

## ITEM 1. COVER PAGE

### (FORM ADV PART 2A—APPENDIX 1) WRAP FEE PROGRAMS BROCHURE

# 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](http://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.*

**December 30, 2022**

## 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**”) made material changes to the Wrap Fee Programs Brochure since the previous version of this Brochure dated February 24, 2022. Please see the summary of the changes below.

#### ETCM Advisory Programs

ETCM has closed all of its programs to new accounts other than Core Portfolios. In addition, sometime in the latter half of the second quarter of 2023, ETCM will close Core Portfolios to any client that does not hold an existing account at E\*TRADE. New E\*TRADE clients seeking a Core Portfolios account will be directed to Morgan Stanley Smith Barney, an affiliated broker-dealer and investment adviser (“**MSSB**”).

ETCM anticipates terminating Dedicated Portfolios accounts around August 2023. Clients with a Dedicated Portfolios account can choose to open an investment advisory account with MSSB in advance, convert their account to a Core Portfolios account, or have the account converted to a self-directed brokerage account.

Line of Credit is only offered to Core Portfolios clients. In addition, Line of Credit will no longer be supported for clients who have collateralized a Line of Credit with an existing Blend, Dedicated or Fixed Income Portfolios account sometime around August 2023. Clients will be asked to either convert their account to a self-directed brokerage account or a Core Portfolios account if they wish to continue using the account as collateral for a Line of Credit.

ETCM will discontinue supporting profit sharing plan and individual 401(k) accounts in its offerings other than Core Portfolios. Clients can choose to convert their account to a Core Portfolios account, or at the time of termination of the ETCM Blend, Dedicated or Fixed Income Portfolios account, the account will be converted to a self-directed brokerage account.

Changes have also been made to the Compensation section as to how Investment Advisory Representatives for ETCM are paid. In addition, Core Portfolios clients will be supported by the Core Portfolios Support Team and existing Dedicated, Blend and Fixed Income Portfolio clients will be supported by ETCM investment adviser representatives.

#### Transitioning ETCM and E\*TRADE Securities LLC Clients

Throughout 2023, E\*TRADE Securities LLC and ETCM will be transitioning clients to MSSB. Clients will be given advanced notice of their transition date along with detailed information regarding the transition. Learn more about this transition at [etrade.com/mssb](https://etrade.com/mssb).

ETCM 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.

# Wrap Fee Programs Brochure (Form ADV Part 2A–Appendix 1)

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## ITEM 4. SERVICES, FEES, AND COMPENSATION

### Firm Description

#### General Information

E\*TRADE Capital Management, LLC (“ETCM,” “we,” “us,” or “our”), 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 on October 3, 2005. On October 2, 2020, Morgan Stanley acquired E\*TRADE Financial Corporation. ETCM is an affiliated indirect subsidiary of Morgan Stanley and E\*TRADE Financial Corporation was consolidated into Morgan Stanley and no longer exists.

ETCM's broker-dealer affiliate, E\*TRADE Securities LLC (“ETS”) provides online brokerage, investment advisory services, and related products and services primarily to individual retail investors (“clients”) on [etrade.com](http://etrade.com) (“E\*TRADE” or “E\*TRADE from Morgan Stanley”).

Morgan Stanley is a publicly traded global firm engaging, through its various subsidiaries, in a wide range of financial services, including securities underwriting, distribution, and trading; merger, acquisition, restructuring, real estate, project finance, and other corporate finance advisory activities; merchant banking and other principal investment activities; brokerage and research services; asset management; trading and foreign exchange; commodities and structured financial products and global custody; and securities clearance services and securities lending. Morgan Stanley is one of the largest financial services firms in the United States with branch offices in all 50 states and the District of Columbia.

#### ETCM Is a Fiduciary to You

In serving as an investment adviser to its clients, ETCM is a fiduciary to you. ETCM is registered under the Investment Advisers Act of 1940 (“Advisers Act”), which places a fiduciary obligation on ETCM in terms of the way ETCM provides services to you.

In addition, ETCM reasonably expects to provide services as a “fiduciary” (as that term is defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”), with respect to Retirement Accounts. For purposes of this Brochure, the term “Retirement Account” is used to cover certain retirement plans under Title I of ERISA, which include money purchase plans, profit-sharing and investment-only plans sponsored by private employers, and SEP and SIMPLE IRAs, and Individual Retirement Accounts (“IRAs”) (as described in Section 4975 of the Code).

As a fiduciary, ETCM's responsibility is to make sure your best interests come first. ETCM endeavors to provide you with full disclosure of all material facts relating to its investment advisory relationship with you. The advisory programs are designed to avoid conflicts of interest. In situations where the appearance of, or potential for, such a conflict is unavoidable, ETCM will clearly disclose the details of this to you.

A key feature of ETCM's advisory services is that ETCM will provide you with objective investment advice. Investment choices for your account are the subject of an intensive due diligence process by our experienced professionals. ETCM's recommendations of such products are made only after we have thoroughly reviewed your investment goals and risk tolerance and concluded that the recommended investment products are appropriate for you. We will provide ongoing investment advice to you and monitor your investments to ensure that they remain consistent with your objectives and risk tolerance.

#### ETCM Advisory Programs

ETCM offers the following discretionary investment advisory programs, sometimes referred to as “Wrap Fee Programs” (“advisory programs” or “Wrap Fee Programs”): Blend Portfolios (“Blend”), Dedicated Portfolios (“Dedicated”), and Fixed Income Portfolios (“FIP”). ETCM offers a fourth Wrap Fee Program, Core Portfolios (“Core”). Core is a digital advice advisory program available to clients only on E\*TRADE's electronic platforms, including its website, [etrade.com](http://etrade.com). Underlying investments in the Wrap Fee Programs are referred to as “Advisory Assets.” For more information about each Wrap Fee Program, please see the respective subsections under “Features of the Wrap Fee Programs” in this Brochure.

As of January 3, 2023, all of the advisory programs except Core have been closed to new accounts. In addition, ETCM will close Core Portfolios to any client that does not hold an existing account at E\*TRADE sometime in the latter half of the second quarter of 2023. New E\*TRADE clients seeking a Core Portfolios account will be directed to Morgan Stanley Smith Barney, an affiliated broker-dealer and investment adviser (“MSSB”).

Throughout 2023, ETS and ETCM will be transitioning clients to MSSB. Clients will be given advanced notice of their transition date along with detailed information regarding the transition. Learn more about this transition at [etrade.com/mssb](http://etrade.com/mssb).

A Wrap Fee Program offers clients investment advisory services, keeping in mind the importance of asset allocation, as well as related brokerage and custodial services for a single asset-based annual fee (“Annual Advisory Fee” or “Advisory Fee”). The Advisory Fee is sometimes referred to as a “wrap fee” or “bundled fee.”

Clients benefit from total transparency about their investments, account activities, and investment strategies while staying fully informed on [etrade.com](http://etrade.com). Clients can deposit money to help stay on track with their investment goals or withdraw money from their accounts when they need it. Clients are always in control of their overall investment strategy; when financial circumstances or goals change, they can change their investment strategy at any time. The advisory programs and fees are described in greater detail in this Brochure.

Advisory programs are subject to the general oversight of ETCM's Investment Policy Committee (“IPC”). The IPC oversees the ETCM discretionary advisory programs, with responsibilities including, but not limited to, reviewing and approving: the composition of portfolios, asset allocations, and fee schedules of the Wrap Fee Programs. The Investment Strategy Team (“IST”) supports the IPC, constructs allocations for managed portfolios, establishes rebalancing methodologies for IPC review, and conducts ongoing due diligence on Model Managers, Portfolio Managers (as defined under “Relationships and Affiliates” below), investment portfolios, and the co-adviser. IST members report to Morgan Stanley's Wealth Management Global Investment Office. The IST and IPC are informed by investment analysis from the Global Investment Management Analysis Committee of MSSB. The IPC includes employees of the Wealth Management business of MSSB. Some of these individuals are members of the Investment Solutions Investment Committee (“ISIC”). The ISIC is an internal governance committee responsible for investment decisions and portfolio construction for MSSB discretionary advisory programs. Even though MSSB also offers investment advisory services, those services and offerings differ in several aspects including but not limited to portfolio management philosophies, portfolio allocations, portfolio holdings, and risk profiles.

The Wrap Fee Programs Brochure is designed to help you understand all the wrap fee advisory programs offered by ETCM as either a sponsor or a co-sponsor, whether the Wrap Fee Programs are in your best interest, and the conflicts and potential conflicts of interest associated with your participation in an ETCM Wrap Fee Program.

#### Relationships and Affiliates

##### E\*TRADE Securities LLC

Execution, clearing, settlement, custody, and other brokerage-related services for Core, Blend, and Dedicated are provided pursuant to an agreement between ETCM and its affiliate ETS. ETS is a broker-dealer registered with the SEC, a member firm of the Financial Industry Regulatory Authority (“FINRA”), and a subsidiary of Morgan Stanley.

For FIP, ETS provides clearing, settlement, custodial, and other brokerage-related services pursuant to the same agreement. Portfolio Managers (as defined below) typically effect transactions for the purchase and/or sale of fixed income securities mainly through unaffiliated broker-dealers selected and used by the Portfolio Managers. Portfolio Managers will not route FIP trades to Morgan Stanley.

##### Lockwood Advisors, Inc.

ETCM has an agreement with Lockwood Advisors, Inc. (“Lockwood”), to provide ETCM with impersonal advisory and/or administrative services for two of ETCM's Wrap Fee Programs (Core and Blend). Lockwood also acts as co-sponsor and co-adviser for two additional ETCM Wrap Fee Programs (Dedicated and FIP).

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 are

affiliated with ETCM. The Portfolio Manager Universe (as defined below) is subject to the review and approval of the IPC. Portfolio Managers are responsible for the individual investment decisions in connection with *FIP*. Lockwood, at its discretion, reserves the right to remove the availability of a *FIP* investment style and replace it with another investment style from the same or a different Portfolio Manager if the particular investment style fails to meet Lockwood's defined screening criteria.

#### **Morgan Stanley Private Bank, National Association**

ETCM is affiliated with Morgan Stanley Private Bank, National Association ("**Morgan Stanley Private Bank**"). ETCM clients with Core Portfolios accounts are eligible to participate in the Line of Credit program offered by the affiliated bank.

#### **Portfolio Managers**

Lockwood and ETCM make available different *FIP* investment styles provided by various third-party professional Portfolio Managers ("**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 Portfolio Managers. Portfolio Managers and investment styles are approved by Lockwood and ETCM for inclusion in this program ("**Portfolio Manager Universe**"). ETCM provides clients with advice in connection with clients' initial selection of the Portfolio Managers and *FIP* investment styles made available by Lockwood. Portfolio Managers make all individual security investment decisions in connection with *FIP*. ETCM reserves the right to expand the universe of Portfolio Managers in the future to include Portfolio Managers affiliated with Morgan Stanley.

#### **Model Managers**

Manager model portions of *Dedicated* accounts are provided by model managers ("**Model Managers**") selected by Lockwood and approved by ETCM. Model Managers are third-party professional Portfolio Managers with whom Lockwood has a contractual relationship. Lockwood serves as an overlay manager and has investment discretion over the Manager Models (as defined below). As part of the agreement between Lockwood and ETCM, Lockwood pays management fees directly to the Model Managers. ETCM is responsible for selecting manager models ("**Manager Models**") from a preapproved list to fill the asset allocation for the selected asset allocation strategy. Manager Models invest in individual equities. Neither ETCM nor any of its affiliates acts as the investment adviser or principal underwriter for the Advisory Assets in the Manager Model portions of the portfolio. ETCM reserves the right to expand the universe of Model Managers in the future to include Model Managers affiliated with Morgan Stanley.

#### **Strategist Managers**

Certain *Blend* clients will receive recommendations for portfolios with a branded investment strategy created by affiliated investment advisers, Morgan Stanley Investment Management Inc. ("**MSIM**"), or Morgan Stanley Smith Barney through Morgan Stanley Wealth Management ("**MSWM**"), an affiliated firm, or unaffiliated third-party financial firms (collectively "**Strategist Managers**") ("**Strategist Portfolios**"). Strategist Portfolios are investment portfolios constructed, branded, and licensed for use by the Strategist Managers.

Strategist Managers act through their employees, contractors, and agents to provide the Strategist Portfolios to ETCM. ETCM does not select the investments in Strategist Portfolios, although ETCM does review and approve the Strategist Portfolios offered by Strategist Managers. Although ETCM does not pay a fee to unaffiliated third-party Strategist Managers, ETCM has agreed to pay MSIM a portion of the advisory fee charged by ETCM on non-proprietary assets invested in MSIM Strategist Portfolios. There are no fee sharing arrangements with MSSB. More information about the use of affiliated Strategist Managers is provided below.

#### **Affiliated Funds**

Mutual funds or exchange-traded funds ("**ETFs**") (together "**Funds**") for which affiliates serve as the sponsor or provide investment management or other services may be used as investments in ETCM offerings. If ETCM uses an affiliated fund, assets invested in the affiliated fund are not included in the calculation of the Advisory Fee. More information about the use of affiliated funds is provided below.

## **Programs and Services**

Prior to enrolling a client in a Wrap Fee Program, ETCM determines the client's financial needs and objectives, gathering and analyzing client profile and risk tolerance information (together "**Investor Profile**"). This review is completed through E\*TRADE's digital platforms for *Core* or through an interview by an ETCM Investment Adviser Representative ("**IAR**") for the other advisory programs.

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 creates the Investor Profile. Prospective clients are provided with asset allocation and diversified investment portfolio information in an *Investment Proposal*. The *Investment Proposal* should be read carefully prior to enrolling in the managed account.

#### **Account Type Advice**

**For prospective *Core* clients, ETCM does not provide advice as to whether a prospect should open a *Core* account.** ETCM provides an *Investment Proposal* based on the understanding that clients decided to open a *Core* discretionary investment advisory account and that an investment advisory account is appropriate for their investment needs.

For *Blend*, *Dedicated*, and *FIP*, IARs will gather information about the client to determine if an advisory account is in the client's best interest.

Whether the IAR advises the client to open a *Blend*, *Dedicated*, or *FIP* account depends on a number of factors, such as the fees charged, the size of the Wrap Fee Program account, the amount of trading expected in the account as compared with accounts that charge commissions and do not charge single wrap fees, and the client's Investor Profile. As of January 3, 2023, IARs no longer advise clients regarding whether or not to open an ETCM managed account, but will continue to advise clients regarding their existing ETCM *Blend*, *Dedicated*, and *FIP* accounts.

#### **Portfolio Strategy Advice**

ETCM uses an algorithm to determine a prospective *Core*, *Blend*, and *Dedicated* client's initial portfolio strategy advice. The portfolio strategy advice 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 portfolio strategy 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 (i.e., how long you plan to invest in the portfolio before cashing out) and risk tolerance (i.e., your ability and inclination to encounter volatility in your portfolio in exchange for the potential for greater returns) are weighted the most when scoring the questionnaire.

The *FIP* questionnaire is used to understand and validate the client's preferences for a fixed income portfolio, confirm the client's knowledge of the risks associated with individual bonds, and ascertain whether the client is looking for a laddered portfolio or a managed bond portfolio with a specific duration. The portfolio strategy is referred to as the Investor Profile in the client's *Investment Proposal*. The portfolio strategy is not a financial plan and does not consider outside assets, concentration of holdings in other accounts, client debt levels, and multiple investment goals.

*Dedicated*, *FIP*, and *Blend* clients are able to reach out to an IAR or a team of IARs at 800-760-9036 with questions about the initial portfolio strategy or general questions about the questionnaire. *Core* clients can consult the Core Portfolios Support Team at 866-484-3658. The questionnaire can be updated at any time when a client's goal or financial situation changes. Depending on the results of the new answers to the questionnaire, such updates could result in advice for a new portfolio strategy.

Portfolio Managers effect transactions for the purchase and/or sale of fixed income securities mainly through unaffiliated third-party broker-dealers selected and used by the Portfolio Managers. These broker-dealers are unaffiliated with ETS, ETCM, and Morgan Stanley. This trading discretion is provided by clients through the terms of the Advisory Agreement (as defined under "Features of the Wrap Fee Programs" below). This type of trading is often referred to as "trading away" or "step-out trades" because the trades are executed by an unaffiliated

broker-dealer. These bond transactions could 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 Advisory Fee.

ETCM’s affiliates and the Portfolio Managers, and their affiliates, 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 *FIP*; however, if broker-dealers not affiliated with the Portfolio Managers are involved with *FIP* portfolio transactions, in certain circumstances, depending on each individual broker-dealer used and the details of the specific transaction, can include some or all of the above into the overall bond cost. If applicable, those costs will be included in the net price of the security and will not be reflected as a separate charge on trade confirmations or account statements.

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 *FIP* account and securities that are transferred into the account and must be liquidated. **Prior to selecting a Portfolio Manager, you should carefully read all material related to the Portfolio Manager. For additional information about the Portfolio Managers, trade execution, and the potential costs incurred, please read the Portfolio Manager’s ADV Part 2, which is available on request, and “Selecting Brokerage Firms” under “Brokerage Practices” in Item 6 “Portfolio Manager Selection and Evaluation” of this Brochure.**

ETCM and Lockwood jointly develop a selection of Portfolio Managers and investment styles for inclusion in *FIP*. 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 *FIP*. Lockwood, at its discretion, reserves the right to remove the availability of a *FIP* investment style and replace it with another investment style from the same or a different Portfolio Manager if the particular investment style fails to meet Lockwood’s defined screening criteria.

For *Core*, *Blend*, and *Dedicated*, ETCM applies its proprietary quantitative screening methodology (including historical performance and risk measures) to the universe of mutual funds and ETFs (*Core* only invests in ETFs other than a money market fund for the cash portion of the account) available to ETCM via the ETS investing and trading platform (“**Fund Universe**”). Lockwood makes available research and advisory services to ETCM with regard to the construction of the Model Portfolios (as defined under “Features of the Wrap Fee Programs” below) 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* and *Blend*. The IPC is responsible for the determination of the prudence of all investments on the list of Advisory Assets for *Core* and *Blend*.

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* and *Blend* programs.

For *Dedicated*, ETCM and Lockwood work together to make changes to the portfolios. Lockwood serves as the overlay manager and discretionary money manager and is reasonably available to clients for consultation.

**For further information about the role of Lockwood in the *Dedicated* and *FIP* advisory programs, please see “Dedicated Portfolios” and “Fixed Income Portfolios” under “Features of the Wrap Fee Programs” below.**

## Features of the Wrap Fee Programs

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

The portfolio strategies, sometimes referred to as “risk profiles” or “investment profiles,” for *Core*, *Blend*, and *Dedicated* range from conservative 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 client to create a *Dedicated* account that is concentrated in one or two asset classes, using a small number of manager model portfolios and/or other Advisory Assets. The asset class focused portfolios do not use an asset allocation investment model and are not fully diversified; therefore, these focused portfolios have their own specific risk and return characteristics. 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 a portfolio to meet the client’s investment needs.

Portfolios of ETFs, ETFs and mutual funds, or manager model portfolios matching predetermined portfolio 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. *FIP* offers laddered municipal bond portfolios with maturity ranges from one to five years, one to 10 years, or one to 15 years.

For *Core*, *Blend*, and *Dedicated*, ETCM and/or Lockwood selects the initial and subsequent 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. Out-of-tolerance parameters and rebalancing methodologies are subject to change. **For further information about the rebalancing methodology, please see “Review of Accounts and Ongoing Advice” in Item 9 “Additional Information” of this Brochure.**

Clients electing to invest in *Core*, *Blend*, or *Dedicated* 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 (including state-specific municipal bond mutual funds depending on client preferences) or ETFs to help reduce taxes incurred on income associated with such portfolios. *Core* clients with taxable accounts will automatically be invested in tax-sensitive portfolios, whereas Retirement Accounts will be invested in the standard portfolio strategy. *FIP* will differ based on which Portfolio Manager is selected and the strategy of the portfolio. Prior to being closed to new accounts, the *FIP* actively managed bond portfolios attempted 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.

Starting sometime in the latter half of the first quarter of 2023, eligible *Core* clients can enroll in tax-loss harvesting to “harvest” tax losses across all taxable *Core* accounts with ETCM. In effecting tax-loss harvesting, ETCM will not consider dividends in the account or any assets held in other accounts outside of *Core*. It also does not consider any Client-Selected Strategy held in your account. Upon confirmation of enrolling in tax-loss harvesting, ETCM will:

- (i) Monitor the client’s account(s) daily for eligible losses that can be sold to satisfy a tax-loss harvest.
- (ii) Once an eligible loss exceeds approximately 10% of the account value and is over \$100, sell ETF shares in order to realize the losses in the account.
- (iii) Monitor all *Core* accounts to ensure that all transactions comply with Internal Revenue Service guidelines during the wash sale period (this is the 61-day period from 30 days before to 30 days after the date of sale during which an investor cannot purchase substantially identical stocks or securities).
- (iv) Reinvest the proceeds of such sale in one or more broad-based ETFs or cash equivalents during any applicable restricted period.
- (v) Hold the replacement ETF shares or cash equivalents or other securities in the client’s account for a minimum of 30 days. Thereafter, ETCM monitors the value of the replacement security and generally will not sell it if the sale will result in a substantial short-term capital gains tax. However, the replacement security may be sold in certain instances where the potential short-term capital gain is below a specified minimum threshold. In such case, the sale will result in ordinary income to the client.
- (vi) Once the replacement security is sold, ETCM invests the proceeds in the account in accordance with the applicable investment strategy. If a new account is opened during this 30-day restricted period and the investment strategy selected for the client’s account calls for the account to be invested in a security that was harvested in another *Core*

account, the account will instead be invested in a replacement ETF, with similar risk and asset class characteristics, during the restricted period. Once the restricted period ends, ETCM will seek to invest in the security originally mandated by the investment strategy in a tax-efficient manner.

There is no guarantee that any harvesting request will achieve any particular tax result. ETCM does not provide clients with any tax advice in connection with tax-loss harvesting. Tax-loss harvesting may adversely affect the investment performance of a client's account.

ETCM actively manages *Core* accounts that use certain client-selected strategies. ETCM allows clients to select secondary portfolio strategies, including either smart beta or socially responsible investment holdings ("**Client-Selected Strategies**"), within the portfolio strategy for *Core*. Clients acknowledge and agree that ETCM is not providing investment advice regarding a client's decision to use a Client-Selected Strategy and related investments, nor is ETCM advising on the prudence of such selections. Clients should be cognizant when choosing a Client-Selected Strategy that that portion of the portfolio could perform differently from other strategies available through *Core*. Therefore, the Client-Selected Strategy could meet certain personal investment preferences, but clients need to consider whether 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 hold securities issued by BNY Mellon or its affiliates. Manager Models may include Morgan Stanley equity stock. Lockwood does not manage mutual funds or ETFs. Investment advisers constructing Strategist Portfolios and/or their affiliates manage or provide services to mutual funds or ETFs in the Strategist Portfolios (see more information about Strategist Portfolios below). Certain Morgan Stanley affiliates advise or manage mutual funds and ETFs. ETCM offerings can include advisory solutions and/or investments that are affiliated with Morgan Stanley. For more information regarding the treatment of these affiliated products, please see 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 selection 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 and selling securities in their Wrap Fee Program accounts and has instituted a block on purchases and sales by clients in those accounts.

All brokerage accounts enrolled in a Wrap Fee Program ("**Advisory Account**" or "**Wrap Fee Programs Account**") are subject to the terms of the E\*TRADE Customer Agreement. In addition, Wrap Fee Program accounts are subject to the Advisory Agreement for E\*TRADE Capital Management, LLC ("**Advisory Agreement**"), between the client and ETCM and with ETCM and Lockwood as co-advisers for *Dedicated* and *FIP* accounts. By signing the Advisory Agreement, clients acknowledge that they have been presented with a choice of, and information regarding, ETCM advisory programs.

ETS provides clients with an account statement at least quarterly. Clients authorize ETCM to instruct ETS to deliver any prospectuses for mutual funds and ETFs held in advisory accounts to ETCM as the investment adviser and agent for those client accounts. Clients are able to review a prospectus or summary prospectus by visiting [etrade.com/mutualfunds](http://etrade.com/mutualfunds) or [etrade.com/etf](http://etrade.com/etf) on request.

Investments in securities and other instruments involve risk and will not always be profitable. ETCM does not guarantee the results of any investment advice. 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.

ETCM (for *Core* and *Blend*), Lockwood (for *Dedicated*), and the Portfolio Managers (for *FIP*) reserve the right to add or delete any security types (e.g., debt securities) and to 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.

It is important that clients 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* is offered through [etrade.com](http://etrade.com) and is accessible on the internet on a variety of mobile platforms. Although clients determine on their own whether *Core* is right for their investment needs, they have the ability to call the Core Portfolios Support Team with questions prior to enrolling. For clients electing to enroll in *Core*, the investment process starts with clients' first answering a questionnaire and then selecting an initial portfolio strategy and, when appropriate, a secondary portfolio strategy. Clients are provided with an *Investment Proposal* describing an asset allocation strategy and a diversified portfolio of ETFs appropriate to the client's Investor Profile. Clients who enter a relatively short-term time horizon will receive an *Investment Proposal* for a relatively conservative portfolio strategy.

It is very important that clients update their Investor Profile online when there have been material changes to their attitude toward risk or their financial situation. Updating their Investor Profile promptly will help ensure that their portfolio strategy is customized to their needs.

*Core* rebalancing parameters differ depending on total balance and other factors, including but not limited to deposits and withdrawals. Clients who open a *Core* account and partially fund the account below the minimum are invested in the cash sweep option until such time as the client deposits the account minimum. For accounts funded above the minimum, *Core* rebalances according to both a calendar based and relative drift rebalancing. With drift rebalancing, *Core* is 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. *Core* also has a calendar rebalancing feature whereby *Core* accounts enrolled for at least six months are automatically rebalanced on a semiannual basis. *Core* accounts are rebalanced when material deposits or withdrawals are made to the account. Out-of-tolerance parameters and/or rebalancing methodologies are subject to change.

Depending on the amount of money invested by clients, *Core* accounts hold whole shares and/or interest in fractional shares of ETFs ("**fractional shares**"). Fractional share trading is offered as an accommodation and an investment advisory service to *Core* 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 typically not recognized outside the ETS trading platform, are illiquid, cannot be sold directly into the market, and cannot be transferred via an automated clearinghouse.

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

### Blend Portfolios (closed to new accounts)

Prior to enrolling clients in *Blend*, IARs interview clients to determine their financial needs and objectives. The IARs gather and analyze client 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 the IAR believes that *Blend* is in the client's best interest, the prospective client is provided with an *Investment Proposal* describing an asset allocation strategy and a diversified investment portfolio of mutual funds and/or ETFs.

Whether a *Blend* account is in the client's best interest depends on a number of factors, including the size of the account, the amount of trading expected in the *Blend* 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.

Portfolio holdings in Strategist Portfolios are selected by Strategist Managers. ETCM does, however, review and approve the Strategist Portfolios offered by Strategist Managers. Depending on its relationship with the Strategist Managers and the investments that are offered by ETCM and its affiliates, ETCM may not be required nor able to adhere to updates provided to Strategist Portfolios by Strategist Managers. Clients do not pay any additional advisory fee to ETCM or Strategist Managers for the use of a Strategist Portfolio even though ETCM does pay a portion of its advisory fee to MSIM for the MSIM Strategist Portfolios. Investments selected for a Strategist Portfolio may not perform as anticipated and may be subject to higher fees and expenses than other investment products that could have been selected for such Strategist Portfolio. Additional information on such Strategist Managers is available in each firm's Form ADV Firm Brochure, which can be found on the SEC's website ([adviserinfo.sec.gov](http://adviserinfo.sec.gov)) and is available on request. Additional risks with respect to each underlying fund are set forth in the offering documents, which are generally publicly available on the internet.

Strategist Managers are not acting as investment advisers to ETCM clients, nor are they responsible for executing investments associated with the use of a Strategist Portfolio. In fact, Strategist Managers have no contractual relationship with ETCM clients and no obligation to supervise or monitor the investment advisory or other services provided by ETCM. Strategist Managers also do not provide any legal, tax, or accounting advice to ETCM clients by constructing the Strategist Portfolios, nor do they provide any determination as to whether a Strategist Portfolio is advisable for an ETCM client. Strategist Managers have no obligation to, and will not, take into account the tax status, investment goals, or other characteristics of any client when compiling the Strategist Portfolios.

If a client receives a recommendation for a Strategist Portfolio, ETCM will make investments consistent with the structure of the Strategist Portfolio, monitor the client's account, and advise the client regarding the client's portfolio strategy.

There is a strong likelihood that Strategist Portfolios will be composed at least partly, if not mostly or entirely, of mutual funds and/or ETFs managed and sponsored by Strategist Managers, and Strategist Managers will receive fees related to the management of any proprietary ETFs and mutual funds. In fact, a Strategist Manager can generally be expected to select investments sponsored by it or its affiliates without considering or canvassing the universe of potential investments sponsored by persons not affiliated with the Strategist Manager or its affiliates ("Third-Party Funds"), even though there may (or may not) be one or more Third-Party Funds that may be more appropriate for inclusion in the Model Portfolio. Certain Strategist Managers will use a Third-Party Fund only if an appropriate investment sponsored by it or its affiliates is not available. The MSIM Strategist Portfolios hold both affiliated funds and unaffiliated funds. As such, Strategist Managers will be incentivized to include affiliated funds in the Strategist Portfolio and disincentivized to remove an affiliated fund from a Strategist Portfolio. Assets invested in affiliated funds are not included in the assets under management calculation of the Advisory Fee. MSSB Strategist Portfolios do not hold affiliated funds and primarily invest in unaffiliated ETFs. MSSB Strategist Portfolios reserve the right to hold affiliated funds in the future.

There may be timing differences in the receipt by ETCM of updates to a Strategist Portfolio and the receipt of updates by other persons. Because of the timing differences, a Strategist Manager may have taken action or advised other clients it may have, with respect to changes in a Strategist Portfolio, before communicating the information to ETCM. As a result, other clients may have already commenced trading for their own clients before ETCM has received or had the opportunity to make available on its platform updates to a Strategist Portfolio. In this circumstance, trade orders ultimately placed for or on behalf of ETCM clients by ETCM (or ETS) may be subject to price movements, particularly with respect to large orders or where the securities are thinly traded. As a result, the ETCM accounts using a Strategist Portfolio may not track the Strategist Portfolio and may receive prices that are less favorable than the prices obtained by Strategist Managers or their affiliates for their client accounts. Furthermore, any delay in the communication or receipt of updates to a Strategist Portfolio may in certain instances reduce or eliminate the Strategist Portfolio's usefulness to ETCM and its clients.

*Blend* uses a rebalancing methodology based on ETCM's portfolio allocation drift parameters. *Blend* is 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. *Blend* also has a calendar rebalancing feature whereby *Blend* accounts enrolled for at least six months are automatically rebalanced on a semiannual basis. Strategist Portfolios rely on asset allocation updates, changes to portfolio investment holdings, and/or rebalancing instructions from the third-party Strategist Managers and do not follow drift and/or calendar rebalancing. Out-of-tolerance parameters and/or rebalancing methodologies are subject to change.

Advisory Assets in *Blend* 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 a dedicated IAR or team of IARs available at 800-760-9036.

**Dedicated Portfolios (closed to new accounts; existing accounts to be terminated around August 2023)**

*Dedicated* 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.

Prior to enrolling clients in *Dedicated*, ETCM IARs interview clients to determine their financial needs and objectives and to gather Investor 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 the IAR believes that *Dedicated* is in the client's best interest, the prospective client is provided with an *Investment Proposal* that describes an asset allocation strategy and a diversified or focused 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, IARs, at their discretion, periodically advise changes to the allocation among mutual funds, ETFs, or Manager Models within the designated asset classes.

*Dedicated* uses a rebalancing methodology based on portfolio allocation drift parameters. *Dedicated* is 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* also has a calendar rebalancing feature whereby *Dedicated* accounts enrolled for at least six months are rebalanced on a semiannual basis. Calendar rebalancing is currently not available for certain *Dedicated* accounts due to the concentrated nature of the account holdings. Out-of-tolerance parameters and/or rebalancing methodologies are subject to change.

**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.**

*Dedicated* 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* accounts.

ETCM's key responsibilities primarily relate to the following: initial and ongoing evaluation of client investment objectives and risk tolerance; discretion to invest a portfolio of the *Dedicated* accounts in ETFs, no-load mutual funds, load-waived A-shares, and institutional class shares of mutual funds; initial and ongoing determination of appropriate Manager Models to be used in the portion of the Advisory Account that invests in Manager Models of the *Dedicated* account 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. ETCM does not, however, have discretion to select individual equities in the Manager Model portion of the *Dedicated* account.



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 style consistency of Model Managers that have been assigned to manage a Manager Model; exercising investment discretion to implement the Manager Model portion of the *Dedicated* account; and managing the overall trading activity in the portfolios. In addition, ETCM, as co-sponsor, 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.

*Dedicated* accounts are serviced by a dedicated IAR or team of IARs available at 800-760-9036.

Lockwood, as co-sponsor, is also 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* accounts.

In certain instances, and when appropriate, IARs will work with prospective clients to design *Dedicated* accounts that are concentrated in one or two asset classes, using a small number of Manager Models and/or other Advisory Assets, and are not fully diversified. Clients interested in this type of concentrated strategy will need to provide additional investment information to the IAR and be comfortable with the risks associated with a portfolio that is not diversified among several different asset classes. IARs, at their discretion, will periodically, and if necessary, advise changes to the allocation within designated asset classes that are part of *Dedicated's* Advisory Assets. These potential changes to portfolio strategies 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* are available on client request. The cash position in *Dedicated* could increase depending on the number and type of investment restrictions the client requests.

#### **Fixed Income Portfolios (closed to new accounts)**

In connection with *FIP*, Lockwood and ETCM make available certain *FIP* investment styles provided by various Portfolio Managers. Portfolio Managers and investment styles are approved by Lockwood and ETCM for inclusion in this program. ETCM has closed the following investment styles within *FIP* to new client accounts: Active Municipal Bond Portfolios; Active Taxable Bond Portfolios; and Corporate Bond Ladder Portfolios. ETCM continues to offer Municipal Bond Ladder Portfolios. There are no changes to the ongoing portfolio management of existing *FIP* accounts.

Prior to enrolling clients in *FIP*, 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 the IAR believes that *FIP* is in the client's best interest, a prospective client is provided with an *Investment Proposal* that describes the *FIP* 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 *FIP* investment styles made available by Lockwood.

Lockwood has the authority to add and remove Portfolio Managers and *FIP* investment styles available in the program. Lockwood, at its discretion, reserves the right to remove an investment style and replace it with another investment style from the same or a different Portfolio Manager if the particular investment style fails to meet Lockwood's defined screening criteria.

Portfolio Managers make all individual security investment decisions in connection with the *FIP* program. *FIP* accounts are rebalanced manually at the Portfolio Manager's discretion.

As the co-advisers and co-sponsors, ETCM and Lockwood have different roles and responsibilities with respect to managing *FIP* 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) 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 Portfolio Managers; providing oversight of Portfolio Managers, including providing ETCM with investment matrixes 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 with 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.

*FIP* accounts are serviced by a dedicated IAR or team of IARs available at 800-760-9036.

## **Fees**

ETCM's Wrap Fee Programs are investment advisory programs whereby clients 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 or its affiliates, 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 feasible, ETCM selects mutual fund and ETF institutional share classes that typically charge lower underlying fees and expenses. ETS waives its revenue-sharing payments from mutual funds and ETFs in ETCM's Wrap Fee Programs.

*FIP* transactions executed by unaffiliated broker-dealers include additional fees and expenses, including 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, commissions, markups, and markdowns or "spreads" paid to market makers. In assessing the overall cost of the program, *FIP* 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 *FIP* trades.

In the *Dedicated* and *FIP* programs, Lockwood pays management fees directly to the Model Managers or Portfolio Managers as part of the agreement between Lockwood and ETCM.

Clients prepay the monthly Advisory Fee, as indicated in the following Wrap Fee Program fee schedules. The specific Advisory Fee for your Wrap Fee Program is listed in your *Investment Proposal*. Fees are subject to change on reasonable notice.

Generally, the initial Advisory Fee is due in full on the date you sign the Agreement and fund the Advisory Account with the minimum investment amount. The Advisory Fee is based on the market value of assets, excluding any affiliated funds, in the account on or about that date. The initial Advisory Fee payment generally covers the period from the Advisory Account enrollment date through the last business day of the applicable billing period and is prorated accordingly. Thereafter, the Advisory Fee is paid monthly in advance based on the Advisory Account's market value on the last business day of the previous billing month and is due promptly.

Advisory Fees are deducted from Wrap Fee Program accounts, generally from a cash position maintained in the client's Wrap Fee Program account. In some instances, for *Blend*, *Dedicated*, and *FIP*, ETCM has the ability to deduct the fee from an alternate billing account designated by the client and agreed to by ETCM. If a debit (negative) balance occurs in the client's account due to insufficient funds, the Advisory Fee will be paid by ETCM's liquidating sufficient securities in the Wrap Fee Program account to cover the debit balance. Clients will need to weigh the effect of such liquidations on account performance.

The amount of the Advisory Fee depends on the market value of all assets, including cash balances, but excluding affiliated funds, 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 Depository 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 that may be 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.**

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 ETCM's advisory accounts.

ETCM has the sole discretion to waive or rebate Advisory Fees, in whole or in part, including in connection with both promotional efforts and investment management services offered to employees, affiliates' employees, and certain former employees.

## Wrap Fee Program Fee Schedules

### Fees Are Negotiable

Wrap Fee Program Advisory Fees are negotiable and depend on such considerations as the following: the aggregate assets contained in all of the client's ETCM and ETS accounts, the amount of time the client has had the aforementioned accounts, the total amount of business the client conducts with ETCM and its affiliates, and other factors.

### Breakpoints

Fee schedules for Wrap Fee Programs, except for *Core*, are expressed as a schedule of rates applying to different asset levels, or "breakpoints." Wrap Fee Program fee schedules that contain breakpoints are assessed an Advisory Fee at a blended rate.

As the market value of the Advisory Account reaches a higher breakpoint, as shown below, the incremental assets above each breakpoint category are charged the applicable fee rate. The effective fee rate for the account is a weighted average of the scheduled fee rates, sometimes referred to as "blended rate." The blended rate may change with fluctuations in the account asset level.

### Householding

When two or more investment Advisory Accounts are grouped together for billing purposes, clients can benefit even more from existing breakpoints. When determining the account size for purposes of the Wrap Fee Program Advisory Fee schedule, ETCM offers a householding fee program, sometimes referred to as "accounts related for billing purposes," whereby the firm aggregates assets in multiple related ETCM Wrap Fee Program accounts and applies the aggregated balance to the breakpoint tier in the applicable fee schedule. ETCM uses the client's Social Security number and current mailing address available on its platform to identify accounts that are eligible for householding. ETCM uses a best-efforts basis to link related accounts for billing purposes. Clients should confirm with their IAR that householding is set up on their related accounts.

If you have two managed accounts, the applicable fee on account 1 is calculated by applying your total grouped managed account assets (account 1 assets plus account 2 assets) to the account 1 tiered fee schedule. Similarly, account 2 fees are calculated by applying the total grouped managed account assets to the account 2-tiered fee schedule. If the total assets are sufficient to reach the next fee breakpoint for each managed account fee schedule, the client will benefit from a lower overall Advisory Fee.

ETCM cannot guarantee that clients who enroll in an advisory program and terminate in the same quarter will be enrolled in householding.

### Valuation of Account Assets

ETCM relies on ETS to determine the value of the assets in the account to calculate the Advisory Fee. The values used by ETS are not always the same prices achieved in actual transactions and, in some cases, represent dealer bids or offers that would be achievable only for orders of a particular size. In valuing assets, ETS uses information provided by recognized independent quotation and valuation services. Additionally, in instances where trades were executed at the very end of a calendar month or quarter, but the trades did not settle in the same month or quarter, brokerage account statements will reflect the execution price and not the most recent market price on the last day of the month or quarter. If any information provided by these services is unavailable or is believed to be unreliable, we will value any securities and investments in the account in a manner we determine in good faith to reflect fair market value. Account assets invested in open-end mutual funds will be valued based on the mutual fund's net asset value calculated as of the close of business on the valuation date, per the terms of the applicable mutual fund prospectus. ETS has the ability to use a variety of sources for valuing Wrap Fee Program account assets, including third-party vendors.

### Deposits and Withdrawals

Clients can make deposits into their account at any time. ETCM reserves the right to require clients to provide up to six days' prior verbal or written notice to a licensed representative or the Managed Account Team member for withdrawals of assets from their account, subject to the usual and customary securities settlement procedures. No fee adjustments are made during any billing period for deposits or withdrawals. No fee adjustments are made during any billing period for appreciation or depreciation in the value of account assets during that period. If the account is terminated by either party, clients are entitled to a prorated refund of any prepaid Advisory Fee.

### Other Fee Information

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. ETCM also pays a portion of the advisory fee charged on non-proprietary assets in MSIM Strategist Portfolios with MSIM. For *Dedicated* and *FIP*, 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 and Model Managers, please consult its Co-Sponsored Programs Wrap Fee Program Brochure.

**ERISA fee disclosure for qualified Retirement Accounts.** In accordance with Department of Labor regulations under Section 408(b)(2) of ERISA, ETCM is required to provide certain information regarding our services and compensation to help fiduciaries and plan sponsors of those Retirement Accounts that are subject to the requirements of ERISA in assessing the reasonableness of their plan's contracts or arrangements with us, including the reasonableness of our compensation. This information (the services we provide as well as the fees) is provided to you at the outset of your relationship with us and is set forth in this Brochure and in your Advisory Agreement (including any fee table and other exhibits) and then at least annually to the extent that there are changes to any investment-related disclosures for services provided as a fiduciary under ERISA.

Affiliates of ETCM provide marketing, shareholder service, distribution, administration, bookkeeping, or Rule 12b-1 fees ("**Revenue Share**") 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 withheld by the mutual fund clearing company. ETCM does not take into consideration Revenue Share when choosing or determining selection criteria for mutual funds and ETFs.

With regard to Title I ERISA accounts, ETCM relies on being a level-fee fiduciary for the ongoing management of the Wrap Fee Programs. If ETCM uses an affiliated fund, assets invested in the affiliated fund are not included in the calculation of the Advisory 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. Regarding 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* clients.

Account Market Value	Annual Advisory Fee
\$500 and over	0.30%

### Blend Portfolios Fee Schedule

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

Account Market Value	Annual Advisory Fee
First \$100,000	0.90%
Next \$150,000	0.80%
Next \$250,000	0.75%
Next \$500,000	0.70%
Next \$1,000,000 and over	0.65%

### Dedicated Portfolios Fee Schedule

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

Account Market Value	Annual Advisory Fee
First \$1,000,000	1.25%
Next \$1,000,000	1.15%
Next \$3,000,000	1.10%
Next \$5,000,000 and over	0.95%

### Fixed Income Portfolios Fee Schedule

The following reflects the standard blended Advisory Fee charged to *FIP* clients.

Account Market Value	Bond Ladder Annual Advisory Fee	Actively Managed Annual Advisory Fee
First \$1,000,000	0.45%	0.75%
Next \$2,000,000	0.40%	0.70%
Next \$3,000,000 and over	0.35%	0.65%

### Compensation

IARs and Core Portfolios Support Team representatives supporting ETCM products are paid a base salary and discretionary bonus.

In addition, IARs supporting *Dedicated*, *Blend*, and *FIP* offerings are, under certain circumstances, incented to promote certain advisory programs or products over others and/or services from ETS, Morgan Stanley, and its affiliates, including referrals to MSSB. These incentives include compensation based on the amount of assets transferred to certain Morgan Stanley branded accounts. This compensation does not vary depending on whether services from Morgan Stanley are brokerage or investment advisory. 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 Morgan Stanley. All written compensation plans are subject to change.

### Uninvested Cash

Generally, some portion of a client's portfolio will be held in cash. Uninvested cash balances are invested daily in a money market mutual 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, and such future changes could include the use of bank sweep deposit programs available through affiliates of Morgan Stanley or its proprietary money market mutual funds. Clients can call 800-387-2331 or a licensed representative at 866-484-3658 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.

If the Advisory Account is terminated and converted to a self-directed ETS 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 a client sells their shares, the price could be worth more or less than what the client 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. If the assets in the account are less than the amount required by ETCM to manage the advisory account, the account will not be charged an Advisory Fee. ETCM, at its sole discretion, determines when it will not trade or manage the account until sufficient assets are deposited in the account. **Upon termination of the Advisory Agreement, a client's account is converted to a standard self-directed ETS brokerage account (please see "Termination of Wrap Free Program Accounts" below).**

The standard minimum account balances to enroll in a Wrap Fee Program are as follows:

- Core Portfolios: \$500
- Blend Portfolios: \$25,000 (closed to new accounts)
- Dedicated Portfolios: \$150,000 (closed to new accounts)
- Fixed Income Portfolios: \$250,000 (closed to new accounts)

The minimum account size to enroll in a Wrap Fee Program is subject to change. With the *Dedicated* program, for each manager model portfolio used in a *Dedicated* account, the minimum investment of the client's *Dedicated* account with a Model Portfolio is generally \$50,000. Therefore, portfolios that enroll in the *Dedicated* advisory program with account balances close to the *Dedicated* advisory program minimum will not have access to the full array of manager model investment options available when establishing a diversified *Dedicated* account. In situations where a *Dedicated* account's asset class allocation requirements are less than the corresponding manager model minimums, those portions of the *Dedicated* account will

be constructed using mutual funds and/or ETFs. Prospective clients should weigh this fact with the other *Dedicated* program features when selecting *Dedicated* over other advisory programs offered by ETCM that also invest in mutual funds and/or ETFs and charge a lower Annual Advisory Fee. *Dedicated* Advisory Fees are neither raised nor lowered based on the number of Manager Models included in a *Dedicated* portfolio. IARs will consider other ETCM advisory programs if the number of Model Managers available for the establishment of the *Dedicated* 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, and Retirement Accounts. 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*, including trusts, charitable organizations, corporations, and business accounts. The *Core* 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.

ETCM will discontinue supporting profit sharing plan and individual 401(k) accounts in its offerings other than Core Portfolios sometime around August 2023. Clients with these types of accounts in offerings other than Core Portfolios will have to transition to a Core Portfolios account or have the account converted to a self-directed brokerage account.

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 such 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.

## Termination of Wrap Fee Program Accounts

ETCM (for *Core* and *Blend*) and ETCM and Lockwood (for *Dedicated* and *FIP*) reserve the right to terminate a client's Wrap Fee Program account and related Advisory Agreement at any time by 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 self-directed 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. If the Advisory Account is terminated by either party, clients are entitled to a prorated refund of any prepaid Advisory Fee. Certain mutual fund classes used in the Wrap Fee Programs will not be available for investment if the Advisory Agreement is terminated.

A client can terminate a Wrap Fee Program account by giving notice to ETCM. Upon account termination, if a client has been working with an IAR or team of IARs, 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 an Advisory Fee at the beginning of each month but would be charged the applicable 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. The account would also have certain features not available in the managed account such as check writing and Bill Pay.

ETCM (for *Core* and *Blend*) and ETCM and Lockwood (for *Dedicated* and *FIP*) 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 Advisory Agreement 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 ETS, an administrative hold is placed on the account until the final management fee has been assessed.

The termination and liquidation timeline for *FIP* depends on when the *FIP* bond trades are made through an unaffiliated third-party broker-dealer and then cleared and settled through ETS.

## ITEM 6. PORTFOLIO MANAGER SELECTION AND EVALUATION

For the *Core* and *Blend* programs, ETCM, through the IPC and with the support of the IST, selects, removes, or adds ETFs to these programs.

For the *Dedicated* 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* program from Lockwood's universe of Model Managers.

For the *FIP* 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* 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. There is no particular analytical discipline that 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, SEC filings, 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.; Zephyr Associates, Inc.; and additional internet resources.

**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 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* 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. Note that in certain circumstances, rebalancing could take place over one or more days to address market conditions and liquidity constraints. Rebalancing transactions could have tax consequences for a taxable account. **For further information about the Wrap Fee Program rebalancing methodologies, please see "Review of Accounts and Ongoing Advice" in Item 9 "Additional Information" of this Brochure. Given the investment strategy of the individual bond portfolio, FIP does not have a rebalancing feature.**

Alternate asset allocations and alternate advisory asset selections from the initial and subsequent portfolio strategies are available for the *Core*, *Blend*, and *Dedicated* programs. Clients can log on to *etrade.com* at any time to update their risk profile information. *Core* 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* 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. Any restriction imposed on the management of the account cannot be applied to mutual fund or ETF holdings because mutual funds and ETFs operate in accordance with the investment objectives and strategies described in their prospectuses. Clients in the *FIP* 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* 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*), or Portfolio Managers (in *FIP*) reserve the right to use portfolio strategies or investments that differ 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 an IAR.

## Risk of Loss

Investing in an account has certain risks that are borne by the investor. Investing in securities involves volatility of the markets and the risk of loss that clients should be prepared to bear. ETCM's investment approach constantly keeps the risk of loss in mind. Investment performance of any kind is not guaranteed. 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 due 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 US 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 relates primarily 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 buy 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, whereas real estate properties are not.
- **ETF risks.** There may be a lack of liquidity in certain ETFs, which can lead to a large difference between the bid/ask prices (increasing the cost to clients when ETFs are bought and sold). A lack of liquidity also could cause an ETF to trade at a large premium or discount to its net asset value. Additionally, an ETF may suspend issuing new shares, and this may result in an adverse difference between the ETF's publicly available share price and the actual value of its underlying investment holdings. At times when underlying holdings are traded less frequently, or not at all, an ETF's returns may diverge from the benchmark it is designed to track.
- **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 or sector relative to the investor's overall portfolio. Furthermore, when strategies invest in a concentrated number of securities or sectors, a decline in the value of these securities would cause the overall account value to decline to a greater degree than that of a less concentrated portfolios. Further, strategies that invest a large percentage of assets in only one industry sector or in only a few sectors, are more vulnerable to price fluctuations than strategies that diversify among a broad range of sectors.
- **Differing classes of securities risks.** Different classes of securities have different rights as creditor if the issuer files for bankruptcy or reorganization. For example, bondholders' rights generally are more favorable than shareholders' rights in a bankruptcy or reorganization.
- **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.
- **Risks relating to money market funds.** An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. You could lose money in money market funds. Although many money market funds classified as government funds (i.e., money market funds that invest 99.5% of total assets in cash and/or securities backed by the US government) and retail funds (i.e., money market funds open to natural person investors only) seek to maintain a stable \$1 per share, they cannot guarantee that they will do so. The price of other money market funds will fluctuate, and when you sell shares, they may be worth more or less than you originally paid. Money market funds may impose a fee upon sale or temporarily suspend sales if liquidity falls below required minimums. During suspensions, shares would not be available for purchases, withdrawals, check writing, or ATM debits. Moreover, in some circumstances money market funds may cease operations when the value of a fund drops below \$1 per share. In that event, the fund's holdings may be liquidated and distributed to the fund's shareholders. This liquidation process can be prolonged in nature and last for months. During this time, these funds would not be available to you to support purchases, withdrawals, and, if applicable, check writing or ATM debits from your account.
- **Smart beta strategy risks.** Smart beta ETFs favor equities with certain characteristics that may help enhance overall returns. Factors, or specific characteristics of stocks that have performed well historically, are used to select stocks. This strategy also combines elements of

active and index investing. An ETF employing a smart beta strategy may have higher portfolio turnover, which may indicate higher transaction costs relative to its benchmark. Using smart beta does not guarantee against underperformance relative to a more traditional market-capitalization-weighted benchmark.

- **Socially responsible strategy risks.** Socially responsible ETFs invest to a specific mandate, including incorporating into investment analysis socially responsible investing (“SRI”) criteria, sometimes referred to as “environmental, social, and governance” (“ESG”) investing or “Impact Investments”; screening for companies that adhere to ESG standards; or fixed income ETFs focused on community impact securities. SRI and ESG strategies may limit or eliminate exposure to investments in certain industries or companies that do not meet specific ESG criteria. As a result, the ETF may underperform other funds or an appropriate benchmark that does not have an SRI or ESG focus and may forgo certain market opportunities available to strategies that do not use these criteria.
- **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 internal policies to manage and mitigate risks associated with safeguarding the information of Morgan Stanley, its affiliates, and their clients and employees. Adherence to these policies, 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 portfolio’s upside growth potential, and these types of strategies might rebalance client accounts without regard to market conditions. Furthermore, rebalancing strategies do not necessarily address prolonged changes in market conditions.

For more information about the risks associated with investments in ETCM’s investment programs, please call 866-484-3658.

## 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 Manager Models*, and *FIP 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 and Ongoing Advice” 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 *FIP* program, elect to direct all brokerage transactions to execute through ETS, and clients cannot designate or select a different broker. Because ETCM selects ETS as the broker-dealer for its clients, clients will benefit from savings on execution costs that would not be available without a negotiated service agreement between ETCM and ETS.

Not all investment advisers require that clients direct their accounts to use a broker that has been selected by the investment adviser. For the *FIP* program, Portfolio Managers almost always effect transactions for the purchase and/or sale of fixed income securities through unaffiliated third-party broker-dealers selected and used by the Portfolio Managers. Portfolio Managers, at their sole discretion, will place trade orders with any broker-dealer pursuant to the terms of the Advisory Agreement. 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, through its affiliate ETS and broker-dealers selected by *FIP* Portfolio Managers, has 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* ETF trades are aggregated with other *Core* 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 could 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 Core Portfolios Support Team at 866-484-3658.

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 client orders.

### Best Execution

ETCM has the responsibility to seek to obtain “best execution” of client transactions, taking into consideration the circumstances of each particular transaction. Best execution entails the efficient placement of orders, clearance, settlement, and the overall quality of executions as well as cost of the transactions.

As a condition of opening a *Core*, *Blend*, or *Dedicated* managed account, trade orders are directed to ETS. ETS as a broker-dealer strives to obtain best execution for its client transactions and monitors and evaluates the quality of execution on a periodic and systematic basis. A *FIP* Portfolio Manager, at its sole discretion, will place trade orders with any broker-dealer pursuant to the terms of the Advisory Agreement. ETS reviews the *FIP* trades made by unaffiliated third-party broker-dealers.

ETCM has adopted a Best Execution Policy pursuant to which ETCM periodically reviews summary results of ETS trade data to determine if there is a reasonably good-faith process in place designed to seek best execution of ETS client trades, including ETCM client portfolio trades.

E\*TRADE is responsible for assessing whether clients, including ETCM clients, were provided with execution prices that fell in an acceptable range given relevant facts and circumstances and assessing whether the market centers that receive and execute ETCM trades are upholding their best execution obligations for ETCM clients. E\*TRADE employees periodically review 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 clients. 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](http://etrade.com).

ETS exercises discretion in determining the market centers to which client orders, including those of ETCM client accounts, are routed for execution. ETS routes client orders in equity securities, ETFs, and other exchange-traded products to certain third-party market makers and registered securities exchanges, which may include facilities, exchanges, or venues in which affiliates of ETS have a financial interest. In some cases, ETS receives remuneration from such market centers as a result of executions of such orders. Such remuneration includes discounts, rebates, fee reductions, or credits and may exceed the amount that ETS is charged by such market centers to execute orders. This practice is referred to as “payment for order flow,” and it does not alter ETS’s obligation to seek and obtain best execution for its client orders. To that end, ETS, absent instructions from the client to the contrary, takes a number of factors into consideration in determining where to route clients’ orders, including, without limitation, the speed of execution, price improvement opportunities (executions at prices superior to the then prevailing inside market), automatic execution guarantees, the availability of efficient and reliable order-handling systems, the level of service provided, the cost of executing orders, and whether it will receive cash or non-cash payments for routing order flow. The source and amount of compensation that ETS receives in connection with a particular transaction will be provided on written request of the ETS client. For more information about order flow revenue, see SEC Rule 606 Quarterly Order Routing Reports at [us.etrade.com/1/quarterly-order-routing-report](http://us.etrade.com/1/quarterly-order-routing-report).

Accounts participating in ETCM’s Wrap Fee Programs are subject to price movements, particularly with large orders or where securities are thinly traded that could cause them to receive prices that are less favorable than those obtained by other broker-dealers.

For the *Dedicated* program, if Lockwood believes in good faith 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. If Lockwood were to execute a transaction through a broker-dealer other than 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.

Clients should understand that ETCM Wrap Fee Programs are discretionary investment advisory programs and not self-directed brokerage accounts. Unlike a self-directed brokerage account, ETCM does not place trade orders with ETS for particular securities to be executed at specific times during the day, week, month, or quarter. If clients would like to time the market and control the specific time during trading hours to buy or sell particular securities in their account, clients should not enroll in a discretionary advisory account.

### 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 *FIP* 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 Advisory 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* 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 for which 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* investment holdings, and the methodologies used to address potential conflicts of interest can be made available on request.

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

## Conflicts of Interest

### General

Conflicts of interest or potential conflicts of interest commonly refer to activities or relationships in which ETCM’s, its affiliates’, and/or an IAR’s/Core Portfolio Support Team representative’s interests compete with the interests of ETCM’s clients. A conflict of interest arises when the conflict could incline ETCM or an IAR to provide advice to you that is influenced by considerations of firm or personal advantage. ETCM is obligated to disclose these conflicts to make you aware of them as you evaluate ETCM’s advice and services.

There is a conflict of interest review process designed to (a) identify conflicts of interest within the brokerage and adviser-related business lines of Morgan Stanley and (b) review controls, policies, and procedures to assess the associated risks of such conflicts. Although the firm attempts to assess and reduce or mitigate risk, this does not mean that these applicable risks are eliminated.

ETCM aims to provide full and fair disclosure of these activities and relationships in this Brochure and the Advisory Agreement.

**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 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.**

**Detailed information regarding conflicts of interest and perceived conflicts of interest for Morgan Stanley and its affiliated entities is available by visiting [morganstanley.com/adv](http://morganstanley.com/adv).**

In addition to the information in this Brochure, please consider the following information regarding conflicts of interest.

### Firm Level

As a large financial services company, Morgan Stanley has numerous subsidiaries; the activities of these subsidiaries present conflicts of interest between affiliated entities and entities or individuals outside of Morgan Stanley. In certain circumstances, ETCM, and indirectly Morgan Stanley, have the ability to make more money from advisory accounts than self-directed brokerage accounts that have limited trading activity in stocks, mutual funds, and ETFs. As a result, at the firm level it could be in ETCM’s interest to advise you to open a managed account. ETCM receives more revenue from certain Wrap Fee Programs than others (e.g., ETCM receives more money for *Dedicated* than for *Core*, *Blend*, and *FIP*). ETCM is committed to putting the interests of its clients first and seeks to act in a manner consistent with its fiduciary and contractual obligations to its clients. ETCM mitigates conflicts of interest in a variety of ways, including adopting policies and procedures and providing full and fair disclosures of these activities or relationships in this Brochure and the Advisory Agreement. Additionally, the subsidiaries of Morgan Stanley enter into intercompany agreements that detail the interaction, payments, and resource sharing between affiliated entities, including ETCM.

ETCM and your IAR have the ability to earn more compensation if clients invest in Wrap Fee Programs than if clients open a brokerage account, even though a self-directed brokerage account would not receive all the benefits of being enrolled in an ETCM Wrap Fee Program. ETCM takes steps to review IAR Wrap Fee Program enrollment activities to help mitigate these conflicts and satisfy its obligation to provide investment advice in your best interest.

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

#### Referrals to MSSB

IARs (not the Core Portfolios Support Team) are compensated for referrals to Morgan Stanley of existing ETCM clients and prospective clients. Depending on the services provided and products selected, Morgan Stanley will earn more if clients engage them for advisory services than if the client retains an ETCM or ETS account. IARs are also paid more compensation for closed referrals than for assets held at ETS or ETCM.

#### Co-advisers, Portfolio Managers, Model Managers, and Strategist Managers

ETCM uses third-party co-advisers, Portfolio Managers, Model Managers, and affiliated and unaffiliated Strategist Managers that are likely to include ETFs and/or mutual funds sponsored by such affiliated or third-party or an affiliate thereof, for which the affiliate or third-party manager or its affiliates receive fees. Each of such third-party co-advisers, Portfolio Managers, Model Managers, and Strategist Managers and the affiliated Strategist Manager are therefore subject to conflicts of interest in that they are either incentivized or required to include such affiliated ETFs, mutual funds, or other securities in constructing such portfolios. Clients should be aware that third-party portfolios could operate differently for clients than the standard ETCM managed portfolios.

Third-party co-advisers, Portfolio Managers, Model Managers, Strategist Managers, and the affiliated Strategist Manager make investment decisions that could conflict with one another. For example, at any particular time, one Model Manager could be purchasing shares of an issuer whose shares are being sold by another Model Manager.

#### Different Advice

ETCM and subsidiaries of Morgan Stanley, could give different advice, take different action, receive more or less compensation, or hold or deal in different securities for any other party, client, or account (including their own accounts or those of their affiliates) from the advice given, actions taken, compensation received, or securities held or dealt for client accounts.

#### Mutual Fund & ETF Universe

The universe of mutual funds and ETFs available to ETCM is limited to the mutual funds and respective share classes available on the ETS mutual fund platform and the ETFs (other than inverse leveraged ETFs) available on the ETS 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. ETS has negotiated business relationships with some of the affiliated distributors or investment advisers to various mutual funds.

#### Affiliated Funds

Certain funds are sponsored or managed by, or receive other services from, MSSB and its affiliates. MSSB or the affiliated sponsor (or other service provider) receives additional investment management fees and other fees, from these funds. Therefore, MSSB and its affiliates have a conflict to recommend proprietary and/or affiliated funds. To mitigate this conflict, Morgan Stanley and E\*TRADE employees do not receive additional compensation for recommending proprietary and/or affiliated funds or affiliated Strategist Portfolios. MSSB's affiliates have entered into administrative services and revenue-sharing agreements with MSSB as described above.

#### Research Reports

Morgan Stanley and its affiliates do business with companies covered by Morgan Stanley & Co. LLC ("MS&Co") research groups. Furthermore, MS&Co, its affiliates, and client accounts

may hold a trading position (long or short) in securities of companies subject to such research. Therefore, MS&Co has a conflict of interest that could affect the objectivity of its research reports. Some of the Morgan Stanley research reports are available on [etrade.com](http://etrade.com).

#### Nonpublic Information

In the normal course of business, Morgan Stanley, its affiliates, and their respective agents, which include ETCM supervised persons, could from time to time acquire confidential or material nonpublic information that could prevent ETCM, for a period of time, from purchasing or selling particular securities for the Advisory Account. Clients acknowledge and agree that ETCM and its affiliates and agents will not be free to divulge or to act on this information with respect to their advisory or brokerage activities, including activities with regard to the Advisory Account. This could adversely affect the investment performance of the Advisory Account.

## ITEM 7. CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS

ETCM IARs and Core Portfolios Support Team representatives do not manage individual client portfolios. Client information is provided directly to ETCM, co-advisers, and *FIP* 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* program, clients should update their Investor Profile online if their financial condition changes or there have been changes to their risk tolerance. They can also contact the Core Portfolios Support Team at 866-484-3658 to discuss the *Core* program and their Investor Profile.

For the *Blend* and *Dedicated* programs, clients should notify their IAR or team of IARs at 800-760-9036 if their financial condition changes or if they want to request investment restrictions, alternative investments, or portfolio allocations.

For the *Dedicated* 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 *FIP* program, the Portfolio Managers have access to client information on the Lockwood platform. Clients can also discuss changes to the investment style and request specific portfolio investment restrictions by CUSIP.

## ITEM 8. CLIENT CONTACT WITH PORTFOLIO MANAGERS

*Blend*, *Dedicated* and *FIP* clients should discuss questions about the Wrap Fee Program with an IAR at any time during normal business hours. An 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* and *FIP* 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 ETCM legal or disciplinary events that are material to an evaluation by a client or prospective client of ETCM's business or management. **Detailed disciplinary information regarding Morgan Stanley and its affiliated entities is available by visiting [morganstanley.com/adv](http://morganstanley.com/adv).**

### 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 more



than \$1,200 in fees per client six months or more in advance and is therefore not required to include in this Brochure a copy of its balance sheet for its most recent fiscal year. ETCM and its predecessors have not been the subject of a bankruptcy petition during the past 10 years.

## Other Financial Industry Activities and Affiliations

ETCM is a related person of Morgan Stanley, ETS, MSIM, MSSB, MSWM, E\*TRADE Futures, and Morgan Stanley Private Bank, National Association.

Morgan Stanley is a publicly traded global firm engaging, through its various subsidiaries, in a wide range of financial services, including securities underwriting, distribution, and trading; merger, acquisition, restructuring, real estate, project finance, and other corporate finance advisory activities; merchant banking and other principal investment activities; brokerage and research services; asset management; trading and foreign exchange; commodities and structured financial products and global custody; and securities clearance services and securities lending.

In addition to being Strategist Managers, MSIM and MSSB act as the sub-managers for some SMA Investment Products in MSSB's Select UMA advisory program.

E\*TRADE Futures is a non-clearing futures commission merchant. ETCM does not invest directly in futures contracts.

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 Morgan Stanley subsidiaries that provide various financial services.

ETCM's IARs and the Core Portfolios Support Team are dually registered as broker-dealer registered representatives of ETS and MSSB, and investment advisory representatives for ETCM. 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 ETCM 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.

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 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 its 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.

ETS 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 services, and marketing services (e.g., advertising on the website *etrade.com*, co-branding in sales materials, and/or website disclosures) performed by ETCM's affiliates 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 clients. 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.

**For further information regarding ETCM, please call ETCM at 866-484-3658.**

## Code of Ethics

ETCM has adopted a Code of Ethics as mandated by the Advisers Act rules. The Code of Ethics requires certain employees and its subsidiaries to comply with applicable federal securities laws and to report violations of the Code of Ethics. Employees who are covered by the Code of Ethics 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 of Ethics includes the following provisions:

- i. Standards of business conduct required of access persons, which standards reflect fiduciary obligations and those of supervised persons to advisory clients;
- ii. Terms requiring supervised persons to comply with applicable federal securities laws;
- iii. Terms and procedures relating to the review and approval of certain securities transactions and holdings by supervised persons with access to client information;
- iv. Procedures for reporting violations of the Code of Ethics; and
- v. Procedures for the receipt and acknowledgment of the Code of Ethics by supervised persons.

ETCM will provide a copy of the Code of Ethics 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 and the Core Portfolios Support Team 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.

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

With the Line of Credit, a client has the option to "pledge" or use their Wrap Fee Program as collateral for loans obtained from Morgan Stanley Private Bank. The costs associated with such loans are not included in the Wrap Fee Program Advisory Fee and will result in additional compensation to Morgan Stanley Private Bank and its affiliates. This additional compensation, as well as Morgan Stanley Private 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 Wrap Fee Program account. ETCM addresses these conflicts of interest through its disclosure in this Brochure, through the disclosure in the Loan Documentation, and through policies and procedures designed to ensure that accounts containing collateralized assets are not managed any differently from other Wrap Fee Program accounts. **For further information about the risks and conflicts associated with using assets in a Wrap Fee Program account to collateralize a loan from Morgan Stanley Private Bank, please refer to "Loan and collateral risk" under "Risk of Loss" in Item 6 "Portfolio Manager Selection and Evaluation" of this Brochure.**

If a conflict or potential conflict of interest arises, ETCM's chief compliance officer, or a senior member(s) of Wealth Management Compliance, if the potential conflict involves ETCM's chief compliance officer, will review the facts and circumstances and, if necessary, take appropriate steps, including but not limited to administrative actions, trade sanctions, and the reversal of related trades associated with persons subject to the ETCM Code of Ethics.

Access person trades are monitored by the Compliance staff. Trading should not affect the securities markets or interfere with ETCM's fiduciary duties to its clients.

## Review of Accounts and Ongoing Advice

One of the key benefits of an ETCM Wrap Fee Program is ongoing investment advice for managed accounts and ongoing access to IARs or the Core Portfolios Support Team for Core Portfolios. Clients should be sure to keep in mind that their portfolio was designed with their particular situation in mind. If or when a client's financial circumstances or goals have changed, or there are changes to investment restrictions, or a client would like to request alternative asset allocations, clients should contact an IAR (or Core Portfolios Support Team for Core Portfolios) to update the Investor Profile.

ETCM will also reach out to clients at least annually to remind them to contact us if their investment objectives have changed and notify them on a quarterly basis to contact ETCM in the event that their financial information or investment goals and objectives changed. If a client's investment objectives have changed, clients should contact an IAR to determine whether the selected portfolio strategy or the Wrap Fee Program is still in the client's best interest for their investment needs. *Core* clients can call the Core Portfolios Support Team and use the web interface to update their Investor Profile and retake the risk questionnaire at any time.

Wrap Fee Program performance is reviewed at least quarterly by the IPC. The IPC, working with the IST, reviews the Wrap Fee Program portfolios and determines if changes should be made to portfolio asset allocations, portfolio holdings, or asset classes and styles and whether to add or remove Model Managers or Portfolio Managers.

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 Core Portfolios Support Team (for Core Portfolios) are available to discuss QPRs with clients, and clients can contact them at any time to discuss the advisory program or transactions in their portfolios. You may access these reports through [etrade.com](http://etrade.com): under "Managed Account (Records)," select the account and time frame, then choose QPR Statement.

ETCM provides clients with monthly market commentary to keep them informed about key market events and trends that could be affecting their portfolios.

Wrap Fee Program accounts are monitored daily. ETCM uses rebalancing methodologies based on portfolio allocation drift parameters and/or a calendar rebalancing schedule to help keep your portfolio on track. Client portfolio allocations are compared with target allocation drift parameters and rebalanced periodically to bring the portfolio into alignment with target allocations.

*Core*, *Blend*, and *Dedicated* accounts are reviewed 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*, *Blend*, and *Dedicated*, 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. Rebalancing parameters for each advisory program differ depending on account balance.

For *Blend*, *Dedicated*, and *FIP*, the continuing role of the IAR or team of IARs is to review and monitor the 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. ETCM reviews *Core* client accounts, and *Core* clients can contact the Core Portfolios Support Team with any day-to-day questions about their managed account.

## 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. IARs are compensated for referrals to affiliates, such as MSSB.

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 (other than the Core Portfolios Support Team) 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.

ETCM and its affiliates receive what is referred to as "non-cash compensation" from unaffiliated third-party firms, including Model Managers, Portfolio Managers, Strategist Managers, and firms associated with mutual funds or ETFs held in Wrap Fee Programs. Non-cash compensation for ETCM takes the form of educational meetings, training seminars, conferences, or other events whereby the unaffiliated third-party firms pay expenses associated with conducting these meetings. E\*TRADE addresses conflicts of interest by ensuring that non-cash compensation does not directly relate to any particular investment made by ETCM clients or portfolio holdings selected by the IST.