E*TRADE Capital Management, LLC

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This Wrap Fee Programs Brochure provides information about the qualifications and business practices of E*TRADE Capital Management, LLC.

If you have any questions about the content of this brochure, please contact us at 866-484-3658.
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.
Additional information about E*TRADE Capital Management, LLC is available on the SEC’s website at adviserinfo.sec.gov.
The IARD/CRD number for E*TRADE Capital Management, LLC is 42159.

E*TRADE Capital Management, LLC is a registered investment adviser.
Registration of an investment adviser does not imply a certain level of skill or training.

April 26, 2019
ITEM 2. MATERIAL CHANGES

Annual Update

The “Material Changes” section of this Wrap Fee Programs Brochure ("Brochure") will be updated annually or when material changes occur since the previous release of this Brochure.

Material Changes Since the Last Update

E*TRADE Capital Management, LLC ("ETCM") has made material changes to the E*TRADE Wrap Fee Programs Brochure since the previous version of this Brochure dated March 29, 2019.

ITEM 4. SERVICES, FEES, AND COMPENSATION

Features of the Wrap Fee Program

Depending on the amount of money invested by clients, Core Portfolios accounts hold whole shares and/or interest in fractional shares of exchange-traded funds ("ETFs") ("fractional shares"). Fractional share trading is offered as a service to Core Portfolios accounts. The potential benefits of this feature include, but are not limited to, gaining access to professional management with low initial minimum investments; achieving greater portfolio diversification by allowing investors to hold more positions and asset classes within their portfolios; and lowering cash holdings. Clients holding fractional shares can see these portfolio positions reported in US dollars or shares. Fractional shares are illiquid, cannot be sold directly into the market, may not be transferred via an automated clearinghouse, and are typically not recognized outside of the E*TRADE Securities LLC ("ETS") trading platform.

ITEM 6. PORTFOLIO MANAGER SELECTION AND EVALUATION

Brokerage Practices

Fractional shares do not trade in the market and therefore require ETCM’s affiliated broker-dealer, ETS, to engage in a practice called “trading along,” whereby ETS adds a fractional share to ETCM’s aggregated sell orders so that the order is rounded up to whole shares or buys the remainder fraction that is left over from block buy orders. All clients that are part of the aggregated order, including ETS, receive the average price for that block trade order.

As part of this fractional share trading along process, ETS maintains a facilitation account that holds a small number of ETF shares in inventory for sell orders and keeps cash on hand for buy orders. Due to a variety of factors such as the number of trades executed, allocating fractional shares to multiple clients at one time and market price volatility, ETS may accrue a de minimis net profit or loss in its fractional share facilitation account. Details regarding the trading along process are available by calling the MAT Team.

ETCM client trades are not crossed with other client orders or ETS brokerage customer orders.

E*TRADE Capital Management will provide a new Wrap Fee Programs Brochure as necessary based on changes or new information, at any time, without charge. To request the most recent Brochure, please call ETCM at 866-484-3658.
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ITEM 4. SERVICES, FEES, AND COMPENSATION

Firm Description

E*TRADE Capital Management, LLC, is an investment adviser registered with the Securities and Exchange Commission (“SEC”). ETCM, under its predecessor name, was founded in 1996 and became a wholly owned indirect subsidiary of E*TRADE Financial Corporation (“E*TRADE Financial” or “ETFC”) on October 3, 2005. E*TRADE Financial is a financial services company that provides online brokerage, investment advisory services, and related products and services primarily to individual retail investors (“clients”). Under the Investment Advisers Act of 1940 (“Advisers Act”), ETCM has a fiduciary obligation to its clients. Additionally, ETCM is a fiduciary as the term is defined in Section 3(38) of the Employee Retirement Income Security Act of 1974 (“ERISA”) and related Section(s) of the Internal Revenue Code of 1986 with respect to accounts governed under Title I of ERISA.

The Wrap Fee Programs Brochure describes all the wrap fee advisory programs offered by ETCM as either a sponsor or a co-sponsor.

Programs and Services

ETCM offers the following discretionary investment advisory Wrap Fee Programs (“advisory programs” or “Wrap Fee Programs”): Core Portfolios, Blend Portfolios, Dedicated Portfolios, and Fixed Income Portfolios. Clients pay a single asset-based annual fee for brokerage, custodial, investment advisory, and other related services (“Annual Advisory Fee” or “Advisory Fee”). E*TRADE Personalized Investments is the name ETCM uses to describe these advisory programs collectively.

Prior to enrolling a client in a Wrap Fee Program, ETCM determines the client’s financial needs and objectives, gathering and analyzing customer profile and risk tolerance information (together “Investor Profile”). This is completed online for Core Portfolios or through an ETCM Investment Adviser Representative (“IAR”) interview for Blend Portfolios, Dedicated Portfolios, and Fixed Income Portfolios. For more information about each Wrap Fee Program, please see the respective subsections under “Features of the Wrap Fee Programs” in Item 4 “Services, Fees, and Compensation” of this Brochure.

Investor Profiles contain financial information such as investment goals, liquidity needs, time horizon, investment restrictions, risk tolerance, investment experience, tax sensitivity, and the source of funds to be invested. ETCM analyzes the relevant information and determines which program(s) appears suitable. Prospective clients are provided with an Investment Proposal that describes a recommended asset allocation and a diversified investment portfolio.

For most but not all advisory programs, ETCM uses an algorithm to determine a prospective client’s initial asset allocation or portfolio recommendation. The recommendation is based on the answers to the client’s Investor Profile Questionnaire, which is sometimes referred to as a “Risk Tolerance Questionnaire,” “Investor Questionnaire,” or “Client Questionnaire” (collectively referred to herein as “questionnaire”). The suggested asset allocation is based on a generalized asset allocation strategy that considers several classes of assets based on the client’s responses to the questionnaire. Not all answers in the questionnaire are weighted equally. Answers related to time horizon and risk tolerance are weighted the most when scoring the questionnaire. The Investment Proposal is not a financial plan and does not consider outside assets, concentration of holdings in other accounts, client debt levels, and multiple investment goals.

Clients and prospective clients are able to reach out to an IAR or a team of IARs, sometimes referred to as “Team of Specialists” or “Managed Account Team” (“IAR Service Team”), with questions about the initial recommendation or general questions about the questionnaire. The questionnaire can be updated at any time when a goal or financial situation changes. Depending on the results of the new answers to the questionnaire, such updates could result in a new asset allocation or portfolio recommendation for an advisory program account.

ETCM has an agreement with Lockwood Advisors, Inc. (“Lockwood”) to provide ETCM with impersonal advisory services for two of ETCM’s Wrap Fee Programs. Lockwood also acts as co-sponsor and co-adviser for two additional ETCM Wrap Fee Programs. Lockwood does not provide investment advice directly to ETCM clients. Lockwood is an investment adviser registered with the SEC and an affiliate of Pershing LLC. Lockwood and Pershing LLC are BNY Mellon companies, and none of these companies is affiliated with ETCM. Lockwood does not provide investment advice directly to Wrap Fee Program clients. Lockwood maintains the contractual relationships with the Portfolio Managers. These Portfolio Managers are not affiliated with ETCM.

Execution, clearing, settlement, custody, and other brokerage-related services for Core Portfolios, Blend Portfolios, and Dedicated Portfolios are provided under an agreement between ETCM and its affiliate E*TRADE Securities LLC (“ETS”). ETS is a broker-dealer registered with the SEC, a member firm of the Financial Industry Regulatory Authority (“FINRA”), and a wholly owned, indirect subsidiary of E*TRADE Financial.

For Fixed Income Portfolios, ETS provides clearing, settlement, custodial, and other brokerage-related services. Portfolio Managers effect transactions for the purchase and/or sale of fixed income securities mainly through unaffiliated broker-dealers selected and used by the Portfolio Managers. These broker-dealers are unaffiliated with ETCM. This trading discretion is provided by clients through the terms of the Advisory Agreement. This type of trading is often referred to as “trading away” or “step-out trades” because it is executed by an unaffiliated broker-dealer. These bond transactions incur additional fees and expenses in the form of commissions, markups, markdowns or “spreads,” and costs, such as but not limited to clearinghouse fees, SEC fees, odd-lot differentials, electronic fund and wire transfer fees, platform service and access fees, and ticket charges that are not covered by ETCM’s Annual Advisor Fee. These fees are included in the bond price. ETCM’s affiliates and the Portfolio Managers do not add additional compensation or expenses (e.g., markups or markdowns, commissions, platform fees, ticket charges, and fees or costs noted above) to the bonds traded for accounts in a Fixed Income Portfolio; however, the unaffiliated broker-dealers, in certain circumstances depending on the unaffiliated broker-dealer used and the details of the specific transaction, include all of the above in the price of the bond transaction. In certain instances, ETS will execute a limited number of bond trades. For example, ETS will execute certain transactions for securities held at ETS that are liquidated to fund a Fixed Income Portfolios account and/or securities that are transferred into the account and must be liquidated. For additional information, please see the Portfolio Manager’s ADV Part 2, which is available on request, and “Selecting Brokerage Firms” in Item 6 “Portfolio Manager Selection and Evaluation” of this Brochure.

All brokerage accounts enrolled in a Wrap Fee Program are subject to the terms of the E*TRADE Securities Brokerage Customer Agreement. In addition, Wrap Fee Program accounts are subject to the relevant Advisory Agreement between the client and ETCM and with ETCM and Lockwood as co-advisers for Dedicated Portfolios and Fixed Income Portfolios accounts.

Investment advisory programs are subject to the general oversight of ETCM’s Investment Policy Committee (“IPC”). Certain members of the IPC, who compose the Investment Strategy Team (“IST”), review portfolio data and provide information, analysis, and recommendations to the IPC. The IPC is responsible for the composition, the asset allocation, changes to Wrap Fee Programs models (“Model Portfolios”), as well as the underlying investments (“Advisory Assets”) of the Wrap Fee Programs, except for Fixed Income Portfolios. ETCM and Lockwood jointly develop a selection of Portfolio Managers and investment styles (“Portfolio Manager Universe”) for inclusion in Fixed Income Portfolios. The Portfolio Manager Universe is subject to the review and approval of the IPC. Portfolio Managers are responsible for the individual investment decisions in connection with Fixed Income Portfolios. Lockwood, at its discretion, reserves the right to remove the availability of a Fixed Income Portfolios investment style if the particular investment style fails to meet Lockwood’s defined screening criteria and replace it with another investment style from the same or a different Portfolio Manager.

For Core Portfolios, Blend Portfolios, and Dedicated Portfolios, ETCM applies its proprietary quantitative screening methodology (including historical performance and risk measures) to the universe of mutual funds and exchange-traded funds (“ETFs”) available to ETCM via the ETS investing and trading platform (“Fund Universe”). Lockwood provides research and advisory services to ETCM with regard to the construction of the Model Portfolios offered through the Wrap Fee Programs. Lockwood’s screening is conducted on an impersonal and ongoing basis. The IPC, with the support of the IST, prepares an investment analysis methodology that incorporates various quantitative criteria, including historical return, risk, expenses, manager tenure, performance and style consistency, asset size, and growth. Lockwood does not provide advice or research services to clients enrolled in Core Portfolios and Blend Portfolios. The IPC is responsible for the determination of the prudence of all investments on the list of Advisory Assets for Core Portfolios and Blend Portfolios.

ETCM engages affiliated or unaffiliated third parties to assist with research, analysis, implementation, rebalancing, billing, and other services. In all cases, ETCM retains ultimate responsibility for all aspects of the advisory services provided through the Core Portfolios and Blend Portfolios programs.

For the Dedicated Portfolios program, ETCM and Lockwood work together to make changes to the portfolios. Lockwood serves as the discretionary money manager and will be reasonably available to clients for consultation.
For further information about the role of Lockwood in the Dedicated Portfolios and Fixed Income Portfolios advisory programs, please see “Dedicated Portfolios” and “Fixed Income Portfolios” under “Features of the Wrap Fee Programs” in Item 4 “Services, Fees, and Compensation” of this Brochure.

Features of the Wrap Fee Programs

ETCM’s investment advisory programs offer clients access to broad-based asset allocation strategies that seek attractive risk-adjusted returns over the long term, generally three years or longer, and portfolios that are concentrated in one or more asset classes. “Risk-adjusted returns” means returns are measured with regard to how much risk is involved in producing the return.

The investment allocation strategies, sometimes referred to as “risk profiles” or “investment profiles,” for Core Portfolios, Blend Portfolios, and Dedicated Portfolios range from conservative investment strategies that invest mostly in fixed income securities to aggressive growth strategies that invest mostly in equity securities. ETCM’s advisory programs have the flexibility to use similar or different asset allocations, risk profiles, and investor questionnaires. Certain Wrap Fee Programs offer one or more portfolios that correspond to one of the different risk profiles. In specific instances, an IAR will work with a prospective client to create a Dedicated Portfolios account that is concentrated in one or two asset classes, using a small number of manager model portfolios and/or other Advisory Clients. Clients interested in this type of concentrated strategy will need to provide additional investment information (“Client Information Supplement”) to their IARs. In these situations, ETCM will rely predominantly on information provided in the Client Information Supplement and conversations with the client to build and recommend a portfolio to meet the client’s investment needs.

Portfolios of ETFs, mutual funds, ETFS and mutual funds, or manager model portfolios matching predetermined asset allocation strategies are created and maintained for each risk model to establish base portfolios. Such portfolios are referred to as Model Portfolios. There is no guarantee that these portfolios will exactly duplicate client account holdings. Fixed Income Portfolios offers actively managed portfolios that invest in either short-term, intermediate-, or long-term bonds and laddered bond portfolios with maturity ranges from one to five years, one to 10 years, or one to 15 years.

For Core Portfolios, Blend Portfolios, and Dedicated Portfolios, ETCM and/or Lockwood select the initial portfolio investments and allocations, monitor the account, rebalance the account when it is out of tolerance with the portfolio’s asset allocation parameters, and adjust portfolio holdings when necessary. Out-of-tolerance parameters and/or rebalancing methodologies are subject to change. For further information about the rebalancing methodology, please see “Review of Accounts” in Item 9 “Additional Information” of this Brochure.

Clients electing to invest in Core Portfolios, Blend Portfolios, or Dedicated Portfolios containing mutual funds and/or ETFs have the option to invest in portfolios that are tax-sensitive. Tax-sensitive portfolios contain municipal bond mutual funds or ETFs to help reduce taxes incurred on income associated with those portfolios. Fixed Income Portfolios will differ based on which Portfolio Manager is selected and the strategy of the portfolio. Actively managed bond portfolios seek to outperform a market benchmark and invest in bonds with different maturities. Clients selecting an actively managed bond portfolio have the ability to choose between a tax-sensitive portfolio that invests in municipal or other government bonds and a portfolio that is not tax-sensitive that invests in corporate bonds. The laddered bond portfolios invest in bonds with specified maturity dates and do not seek to outperform a market benchmark. The laddered bond portfolios are currently available only for tax-sensitive strategies.

ETCM actively manages Core Portfolios that use client-selected strategies. ETCM allows clients to select strategies including among other smart beta or socially responsible investment holdings (“client-selected strategies”) within the recommended asset allocation for Core Portfolios. Clients acknowledge and agree that ETCM is not providing investment advice regarding client-selected strategies and related investments, nor is ETCM recommending the prudence of such selection. Clients should be cognizant that when choosing a client-selected strategy, that portion of the portfolio could perform differently than other strategies available through Core Portfolios. Therefore, the strategy could meet certain personal investment preferences, but clients will need to consider if these strategies are in their best interest (or that of the retirement account). Client-selected strategies are also available in other advisory programs.

ETCM Wrap Fee Programs do not directly hold securities issued by ETFs or securities issued by BNY Mellon or its affiliates. ETFs and its affiliates do not directly advise or manage mutual funds, ETFs, manager models, or Strategist Portfolios (as defined under “Blend Portfolios” below); however, investment advisers affiliated with Lockwood do manage mutual funds or ETFs, and investment advisers constructing Strategist Portfolios manage mutual funds or ETFs in the Strategist Portfolios (see more information about Strategist Portfolios below). Furthermore, Lockwood and/or its affiliates are service providers, such as a trustee or an administrator, for mutual funds or ETFs used in Wrap Fee Program models; and, depending on the fund, Lockwood and/or its affiliates will receive a fee from the mutual fund or ETF for performing such services. Although these relationships represent a potential conflict of interest, Lockwood has indicated in its Co-Sponsored Programs Wrap Fee Program Brochure that it does not receive a portion of mutual fund or ETF management fees and it does not consider trustee or administrative fees received by an affiliate in its recommendation or retention of investment vehicles. ETCM does not consider Lockwood’s other service provider relationships when selecting holdings for its managed account portfolios. For additional information regarding these potential conflicts of interest, please refer to Lockwood’s Co-Sponsored Programs Wrap Fee Program Brochure or an individual Portfolio Manager’s ADV Part 2A, which are available on request.

ETCM’s managed accounts are not intended solely as cash management or income vehicles. The portfolios seek total return rather than to maximize portfolio yields. Total return is defined by ETCM as an effort to produce the most efficient return for a given level of risk.

Each of the advisory firms for the Wrap Fee Programs has discretionary authority over its respective clients’ assets, and each has the authority to determine, without obtaining specific client consent, the securities (or amount of securities) to be bought or sold in a client’s Wrap Fee Program account. ETCM prohibits clients from purchasing or selling securities in their Wrap Fee Program accounts and has instituted a block on purchases and sales by clients in those accounts. ETS provides clients with an account statement at least quarterly, as well as a prospectus or summary prospectus for each mutual fund or ETF purchased in a client’s Wrap Fee Program account. Clients are able to review a prospectus or summary prospectus by visiting etrade.com/mutualfunds or etrade.com/etf.

Investments in securities and other instruments involve risk and will not always be profitable. ETCM does not guarantee the results of any advice or recommendation. In addition, ETCM does not guarantee that the objectives of the client’s Wrap Fee Program account will be met. The advice provided to the client pertains only to the account enrolled in the Wrap Fee Program. The advice does not cover other assets outside the account unless expressly stated by ETCM or IARs.

Whether a Wrap Fee Program, or which one, is suitable for the client depends on a number of factors, including the size of the Wrap Fee Program account, the amount of trading expected in the Wrap Fee Program account as compared with accounts that do not charge single wrap fees, the client’s risk tolerance, the client’s financial needs and circumstances, and the fees charged.

ETCM (for Core Portfolios and Blend Portfolios), Lockwood (for Dedicated Portfolios), and the Portfolio Managers (for Fixed Income Portfolios) reserve the right to add or delete any security types (e.g., debt securities) and add to, delete from, or otherwise change the list of Advisory Assets at any time. Subsequent changes to the list of Advisory Assets does not mean a particular client portfolio will change.

Margin accounts are not permitted in the Wrap Fee Programs. The Wrap Fee Programs are not leveraged and do not engage in short selling. Certain cash management features that are available to other accounts held with ETCM’s broker-dealer affiliate are not available to ETCM accounts, such as Bill Pay, debit cards, and check writing, or require that the client submit a transaction request to ETCM.

Clients electing to borrow money from E*TRADE Savings Bank are permitted to “pledge” or use the assets in their eligible Core, Blend, Dedicated or Fixed Income Portfolios Wrap Fee Program account to collateralize the loan, subject to the consent of E*TRADE Savings Bank (such lending program, the “E*TRADE Line of Credit”). Retirement accounts are not eligible for collateralization for an E*TRADE Line of Credit.

There are risks associated with using a Wrap Fee Program account as collateral, including that as the lender E*TRADE Savings Bank will require additional assets or the liquidation of securities in the Wrap Fee Program account to meet a collateral call. A collateral call could disrupt the management of the Wrap Fee Program account. An E*TRADE Line of Credit is a full-recourse loan, and clients with an E*TRADE Line of Credit are held liable for any deficiency. Additionally, failure to meet a collateral call or a decision by E*TRADE Savings Bank to enforce a liquidation of any pledged collateral would result in the termination of the Wrap Fee Program account and cause its conversion back to a retail brokerage account. For further information about eligible Wrap Fee Program accounts and the risks and conflicts associated with using assets in a Wrap Fee Program account to collateralize a loan from
It is important for clients to remember that past performance is not a guarantee of future results and that market, interest rate, and other investment-related risks exist that have the ability to adversely affect the performance of securities held in the Wrap Fee Program account and cause losses in the account.

Core Portfolios

Core Portfolios is offered through etrade.com, which is accessible through the internet on a variety of platforms. The investment plan is created by electronically gathering and analyzing client data and information, including but not limited to the client’s financial situation, investment goals, liquidity needs, time horizon, client investment preferences, risk tolerance, and consideration for tax sensitivity. Once the information is analyzed, ETCM recommends a portfolio allocation. Clients are provided with an Investment Proposal describing a recommended asset allocation strategy and a diversified portfolio of ETFs appropriate to the client’s Investor Profile.

Accounts that are enrolled in Core Portfolios for 60 days will undergo semi-annual rebalancing, which rebalances the portfolio regardless of whether the portfolio allocation is outside the drift parameters. Out-of-tolerance parameters and/or rebalancing methodologies are subject to change.

Depending on the amount of money invested by clients, Core Portfolios accounts hold whole shares and/or interest in fractional shares of ETFs (“fractional shares”). Fractional share trading is offered as a service to Core Portfolios accounts. The potential benefits of this feature include, but is not limited to, gaining access to professional management with low initial minimum investments; achieving greater portfolio diversification by allowing investors to hold more positions and asset classes within their portfolios; and lowering cash holdings. Clients holding fractional shares can see these portfolio positions reported in US dollars or shares. Fractional shares are illiquid, cannot be sold directly into the market, may not be traded via an automated clearinghouse, and are typically not recognized outside of the ETS trading platform.

For Core Portfolios clients, interaction with ETCM will generally be limited to the automated Core Portfolios web-based interface. Certain exceptions apply, and clients will be able to consult the IAR Service Team by calling 866-484-3658.

Blend Portfolios

Prior to enrolling a client in Blend Portfolios, IARs, including specialists, interview clients to determine their financial needs and objectives. The IARs gather and analyze customer profile and risk tolerance information. This review includes but is not limited to the client’s financial situation, investment goals, liquidity needs, planned investment time horizon, investment restrictions, risk tolerance, consideration for tax sensitivity, investment experience, and the source of funds to be invested. The IAR analyzes the information, and if Blend Portfolios appears suitable, the prospective client is provided with an Investment Proposal describing a recommended asset allocation strategy and a diversified investment portfolio of mutual funds and/or ETFs.

Blend Portfolios clients will be able to select a portfolio with a branded investment strategy created by a financial firm not affiliated with ETCM (“Unaffiliated Firm”) (“Strategist Portfolios”). Strategist Portfolios are investment portfolios constructed, branded, and licensed for use by the Unaffiliated Firm. The Unaffiliated Firm will be acting through its employees, contracts, and agents to provide the Strategist Portfolios. ETCM does not select the investments in Strategist Portfolios, although ETCM does review and approve the Strategist Portfolios offered by Unaffiliated Firms. ETCM is not required nor able to adhere to updates provided to Strategist Portfolios by Unaffiliated Firms. Furthermore, Unaffiliated Firms are not acting as investment advisers to clients, nor are they responsible for executing investments associated with the use of a Strategist Portfolio.

ETCM is not providing investment advice regarding a client’s selection of a Strategist Portfolio over another portfolio available in Blend Portfolios, and clients are entirely responsible for their decision to select a Strategist Portfolio. ETCM’s services with regard to the client’s choice of a Strategist Portfolio will be to make investments consistent with the structure of the Strategist Portfolio. Clients do not pay any additional advisory fee to ETCM or an Unaffiliated Firm for the use of a Strategist Portfolio. There is a strong likelihood that Strategist Portfolios will be composed of mutual funds and ETFs managed and sponsored by Unaffiliated Firms, and Unaffiliated Firms will receive fees related to the management of any proprietary ETFs and mutual funds.

Whether a Blend Portfolios account is suitable for a particular client depends on a number of factors, including the size of the account, the amount of trading expected in the Blend Portfolios account as compared with accounts that do not charge a wrap fee, the client’s risk tolerance, the client’s financial needs and circumstances, and the fees charged.

Blend Portfolios uses a rebalancing methodology based on ETCM’s portfolio allocation drift parameters. Blend Portfolios are rebalanced by comparing the client portfolio allocations with the target allocation drift parameters each trading day after the markets are closed and submitting trade orders following the trading day, when necessary, to bring the portfolio into alignment with target allocations. Blend Portfolios also has a calendar rebalancing feature whereby Blend Portfolios accounts enrolled for at least one year are automatically rebalanced on a semi-annual basis. Out-of-tolerance parameters and/or rebalancing methodologies are subject to change.

Advisory Assets in Blend Portfolios are limited to ETFs, shares of no-load mutual funds, and load-waived A-Shares or institutional class shares of mutual funds.

Blend Portfolios accounts are serviced by Financial Consultants or an IAR Service Team Specialist. The IAR Service Team is also referred to as the “Managed Account Team.”

Dedicated Portfolios

Prior to enrolling a client in Dedicated Portfolios, ETCM IARs interview clients to determine their financial needs and objectives and to gather customer profile information. The IAR’s client review includes but is not limited to the client’s financial situation, investment goals, liquidity needs, planned investment time horizon, investment restrictions, risk tolerance, consideration for tax sensitivity, investment experience, and the source of funds to be invested. The IAR analyzes the information, and if Dedicated Portfolios appears suitable, the prospective client is provided with an Investment Proposal, which describes a recommended asset allocation strategy and a diversified investment portfolio.

In response to changing economic and market conditions or the investment performance of various sectors of the markets, but not in response to market-timing considerations, an IAR, at their discretion, periodically recommends changes in the allocation among mutual funds, ETFs, or manager models within the designated asset classes.

Dedicated Portfolios uses a rebalancing methodology based on ETCM’s portfolio allocation drift parameters. Dedicated Portfolios are rebalanced by comparing the client portfolio allocations with the target allocation drift parameters each trading day after the markets are closed and submitting trade orders the following trading day, when necessary, to bring the portfolio into alignment with target allocations. Dedicated Portfolios also has a calendar rebalancing feature whereby Dedicated Portfolios accounts enrolled for at least one year are rebalanced on a semi-annual basis. Out-of-tolerance parameters and/or rebalancing methodologies are subject to change. Calendar rebalancing is currently not available for certain Dedicated Portfolios due to the concentrated nature of the account holdings.

As ETCM is a co-adviser with Lockwood for Dedicated Portfolios, please review Lockwood’s Co-Sponsored Programs Wrap Fee Program Brochure for additional information concerning applicable topics discussed in this Brochure.

All taxable Dedicated Portfolios accounts are managed in a tax-aware manner. This means that Lockwood seeks to balance the dual objectives of reducing portfolio drift with minimizing taxable gains. This is accomplished by using tax filters and synchronizing the sell disposition of the account with Lockwood’s sell disposition, which is the FIFO (first in, first out) cost basis method. All taxable Dedicated Portfolios accounts must have a sell disposition of FIFO because purchase trading and tax lot reconciliation are not available.

Advisory Assets in Dedicated Portfolios accounts are limited to ETFs, no-load mutual funds, load-waived A-Shares, institutional class shares of mutual funds, and manager models that invest in individual stocks.

Manager model portions of Dedicated Portfolios accounts are managed by model managers selected by Lockwood and approved by ETCM. Model managers are third-party professional
Portfolio Managers with whom Lockwood has a contractual relationship. As part of the agreement between Lockwood and ETCM, Lockwood pays management fees directly to the model managers. ETCM is responsible for recommending manager models from a preapproved list to fill the asset allocation for the selected asset allocation strategy. Neither ETCM nor any of its affiliates acts as the investment adviser or principal underwriter for the Advisory Assets. Dedicated Portfolios accounts are not leveraged, and they do not directly engage in short selling.

As co-advisers and co-sponsors, ETCM and Lockwood have different roles and responsibilities with respect to managing Dedicated Portfolios accounts.

ETCM's key responsibilities primarily relate to the following: initial and ongoing evaluation of client investment objectives and risk tolerance; initial and ongoing determination of appropriate manager models to be used and the asset allocations that meet client investment objectives and risk tolerances; performance of ongoing consultations regarding changes in client investment objectives and reasonable investment restrictions; and monitoring of accounts to determine whether rebalancing is required to maintain asset allocations within the range of target allocations.

Lockwood's key responsibilities primarily relate to the following: applying research, risk and quantitative analysis, and other screening methodologies to evaluate and select a universe of mutual funds and ETFs available for use in account construction; reviewing account rebalancing needed to maintain investment allocation within the range of target allocations; providing oversight of the construction of accounts that are designed to meet clients' objectives and risk tolerances; serving as the overlay manager that evaluates the performance, investment process, and investment strategy consistency of nonaffiliated model managers that have been assigned to manage a manager model; and managing the overall trading activity in the portfolios.

In addition, ETCM, as co-advisor, is responsible for helping clients complete an Investor Profile and defining each client's investment strategy. ETCM is also responsible for interacting directly with clients.

Lockwood, as co-sponsor, is responsible for the systems and discretionary investment services required to implement a client's investment strategy. Although Lockwood and ETCM each have discretionary trading authorization, Lockwood primarily sends trade instructions to the executing broker for Dedicated Portfolios accounts.

In certain instances and when appropriate, an IAR will work with prospective clients to design Dedicated Portfolios that are concentrated in one or two asset classes, using a small number of manager models and/or other Advisory Assets. Clients interested in this type of concentrated strategy will need to provide additional investment information to the IAR.

An IAR, at their discretion, will periodically and if necessary recommend changes to the allocation within designated asset classes that are part of Dedicated Portfolios’ Advisory Assets. These potential recommendations could be in response to changing economic and market conditions or the investment performance of various sectors of the markets but not in response to market-timing considerations. Reasonable restrictions involving the securities selected for use in Dedicated Portfolios are available on client request. The cash position in a Dedicated Portfolios account could increase depending on the number and type of investment restrictions the client requests.

Fixed Income Portfolios

In connection with the Fixed Income Portfolios program, Lockwood and ETCM make available different Fixed Income Portfolios investment styles provided by various Portfolio Managers. Portfolio Managers and investment styles are approved by Lockwood and ETCM for inclusion in this program.

Prior to enrolling in Fixed Income Portfolios, ETCM IARs interview clients to determine their financial needs and objectives, compiling the Investor Profile. An IAR’s client review includes but is not limited to a client's financial situation, investment goals, liquidity needs, time horizon, investment restrictions, risk tolerance, consideration for tax sensitivity, investment experience, and the source of funds to be invested. An IAR analyzes the information, and if Fixed Income Portfolios appears suitable, a prospective client is provided with an Investment Proposal that describes the fixed income portfolio strategy, as well as information about the Portfolio Manager.

ETCM provides clients with advice in connection with clients’ initial selection of the Portfolio Managers and Fixed Income Portfolios investment styles made available by Lockwood.

Lockwood has the authority to add and remove Portfolio Managers and Fixed Income Portfolios investment styles available in the program. Lockwood, at its discretion and without prior notice, has the ability to remove a Fixed Income Portfolios investment style from the available list if the particular investment style fails to meet its screening criteria and replace it with another Fixed Income Portfolios investment style from the same or a different Portfolio Manager.

Portfolio Managers make all individual security investment decisions in connection with the Fixed Income Portfolios program. There is no rebalancing associated with this program.

As the co-advisers and co-sponsors, ETCM and Lockwood have different roles and responsibilities with respect to managing Fixed Income Portfolios accounts.

ETCM’s key responsibilities primarily relate to the following: initial and ongoing evaluation of client investment objectives and risk tolerance; initial and ongoing determination of appropriate Portfolio Manager’s investment styles to be used and the asset allocations that meet client investment objectives and risk tolerances; and performance of ongoing consultations regarding changes in client investment objectives and reasonable investment restrictions.

Lockwood’s key responsibilities primarily relate to the following: applying research, risk and quantitative analysis, and other screening methodologies to evaluate and select a universe of Mutual Funds; providing oversight of Portfolio Managers, including providing ETCM with investment matrices and research scorecards with respect to Portfolio Managers’ qualitative narrative and investment philosophy; and overseeing Portfolio Managers’ trading activity in the portfolios and providing ETCM information regarding same.

In addition, ETCM, in its role as co-sponsor, is responsible for helping clients complete the Investor Profile and defining each client’s investment strategy. ETCM is also responsible for interacting with clients.

Lockwood, in its role as co-sponsor, is responsible for the systems and discretionary investment services required to implement a client’s investment strategy.

Fees

ETCM's Wrap Fee Programs are investment advisory programs whereby customers pay a single Advisory Fee for investment advice and for brokerage, custodial, administrative, and technological services. Clients should review and consider if they would pay more or less than when purchasing such services separately, depending on commission rates and portfolio trading activity. When assessing a Wrap Fee Program's cost, clients should consider the amount of trading activity they anticipate, other Wrap Fee Programs offered by ETCM, and factors such as commission rates, their investment experience and knowledge, and their availability to monitor and rebalance investments. Mutual funds and ETFs charge underlying fees and expenses that are separate and apart from the Advisory Fee charged by ETCM. When possible, ETCM selects mutual fund and ETF institutional share classes that typically charge lower underlying fees and expenses.

Fixed Income Portfolios transactions executed by unaffiliated broker-dealers include additional fees and expenses, such as but not limited to clearance fees; SEC fees; odd-lot differentials; electronic fund and wire transfer fees; platform service and access fees; ticket charges, commissions, markups, and markdowns or “spreads” paid to market makers. In assessing the overall cost of the program, Fixed Income Portfolios clients should review their Portfolio Managers’ brochures regarding trade execution practices and consider the amount of anticipated trading activity. Each Portfolio Manager is required to consider and take into account the execution costs that participating clients will incur in connection with proposed Fixed Income Portfolios trades.

In the Dedicated Portfolios and Fixed Income Portfolios programs, Lockwood pays management fees directly to the model managers or Portfolio Managers as part of the agreement between Lockwood and ETCM.

Clients are charged an Advisory Fee, as indicated in the following Wrap Fee Program Fee Schedules. Fees are subject to change on reasonable notice; however, increases in fees require written client consent.

Please note that Advisory Fees are calculated using the following fee schedules based on the Wrap Fee Program account’s daily weighted average market value for the period as calculated on or around the close of business each quarter. Fees are assessed at a blended rate and are prorated for partial quarters.
The amount of the Advisory Fee depends on the market value of all assets, including cash balances, in the account. Advisory Fees do not cover ongoing fund management fees and expenses of any mutual fund or ETF purchased in or transferred into a client’s account. Assets in the account are not subject to ordinary transaction fees (e.g., commissions or markups/markdowns).

The Advisory Fee does not cover, and the client will be additionally responsible and charged for, applicable brokerage commissions, markups, markdowns, and other transaction charges for trades executed at the client’s request at broker-dealer firms other than ETS and its affiliates (although the client’s Wrap Fee Program account will be blocked from any purchases and sales by the client). Other transaction charges and fees typically include but are not limited to custody, transfer, and stamp taxes; exchange and conversion fees (including with respect to mutual fund exchanges, American Depositary Receipt conversions, and conversions of convertible bonds); clearinghouse fees; SEC fees; odd-lot differentials; electronic fund and wire transfer fees; platform service and access fees; account transfer fees; auction fees; debit balances; margin interest; and charges imposed by law.

Clients should review the Form ADV Part 2A Brochures of Lockwood and the Portfolio Managers for more information regarding such brokerage practices as “trading away” and “step-out trades” and conflicts of interest, and consider any additional expenses.

The Core Portfolios, Blend Portfolios, Dedicated Portfolios, and Fixed Income Portfolios Advisory Fees do not cover costs associated with assets held outside the program accounts or charges associated with other accounts that the client has with ETCM or its affiliates, including, without limitation, transaction charges relating to a purchase of Advisory Assets that the client elects to make outside of ETCM’s advisory accounts.

ETCM has the sole discretion to waive or rebate advisory fees, in whole or in part, in some cases, represent dealer bids or offers that would be achievable only for orders of a particular size. Additionally, in instances where trades were executed at the very end of a calendar quarter but did not settle in the same quarter, brokerage account statements will reflect the execution price and not the most recent market price on the last day of the quarter.

ETCM retains some of the fees it receives for advisory and portfolio management services and distributes the remaining portion to ETS in payment for services rendered for brokerage, custodial, and clearing services. For Dedicated Portfolios and Fixed Income Portfolios, a portion of ETCM’s fee is used to compensate Lockwood for its services as co-adviser and co-sponsor. For information about Lockwood’s payments to Portfolio Managers, please consult its Co-Sponsored Programs Wrap Fee Program Brochure.

Affiliates of ETCM provide marketing, shareholder servicing, distribution, administration, bookkeeping, and other services for mutual funds held in clients’ advisory accounts and earn fees, such as Rule 12b-1 fees, for such services. These fees are disclosed in each mutual fund’s prospectus. Depending on the relationship between ETS and the mutual fund company, the amount of these fees due to ETCM or its affiliates will be either withheld by the mutual fund clearing company or rebated to the client accounts.

With regard to Title I ERISA accounts, ETCM relies on being a level-fee fiduciary for the ongoing management of the Wrap Fee Programs.

Account market value is the daily weighted average market value of assets held in a Wrap Fee Program account during the quarter after the close of business on the last trading day of the quarter. The quarters end on the last day of March, June, September, and December. As the market value of the Wrap Fee Program account reaches a higher breakpoint, as shown in the following tables, the assets in the higher-breakpoint category are charged a lower fee. In certain circumstances, due to an error by ETCM or a third-party vendor, if clients are owed by ETCM a monetary credit of less than $5, the proceeds of the credit will be donated to an investor education charity. A monetary credit of $5 or more will be credited to the advisory account. With regard to terminated accounts, ETCM will make commercially reasonable efforts to provide the credited amount to former clients.

**Core Portfolios Fee Schedule**

The following reflects the standard Advisory Fee charged to Core Portfolios clients.

<table>
<thead>
<tr>
<th>Account Market Value</th>
<th>Annual Advisory Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000 and over</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

**Blend Portfolios Fee Schedule**

The following reflects the standard blended Advisory Fee charged to Blend Portfolios clients.

<table>
<thead>
<tr>
<th>Account Market Value</th>
<th>Annual Advisory Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>First $100,000</td>
<td>0.90%</td>
</tr>
<tr>
<td>Next $150,000</td>
<td>0.80%</td>
</tr>
<tr>
<td>Next $250,000</td>
<td>0.75%</td>
</tr>
<tr>
<td>Next $500,000</td>
<td>0.70%</td>
</tr>
<tr>
<td>Next $1,000,000 and over</td>
<td>0.65%</td>
</tr>
</tbody>
</table>

**Dedicated Portfolios Fee Schedule**

The following reflects the standard blended Advisory Fee charged to Dedicated Portfolios clients.

<table>
<thead>
<tr>
<th>Account Market Value</th>
<th>Annual Advisory Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>First $1,000,000</td>
<td>1.25%</td>
</tr>
<tr>
<td>Next $1,000,000</td>
<td>1.15%</td>
</tr>
<tr>
<td>Next $3,000,000</td>
<td>1.10%</td>
</tr>
<tr>
<td>Next $5,000,000 and over</td>
<td>0.95%</td>
</tr>
</tbody>
</table>
Fixed Income Portfolios Fee Schedule

The following reflects the standard blended Advisory Fee charged to Fixed Income Portfolios clients.

<table>
<thead>
<tr>
<th>Account Market Value</th>
<th>Bond Ladder Annual Advisory Fee</th>
<th>Actively Managed Annual Advisory Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>First $1,000,000</td>
<td>0.45%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Next $2,000,000</td>
<td>0.40%</td>
<td>0.70%</td>
</tr>
<tr>
<td>Next $3,000,000 and over</td>
<td>0.35%</td>
<td>0.65%</td>
</tr>
</tbody>
</table>

Compensation

As dually registered representatives of ETCM and ETS, IARs receive different types and levels of compensation for the sale of investment advisory services offered by ETCM and/or brokerage services offered by its affiliates and, thus, will have a financial incentive to recommend one product or service over other products or services available to the client. Compensation relating to ETCM’s investment advisory services is currently more than the compensation provided to an IAR if a client purchases brokerage products and services. As a result, an IAR will have a financial incentive to recommend ETCM’s advisory services over other products or services available.

In addition, IARs are, under certain circumstances, incented to recommend other advisory programs or products and services from ETS and its affiliates, including the E*TRADE Line of Credit from E*TRADE Savings Bank or referrals to the E*TRADE Advisor Network (“Network”), before or after recommending a Wrap Fee Program. These incentives include compensation based on the gross revenue generated by E*TRADE Lines of Credit or compensation based on the amount of assets transferred to an investment adviser in the Network. This compensation does not vary depending on whether the IAR’s clients use brokerage accounts or advisory accounts to collateralize their E*TRADE Line of Credit or to be managed by an adviser in the Network.

From time to time, IARs participate in sales contests or are paid cash compensation related to products offered by ETCM. Any cash compensation paid by ETCM for client referrals or solicitations will be made only in accordance with applicable rules under the Advisers Act and, when applicable, ERISA. Any referral payment does not represent an incremental amount above and beyond the investment Advisory Fee paid by the client to ETCM. All payments are administered in accordance with the provisions of a written compensation plan that is administered and supervised by the Human Resources Department and/or other independent units of E*TRADE Financial. All written compensation plans are subject to change.

Uninvested Cash

Uninvested cash balances are invested daily in a money market fund or other short-term cash vehicles (“Sweep Options”) that are available through ETS and its affiliates. The Sweep Option is subject to change at any time without notice. Clients have the option to call 800-E*TRADE-1 (800-387-2331) or a Financial Consultant to change the Sweep Option or make inquiries regarding available Sweep Options. The yields for the different uninvested cash Sweep Options offered through ETS vary and can be higher or lower than the default Sweep Options for investment advisory programs.

ETCM or its affiliates receive certain payments for affiliated cash Sweep Options used for uninvested cash. These fees are separate and apart from the Advisory Fee. Uninvested cash balances for the Wrap Fee Programs are generally invested in the JPMorgan U.S. Government Money Market Fund Capital Class, unless otherwise designated by the client or ETS. The Capital Class shares do not pay out these types of fees to ETCM or its affiliates.

If the advisory account is terminated and converted to a traditional commission-based brokerage account, the uninvested cash will be swept into the default Sweep Option offered for such accounts.

Clients could lose money by investing in a money market fund. Because the share price of a money market fund can fluctuate, when clients sell their shares, the price could be worth more or less than what clients originally paid for them. A money market fund has the ability to impose a fee on the sale of the shares or temporarily suspend the client’s ability to sell shares if the fund’s liquidity falls below the minimum requirement because of market conditions or other factors. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. A fund’s sponsor has no legal obligation to provide financial support to the fund, and clients should not expect that the sponsor will provide financial support to the fund at any time.

Performance-Based Fees and Side-by-Side Management

ETCM does not charge performance-based fees or engage in side-by-side account management activities. Performance-based fees are based on a share of capital gains or capital appreciation of a client’s account. Side-by-side management is the practice of managing accounts that are charged a performance-based fee while at the same time managing accounts that are not charged.

ITEM 5. ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

Minimum Account Size

ETCM currently offers Wrap Fee Programs with varying account minimums and fees. ETCM reserves the right to waive account minimums at its sole discretion. In instances where ETCM lowers or completely waives the account minimum for new clients, an initial minimum deposit must be made to enroll in a Wrap Fee Program.

If a client withdraws funds from their Wrap Fee Program account in an amount that causes the total assets in the account to fall below the referenced minimum, ETCM reserves the right to terminate the Advisory Agreement. Upon termination of the Advisory Agreement, a client’s account is converted to a standard ETS brokerage account (please see “Termination of Wrap Fee Programs” in Item 5 “Account Requirements and Types of Clients” of this Brochure).

The standard minimum account balances to enroll in a Wrap Fee Program are listed below:

- Core Portfolios: $5,000
- Blend Portfolios: $25,000
- Dedicated Portfolios: $150,000
- Fixed Income Portfolios: $250,000

The minimum account size to enroll in a Wrap Fee Program is subject to change. With the Dedicated Portfolios program, for each manager model portfolio used in a Dedicated Portfolios account, the minimum investment of the client’s Dedicated Portfolios account with a Model Portfolio is generally $50,000. Therefore, portfolios that enroll in the Dedicated Portfolios advisory program with account balances close to the Dedicated Portfolios advisory program minimum will not have access to the full array of manager model investment options available when creating a diversified Dedicated Portfolios account. In situations where a Dedicated Portfolios account’s asset class allocation requirements are less than the corresponding manager model minimums, those portions of the Dedicated Portfolios account will be constructed using mutual funds and/or ETFs. Prospective clients should weigh this fact with the other Dedicated Portfolios program features when selecting Dedicated Portfolios over other advisory programs offered by ETCM that also invest in mutual funds and/or ETFs and charge a lower annual Advisory Fee. Dedicated Portfolios Advisory Fees are neither raised nor lowered based on the number of manager models included in a Dedicated Portfolios portfolio. IARs will consider other ETCM advisory programs if the number of model managers available for the creation of the Dedicated Portfolios account does not fulfill the investor’s needs and objectives.

Types of Clients

The Wrap Fee Programs are generally available to individuals, joint accounts, trusts, charitable organizations, corporations, business entities residing in the United States, retirement accounts, and certain plans under Title I of ERISA. US military persons stationed outside the United States are considered US residents for the purposes of enrollment eligibility.

Not all account types are available for enrollment in Core Portfolios, including trusts, charitable organizations, corporations, and business accounts.

Client relationships vary in scope and length of service. ETCM reserves the right to decline any new account or to resign as adviser to any account after initiation of an investment advisory relationship for any reason at its sole discretion.
ETCM does not provide financial-planning, tax preparation, estate-planning, security-rating, pension-consulting, or market-timing services.

In compliance with the US Treasury Department's Office of Foreign Assets Control ("OFAC") sanctions program, ETCM or its designee checks to verify that a client's name does not appear on OFAC's “Specially Designated Nationals and Blocked Persons” list. ETCM or its designee will also review existing accounts against these lists when they are updated. If ETCM or its designee determines that a client is on one or more of these lists, ETCM or its designee will decide on the proper course of action.

The Core Portfolios program is available for joint account holders. For joint accounts, any joint account holder can accept the Investment Proposal and enroll in an account on behalf of any joint account holder(s) by accepting the Advisory Agreement.

Termination of Wrap Fee Programs

ETCM (for Core Portfolios and Blend Portfolios) and ETCM and Lockwood (for Dedicated Portfolios and Fixed Income Portfolios) reserve the right to terminate a client's Wrap Fee Program account and related Advisory Agreement at any time without providing notice to the client. ETS separately has the right to terminate the underlying brokerage account, thereby terminating the Wrap Fee Program account. If ETCM terminates the Advisory Agreement, the account becomes an ETS commission-based brokerage account, and the client will no longer receive ongoing monitoring and investment advice with respect to the account and will not be charged the Advisory Fee as of the date of termination.

A client can terminate a Wrap Fee Program account by giving notice to ETCM, and the client is responsible for any fees accrued up to the date of termination. Upon account termination, the IAR does not act in an investment adviser capacity for a client with respect to the Wrap Fee Program account but will act in the capacity of a registered representative of ETS. As a result, a client would no longer be charged a Wrap Fee Program account Advisory Fee but would be charged transaction-based compensation (e.g., markups/markdowns and commissions) with respect to all transactions in the account. In addition, the IAR would not have any responsibility to monitor the account or provide ongoing investment advice with respect to the account as of the date of termination.

ETCM (for Core Portfolios and Blend Portfolios) and ETCM and Lockwood (for Dedicated Portfolios and Fixed Income Portfolios) reserve the right to decline any new account in the Wrap Fee Program at any time and for any reason at their sole discretion. The client has the ability to terminate the Account without penalty by giving notice within five business days after the account is enrolled.

The termination of a Wrap Fee Program, whether initiated by a client, by ETCM, by Lockwood, or by ETS, generally occurs within five business days from the date of the request for termination. There is no attempt to time the market when liquidating the Wrap Fee Program portfolio holdings. In addition, if the intent is to transfer funds out of E-TRADE, an administrative hold is placed on the account until the final management fee has been assessed.

The termination and liquidation timeline for Fixed Income Portfolios depends on when the Fixed Income Portfolios' bond trades are made through an unaffiliated broker-dealer and then cleared and settled through ETS.

ITEM 6. PORTFOLIO MANAGER SELECTION AND EVALUATION

For the Core Portfolios and Blend Portfolios programs, ETCM, through the IPC and with the support of the IST, selects, removes, or adds ETFs and/or open-end mutual funds to these programs.

For the Dedicated Portfolios program, ETCM, through the IPC and with the support of the IST, works with Lockwood to select, remove, or add open-end mutual funds, ETFs, and manager models. ETCM selects the model managers available in the Dedicated Portfolios program from Lockwood's universe of model managers.

For the Fixed Income Portfolios program, ETCM, through the IPC and with the support of the IST, works with Lockwood to select, remove, or add investment managers from Lockwood's universe of investment managers. The IST conducts due diligence and monitors the investment advisory firms that manage the underlying mutual funds, ETFs, and Model Portfolios, using a combination of quantitative analysis and fundamental qualitative analysis. Lockwood provides oversight of the Portfolio Managers.

For the Dedicated Portfolios program, Lockwood serves as an overlay Portfolio Manager with responsibilities relating to the selection, standards of oversight, and ongoing performance evaluation of the nonaffiliated model managers who manage the approved manager Model Portfolios. The client should refer to Lockwood's Co-Sponsored Programs Wrap Fee Program Brochure for further information regarding Lockwood's due diligence process for the model managers.

For mutual funds and ETFs, qualitative analysis validates the quantitative performance results by assessing the quality of the sponsoring fund family, the portfolio management team, and the investment process used to manage each fund.

The investment process includes the following components: operational feasibility assessment, performance analysis, style/portfolio analysis, fund manager and investment process evaluation, and organizational evaluation.

Methods of Analysis, Investment Strategies, and Risk of Loss

Methods of Analysis and Investment Strategies

Security analysis methods include quantitative (mathematical), fundamental (financial), technical (price and market), and cyclical (trend and time series) analyses. No particular analytical discipline can predict the absolute outcomes of a planned investment strategy, and any such discipline must consider various uncertainties, including but not limited to the risks subsequently described.

ETCM and its service providers, such as Lockwood, consult financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the SEC, and company news releases to assist them in formulating investment advice. Other sources of information that ETCM and its service providers use include but are not limited to Morningstar, Inc.; Litman Gregory; Advisor Intelligence; Zephyr Associates, Inc.; and additional internet resources.

Please see “Dedicated Portfolios” and/or “Fixed Income Portfolios” under “Features of the Wrap Fee Programs” in Item 4 “Services, Fees, and Compensation” of this Brochure for additional details about the responsibilities of co-adviser and co-sponsor Lockwood and, if applicable, a Portfolio Manager’s Firm Brochure.

Over time, market fluctuations cause various asset classes to become over- or underweighted in relation to the designated model allocation. When necessary to maintain designated asset allocations, ETCM (with Lockwood for the Dedicated Portfolios program) makes periodic determinations to rebalance a Wrap Fee Program account. This rebalancing is performed in accordance with established parameters that correspond to a client's investment strategy.

For further information about the Wrap Fee Program rebalancing methodologies, please see “Review of Accounts” in Item 9 “Additional Information” of this Brochure. Given the investment strategy of the individual bond portfolio, Fixed Income Portfolios do not have a rebalancing feature.

Alternate asset allocations and alternate advisory asset selections from the initial and subsequent portfolio recommendations are available for the Core Portfolios, Blend Portfolios, and Dedicated Portfolios programs. Clients can log on to etrade.com at any time to change their risk profile information. Core Portfolios clients have the ability to also change their portfolio to one that is tax-sensitive. Clients should be aware that there is no additional benefit if a qualified retirement account invests in a tax-sensitive portfolio. Dedicated Portfolios clients can request reasonable restrictions based on investment category (e.g., alcohol, gambling, tobacco, and/or oil stocks) or by individual stock, mutual fund, ETF name, and ticker symbol. Clients in the Fixed Income Portfolios program have the ability to impose restrictions on specific bond CUSIP numbers (a multi-character alphanumeric code that identifies specific financial securities).

ETCM makes redemptions and purchases of mutual fund shares, ETFs, or manager models in the Dedicated Portfolios accounts to reallocate client assets according to any revised allocation targets. Changes include both adding and removing Advisory Assets and changing the percentage ownership in some or all Advisory Assets held in the client's Wrap Fee Program account.

Information about a portfolio's investment strategies and risk is available in the client's Investment Proposal, however, the underlying mutual funds, ETFs, manager models (in
Dedicated Portfolios), or Portfolio Managers (in Fixed Income Portfolios) reserve the right to use portfolio strategies or investments that are different from those mentioned in the Investment Proposal. Prospective clients or clients who have questions about the investments and investment strategies used in a portfolio should consult their IAR or IAR Service Team.

Risk of Loss

Wrap Fee Programs have certain risks that are borne by the investor. Investing in securities involves the risk of loss. ETCM’s investment approach constantly keeps the risk of loss in mind. At a minimum, investors face the following types of investment risks, while not an all-inclusive list, depending on the selected investment product and the portfolio of held investments.

- **Interest rate risk.** Fluctuations in interest rates could cause investment prices to fluctuate and have an adverse impact on the value of fixed income securities. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline. The value of securities with longer maturities is generally affected by a greater degree than the value of those with shorter maturities.

- **Market risk.** The price of a security, bond, or mutual fund could drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security’s particular underlying circumstances. For example, political, economic, and social conditions have the ability to trigger market events.

- **Inflation risk.** When any type of inflation is present, a dollar today might not buy as much as a dollar next year because purchasing power can change due to the rate of inflation.

- **Duration risk.** Duration is a measure of the sensitivity of the price or principal value of a fixed income investment or portfolio to a change in interest rates. Generally, fixed income portfolios with longer bond maturities carry a greater duration risk than portfolios with shorter bond maturities.

- **Currency risk.** Overseas investments are subject to fluctuations in the value of the U.S. dollar against the currency of the investment’s originating country. This is also referred to as exchange rate risk.

- **Reinvestment risk.** This is the risk that future proceeds from investments could be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.

- **Credit risk.** This refers to the possibility that an issuer of a bond is not able to make principal and interest payments. Many fixed income securities receive credit ratings from nationally recognized statistical rating organizations that assign ratings to securities by likelihood of issuer default. The ratings range from AAA, which is the highest rating, to D, which indicates no rating. Changes in the credit strength of an issuer is an example of when a reduced rating could affect the value of the bond.

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

- **Liquidity risk.** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury bills are highly liquid, while real estate properties are not.

- **Financial risk.** Excessive borrowing to finance a business’s operations increases the risk of profitability because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations could result in bankruptcy and/or a declining market value.

- **Concentration risk.** This is the risk of amplified losses that could occur from having a large portion of holdings in a particular investment, asset class, or market segment relative to the investor’s overall portfolio.

- **Risk associated with Advisory Assets that invest in alternative investments.** Alternative investment strategies go beyond the traditional long-only equity and fixed income strategies and therefore involve a higher degree of risk, including short sale and derivative risks. Alternative investment holdings, including mutual funds that engage in alternative investment strategies, are not for everyone and could even be considered speculative.

- **Cybersecurity risk.** ETCM depends on digital and network technology to conduct its day-to-day business operations and to fulfill its obligations to clients. The use of such technology presents a potential risk to both ETCM and its clients with respect to cyberattacks by unauthorized third parties attempting to disrupt or gain access to sensitive confidential information. Breaches in cybersecurity have the ability to result in incidents including but not limited to disclosure of a client’s personal identifiable information, misappropriation or destruction of data, denial of service, and operational disruption. Such incidents could cause ETCM or its affiliates to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. ETCM relies on the E*TRADE Financial Corporation Enterprise Information Security Policy to manage and mitigate risks associated with safeguarding the information of E*TRADE Financial Corporation, its affiliates, and their customers and employees. Adherence to the policy, however, does not guarantee that a cybersecurity incident will not occur.

- **Technology risk.** There are risks involving gaps or errors arising from the use of digital and network technology. These potential gaps could result in errors in the day-to-day management of the advisory solutions. ETCM relies on regular testing and reviews of the advisory programs to help manage and mitigate such risks. This is not seen as a guarantee against errors, but it serves to help protect the integrity of the systems and seeks to identify and resolve those errors in a timely manner.

- **Rebalancing risk.** A rebalancing strategy seeks to minimize relative risk by aligning the portfolio to a target asset allocation as the portfolio’s asset allocation changes. Rebalancing a portfolio has the ability to limit the upside growth potential of the portfolio, and these types of strategies might rebalance the client accounts without regard to market conditions. Furthermore, rebalancing strategies does not necessarily address prolonged changes in market conditions.

- **Loan and collateral risk.** Clients electing to borrow money from E*TRADE Savings Bank are permitted to “pledge” or use the assets in their eligible Core, Blend, Dedicated, or Fixed Income Portfolios Wrap Fee Program account (that is not a retirement account) as collateral (such lending program, the E*TRADE Line of Credit). While IARs are involved in prompting the E*TRADE Line of Credit, participation in the program is self-directed, and ETCM has no involvement with a client’s decision to secure their E*TRADE Line of Credit account with a Wrap Fee Program account. The terms and conditions applicable to the E*TRADE Line of Credit are governed by the E*TRADE Line of Credit and Security Agreement and other applicable loan documents (collectively the “Loan Documentation”) that are not included or fully described in this Brochure. Clients who elect to participate in the E*TRADE Line of Credit should carefully review the terms, conditions, and any related risk disclosures for the E*TRADE Line of Credit and understand that such risks could be heightened in the event the client holds a concentrated position in their pledged account or if the client’s pledged account makes up all or substantially all of their overall net worth or investable assets.

If a client fails to deposit sufficient cash or other eligible assets into the Wrap Fee Program account in a timely manner in response to a collateral call, E*TRADE Savings Bank has the right to take control of the Wrap Fee Program account by delivering a Notice of Exclusive Control, as set forth in the Loan Documentation. In addition, E*TRADE Savings Bank can enforce a liquidation of any pledged collateral and can do so without contacting the client. The Advisory Agreement with ETCM and the account’s participation in the Wrap Fee Program will terminate immediately if E*TRADE Savings Bank takes control of the account in accordance with the terms of the Loan Documentation, and the account will convert to a brokerage account, which is subject to the terms of the E*TRADE Customer Agreement as well as the Loan Documentation. Under such circumstances, ETCM will no longer provide investment advisory services to the account and will stop charging the Wrap Fee Program Advisory Fee.

Clients should understand that E*TRADE Savings Bank’s lien on the collateral held in the Wrap Fee Program account supersedes the discretionary authority granted to ETCM, Lockwood, or any Portfolio Manager. E*TRADE Savings Bank will act to protect its own commercial interest as lender and take actions that are inconsistent with fiduciary duties owed to clients by ETCM, Lockwood, or any other Portfolio Manager. In most cases, such actions will adversely affect clients participating in the E*TRADE Line of Credit, including by liquidating or causing the liquidation or transfer of securities on behalf of a client or freezing and liquidating or transferring such securities in E*TRADE Savings Bank’s own name, in each case following the termination of the Advisory Agreement as a result of E*TRADE Savings Bank’s taking control of the account in accordance with the terms of the Loan Documentation. Clients will not have the designate specific securities or types of securities to be pledged as collateral.
If a pledged Wrap Fee Program account is converted to a brokerage account due to E*TRADE Savings Bank’s taking control of the account in accordance with the terms of the Loan Documentation, clients generally will not be (a) provided with prior notice of a liquidation or transfer of the securities in such account or (b) entitled to choose the securities to be liquidated or transferred by the lender. The costs associated with the E*TRADE Line of Credit are not included in the Wrap Fee Program Advisory Fee and will result in additional compensation to E*TRADE Savings Bank and its affiliates.

E*TRADE Savings Bank’s lien creates conflicts of interest with respect to the management of clients’ Wrap Fee Program accounts as a result of ETCM’s affiliation with the lender. For example, because of such a lien, ETCM has an incentive to favor accounts participating in the E*TRADE Line of Credit over other accounts without loans (e.g., for investment or trade allocations or the valuation of positions in the account), and to prefer more conservative investment choices than are otherwise appropriate for the accounts in the E*TRADE Line of Credit, to minimize the risk of loss with respect to E*TRADE Savings Bank’s collateral. ETCM seeks to mitigate this risk by not managing accounts differently. Please refer to “Other Financial Industry Activities and Affiliations” and “Participation or Interest in Client Transactions and Personal Trading” in Item 9 “Additional Information” of this Brochure for additional information, including how conflicts of interest are mitigated.

For additional information about the risks associated with investments in ETCM’s investment programs, please contact an ETCM IAR or IAR Service Team.

Performance Standards

As noted above, the IPC, with the support of the IST, works with Lockwood to select, remove, and add open-end mutual funds, ETFs, Dedicated Portfolios manager models, and Fixed Income Portfolios Portfolio Managers in the Wrap Fee Programs. The IST conducts due diligence on mutual funds, ETFs, and manager models using a combination of quantitative analysis and fundamental qualitative analysis.

In addition, ETCM relies on Lockwood to obtain and calculate investment performance information for individual Wrap Fee Program accounts. This performance information is client specific and is provided to clients in their Quarterly Portfolio Review (”QPR”) document, further described under “Review of Accounts” in Item 9 “Additional Information” of this Brochure. Further information regarding the performance calculation methods is provided in the QPR. Clients must be enrolled in an advisory program for at least one month to obtain a QPR.

Brokerage Practices

Selecting Brokerage Firms

Under the provisions of the Advisory Agreement, Wrap Fee Program clients, except for clients enrolled in the Fixed Income Portfolios program, elect to direct all brokerage transactions to execute through ETS, and clients cannot designate or select a different broker. Not all investment advisers require clients to direct their accounts to use a broker that has been selected by the investment adviser. For the Fixed Income Portfolios program, Portfolio Managers almost always effect transactions for the purchase and/or sale of fixed income securities through unaffiliated broker-dealers selected and used by the Portfolio Managers. This type of trading is often referred to as “trading away” or “step-out trades.”

Clients should review the Form ADV Part 2A Brochure of the selected Portfolio Manager for more information regarding that Portfolio Manager’s brokerage practices.

ETCM or its affiliates and broker-dealers selected by Fixed Income Portfolios Portfolio Managers have the ability to aggregate orders when possible to seek to lower the underlying execution costs associated with the transactions. Trade allocations from block trades are executed through average price accounts, and shares traded in the same block order are allocated to clients in a fair and equitable manner. There are no trading commissions charged to clients enrolled in ETCM’s Wrap Fee Programs. Under certain circumstances, similar trades are executed throughout the trading day to accommodate various client needs, including withdrawal requests.

Core Portfolios ETF trades are aggregated with other Core Portfolios client trades when appropriate. These trades are executed with other aggregated trades from ETCM’s other advisory programs. In these situations, a different trade order (or block trade order) is placed, and clients receive different prices compared with client trades placed and executed during other hours of the trading day.

Fractional shares do not trade in the market and therefore require ETCM’s affiliated broker-dealer, ETS, to engage in a practice called “trading along,” whereby ETS adds a fractional share to ETCM’s aggregated sell orders so that the order is rounded up to whole shares or buys the remainder fraction that is left over from block buy orders. All clients that are part of the aggregated order, including ETS, receive the average price for that block trade order.

As part of this fractional share trading along process, ETS maintains a facilitation account that holds a small number of ETF shares in inventory for sell orders and keeps cash on hand for buy orders. Due to a variety of factors such as the number of trades executed, allocating fractional shares to multiple clients at one time and market price volatility, ETS may accrue a de minimis net profit or loss in its fractional share facilitation account. Details regarding the trading along process are available by calling the MAT Team.

All ETCM trade orders are executed in one of ETCM’s average price accounts. The price represents an average of multiple executions or it represents a single execution at the price indicated. For plans subject to ERISA, block trades placed in the average price account are done in a manner consistent with the plan’s interest and that does not disadvantage the plan. Details regarding trades executed in the average price account are available on request. Executed positions are allocated by an accounting entry from the average price account to the client’s account. ETCM client trades are not crossed with other client orders or ETS brokerage customer orders.

Best Execution

ETCM has adopted a Best Execution Policy pursuant to which ETCM reviews trade exception reports containing samples of trades to monitor for best execution. Pursuant to its Best Execution Policy review practices, ETCM periodically reviews the results of ETS customer trade execution data and best execution processes to determine if there is a reasonable good-faith process in place designed to seek best execution of ETS customer trades, including ETCM client portfolio trades. ETCM conducts due diligence reviews of trades made by unaffiliated third-party broker-dealers for Fixed Income Portfolios.

The ETS Best Execution Committee is responsible for assessing whether the market centers that receive and execute ETCM trades are upholding their best execution obligations for ETCM clients. The committee meets periodically and reviews data regarding the execution quality of equity and ETF trades completed through ETS, including ETCM client trades.

Clients should note that under the order-routing arrangement described above, the most favorable execution of client transactions cannot always be guaranteed when compared with the trade executions that other broker-dealers provide their customers. This practice could result in higher prices paid or lower proceeds received for trades. ETS posts data on “price improvement” and other trade execution data on its website, etrade.com.

For the Dedicated Portfolios program, if Lockwood believes that another broker-dealer would provide better execution, considering all factors including the net price, Lockwood has the ability to execute trades through another broker-dealer. For ETS, the expense of commissions or other transaction costs for the associated services provided by another broker-dealer would be an additional expense not included in the Advisory Fee.

For Fixed Income Portfolios, Portfolio Managers, as well as Lockwood and ETCM, have an obligation to seek to obtain best execution for the trades in client accounts. A Portfolio Manager, at its sole discretion, will place trade orders with any broker-dealer pursuant to the terms of the Advisory Agreement, if the Portfolio Manager believes that doing so is consistent with its obligation to seek best execution.

The ETS Fixed Income Best Execution Committee assists with monitoring, reviewing, and discussing execution statistics for fixed income securities purchased and sold in the Fixed Income Portfolios program. ETCM conducts due diligence reviews of trades made by unaffiliated third-party broker-dealers for Fixed Income Portfolios.

Soft Dollars

ETCM has no soft dollar arrangements and does not receive soft dollar credits from brokers with whom client portfolio trades are executed. The term soft dollars is used to describe the circumstances whereby an adviser or money manager directs trade orders through a certain broker-dealer who in return for the brokerage business will provide certain services, such as research, at no additional charge.
Certain Portfolio Managers available in the Fixed Income Portfolios program use soft dollars, which are the commission dollars of their advised accounts, to obtain investment research and brokerage services from other institutions. A Portfolio Manager’s decision to do so is independent of ETCM. Clients should consult each Portfolio Manager’s Form ADV, Part 2A Brochure or other disclosure document to determine the Portfolio Manager’s specific practices and procedures regarding the use, or lack thereof, of soft dollar arrangements.

Proxy Voting

ETCM does not vote proxies for clients or advise clients about the voting of proxies, the exercise of corporate actions (including with respect to any tender offer), or the filing of any legal proceeding (including any bankruptcy or class action) relating to the securities held in Wrap Fee Program accounts.

If the client has a plan subject to Title I of ERISA, ETCM, on its own behalf and on behalf of its affiliates, notes that (a) it has been expressly excluded from taking such actions on behalf of the plan in the Agreement and (b) it will have no responsibility or authority to vote proxies, exercise corporate actions, or file or complete notices regarding legal proceedings.

Clients are expected to vote their own proxies and will receive their proxies directly from the custodian or transfer agent.

For the Dedicated Portfolios program only, Lockwood votes proxies associated with the investments held in the portfolios in a manner designed to be consistent with its written proxy voting policy. Lockwood’s proxy voting policy is further described in its Co-Sponsored Programs Wrap Fee Program Brochure.

For plans governed by ERISA, clients choose to delegate proxy voting to Lockwood for accounts where it is the co-adviser. If delegated, Lockwood votes proxies associated with the investments held in co-advised portfolios in the manner described above.

A copy of the policy summary, the voting history associated with Dedicated Portfolios investment holdings, and the methodologies used to address potential conflicts of interest can be made available on request.

For the Fixed Income Portfolios program, Lockwood and the Portfolio Managers are responsible for responding to any corporate actions related to the bonds held in the portfolios.

Potential Conflicts of Interest

Conflicts of interest or potential conflicts of interest commonly refer to activities or relationships in which ETCM’s or its affiliates’ interests compete with the interests of ETCM’s clients.

ETCM aims to provide full and fair disclosure of these activities or relationships in this Brochure and the Advisory Agreement. In addition to the information in this Brochure, please consider the following information regarding conflicts of interest.

E*TRADE Financial representatives are responsible for (a) identifying conflicts of interests within the brokerage and adviser-related business lines of E*TRADE Financial and (b) reviewing controls, policies, and procedures to assess the associated risks of such conflicts. Although E*TRADE attempts to assess risk, this does not mean that these applicable risks are eliminated. This group reviews and discusses potential conflict-of-interest practices and procedures for ETCM and implements enhancements as necessary.

The principal executive officers and other control persons of ETCM allocate a substantial portion of their time to the management of other E*TRADE Financial subsidiaries. This arrangement results in competing priorities and resources to execute each entity’s business plan.

ETCM’s affiliates give investment guidance and/or take actions in the performance of their duties that differ from or are inconsistent with the advice given or actions taken for other client accounts or employee accounts. In addition, recommendations made by ETCM differ from recommendations or guidance provided by its affiliates.

The universe of mutual funds available to ETCM is limited to the mutual funds and respective share classes available on the ETS mutual fund platform. As a result, ETCM does not have access to all mutual funds. Furthermore, certain retail share classes available on the ETS platform impose fees and expenses that are not generally imposed by institutional or advisory share classes of the same mutual fund and therefore could be less cost-effective.

IARs are, under certain circumstances, incented to recommend other advisory programs or products and services from ETS and its affiliates, including the E*TRADE Line of Credit from E*TRADE Savings Bank, before or after recommending a Wrap Fee Program. These incentives include compensation based on the gross revenue generated by E*TRADE Lines of Credit. This compensation does not vary depending on whether the IAR’s clients use brokerage accounts or advisory accounts to collateralize their E*TRADE Line of Credit. Additionally, IARs refer ETS and ETCM customers and current and prospective clients to unaffiliated registered investment adviser firms and are compensated for these referral activities.

For further information, please see “Compensation” in Item 4 “Services, Fees, and Compensation” and “Other Financial Industry Activities and Affiliations” in Item 9 “Additional Information” of this Brochure.

For more information about the potential conflicts of interest related to trading activities of certain employees, please refer to “Code of Ethics” and “Participation or Interest in Client Transactions and Personal Trading” in Item 9 “Additional Information” of this Brochure.

ITEM 7. CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS

ETCM IARs do not manage individual client portfolios. Client information is provided directly to ETCM, co-advisers, and Fixed Income Portfolios Portfolio Managers. As discussed in “Features of the Wrap Fee Programs” in Item 4 “Services, Fees, and Compensation” of this Brochure, ETCM collects information about the client’s financial circumstances, goals, and objectives to select an appropriate Model Portfolio for that particular client.

For the Core Portfolios program, clients should update their Investor Profile online if their financial condition changes. They can also contact the IAR Service Team to discuss the Core Portfolios program or their Investor Profile.

For the Blend Portfolios and Dedicated Portfolios programs, clients should notify their IAR if their financial condition changes or if they want to request investment restrictions, alternate investments, or portfolio allocations.

For the Dedicated Portfolios program, the information provided to underlying model managers is limited to collective asset allocation targets related to all clients within a manager model portfolio with no specific client information being provided.

For the Fixed Income Portfolios program, the Portfolio Managers have access to client information on the Lockwood platform.

ITEM 8. CLIENT CONTACT WITH PORTFOLIO MANAGERS

Clients should discuss questions about the Wrap Fee Program by contacting their IAR or IAR Service Team. An ETCM IAR will convey specific client questions to the IST, and in certain circumstances a Wrap Fee Program client can discuss the portfolios with individual members of the IST.

In the Dedicated Portfolios and Fixed Income Portfolios Wrap Fee Programs, client communications with Lockwood can be arranged through ETCM if needed. Clients are not generally permitted, however, to contact any of the third-party model managers.

ITEM 9. ADDITIONAL INFORMATION

Disciplinary Information

There are no legal or disciplinary events that are material to an evaluation by a client or prospective client of ETCM’s business or management.

Financial Information

ETCM does not have any financial impairment that will preclude the firm from meeting its contractual commitments to clients. ETCM does not require or solicit prepayment of the
Advisory Fee and is therefore not required to include a copy of its balance sheet for its most recent fiscal year.

Other Financial Industry Activities and Affiliations

ETCM is a related person of ETS, E*TRADE Futures, and E*TRADE Savings Bank. E*TRADE Futures is a non-clearing futures commission merchant. ETCM is affiliated with E*TRADE Savings Bank. E*TRADE Savings Bank performs certain functions in connection with its E*TRADE Advisor Services ("ETAS") division. ETAS offers a managed account portfolio management technology platform for unaffiliated third-party registered investment advisers.

ETCM maintains an intercompany agreement with ETS. ETS and its affiliates provide services and support to ETCM. In addition, ETS and its affiliates share certain employees with ETCM necessary to the operations of ETCM. The principal executive officers and other control persons of ETCM are employed by, and allocate a substantial portion of their time to the management of, other E*TRADE Financial subsidiaries that provide various financial services.

ETCM's IARs, including the IAR Service Team, are dually registered as broker-dealer registered representatives of ETS. ETS offers certain products to assist clients in selecting investments based on information provided by clients, including asset allocation services and an All-Star List of mutual funds and ETFs. When interacting with clients regarding their investment strategies, a dually registered IAR is available to discuss with the client their role as a registered representative of ETS or as an ETAS IAR.

ETS manages regional call centers and branch offices for handling client service needs. IARs of ETCM are located in these call centers and branch offices. ETS representatives solicit clients for, or refer clients to, ETCM's IARs for investment advisory services.

IARs outside the IAR Service Team are paid additional compensation related to products offered by ETCM. Any compensation paid by ETCM for client referrals or solicitations will be made only in accordance with the Advisers Act. Any referral payment does not represent an incremental amount above and beyond the Advisory Fee paid by a client to ETCM. All payments are administered in accordance with the provisions of a written compensation plan that is administered and supervised by the Human Resources Department and/or other departments within E*TRADE Financial. All written compensation plans are subject to change.

If an IAR refers a client to an affiliate, the IAR will disclose to the client at the time of the referral the nature of the affiliation between the referring party and the affiliate.

ETS provides custodial services to participants in the Wrap Fee Programs. In such situations, a client enters into an investment advisory agreement with ETCM and will have a brokerage account with ETS. The costs of such services are included in the fees charged by ETCM to Wrap Fee Program clients.

ETS receives compensation in connection with the purchase and holding of mutual fund shares by clients. Such compensation includes but is not limited to Rule 12b-1 fees, shareholder service fees, and sub-accounting fees that are paid out of fund assets. ETS also receives payments from affiliates of a mutual fund, such as the adviser or distributor, out of its own resources. These fees are disclosed in each mutual fund's prospectus. For Wrap Fee Program portfolios, depending on the relationship between ETS and the mutual fund company, the amount of these fees due to ETCM or its affiliates will be either withheld by the mutual fund clearing company or rebated to the client accounts.

On occasion has negotiated business relationships with the affiliated distributor or investment adviser of some mutual funds. Under these business relationship arrangements, ETS receives revenue-sharing payments from the mutual fund affiliates. The payments are for distribution, shareholder servicing, and marketing services (e.g., advertising on E*TRADE Financial's website, co-branding in sales materials, and/or website disclosures) performed by E*TRADE Financial and for access to sales representatives and sponsored sales conferences and/or training programs. These payments are not made from mutual fund assets and are in addition to the Rule 12b-1 fees and shareholder service fees disclosed in each mutual fund's prospectus. The fee ETS or its affiliates receive varies and can be a flat fee, a payment based on sales, or an asset-based fee calculated based on the dollar value of fund accounts held by ETS customers. For Wrap Fee Program portfolios, the amount of these fees due to ETCM or its affiliates will be either withheld by the mutual fund clearing company or rebated to the client accounts.

No part of the revenue-sharing fees received by ETS is paid or directed to any sales representatives. To the extent that revenue-sharing arrangements pay for conferences and other educational opportunities for these representatives, however, it could lead representatives to place more focus on the funds that have a revenue-sharing arrangement with ETS or its affiliates. For information regarding a particular fund's payment and compensation practices, please see the fund's prospectus and statement of additional information.

ETS has contracted with exchange-traded fund companies to receive certain compensation in connection with the purchase of ETFs offered commission-free through ETS. This additional compensation is paid by an affiliate of the ETF. The compensation ETS receives as a result of these relationships is paid based on initial setup fees and a percentage of invested assets that ranges depending on the fund company. ETS does not receive compensation for commission-free ETF assets held in advisory programs.

For further information regarding ETCM, please refer to Part 2A of Form ADV, at etrade.com/advpart2a or call ETCM at 866-484-3658.

Code of Ethics

ETCM has adopted a Code of Ethics ("Code") as mandated by the Advisers Act rules. The Code requires certain employees of E*TRADE Financial and its subsidiaries to comply with applicable federal securities laws and to report violations of the Code. Employees who are covered by the Code are deemed to be "access persons" (also referred to herein as "supervised persons") because they provide investment advice or have access to certain related information.

The Code includes the following provisions:

a. Standards of business conduct required of access persons, which standards reflect fiduciary obligations and those of supervised persons to advisory clients;

b. Terms requiring supervised persons to comply with applicable federal securities laws;

c. Terms and procedures relating to the review and approval of certain securities transactions and holdings by supervised persons with access to client information;

d. Procedures for reporting violations of the Code; and

e. Procedures for the receipt and acknowledgment of the Code by supervised persons.

ETCM will provide a copy of the Code to any client or prospective client on request.

Participation or Interest in Client Transactions and Personal Trading

ETCM's supervised persons often have multiple brokerage accounts as well as different investment objectives, risk tolerances, and financial goals for those accounts. ETCM's supervised persons also have the ability to enroll their accounts in one or several of ETCM's advisory programs.

Although ETCM's Wrap Fee Programs are designed for long-term investing, the investment strategies for the accounts associated with ETCM's supervised persons can differ substantially from those of ETCM's clients. As such, supervised persons can buy, sell, or sell short securities that are also held in client portfolios. These supervised persons might also engage in short-term trading strategies that could involve the use of options. ETCM's advisory program can also include mutual fund holdings that engage in short selling, alternative investment strategies, or the use of various options strategies.

IARs do not have access to information about pending or contemplated material transactions in Wrap Fee Programs, and no supervised person shall knowingly trade their own securities ahead of client trades.

Many of the ETCM officers and supervised persons enrolled in ETCM advisory programs also serve as members or invited guests of the IPC. ETCM's supervised persons must comply with the provisions of the ETCM policies and procedures and the Code.

With the E*TRADE Line of Credit, a client has the option to "pledge" or use their Wrap Fee Program as collateral for loans obtained from E*TRADE Savings Bank. The costs associated with such loans are not included in the Wrap Fee Program Advisory Fee and will result in additional compensation to E*TRADE Savings Bank and its affiliates. This additional compensation, as well as E*TRADE Savings Bank's lien on Wrap Fee Program Advisory Assets, will result in a conflict of interest between ETCM and its clients and in conflicting incentives in the management of the
Client Referrals and Other Compensation

ETCM does not currently have any solicitation agreements with third parties but reserves the right to enter into such agreements for advisory client referrals.

ETCM receives client prospect referrals from employees of affiliates, particularly ETS call center employees. Referral fees are paid only to the extent that such an arrangement complies fully with the requirements of the Advisers Act.

While serving in their role as ETS representatives, IARs receive other brokerage compensation in connection with products and services sold by ETS.

IARs have the ability to receive additional compensation related to marketing campaigns sponsored by ETCM and/or its affiliates. This compensation does not represent any additional fee or expense to the client or to the client’s Wrap Fee Program account.

Review of Accounts

Wrap Fee Program performance is reviewed at least quarterly by the IPC. The IPC, working with the IST, reviews the Model Portfolio holdings and determines if changes should be made.

Wrap Fee Programs use rebalancing methodologies based on portfolio allocation drift parameters and/or a calendar rebalancing schedule. Client portfolio allocations are compared with target allocation drift parameters and rebalanced periodically to bring the portfolio into alignment with target allocations.

Core Portfolios, Blend Portfolios, and Dedicated Portfolios accounts are reviewed daily for cash deposits and withdrawals that would have an impact on a portfolio’s allocation. If the allocation percentages are out of tolerance with the portfolio’s asset allocation parameters, the account is rebalanced. Reports are reviewed by ETCM to help ensure that the system used to monitor and rebalance the accounts is functioning as designed.

For Core Portfolios, Blend Portfolios, and Dedicated Portfolios, ETCM and/or Lockwood selects the initial portfolio investments and allocations, monitors the account, rebalances the account when it is out of tolerance with the portfolio’s asset allocation parameters, and adjusts portfolio holdings when necessary. Clients are provided with the asset allocations as part of their Investment Proposal. Out-of-tolerance parameters and/or predetermined calendar rebalancing schedules, if applicable, are reviewed and set by ETCM and are subject to change.

On a quarterly basis, ETCM requests that its clients notify ETCM in the event that their financial information or investment goals and objectives change. Additionally, on an annual basis, ETCM contacts each client to confirm that the client’s personal financial situation has not changed materially since the most recent asset allocation was recommended. Clients are reminded that alternative asset allocations and investment recommendations are available on request.

For Blend Portfolios, Dedicated Portfolios, and Fixed Income Portfolios, the continuing role of the IAR or IAR Service Team is to review and monitor an advisory account and be available to conduct annual reviews with the client to discuss the client’s personal financial condition, investment goals, appropriate strategy (asset allocation), and performance. The client must contact their IAR promptly whenever any significant change in the client’s personal or financial condition or investment goals occurs, to discuss whether changes in asset allocation are necessary.

Once enrolled for a full quarter, each client receives a QPR by mail or electronically. The QPR contains market commentary for the previous quarter, all the account positions, net investment amount (beginning value plus contributions minus withdrawals), performance information, and important disclosures about the information provided to the client. IARs or the IAR Service Team are available to discuss QPRs with clients, and clients can contact the IAR or IAR Service Team assigned to the account at any time to discuss the advisory program or transactions in their portfolios.

Core Portfolios clients must update their Investor Profile promptly or contact their IAR or IAR Service Team whenever any material change in their personal or financial condition and/or investment goals occurs so that ETCM can determine whether changes in asset allocation are necessary. Core Portfolios clients will receive electronic communications from ETCM about their managed accounts.