

Risk Disclosures for Covestor Smart Beta Portfolios

You have elected to invest in a Covestor Smart Beta Portfolio. Please read and acknowledge the following disclosure of the potential risks of investing in these Portfolios.

Overview

Smart Beta Portfolios are proprietary investment portfolios designed and managed by Covestor. Each Smart Beta Portfolio seeks, as its investment objective, to achieve total returns that exceed the total returns of certain market capitalization weighted indices, such as the S&P 500 by relying on systematic rules-based investment strategies that do not use conventional market capitalization weights. The Portfolios employ alternative weighting schemes based on measures such as value, growth, quality, and dividend yield.

These Portfolios are managed by Covestor itself, and not by third-party Portfolio Managers. Specifically, Covestor trades some of its own capital in each Smart Beta Portfolio and then mirrors this trading in the accounts of clients who invest in that Portfolio. Covestor will rebalance these Portfolios on a quarterly basis. The exact quarterly rebalance date may be randomized. This will result in numerous transactions in many or all of the positions in which the Smart Beta Portfolios (and your account) are invested. You will incur transaction costs, such as commissions payable to Interactive Brokers LLC (Covestor's affiliated broker-dealer) whenever Covestor buys and sells securities in the Smart Beta Portfolios, which is a conflict of interest.

The Smart Beta Portfolios involve a large number of stocks and there will be trades in many of these stocks whenever Covestor rebalances the portfolios or you add to your investment. You will need to report some (or all) of these trades on your tax forms. Covestor 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, but these tools may only be able to support a limited number of trades.

Covestor only allows you to invest in a Smart Beta Portfolio if it is suitable for you in light of your financial situation and investment objectives that you have described to Covestor in response to our risk questionnaire.

You may restrict the stocks traded in your account at any time and Covestor will honor these restrictions when mirroring the trading in any Smart Beta Portfolio you choose to invest in. Please be aware that imposing restrictions on future investments and selling any existing holdings in your Smart Beta Portfolio may affect the performance of your account and lead to your account performing differently or worse than the Covestor account underlying the portfolio.

At least annually, Covestor 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, Covestor will ask you in writing to

contact it 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 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.

Covestor's client service representatives are available to discuss and explain investment decisions made for your Smart Beta portfolio investments and may be contacted by telephone at 1-866-825-3005 and by email at support@covestor.com

You can find additional information on Covestor's Smart Beta Portfolio construction process, hypothetical back-tested returns for these Portfolios, actual trading results, and other disclosures regarding these Portfolios on the Covestor website.

Risks of investing in the Smart Beta Portfolios and the stock market generally

As with any investment, there are a number of risks associated with investing in a Smart Beta 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; and
- Smart Beta Portfolios may not be suitable for all investors.

Investments in these Portfolios are subject to the risks discussed here and in Covestor's Informational Brochure (*i.e.*, Form ADV Part 2 filing) on the Forms & Agreements page on the Covestor website, any of which may adversely affect the Portfolios' yield, total return, and ability to meet their investment objectives.

We provide additional information on the principal risks of investing in these Smart Beta Portfolios below.

Equity securities risks – These Portfolios are primarily invested 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.

New portfolio risk – Covestor started trading the first set of Smart Beta Portfolios in October 2016, and the second set in December 2016. Therefore, these Portfolios have no operating or actual performance

history before October 2016, or December 2016, respectively. Clients investing in these Portfolios also bear the risk that Covestor 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. In managing these Portfolios, Covestor attempts (but may not be successful) to avoid excessive concentration in individual sectors of the market.

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

Portfolio-specific risks - In addition, each Smart Beta Portfolio carries additional, specific risks, which may lead it to lose or gain money out of proportion with the stock market as a whole.

- **Value securities risk** – Stocks in the **Value Portfolio (VALCOV™)**, perceived by Covestor as undervalued, may fail to appreciate for long periods of time, may never realize their full potential value, or may underperform other segments of the market or the market as a whole.
- **Quality securities risk** – Companies issuing the stocks included in the **Quality Portfolio (QALCOV™)** may experience lower than expected returns, even negative growth, as well as increased leverage.
- **Growth securities risk** – There is no guarantee that the past performance of the stocks in the **Growth Portfolio (GROCOV™)** will continue. These stocks typically trade at higher multiples of current earnings than other securities and, therefore, may be more sensitive to changes in current or expected earnings than other equity securities and may be more volatile.
- **High-dividend securities risk** – There is no guarantee that the large-capitalization companies issuing the stocks in the **Dividend Portfolio (DIVCOV™)** will declare dividends in the future or that, if the dividends are declared, they will remain at current levels or increase over time.
- **Equal weighting risk** – Due to the **Broad Market Portfolio's (BRMCOV™)** use of half equal weighting and the resulting higher proportion of small- and medium-capitalization company stocks, this portfolio may underperform other segments of the market or the market as a whole.
- **Small-capitalization company risk** - Small-cap versions of the Smart Beta Portfolios are invested solely in small-capitalization company stocks. Small-capitalization company stocks have historically been riskier than large and medium-capitalization company stocks. Securities of small-capitalization companies generally trade in lower volumes, are often more vulnerable to market volatility, get less analyst coverage, and are subject to greater and more unpredictable price changes than other stocks or the stock market as a whole.

Smart Beta Portfolio investment limitations

In accordance with applicable regulatory requirements, Covestor will not allow clients to make any initial, additional or recurring investments in a Smart Beta Portfolio 3 business days prior to the date of a quarterly rebalance. If you request such a transaction during this period, it will sent for execution on the first trading day after the rebalance. You may redeem some or all of your investment in any Smart Beta 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, IB may require you to pay for purchases in your account on the date of the 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 Smart Beta 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 Smart Beta 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.

Conflict of interest risks and disclosures

As we explained above, Covestor will trade its own capital alongside that of the clients who invest in the Smart Beta Portfolios. Covestor has therefore imposed on itself the same protections against potential front-running that it applies to the third-party Portfolio Managers whose trading Covestor mirrors, described in the Investment Management Agreement you signed, and such other protections determined necessary given Covestor's fiduciary duty to its clients.

Limitations of hypothetical back-tested returns

Covestor started trading the first set of Smart Beta Portfolios in October 2016 and the second in December 2016. Covestor calculated hypothetical back-tested returns for the Smart Beta Portfolios for informational and educational purposes, to illustrate how these Portfolios would have performed over time if they had existed before their launch date(s). Hypothetical back-tested returns are hypothetical, do not reflect actual trading, and do not place any client money at risk. Actual results in your account may differ for many reasons, such as the market's performance, available liquidity, factor returns, interest rates and transaction costs. Covestor provides additional information on how it calculated the hypothetical back-tested returns for the Smart Beta Portfolios and their inherent limitations on each of the portfolio pages.

Mechanics of the Smart Beta Portfolios

Management fees and commissions

Covestor will charge clients investing in any of the Smart Beta Portfolios an annual management fee of 8 basis points (0.08%) of the gross market value of the assets invested in each such Smart Beta Portfolio.

In addition, Interactive Brokers LLC will charge you commissions on trades in your account. IB has agreed to modify its standard tiered commissions structure for Smart Beta Portfolio clients in a manner we believe will facilitate efficient investing in these portfolios. Under this commission structure, you will pay, for example, estimated annual brokerage fees (i.e., commissions, exchange, regulatory and clearing fees) of 2-3 basis points of the investment amount (or \$20-\$30) on a \$100,000 investment in a Smart Beta Portfolio. The brokerage fees will vary depending on the amount you choose to invest in a portfolio and the specific Smart Beta portfolio you invest in.

Please also note that, under certain circumstances, IB will charge you a minimum monthly commission charge of up to \$10. Specifically, whenever the overall monthly commissions paid by all Covestor client

accounts do not amount to at least \$10 in commissions per account per month, IB will collectively charge Covestor clients any difference between the actual commissions and the \$10 minimum, on a pro rata basis.

You may find additional information on Interactive Brokers' commissions on the Covestor and Interactive Brokers websites.

Fractional share trading and related cross-agency trades

Covestor is able to offer the Smart Beta Portfolios and the extensive diversification they are designed to achieve for even relatively small investments by offering Covestor clients the ability to trade fractional shares. 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, Covestor's affiliated broker-dealer, facilitates trading in Smart Beta Portfolios brokering all fractional share orders on behalf of Covestor clients against one or more liquidity providers. These liquidity providers will sell or buy fractional shares that Covestor 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 Covestor clients or, if the fractional shares are provided from the provider's inventory, at the National Best Bid or Offer ("NBBO") 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 Covestor 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 Covestor or Interactive Brokers, 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.

Covestor 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 Covestor account, including fractional shares acquired as a result of your investment in a Smart Beta Portfolio. No aspect of Covestor's management or operation of the Smart Beta Portfolios should be deemed as an attempt by Covestor 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 Covestor platform. So, if you want to liquidate your Smart Beta Portfolio investments, you will need to fully redeem your investment in which case Interactive Brokers will sell any fractional shares to the liquidity provider and any whole shares to the market. If you want to transfer your Smart Beta holdings to another brokerage firm, you will first need to sell your fractional shares to the liquidity provider through Interactive Brokers. You will incur commissions on all of these trades.

Please note that Interactive Brokers cannot facilitate customers 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.