

## **Risk Disclosures for Interactive Brokers Asset Management Index Tracking Portfolios**

You have elected to invest in an index tracking portfolio managed by Interactive Brokers Asset Management (“IBKRAM”), the trade name of Covestor Limited. Please read and acknowledge the following disclosure of the potential risks of investing in these portfolios.

### **Overview**

The Index Tracking Portfolios are proprietary investment portfolios constructed and managed by IBKRAM based on data provided by FTSE International Limited (“FTSE”) and the Frank Russell Company (“Russell”) pursuant to licensing agreements. Each Index Tracking Portfolio is designed to track the composition and performance of the specified basket of underlying securities in the reference index. IBKRAM decides on the initial composition of these portfolios and their quarterly rebalancings based on data provided by FTSE and Russell. To provide these portfolios, IBKRAM initially funds and trades a fixed amount of its funds in separate proprietary brokerage accounts associated with each Index Tracking Portfolio. After the initial investments, IBKRAM reserves the discretion to add additional funds to the initial investment amounts in order to manage these firm-owned accounts with a higher investment amount and more efficiently manage investments in these portfolios. IBKRAM then replicates the trading in these proprietary brokerage accounts in the accounts of clients investing in each specific Index Tracking Portfolio in order to implement its mirroring procedures.

Quarterly rebalancing trades will result in transactions in many or all of the stocks and other securities in which the Index Tracking Portfolios (and your account) invest in. Whenever IBKRAM buys and sells securities in the Index Tracking Portfolios, you will incur transaction costs, such as commissions payable to Interactive Brokers LLC (IBKRAM’s affiliated broker-dealer), which is a conflict of interest due to the corporate affiliation. The higher turnover associated with quarterly rebalancing trades could result in bid-ask spread expenses, higher transaction costs, and dividends being disqualified from qualified dividend treatment. IBKRAM tries to mitigate this disadvantage with low basket trading commissions.

IBKRAM will check the data provided by FTSE and Russell before effecting any rebalancing trades in investing clients’ accounts, but may not detect any or all errors in the data or prevent any trading resulting from these data errors.

You will need to report some (or all) of these trades on your tax forms. IBKRAM cannot provide tax advice or prepare tax documents for you. Please consult an accountant or tax attorney to determine the tax-related obligations associated with investing in these portfolios. Please note that Interactive Brokers LLC provides certain tools to assist you with your tax filings.

As with any other portfolio on its platform, IBKRAM only allows you to invest in an Index Tracking Portfolio if it is suitable for you in light of your financial situation and investment objectives that you described to IBKRAM in response to our risk questionnaire. You may restrict the stocks traded in your account at any time and IBKRAM will honor these restrictions when replicating the trading in any Index Tracking Portfolio you invest in. Please be aware that imposing restrictions on future investments and selling any existing holdings in your Index Tracking Portfolio investments may affect the performance of your account and lead to your account performing differently, better or worse than the IBKRAM account underlying the portfolio.

At least annually, IBKRAM or your own wealth manager (if you have authorized your wealth manager to invest on your behalf with IBKRAM) will contact you to determine whether there have been any changes in your financial situation or investment objectives and whether you want to impose new or revise existing restrictions on the trading in your account. Also, at least quarterly, IBKRAM (or your wealth

manager) will ask you in writing to contact us (or the wealth manager) if there have been any changes in your financial situation or investment objectives or you wish to impose any restrictions on the trading in your account. You should keep IBKRAM informed of any changes in your financial situation or investment objectives and should periodically review and update your answers to IBKRAM's risk questionnaire and the list of securities you specified should not be traded in your IBKRAM account.

You will receive periodic statements and trade confirmations setting forth all transactions in your account, all contributions and withdrawals, all fees and expenses charged, and the value of your account at the beginning and end of the period, including any fractional share holdings and transactions.

IBKRAM's client service representatives are available to discuss and explain investment decisions made for your Index Tracking Portfolio investments and may be contacted by telephone at 1-866-825-3005 and by email at [support@ibkram.com](mailto:support@ibkram.com).

In the future, IBKRAM may construct and offer to its clients other index tracking portfolios than those offered at this time.

You can find additional information on IBKRAM's Index Tracking Portfolio construction process, actual trading results, and other disclosures on the IBKRAM website at <http://ibkram.com>.

#### **Principal Risks of Investing in the Index Tracking Portfolios and the Stock Market Generally**

As with any investment, there are a number of general risks associated with investing in an Index Tracking Portfolio. These include the following:

- You may lose all or part of your investment in the portfolios, or your investment may not perform as well as other investments or may fluctuate significantly due to short-term or long-term market movements;
- There is no assurance that these portfolios and strategies will meet their investment objectives, work as intended or perform as well as other investment strategies;
- The Index Tracking Portfolios may not be suitable for all investors; and
- Past performance is no guarantee of future results, and any actual returns could differ from historical returns.

Investments in these portfolios are subject to the risks discussed here and in IBKRAM's Informational Brochure (Form ADV Part 2 filing) on the Forms and Agreements page on the IBKRAM website. Any of these risks may adversely affect the portfolios' yield, total return, and ability to meet their investment objectives. We provide a summary of the principal risks of investing in these Index Tracking Portfolios below.

**The portfolios may become unavailable for investment** - Under the governing licensing agreements, FTSE or Russell may alter, amend, terminate or change the indexes, change the composition or method of calculation of any index or the data, suspend or interrupt providing data to IBKRAM and have no obligation to take the needs of IBKRAM or its clients into account when determining, modifying or terminating any of the indexes. FTSE, Russell and IBKRAM may also terminate the governing licensing agreements with one-month written notice. IBKRAM will notify all affected clients of any such termination as soon as possible to allow them to identify suitable alternative investments on the IBKRAM platform or elsewhere. You should bear these contractual limitations in mind when deciding whether to invest in one of these portfolios which may become unavailable for investment in the future.

**FTSE and Russell do not endorse or recommend IBKRAM's Index Tracking Portfolios** - These portfolios have been developed solely by IBKRAM and are in no way sponsored, endorsed, sold, promoted or recommended by FTSE, Russell or the London Stock Exchange Group companies. FTSE

and Russell do not provide any investment advice or recommendation in relation to any index to IBKRAM or its clients. The indices that these portfolios seek to track are calculated by FTSE and Russell. The index names are trademarks of FTSE and Russell and have been licensed for use by IBKRAM.

**Correlation risk** - IBKRAM cannot guarantee that these portfolios will achieve a high degree of correlation to the reference indices and therefore achieve their investment objective. Factors that may adversely affect the portfolios' correlation with the reference indices include fees, transaction costs, disruptions and illiquidity in the markets for securities in which the portfolios invest. Errors in index data, index computations and/or the construction of the reference index in accordance with its methodology may occur and not be identified and corrected by FTSE and Russell for a period of time or at all, which may have an adverse impact on the performance of these portfolios and IBKRAM clients' investments in these portfolios.

**Index performance risk** - IBKRAM does not provide any guarantee or assurance that the methodology used to create the reference index underlying these portfolios will result in the portfolios or client investments in these portfolios achieving high or even positive returns. The indices upon which these portfolios are based may underperform and could lose value while other indices could increase in value. While IBKRAM aims to track the reference indices for these portfolios as closely as possible and mimic the performance of each index, it makes no guarantee that it will succeed in doing so, or that it will achieve the same performance for clients as the account managing each portfolio has achieved. Note that there may be similar offerings in the marketplace (i.e., portfolios or investments seeking to track the same index), which may charge lower management fees.

**Limitations of index return information provided by FTSE and Russell** - You may review returns for the reference indices these portfolios seek to track for time periods preceding the January 2018 launch date of these portfolios inclusive (gross) of management fees and commissions on the index provider's website. Note that these index returns do not reflect the results of actual trading of investable assets or have any relation to the performance of the IBKRAM portfolios after their January 2018 launch date. An index cannot be invested in directly and these index returns are provided for informational and illustrative purposes only. Indexes are unmanaged. Because index returns do not reflect the deduction of any management fees, transaction costs or expenses or relate to the performance of this portfolio, you should carefully review these index returns and bear in mind that any investments tracking an index, such as those in the Index Tracking Portfolios, will be lower than these index returns by the amount of management fees, transaction costs and other expenses that they will have to pay for investments in this portfolio. Please refer to the index provider's website for complete details on the index these portfolios seek to track. Links to fact sheets compiled by the index provider for each of the indices these portfolios track are provided on the portfolio pages. A decision to invest in this portfolio should not be made in reliance on the information in this fact sheet.

**Passive investment risk** - The Index Tracking Portfolios are not actively managed, and IBRAM does not attempt to take defensive positions under any market conditions, including declining markets. IBKRAM does not try to "beat" the reference index or take defensive positions when markets decline or appear overvalued. This approach virtually eliminates the chance that these portfolios will outperform their reference indices, but it also reduces some of the risks associated with active management, such as poor security selection.

**Equity securities risks** – These portfolios primarily invest in stocks and therefore bear the risks of the general stock market. In particular, the portfolios:

- Entail greater risk of loss and volatility than some other asset classes, such as bonds;
- Are primarily composed of US stocks, so may be particularly affected by certain changes in the US economy that do not affect the global economy; and
- Include large-, medium-, and small-capitalization stocks, each of which carries its own risks and may gain or lose value in a different proportion than the stock market overall.

**Real estate investment risk** - The FTSE NAREIT All Equity REITs Managed Portfolio invests in companies such as real estate investment trusts (“REITs”) or real estate holding companies. This exposes clients investing in this portfolio to the risks of owning real estate directly, as well as to risks that relate specifically to the way in which real estate companies are organized and operated. Real estate is highly sensitive to general and local economic conditions and developments, and real estate companies, including REITs, use leverage, which increases investment risk and could exacerbate this portfolio’s losses.

**Tax consequences of investing in the FTSE NAREIT All Equity REITs Managed Portfolio** - Clients interested in this portfolio should consult with their accountant or tax attorney on the tax consequences of investing in this portfolio, as dividend payments made out by REITs held in this portfolio could be taxed as ordinary income at the top marginal tax rate. IBKRAM does not provide tax advice and does not in any way represent that investing in this portfolio will result in any particular tax consequences.

**New portfolio risk** – IBKRAM launched the Index Tracking Portfolios in January 2018. Therefore, these portfolios have no operating or actual performance history before January 2018. Clients investing in these portfolios bear the risk that IBKRAM may not be successful in implementing its investment strategy.

**Sector and concentration risks** – A portfolio may carry higher risk to the extent it is significantly composed of assets in a particular sector, issuer, group of issuers, country, group of countries, region, market, industry, or asset class. Many of these portfolios track indices focused on a specific industry or sector and are thus more affected by the risks associated with that specific industry or sector:

1. **Consumer discretionary sector** - Companies in this sector are affected by fluctuations in supply and demand, and adversely affected by changes in consumer spending as a result of various social, economic or political conditions.
2. **Energy sector** - The market value of securities issued by companies in the energy sector may decline for a variety of reasons including changes in energy prices, energy supply and demand, government regulations, energy conservation and exploration efforts, government regulation and potential civil liabilities.
3. **Materials sector** - Companies in this sector are adversely impacted by the volatility of commodity prices, exchange rates, depletion of resources, over-production, litigation and government regulations.
4. **Financial services sector** - Companies in this sector are significantly affected by economic, market, and business developments, borrowing costs, interest-rate fluctuations, competition, and government regulation.

5. **Healthcare sector** - The profitability of companies in this sector is affected by government regulations and government healthcare programs, increases or decreases in the cost of medical products and services, product liability claims, patent protection and competition.
6. **Technology sector** - Companies in this sector may have limited product lines, financial resources and/or personnel, face competition, and are heavily dependent on the protection of intellectual property rights.
7. **Materials sector** - Companies in this sector are adversely impacted by the volatility of commodity prices, changes in exchange rates, depletion of resources, over-production, litigation and changes in government regulations.
8. **Producer durables sector** - These companies may be affected by changes in domestic and international economies and politics, consolidation, excess capacity, and consumer demands, spending, tastes and preferences.

**Regulatory risk** - The portfolios are subject to the risk that a change in US law and related regulations will impact the way IBKRAM manages these portfolios, increase the particular costs of their operation and/or change the competitive landscape. This may result in IBKRAM deciding to cease offering these portfolios.

**Conflict of interest risks and disclosures** - As explained above, IBKRAM trades its own funds alongside the assets of the clients who invest in the Index Tracking Portfolios in order to effectuate its trade mirroring procedures. To avoid the potential for front-running, orders in IBKRAM-owned accounts are combined with orders in client accounts and submitted for execution to Interactive Brokers LLC in one or multiple trades. Executions are then allocated pro rata with participating accounts receiving the same average price per share and sharing transaction costs pro rata. These safeguards are described in the Investment Management Agreement you have signed and are intended to ensure IBKRAM adheres to its fiduciary duty to clients, and avoids or mitigates any conflicts of interest.

**Index Tracking Portfolio investment limitations** - In accordance with applicable regulatory requirements, IBKRAM will not allow clients to make any initial, additional or recurring investments in an Index Tracking Portfolio 3 business days prior to the date of a quarterly rebalance. If you request such a transaction during this period, it will be sent for execution on the first trading day after the rebalance. You may redeem some or all of your investment in any Index Tracking Portfolio at any time. But, if you have a cash (rather than margin) brokerage account and engage in redemptions less than 3 business days after the quarterly rebalance, Interactive Brokers LLC may require you to pay for purchases in your account on the date of each trade for the next 90 days.

To avoid price swings around market open and close, client requests to invest in or redeem any investments in the Index Tracking Portfolios will be processed in the order in which they are received between 9:35 am and 3:50 pm ET.

**Not a bank deposit** - Your investment in one of the Index Tracking Portfolios is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

### **Management fees and commissions**

IBKRAM will charge clients investing in any of the Index Tracking Portfolios an annual management fee of 20 basis points (0.20%) of the market value of the assets invested in each Asset Allocation Portfolio. Under the governing licensing agreements, IBKRAM remits half of the management fee charged to clients for investments in these portfolios to FTSE and Russell.

Unlike other robo advisor portfolio offerings which charge a single wrap fee which includes management fees and brokerage commissions, IBKRAM's management or advisory fee does not include the commissions associated with the trading in these portfolios. Interactive Brokers LLC will charge you commissions on all trades in your account. Interactive Brokers LLC has agreed to modify its standard tiered commissions structure for Index Tracking Portfolio clients in a manner we believe will facilitate efficient investing in these portfolios. The brokerage fees will vary depending on the amount you choose to invest in a portfolio and the specific Index Allocation Portfolio you invest in. Please also note that, under certain circumstances, Interactive Brokers LLC will charge you a minimum monthly commission charge of up to \$10. Specifically, whenever the overall monthly commissions paid by all IBKRAM client accounts do not amount to at least \$10 in commissions per account per month, Interactive Brokers LLC will collectively charge IBKRAM clients any difference between the actual commissions and the \$10 minimum, on a pro rata basis. You may find additional information on Interactive Brokers LLC's commissions on the IBKRAM (and Interactive Brokers LLC) websites at these and other locations: <http://site.ibkram.com/help/costs>; <http://site.ibkram.com/help/disclosures>; and <https://www.interactivebrokers.com/en/index.php?f=commission&p=stocks2>

### **Fractional share trading and related cross-agency trades**

IBKRAM is able to offer the Index Tracking Portfolios and the extensive diversification they are designed to achieve for even relatively small investments by offering IBKRAM clients the ability to trade fractional shares of the stocks and other securities these portfolios invest in. You will receive payments or value commensurate to your fractional ownership in the case of stock dividends, stock splits, mergers or other mandatory corporate actions (including cash dividends).

Stocks cannot be traded in fractions on public exchanges, so Interactive Brokers LLC, IBKRAM's affiliated broker-dealer, facilitates trading in the Index Tracking Portfolios by brokering all fractional share orders on behalf of IBKRAM clients against one or more liquidity providers. These liquidity providers will sell or buy fractional shares that IBKRAM clients would not otherwise be able to trade in the open market. These trades will occur either at the execution price the liquidity provider gets on the market for stocks it sells to IBKRAM clients or, if the fractional shares are provided from the provider's inventory, at the National Best Bid or Offer at the time of the order.

There is a potential conflict of interest in connection with these fractional transactions as Interactive Brokers LLC will act as broker for both IBKRAM clients and the liquidity provider counterparty to these transactions that you have consented to in the Investment Management Agreement. You may revoke your written consent to such transactions at any time by written notice to IBKRAM or Interactive Brokers LLC, as discussed in our Investment Management Agreement, but you will no longer be able to invest in these portfolios as they rely on fractional share investments.

IBKRAM has determined that the benefits of offering fractional shares outweigh the negative effects of investing in them, but you should be aware of their unique features, risks and costs.

Please note that you own the shares held in your IBKRAM account, including fractional shares acquired as a result of your investment in an Index Tracking Portfolio. No aspect of IBKRAM's management or operation of the Index Tracking Portfolios should be deemed as an attempt by IBKRAM to restrict in any

way any rights you would otherwise have over the securities and funds in your account, including any fractional share holdings.

Stocks cannot be traded in fractions on public exchanges and fractional shares are typically unrecognized and illiquid outside of the IBKRAM platform. So, if you want to liquidate your Index Tracking Portfolio investments, you will need to fully redeem your investment in which case Interactive Brokers LLC will sell any fractional shares to the liquidity provider and any whole shares to the market. If you want to transfer your Index Tracking Portfolio holdings to another brokerage firm, you will first need to sell your fractional shares to the liquidity provider through Interactive Brokers LLC. You will incur commissions on these trades.

Please note that Interactive Brokers LLC cannot facilitate clients voting proxies on fractional share holdings, does not provide a mechanism to make voluntary elections on your fractional holdings, and cannot provide you with any shareholder documentation for any holdings of less than one share.