons may, from time to time, invest in the same securities or related securities that VAS or the Managers selected by the Sponsor recommends to or purchases for a Customer. Access Persons are subject to the Code which prohibits conflicts of interests that are detrimental to clients, including front running (i.e., executing personal trades ahead of Customer trades based on advance, non-public knowledge or information of those Customer trades that the Access Person believes will affect its stock price), or insider trading and/or other potentially abusive practices. VAS's Access Persons are required to abide by the Code at all times, and VAS has in place the policies described above to monitor personal trading by Access Persons and reduce the risk of such abuses. Further, VAS and its Access Persons are bound by fiduciary duty to put the interests of VAS's clients ahead of their personal interests and the interests of the Adviser.

### **Item 12 Brokerage Practices**

As described in Item 4, the Sponsor, and not VAS, is responsible for designating a custodian and/or broker dealer for each Customer as well as ensuring compliance with applicable rules and industry practices regarding best execution of trades; however, when providing Overlay Management, VAS will be responsible for seeking best execution of trades in circumstances where the Sponsor has not entered into a standard directed brokerage arrangement. VAS does not recommend a particular broker-dealer or custodian.

Note that directing brokerage may cost Customers more money. For example, in a directed brokerage account, the Customer may pay a higher brokerage commission because orders cannot be aggregated to reduce transaction costs, or the Customer may receive less favorable prices.

VAS does not receive referrals from broker-dealers, nor does VAS receive research, products, services, or "soft dollars" from broker-dealers or other third parties in connection with securities transactions for Sponsors or Customers.

VAS will allow its clients, or Sponsors, on behalf of itself or the Sponsor Customers, to select direct brokerage at their sole discretion. VAS Clients should be aware that if they direct VAS to a particular broker-dealer for execution, under certain circumstances, VAS may be unable to achieve the most favorable execution of Sponsor Customers transactions.

VAS may combine orders into block trades when more than one account is participating in the trade, provided the accounts involved are maintained at the same Sponsor and custodian. This blocking or bunching technique must be equitable and potentially advantageous for each such account (e.g., for the purposes of reducing brokerage commissions or obtaining a more favorable execution price). Block trading is performed when it is consistent with the duty to seek best execution and is consistent with the terms of VAS's investment advisory agreements. Equity trades are blocked based upon fairness to VAS's clients, both in the participation of their accounts, and in the allocation of orders for the accounts.

Allocations of all orders are performed in a timely and efficient manner. All managed accounts participating in a block execution receive the same execution price (average share price) for the securities purchased or sold in a trading day. Any partial fill order will be allocated to end investor accounts pro-rata, with average share price. Any portion of an order that remains unfilled at the end of a given day will be rewritten on the following day as a new order with a new daily average price to be determined at the end of the following day.

### **Item 13 Review of Accounts**

VAS monitors the Sponsor's investment guidelines to enact measures including reallocation, rebalancing and trading, to maintain the portfolio composition within certain established parameters.

VAS regularly reports assets and number of accounts in written form to its Sponsor Customers that enter into Overlay Management accounts and Separate Account Management accounts.

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

VAS has established policies and procedures to ensure that any solicitation activities are compliant with the requirements under the Advisers Act. VAS does not receive any direct compensation for referrals.

VAS's parent company, Vestmark, Inc., earns fees for providing Tech Services and BPO to some Sponsors contingent on the contract terms and provisions. These fees do not impact fees paid by VAS clients.

### **Item 15 Custody**

Neither VAS, nor its related persons, maintain custody of client securities or funds. VAS does not send account statements to end investor accounts. Sponsors may, pursuant to their investment advisory agreements with their Customers, make arrangements for custody. In some cases, the Sponsor or a related firm of the Sponsor may act as a qualified custodian and provide custody services to Sponsor Customers. In that case, Customers should carefully review statements provided by the Sponsor to those received from the qualified custodian.

### **Item 16 Investment Discretion**

Where VAS provides Overlay Management services including Direct Indexing and Tax-Aware Transition Services, VAS and the Sponsor maintain discretionary authority. Separate Account Management is furnished on a non-discretionary basis.

For Overlay Management services, the Sponsor determines which investment strategies to deploy within the Customer's account, and trading authority is accordingly shared with VAS to allow us to implement the strategy or strategies selected by the Sponsor through buying and selling securities within the account(s) and to maintain the Sponsor-specified allocation among strategies selected by the Sponsor. Discretionary authority is generally granted to VAS pursuant to a Master Subadvisory Agreement between the Sponsor and

its clients.

#### **Item 17 Voting Client Securities**

VAS accepts proxy voting obligations for Sponsors' Direct Index accounts and in other limited circumstances. VAS, where it has proxy voting authority, in a prudent and diligent manner, uses best efforts to vote proxies in the best interests of its clients, consistent with the objective of maximizing long-term investment returns, and consistent with its Proxy Voting Policy. VAS's Proxy Voting Policy is administered by the Investment Committee, which also monitors and supervises the services provided by selected proxy research providers.

VAS monitors proxy voting decisions for any conflicts of interests, regardless of whether they are actual or perceived. In addition, VAS performs its tasks relating to the voting of proxies with the first priority to the economic interests of its clients. If VAS becomes aware of any potential or actual conflict of interest, or perceived conflict of interest, regarding any particular vote on behalf of VAS's clients, the firm will notify the Chief Compliance Officer. If any VAS employee is pressured or lobbied either from within or outside of VAS with respect to any particular voting decision, they will notify the Chief Compliance Officer. VAS uses its best judgment to address such conflicts of interest and seeks to resolve them in the best interest of its clients.

Absent special circumstances, which are fully described in VAS's Proxy Voting Policy, all proxies will be voted consistent with guidelines established and described in VAS's Proxy Voting Policy, as they may be amended from time to time. However, the guidelines are just that—guidelines; they are not strict rules that must be obeyed in all cases, and proxies may be voted contrary to the vote indicated by the Guidelines if such a vote is in the clients' best interests. VAS votes proxies based upon the guiding principle of seeking the maximization of economic value to clients, and ultimately votes are cast on a case-by-case basis, taking into consideration any contractual obligations under client investment advisory agreements and all other relevant facts and circumstances at the time of the vote.

Clients may obtain a copy of VAS's complete Proxy Voting Policy by contacting us via phone at 888-355-0477. Clients may also obtain information from VAS about how it voted any proxies on behalf of their account(s) by calling the same phone number.

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

VAS is not aware of any financial condition that is reasonably likely to impair VAS's ability to meet contractual commitments relating to VAS's discretionary authority over any Customer accounts. VAS has not been the subject of a bankruptcy petition.