

ITEM 1. COVER PAGE

**FIRM BROCHURE
(PART 2A OF FORM ADV)**

E*TRADE Capital Management, LLC

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*This brochure provides information about the qualifications and business practices of E*TRADE Capital Management, LLC.*

If you have any questions about the contents of this brochure, please contact us at 1-866-484-3658.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

*Additional information about E*TRADE Capital Management, LLC is available on the SEC's website at adviserinfo.sec.gov.*

*The IARD/CRD number for E*TRADE Capital Management, LLC, is 42159.*

*E*TRADE Capital Management, LLC, is a registered investment adviser.*

Registration of an investment adviser does not imply a certain level of skill or training.

December 8, 2016

ITEM 2. MATERIAL CHANGES

Annual Update

The Material Changes section of this Firm Brochure will be updated annually or when material changes occur since the previous release of this Brochure.

Material Changes Since the Last Update

E*TRADE Capital Management, LLC ("ETCM") has made material changes to the Firm Brochure since the last Firm Brochure dated May 26, 2016. Following is a summary of these material changes:

Fixed Income Separately Managed Account Program

Multiple sections of this Brochure were updated to include information about ETCM's new Fixed Income Separately Managed Account program. This Wrap Fee Program will be offered to existing and prospective clients on or about December 8, 2016.

Item 4. Advisory Business: Types of Advisory Services

This section was updated to reflect changes to ETCM's affiliated broker-dealers. Effective October 1, 2016, E*TRADE Clearing LLC merged into E*TRADE Securities LLC. E*TRADE Securities LLC is the surviving entity and has assumed all clearing, settlement, and custody services previously performed by E*TRADE Clearing LLC on behalf of ETCM accounts.

Item 7. Types of Accounts: Account Minimums

ETCM updated this section to reflect Adaptive Portfolio program's new minimum account size of \$5,000 for Traditional and Roth IRAs and how these portfolios are managed.

E*TRADE Capital Management will provide a new Firm Brochure as necessary, based on changes or new information, at any time, without charge. To request the most recent Firm Brochure, please call us at 1-866-484-3658.

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ITEM 4. ADVISORY BUSINESS

Firm Description

E*TRADE Capital Management, LLC ("ETCM") is an investment adviser registered with the U.S. Securities and Exchange Commission ("SEC"). ETCM, under its predecessor name, was founded in 1996 and became a wholly-owned indirect subsidiary of E*TRADE Financial Corporation ("E*TRADE Financial" or "ETFC") on October 3, 2005. E*TRADE Financial is a financial services company that provides brokerage, investment advisory services, and related products and services primarily to individual retail investors ("clients").

ETCM provides investment advisory services to clients residing in the United States. These investment advisory services may be administered by representatives conducting business under various titles or designations. For purposes of this document, these associates are designated as investment adviser representatives ("IARs"). Advisory services are not available to pension or profit-sharing plans subject to the Employee Retirement Income Security Act ("ERISA"). ETCM does not provide financial-planning, tax preparation, estate-planning, security-rating, pension-consulting, or market-timing services.

ETCM charges only asset-based fees for its services and does not sell commission-based products. ETCM, with its service providers, provides ongoing portfolio monitoring for adherence to a client's strategy. ETCM and its IARs are affiliated with other entities that offer a variety of different financial products or securities, including commission-based products.

ETCM acts as sponsor and investment adviser for four Wrap Fee Programs. All of ETCM's advisory programs are described in more detail below. ETCM has an agreement with Lockwood Advisors, Inc. ("Lockwood") to provide ETCM with impersonal advisory services for two of ETCM's Wrap Fee Programs, and Lockwood additionally acts as co-sponsor and co-adviser for two additional ETCM Wrap Fee Programs. Lockwood does not provide investment advice directly to ETCM clients. Lockwood is an investment adviser registered with the SEC and an affiliate of Pershing LLC. Lockwood and Pershing LLC are BNY Mellon companies and none of these companies are affiliated with ETCM.

Investment advisory programs are subject to the general oversight of ETCM's Investment Policy Committee ("IPC"). Certain members of the IPC, who compose the Investment Strategy Team ("IST"), review portfolio data and provide information, analysis, and recommendations to the IPC.

Principal Owners

ETCM Holdings, LLC is a 100% stockholder of ETCM. E*TRADE Financial, a publicly-owned company traded on the NASDAQ (symbol: ETFC), owns 100% of ETCM Holdings, LLC.

Types of Advisory Services

ETCM currently offers four discretionary investment management products. Under these Wrap Fee Programs, clients are able to invest in portfolios utilizing one or more of the following types of securities: registered open-end investment companies ("mutual funds"); U.S. exchange-traded funds ("ETFs"); individual stocks through the use of manager model portfolios ("manager models"); individual bonds through professional third-party Portfolio Managers ("Portfolio Managers"), which may also be referred to as investment managers or sub-advisers; and other investment vehicles. The investments approved for use may differ from program to program ("Advisory Assets"). Additionally, ETCM reserves the right to add or remove any security types from the list of Advisory Assets and change the list of investments comprising the Advisory Assets without notice.

In providing its investment advisory services, ETCM determines client's financial needs and objectives, gathering and analyzing customer profile and risk tolerance information (together "Investor Profile"). This is completed online through a web-based ETCM interface or an IAR interview.

Investor Profile information may include but is not limited to the 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 (together "Investment Profile"). ETCM analyzes the information and makes a determination about which program(s) appear suitable. Prospective clients are provided with an *Investment Proposal* that describes a recommended asset allocation and a diversified investment portfolio.

Clients have the ability to communicate with ETCM regarding the investments made in their accounts and may discuss reasonable restrictions on investments, or in some cases, select an alternative substitute investment. Certain ETCM advisory solutions allow the client to work with his or her IAR or IAR Service Team to alter or change asset allocation percentages in each model portfolio. Clients are not permitted to hold margin accounts, personally enter trade instructions, or make transactions for accounts enrolled in an ETCM advisory program. Certain cash management features that may be available to other accounts held with ETCM's broker-dealer affiliate are not available to ETCM accounts, such as Bill Pay or check writing, or may require that the client submit the transaction request to ETCM.

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

Wrap Fee Programs

Wrap Fee Program Information

ETCM acts as sponsor and investment adviser for four wrap fee programs ("Wrap Fee Programs;" each a "Wrap Fee Program"):

- Adaptive Portfolio program ("AP" or "Adaptive Portfolio")
- Fixed Income Separately Managed Account program ("FISMA")
- Managed Investment Portfolio program ("MIP")
- Unified Managed Account program ("UMA")

For additional information, please refer to the E*TRADE Wrap Fee Programs Brochure (Part 2A Appendix 1), which is available on request.

ETCM Wrap Fee Program clients pay a single fee for investment advice, brokerage, clearing, and custodial services ("Advisory Fee" or "program fee"). This fee may cost the client more or less than purchasing such services separately. This generally depends on commission rates, portfolio trading activity, and the cost of similar non-wrap discretionary investment advisory services. Mutual funds and ETFs charge periodic management fees that are separate and apart from the program fee charged by ETCM. Unlike fees charged by mutual funds and ETFs, Lockwood pays management fees directly to the model managers and Portfolio Managers as part of the agreement between Lockwood and ETCM.

ETCM utilizes an affiliate, E*TRADE Securities LLC ("ETS"), to provide execution, clearing and custodial services for client assets. ETS is a registered broker-dealer firm and is subject to oversight by the SEC and the Financial Industry Regulatory Authority ("FINRA").

For FISMA, ETS provides clearing, settlement, custodial, and other brokerage-related services. Portfolio Managers effect transactions for the purchase and/or sale of fixed income securities mainly through unaffiliated broker-dealers selected and used by the Portfolio Managers. Thus, the trades in the FISMA accounts will not typically be executed by ETS. This type of trading is often referred to as "trading away" or "step-out trades" because they are executed by an unaffiliated broker-dealer. These transactions are not charged commissions, and the Portfolio Managers will not add an additional markup or markdown to the bonds they trade for FISMA accounts. For additional information, please see the "Brokerage Practices" section of this Brochure.

Pursuant to an agreement with ETS, ETCM retains up to half of the fees it receives for advisory and portfolio management services and distributes the remaining portion to ETS to cover the costs associated with brokerage and custodial services rendered as well as other services provided to support the Wrap Fee Programs.

Lockwood provides impersonal advisory services to ETCM to assist with the research, selection, investment, and allocation of MIP and AP client assets in certain mutual funds and/or ETFs. The addition and removal of mutual funds and/or ETFs are reviewed and approved by ETCM's IPC. ETCM and Lockwood agree to act as co-sponsors and co-advisers for ETCM's UMA and FISMA programs. ETCM and Lockwood provide advisory services that include the research, selection, investment, and allocation of UMA client assets in certain mutual funds, ETFs, or manager models that invest in individual equities. Portfolio Managers provide the day-to-day management of FISMA bond portfolios. ETCM's IPC reviews all changes in Wrap Fee Programs.

The IPC is responsible for the composition, the asset allocation, and changes to Wrap Fee Portfolios models ("Model Portfolios"), and the underlying investments ("Advisory Assets"), except for the FISMA program. ETCM and Lockwood jointly develop a selection of Portfolio

Managers and FISMA investment styles ("Portfolio Manager Universe") for inclusion in the FISMA Program subject to the review and approval of the IPC. FISMA Portfolio Managers are responsible for the individual investment decisions in connection with the FISMA program. Lockwood may, at its discretion, remove a FISMA investment style from the same or a different Portfolio Manager.

For AP, MIP, and UMA, ETCM has engaged Lockwood to apply its proprietary quantitative screening methodology (including historical performance and risk measures) to the universe of mutual funds and ETFs available to ETCM via the ETS investing and trading platform ("Fund Universe") and to provide research and advisory services to ETCM with regard to construction of the Model Portfolios offered through the Wrap Fee Programs. Lockwood's screening is conducted on an impersonal and ongoing basis. The IPC reviews and analyzes Lockwood's screening results to determine and update the list of Advisory Assets.

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 investment advice to AP and MIP clients. The IPC is responsible for the determination of all investments on the list of Advisory Assets for AP and MIP.

ETCM may engage qualified 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 AP and MIP programs.

For the UMA program, ETCM and Lockwood work together to make changes to the portfolios. Lockwood serves as the discretionary money manager and will be reasonably available to clients for consultation.

All brokerage accounts enrolled in Wrap Fee Program accounts are subject to the terms of the E*TRADE Securities Brokerage Customer Agreement. In addition, the account is subject to the Wrap Fee Program Discretionary Advisory Agreement (the "Agreement" or "Advisory Agreement") between the client and ETCM and when applicable, with ETCM and Lockwood as co-advisers for UMA and FISMA Accounts.

With respect to the UMA, ETCM's key responsibilities primarily relate to:

- 1) Initial and ongoing evaluation of client investment objectives and risk tolerance;
- 2) Initial and ongoing determination of appropriate portfolio manager models to be used and the asset allocations that meet client investment objectives and risk tolerances;
- 3) Performance of ongoing consultations regarding changes in client investment objectives and reasonable investment restrictions; and
- 4) Monitoring of UMA accounts to determine whether rebalancing is required to maintain asset allocations with the range of target allocations.

Lockwood's key responsibilities primarily relate to:

- 1) The application of research, risk, quantitative analysis, and other screening methodologies to evaluate and select a universe of mutual funds and ETFs available for use in UMA account construction;
- 2) Reviewing UMA account rebalancing that may be needed to maintain allocation with ranges of target allocations;
- 3) Providing oversight in the construction of UMA accounts that are designed to meet clients' objectives and risk tolerances;
- 4) Serving as the overlay manager that evaluates the performance, investment process, and the investment style consistency of nonaffiliated model managers that have been assigned to manage a UMA manager model; and
- 5) Managing the overall trading activity in portfolios.

With respect to the FISMA accounts, ETCM's key responsibilities primarily relate to the following:

- 1) Initial and ongoing evaluation of client investment objectives and risk tolerance;
- 2) 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

- 3) Performance of ongoing consultations regarding changes in client investment objectives and reasonable investment restrictions.

Lockwood's key responsibilities primarily relate to:

- 1) The application of research, risk, quantitative analysis, and other screening methodologies to evaluate and select a universe of Portfolio Managers available for use in FISMA;
- 2) 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
- 3) Overseeing trading activity conducted by Portfolio Managers in the portfolios and providing ETCM information regarding same.

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

The investment allocation strategies for the AP, MIP, and UMA Wrap Fee Programs include the following objectives, in order of the highest risk tolerance to the lowest: Aggressive Growth, Growth, Moderate Growth, Conservative Growth, Inflation Protection, Aggressive Income, and Conservative Income. ETCM may offer one or more portfolios that correspond to each of these client profiles, including the E*TRADE Income Plus portfolio that is available to certain MIP clients. In specific instances, an IAR may work with the prospective client to create a UMA portfolio that is concentrated in one or two asset classes, using a small number of manager models and/or other Advisory Assets. Clients interested in this type of concentrated strategy may need to provide additional investment information to their IARs.

FISMA offers actively managed portfolios that invest in either short-term, intermediate-term, or long-term bonds and laddered bond portfolios with maturity ranges from one to five years, one to 10 years, or one to 15 years.

ETCM (ETCM and Lockwood for UMA) selects the initial portfolio investments and allocations, monitors the account, rebalances the account when it is out of tolerance with the portfolio's model asset allocation parameters, and makes adjustments to portfolio holdings when necessary. Clients are provided with the model 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. There are multiple investment allocation strategies available through the various Wrap Fee Programs, which are recommended based on information collected from the client.

Clients electing to invest in AP, MIP, or UMA portfolios containing mutual funds have the option to invest in portfolios that are tax-sensitive. Tax-sensitive portfolios contain municipal bond mutual funds that may help reduce taxes incurred on interest and dividends associated with those portfolios. Due to the limited tax-sensitive products in the ETF universe, there are no tax-sensitive ETF portfolios available to clients in these programs at this time.

FISMA portfolios may differ significantly based on which FISMA Portfolio Manager is selected and the strategy of the portfolio. FISMA offers two general types of fixed income portfolios: actively managed bond portfolios and laddered bond portfolios. Actively managed bond portfolios seek to outperform a market benchmark and invest in bonds with different maturities. Clients selecting an actively managed bond portfolio may choose between a tax-sensitive portfolio that invests in municipal or other government bonds or a portfolio that is not tax-sensitive that invests in corporate bonds. The laddered bond portfolios invest in bonds with specified maturity dates and do not seek to outperform a market benchmark. The laddered bond portfolios are currently only available for tax-sensitive strategies. ETCM may in the future expand the laddered bond portfolios to include strategies that are not tax-sensitive.

All taxable UMA Accounts are managed in a tax-aware manner. This means that Lockwood seeks to balance the objective of reducing portfolio drift with the objective of minimizing taxable gains. This is accomplished by using tax filters and synchronizing the sell disposition of the account with Lockwood's sell disposition, which is First In, First Out ("FIFO"). All taxable UMA Accounts must have a sell disposition of FIFO because purchase trading and tax lot reconciliation are not available for the UMA Wrap Fee Program.

Over time, market fluctuations may cause various asset classes to become over- or underweighted in relation to the designated model allocation. When necessary to maintain

designed asset allocations, ETCM (with Lockwood for the UMA program) may make periodic determinations to rebalance a Wrap Fee Program Account. The rebalancing is performed in accordance with parameters established by ETCM (with Lockwood for the UMA program) to correspond to a client's investment strategy. For further information about the Wrap Fee Program rebalancing methodologies, please see "Periodic Reviews." Given the investment strategy of the individual bond portfolio, FISMA does not have a rebalancing feature.

Advisory Assets for the AP and MIP programs are limited to: (1) ETFs, (2) shares of "no-load" funds, (3) "load-waived" A-shares, and (4) institutional class shares of mutual funds. For UMA Accounts, Advisory Assets include these mutual funds and/or ETFs and a portion of the portfolio may be invested directly in equity securities using an equity manager model overlay tool. The universe of manager models is reviewed and approved by Lockwood. ETFs selected for inclusion in the portfolios may attempt to replicate an index or, in some cases may be actively managed.

In certain instances, an IAR may work with prospective clients to create a UMA portfolio that is concentrated in one or two asset classes, using a small number of manager model portfolios and/or other Advisory Assets. UMAs with a concentrated investment allocation strategy are called Focus UMA Portfolios. Clients interested in this type of concentrated strategy may need to provide additional investment information to the IARs.

ETCM Wrap Fee Programs do not directly hold securities issued by ETFC or securities issued by BNY Mellon or its affiliates. ETFC and its affiliates do not directly advise or manage mutual funds, ETFs, or model manager portfolios; however, investment advisers affiliated with Lockwood may manage mutual funds or ETFs. Furthermore, Lockwood may be a service provider, such as a trustee or administrator, to a mutual fund or ETF used in Wrap Fee Program models and may receive a fee from the mutual funds or ETF for performing such services. Although these relationships may represent a potential conflict of interest, Lockwood has indicated in its Co-Sponsored Wrap Fee Program Brochure that it does not receive a portion of mutual fund or ETF management fees and it does not consider trustee or administrative fees received by an affiliate in its recommendation or retention of investment vehicles. Portfolio Managers disclose related information in their ADV Part 2A Firm Brochures, which are made available on request before or after enrollment in the FISMA program. 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 Wrap Fee Program Brochure or an individual Portfolio Manager's ADV Part 2As, 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 maximizing 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 advisers for the discretionary programs has discretionary authority over its respective clients' assets, and the authority to determine, without obtaining specific client consent, the securities (or amount of securities) to be bought or sold in a client's Wrap Fee Program account. ETCM prohibits clients from purchasing or selling securities in their Wrap Fee Program accounts and has instituted a block on purchases and sales by clients. ETS provides clients an account statement at least quarterly, as well as a prospectus or summary prospectus for each mutual fund or ETF purchased in a client's Wrap Fee Program account. Clients may also find a prospectus or summary prospectus by visiting etrade.com/mutualfunds.

AP is offered through its own stand-alone tool on etrade.com. Prospective clients may also access Adaptive Portfolio through the My Virtual Advisor¹ tool. The other investment solutions offered through the online investment tools include pre-designed portfolios from ETS that are not monitored, rebalanced, or otherwise managed. These tools create an investment plan by electronically gathering and analyzing client data and information. Clients are responsible for electronically updating their investor and risk profiles via etrade.com or the My Virtual Advisor tool, including financial condition, and investment goals as his or her profile changes. An electronic notification is sent quarterly to remind Adaptive Portfolio program clients of their responsibility to update their profiles.

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

ETCM (for AP and MIP), Lockwood (for UMA), and the Portfolio Managers (for FISMA) reserve the right to add or delete any security types (e.g. debt securities) and add to, delete from, or otherwise change the list of Advisory Assets at any time. Subsequent recommendations may incorporate such changes to the list of investments comprising Advisory Assets, but may or may not directly affect a particular client's portfolio, depending on the portfolio type, recommendations previously made, and restrictions imposed, when applicable.

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 may be available to other accounts held with ETCM's broker-dealer affiliate are not available to ETCM accounts, such as Bill Pay or check writing, or may require that the client submit a transaction request to ETCM.

It is important for clients to remember that past performance is no guarantee of future results and that market, interest rate, and other investment-related risks exist that may adversely affect the performance of securities held in a Wrap Fee Program account and cause losses in an account.

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

ETCM (for AP and MIP) and ETCM and Lockwood (for FISMA and UMA) reserve the right to terminate a client's Wrap Fee Program account and related 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 Agreement, the account becomes an ETS commission-based brokerage account and the client will no longer receive ongoing monitoring and investment advice with respect to the account and will not be charged the advisory fee as of the date of termination.

ETCM (for AP and MIP) and ETCM and Lockwood (for FISMA and UMA) reserve the right to decline any new account in the Wrap Fee Program at any time for any reason at their sole discretion. The client may terminate the Agreement without penalty by giving notice within five (5) business days after the account is enrolled.

The termination of a Wrap Fee Program, whether initiated by the client, by ETCM, by Lockwood (for UMA and FISMA) or by ETS, generally occurs within five (5) business days from the request for termination from the date of the request for termination. There is no attempt to time the market for terminations. In addition, if the intent is to transfer funds out of E*TRADE, an administrative hold may be placed on the account until the final management fee has been assessed. The termination and liquidation timeline for FISMA may be longer than five business days because FISMA bond trades are made through an unaffiliated broker-dealer, but cleared and settled through ETS.

Different Advisory Assets and asset allocations from the initial recommendation may be made available on client request. Clients have ongoing access to investment consultation with their assigned ETCM IAR or the IAR Service Team, or may call 1-866-484-3658 and speak with a member of the IAR Service Team if they are an AP client.

Assets Under Management

As of October 1, 2016 ETCM managed approximately \$3.68 billion of client assets in over 21,000 client accounts. All assets are managed on a discretionary basis.

ITEM 5. FEES AND COMPENSATION

Fees

ETCM's advisory programs are Wrap Fee Programs, whereby customers pay a single fee for investment advice and for brokerage, clearing, and custodial services. The standard fees

1. My Virtual Advisor offers other investment solutions from ETCM's affiliate ETS. Adaptive Portfolio is also offered through the OneStop Rollover tool, permitting customers to roll over 401(k)s into a new ETS Rollover IRA and then enroll in Adaptive Portfolio.

charged by ETCM for each of its investment advisory programs are provided in the following pages. Advisory fees are negotiable and may be waived or rebated, in whole or in part, at ETCM's sole discretion, including in connection with both promotional efforts and investment management services offered to employees, affiliates' employees, and certain former employees. The Advisory Fee is paid quarterly in arrears. Fees are pro-rated for partial quarters.

ETCM deducts its Advisory Fees from the client's assets. For clients enrolled in MIP, UMA, and FISMA programs, ETCM may deduct the fee from an alternative billing account designated by the client and agreed to by ETCM.

An Advisory Fee may generally cost the client more or less than purchasing such services separately, depending on commission rates, portfolio trading activity, and the cost of similar non-wrap discretionary investment advisory services. Clients should consider the amount of trading activity they anticipate, other Wrap Fee Programs offered by ETCM, and other factors when assessing a Wrap Fee Program's cost. Mutual funds and ETFs charge underlying fees and expenses that are separate and apart from the program fee charged by ETCM. When possible, ETCM selects institutional share classes that typically charge lower underlying fees and expenses.

In the UMA and FISMA programs, Lockwood pays management fees directly to the model managers or Portfolio Managers as part of the agreement between Lockwood and ETCM.

Clients are charged an annual asset-based fee ("Annual Gross Advisory Fee") as adjusted by the Advisory Fee Credit indicated in the schedules below, and pay the Annual Net Advisory Fee indicated. Fees are subject to change on reasonable notice; however, increases in the fees require written client consent.

Please note that Wrap Fee Program Advisory Fees are calculated utilizing the fee schedules based on the Wrap Fee Program account's daily weighted average market value for the period as calculated on or about the close of business each quarter. Fees are assessed at a blended rate and are prorated for partial quarters.

The amount of the Wrap Fee Program account fee depends on the market value of all assets, including cash balances, in the account. Wrap Fee Program 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 Wrap Fee Program Advisory Fee does not cover (and the client will be additionally responsible and charged for): applicable brokerage commissions or other transaction charges for trades executed at firms other than ETS and its affiliates (although client's Wrap Fee Program account will be blocked from any purchases and sales by client); custody, transfer, and stamp taxes; exchange and conversion fees (including with respect to mutual fund exchanges, American Depository Receipt conversions, and conversion of convertible bonds); clearinghouse fees; SEC fees; odd-lot differentials; electronic fund and wire transfer fees; account transfer fees; auction fees; debit balances; margin interest; and charges imposed by law.

Advisory Fees may be waived or rebated, in whole or in part, at ETCM's sole discretion, including in connection with both promotional efforts and investment management services offered to employees, affiliates' employees, and certain former employees.

Adaptive Portfolio Fee Structure

The following reflects the standard Advisory Fees charged to new Adaptive Portfolio clients.

Account Market Value ¹	Maximum Annual Gross Advisory Fee	Minimum Annual Advisory Fee Credit ²	Maximum Annual Net Advisory Fee ³
\$10,000 and over	0.80%	0.50%	0.30%
\$5,000 - \$9,999 for Traditional and Roth IRAs	0.80%	0.50%	0.30%

1. Account Market Value is the daily weighted average market value of assets held in the Adaptive Portfolio account during the quarter after the close of business on the last trading day of the quarter. The quarters end on the last day of March, June, September, and December.
2. The Minimum Annual Advisory Fee Credit reflects the anticipated amount of annual compensation to be received by ETCM or its affiliates from mutual funds held in the Adaptive Portfolio account (or investment advisers of such mutual fund products) for 12b-1, shareholder servicing, or other distribution, administration, or bookkeeping fees. To the extent that the actual amount of such fees received by ETCM or its affiliates exceeds the minimum credit, any such excess will be credited back to the Adaptive Portfolio account.
3. The Maximum Annual Net Advisory Fee is the highest direct fee charged to any client in the Adaptive Portfolio program.

The standard minimum account balance to enroll in Adaptive Portfolio is \$10,000. The minimum account balance for Traditional and Roth IRAs in the Adaptive Portfolio Program is \$5,000 ("Contributory Adaptive Portfolio"). Although Contributory Adaptive Portfolio asset class allocations are the same as portfolios enrolled with the standard minimum, the specific portfolio holdings may be different. The different portfolio holdings within the same asset classes may have higher or lower underlying ETF or mutual fund expenses.

Once a Contributory Adaptive Portfolio account reaches the \$10,000 standard account balance threshold, ETCM may buy or sell securities to align the portfolio holdings with standard Adaptive Portfolio accounts. If a Contributory Adaptive Portfolio account reaches a \$10,000 account balance, but later falls below that threshold, it will still be managed in the Adaptive Program as an account with a standard \$10,000 minimum account balance. Contributory Adaptive Portfolio accounts are subject to the same fees and expenses as standard Adaptive Portfolio accounts, regardless of account balance.

MIP Fee Structure

The following reflects the standard Advisory Fees charged to new MIP clients.

Account Market Value ¹	Maximum Annual Gross Advisory Fee	Minimum Annual Advisory Fee Credit ²	Maximum Annual Net Advisory Fee ³
First \$100,000	1.40%	0.50%	0.90%
Next \$150,000	1.30%	0.50%	0.80%
Next \$250,000	1.25%	0.50%	0.75%
Next \$500,000	1.20%	0.50%	0.70%
\$1,000,000 and over	1.15%	0.50%	0.65%

1. Account Market Value is the daily weighted average market value of assets held in the MIP account during the quarter after the close of business on the last trading day of the quarter. The quarters end on the last day of March, June, September, and December.
2. The Minimum Annual Advisory Fee Credit reflects the anticipated amount of annual compensation to be received by ETCM or its affiliates from mutual funds held in the MIP account (or investment advisers of such fund products) for 12b-1, shareholder servicing, or other distribution, administration, or bookkeeping fees. To the extent that the actual amount of such fees received by ETCM or its affiliates exceeds the minimum credit, any such excess will be credited back to the MIP account.
3. The Maximum Annual Net Advisory Fee is the highest direct fee charged to any client in the MIP program at the account market value breakpoint. As the market value of the MIP account reaches a higher breakpoint, as shown in the table above, the assets within that breakpoint category are charged a lower fee.

UMA Fee Structure

The following reflects the standard Advisory Fees charged to new UMA clients.

Account Market Value ¹	Maximum Annual Gross Advisory Fee	Minimum Annual Advisory Fee Credit ²	Maximum Annual Net Advisory Fee ³
First \$1,000,000	1.75%	0.50%	1.25%
Next \$1,000,000	1.65%	0.50%	1.15%
Next \$3,000,000	1.60%	0.50%	1.10%
\$5,000,000 and over	1.45%	0.50%	0.95%

1. Account Market Value is the daily weighted average market value of all assets held in the UMA account during the quarter, calculated after the close of business on the last trading day of the quarter. The quarters end on the last day of March, June, September, and December.
2. The Minimum Annual Advisory Fee Credit reflects the anticipated amount of annual compensation to be received by ETCM or its affiliates from funds held in the UMA account (or investment advisors of such fund products) for 12b-1, shareholder servicing, or other distribution, administration, or bookkeeping fees. To the extent that the actual amount of such fees received by ETCM or its affiliates exceeds the minimum credit, any such excess will be credited back to the UMA account.
3. The Maximum Annual Net Advisory Fee is the highest direct fee charged to any client in the UMA program at the specified account size. As the market value of the account reaches a higher breakpoint, as shown in the table above, the assets in that higher breakpoint category are charged a lower fee.

FISMA Fee Structure

The following reflects the standard Advisory Fees charged to new FISMA clients.

Account Market Value ¹	Bond Ladder Annual Advisory Fee ²	Actively Managed Annual Advisory Fee ²
First \$1,000,000	0.45%	0.75%
Next \$2,000,000	0.40%	0.70%
\$3,000,001 and over	0.35%	0.65%

1. Account Market Value is the daily weighted average market value of all assets held in the FISMA account during the quarter, calculated after the close of business on the last trading day of the quarter. The quarters end on the last day of March, June, September, and December.
2. As the market value of the FISMA account reaches a higher breakpoint, as shown in the table above, the assets within the breakpoint category are charged a lower fee.

Fee Billing

ETCM bills for its services quarterly in arrears, meaning that ETCM charges client accounts after the three-month billing period has ended. Fees are pro-rated for partial quarters. Clients agree, through executing an Advisory Agreement, to have the Advisory Fees automatically deducted from the cash portion of their portfolio, or for MIP, FISMA, and UMA an alternative billing account. A debit (negative) balance that may occur in a client's account due to insufficient funds will be paid by ETCM liquidating sufficient securities in the account to cover the debit balance. Such liquidation may have a negative effect on the managed account's performance.

Other Fees and Compensation Information

Affiliates of ETCM may provide investment management and other services, such as marketing, shareholder servicing, distribution, administration, or bookkeeping, for certain Advisory Assets and other mutual funds and may earn fees for such services. To the extent that Advisory Assets or other mutual funds pay Rule 12b-1 or other fees, ETCM's affiliates will retain these fees subject to the Advisory Fee credit. Any compensation received by ETCM or its affiliates from these aforementioned fees is credited back to the Adaptive Portfolio, MIP, or UMA Account by applying a credit amount (the "Minimum Annual Advisory Fee Credit") against the Annual Gross Advisory Fee.

The Annual Gross Advisory Fee is an annual asset-based fee, as provided in the Advisory Fee Schedules. The Minimum Annual Advisory Fee Credit is equal to 0.50% per annum of all assets in the Adaptive Portfolio, MIP, or UMA Account. To the extent that the actual amount of any such fees exceeds this credit, any such excess will also be credited back to the Adaptive Portfolio, MIP, or UMA Account to arrive at the actual "Advisory Fee Credit."

All ETCM clients are subject to the underlying mutual fund and ETF expenses in their invested accounts (reflected in the expense ratio of these funds described in the fund's prospectus). The additional operating costs or expenses are separate from the program fee for the Wrap Fee Program accounts. The Advisory Fee and operating costs and expenses are applicable to the uninvested cash balances in the Wrap Fee Program accounts, which are generally invested in the E*TRADE Class or Morgan Class of the JPMorgan U.S. Government Money Market Fund Capital Class ("JPM Government MMF") unless otherwise designated by ETCM. Affiliates of ETCM may receive certain payments for services provided on behalf of clients invested in the JPM Government MMF, which are in addition to any Rule 12b-1 and marketing fees paid by such fund as disclosed in its prospectus. Fees associated with the JPMorgan Government MMF are separate and apart from ETCM's Advisory Fee. Clients are responsible for paying sales loads on loaded mutual fund assets being transferred into any ETCM advised account. Transactions and assets in the Wrap Fee Program accounts are not subject to ordinary transaction costs (e.g., commissions or markups/markdowns).

The AP, MIP, UMA, or FISMA Advisory Fees do not cover costs associated with assets held outside of these program accounts or charges associated with other accounts that the client has with ETCM or its affiliates, including, without limitation, transaction charges relating to purchases of Advisory Assets that the client elects to make outside of ETCM's Advisory Accounts.

Additional services that are not part of the investment account, for which ETCM normally charges a fee, are the client's responsibility (e.g. overnight mail, wire transfers, etc.). Any additional service fees are deducted from the cash portion of a client's account.

As dually-registered representatives of ETCM and ETS, IARs receive different types and levels of compensation for the sale or referral of investment advisory programs offered by ETCM and/or brokerage services offered by its affiliates. Compensation relating to the MIP, FISMA, and UMA advisory programs is currently more than the compensation provided to the representative if a client or prospective client purchased brokerage products and services. In addition, compensation may be paid to certain IARs in connection with referrals resulting in client enrollment in Adaptive Portfolio. As a result, an IAR may have a financial incentive to recommend ETCM's advisory services over other products or services available.

Uninvested Cash

Uninvested cash balances are invested daily in a money market fund or other short-term cash vehicles ("Sweep Options") that are available through ETS and its affiliates. The Sweep Options may be changed at any time without notice. Clients may contact 1-800-ETRADE-1 (1-800-387-2331) to change the Sweep Option or make inquiries regarding available Sweep Options.

ETCM may receive certain payments for services provided on behalf of clients invested in certain uninvested cash options available through affiliates of ETCM. These payments may be in addition to any Rule 12b-1 and marketing fees paid by certain funds used for uninvested cash balances as disclosed in their prospectuses. These fees are separate and apart from the Advisory Fee. If the advisory account is terminated and converted to a traditional commission-based brokerage account, the uninvested cash will be swept into the default cash sweep option offered for such accounts.

You could lose money by investing in a money market fund. Because the share price of a money market fund can fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. A money market fund may impose a fee on the sale of the shares or may temporarily suspend your 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 you should not expect that the sponsor will provide financial support to the fund at any time.

ITEM 6. 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 fees charged 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 7. TYPES OF CLIENTS

Investment Advisory Clients

The Wrap Fee Programs are generally available to individuals, joint accounts, individual retirement accounts, trusts, charitable organizations, corporations, self-employed retirement accounts, and business entities residing in the United States. U.S. military persons stationed outside the United States are considered U.S. residents for the purposes of enrollment eligibility. Some account types may not be available for enrollment in AP, including trusts, charitable organizations, corporations, self-employed retirement accounts, and business accounts.

Client relationships vary in scope and length of service. ETCM reserves the right to decline any new account or to resign as adviser to any account after initiation of an investment advisory relationship for any reason, at its sole discretion.

Wrap Fee Programs are not currently available to pension and profit-sharing plans governed by ERISA. ETCM may offer advisory services to these plans in the future. ETCM does not provide financial-planning, tax preparation, estate-planning, security-rating, pension consulting, or market-timing services.

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

Adaptive Portfolio is available to individuals, individual retirement accounts, and self-employed retirement accounts. **Adaptive Portfolio 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.** Advisory services are not currently available to pension or profit-sharing plans governed by ERISA. ETCM may offer advisory services to these plans in the future. ETCM does not provide financial-planning, tax preparation, estate-planning, security-rating, pension consulting, or market-timing services.

Account Minimums

ETCM currently offers Wrap Fee Programs with varying account minimums and fees and may in the future offer other wrap fee programs with different account minimums and fees. ETCM may waive account minimums at its sole discretion.

If clients withdraw 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 may choose to terminate the Advisory Agreement. Upon termination of the Advisory Agreement, a client's account is converted to a standard ETS brokerage account.

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

• Adaptive Portfolio program:	\$10,000
• Fixed Income Separately Managed Account program:	\$250,000
• Managed Investment Portfolio program:	\$25,000
• Unified Managed Account program	\$150,000

Adaptive Portfolio allows Traditional and Roth IRAs to enroll with a minimum account size of \$5,000 ("Contributory Adaptive Portfolio"). Although the asset class allocations are the same for both Adaptive Portfolio and Contributory Adaptive Portfolio, the specific Contributory Adaptive Portfolio

holdings may be different. Additionally, the different portfolio holdings within the same asset classes may have higher or lower underlying ETF or mutual fund expenses. Once a Contributory Adaptive Portfolio account reaches the \$10,000 standard balance threshold, ETCM may buy or sell securities to align the portfolio holdings with standard Adaptive Portfolio accounts.

If a Contributory Adaptive Portfolio account reaches a \$10,000 account balance, but later falls below that threshold, it will still be managed in the Adaptive Portfolio Program as an account with a standard \$10,000 minimum account balance. Contributory Adaptive Portfolio accounts are subject to the same fees and expenses as standard Adaptive Portfolio accounts, regardless of account balance.

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

ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

Methods of Analysis and Investment Strategies

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

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

With regards to MIP, FISMA, and UMA, the continuing role of the IAR or IAR Service Team is to review and monitor the Investment 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 model) and performance. The client must contact his or her IAR or IAR Service Team promptly whenever any significant change in the client's personal or financial condition or investment goals occurs in order to discuss whether changes in asset allocation are necessary. Adaptive Portfolio clients must update their investor profile via etrade.com or the My Virtual Advisor tool.

Alternative asset allocations and alternative advisory asset selections from the initial and subsequent portfolio recommendations are available for both the MIP and UMA programs. AP clients may log on to etrade.com at any time to change their risk profile information or switch between a hybrid portfolio and the all-ETF portfolio. AP clients may also change their portfolio to one that is tax-sensitive. UMA clients may request reasonable restrictions based on investment category (e.g., alcohol, gambling, tobacco, and/or oil stocks) or by individual stock, mutual fund, ETF name, and ticker symbol. Clients in the FISMA program may 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 UMA accounts to reallocate client assets according to any revised allocation targets. Changes may 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 UMA), or Portfolio Managers (in FISMA) may or may not use the portfolio strategies or investments mentioned in the *Investment Proposal*. Prospective clients or clients who have any questions about the investments and investment strategies used in a portfolio should consult their IAR or IAR Service Team.

The following provides a general description of the analysis approach, as well as the investment strategy, for each of ETCM's investment management products:

Managed Investment Portfolio & Adaptive Portfolio Programs

ETCM has engaged Lockwood to apply its proprietary quantitative screening methodology (including historical performance and risk measures) to the universe of funds and ETFs available to ETCM via the ETS platform ("Fund Universe") and to provide research and advisory services to ETCM with regard to construction of the model portfolios offered through MIP and AP. Screening is conducted on an impersonal and ongoing basis.

The IPC, with the support of the IST, prepares an investment analysis methodology, which incorporates various quantitative criteria including historical return, risk, expenses, manager tenure, performance and style consistency, asset size, and growth. Lockwood does not provide investment advice to MIP or AP clients. The IPC is responsible for the determination of all investments on the list of Advisory Assets for AP and MIP.

Portfolios of ETFs and/or mutual funds matching the predetermined asset allocations are created and maintained for each risk model. Such portfolios are referred to as Model Portfolios, which may or may not exactly duplicate client account holdings depending on the timing of a particular client's account implementation and restrictions imposed, if any.

Over time, market fluctuations may cause various asset classes to become over or under weighted in relation to the designated model allocation. To maintain designated asset allocations, ETCM periodically rebalances an account in the MIP and Adaptive Portfolio programs. Rebalancing is performed in accordance with parameters established by ETCM. For additional information on rebalancing, please see "Review of Accounts" below.

Unified Managed Account Program

Lockwood applies its proprietary quantitative screening methodology (including historical performance and risk measures) to the Fund Universe and provides research and advisory services to ETCM with regard to construction of the UMA portfolios. The IPC, with the help of the IST, reviews the overall administration of UMA client portfolios and Lockwood's screening results. The IPC incorporates various quantitative criteria including historical return, risk, performance and style consistency, and dispersion analysis in performing its duties.

Portfolios of model managers, mutual funds, and/or ETFs are created based on each client's specific investment needs within the predetermined asset allocations. Lockwood does not provide investment advice directly to UMA clients.

Over time, market fluctuations may cause various asset classes to become over or under weighted in relation to the designated model allocation. To maintain designated asset allocations, ETCM periodically rebalances a UMA account. This rebalancing is performed in accordance with parameters established by ETCM. For additional information on rebalancing, please see "Review of Accounts" below.

Fixed Income Separately Managed Account Program

For the FISMA 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. IST conducts due diligence and monitors the Portfolios Managers. Lockwood provides oversight of the Portfolio Managers.

Risk of Loss

Wrap Fee Programs have certain risks that are borne by the investor. Investing in securities involves the risk of loss. ETCM's investment approach strives to keep the risk of loss in mind. While not an all-inclusive list of all risks, investors face the following types of investment risks, depending on the selected investment product and the portfolio of held investments:

- **Interest-Rate Risk.** Fluctuations in interest rates may cause investment prices to fluctuate and may 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 may 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 may trigger market events.
- **Inflation Risk.** When any type of inflation is present, a dollar today will not buy as much as a dollar next year because purchasing power is eroding at the rate of inflation.
- **Duration Risk.** Duration is a measure of the sensitivity of the price or principal value of a fixed income investment or portfolio to a change in interest rates. Generally, fixed income portfolios with longer bond maturities carry a greater duration risk than portfolios with shorter bond maturities.
- **Currency Risk.** Overseas investments are subject to fluctuations in the value of the U.S. dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk.** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.
- **Credit Risk.** Credit risk refers to the possibility that an issuer of a bond will not be 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 may reduce the rating and affect their value.
- **Business Risks.** These risks are associated with a particular industry or company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, which is a lengthy process, before they can generate a profit. 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, while real estate properties are not.
- **Financial Risk.** Excessive borrowing to finance a business's operations increases the risk of loss 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 may result in bankruptcy and/or a declining market value.
- **Concentration Risk.** Risk of amplified losses that may occur from having a large portion of holdings in a particular investment, asset class, or market segment relative to the investor's overall portfolio.
- **Risk Associated with Advisory Assets That Invest in Alternative Investments.** Alternative investment strategies go beyond the traditional long-only equity and fixed income strategies and therefore involve a higher degree of risk, including short sale and derivative risks. Alternative investment holdings, including mutual funds that engage in alternative investment strategies, are not for everyone and may be considered speculative.
- **Cybersecurity Risk.** ETCM depends on digital and network technology to conduct its day-to-day business operations and to fulfill its obligation to clients. The use of such technology presents a potential risk to both ETCM and its clients with respect to cyberattacks from unauthorized third parties attempting to disrupt or gain access to sensitive confidential information. Breaches in cybersecurity may 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 may cause ETCM or its affiliates to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. ETCM relies on the E*TRADE Financial Corporation Enterprise Information Security Policy to manage and mitigate risks associated with safeguarding the information of E*TRADE Financial Corporation, its affiliates, and their customers and employees. Adherence to the policy, however, does not guarantee that a cybersecurity incident will not occur.

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

ITEM 9. DISCIPLINARY INFORMATION

Legal or Disciplinary Events

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

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Affiliations

ETCM is a related person of ETS and OptionsHouse (registered broker-dealers), and E*TRADE Bank. E*TRADE Bank is a federally chartered savings bank that provides investor-focused banking products; it is a subsidiary of E*TRADE Financial.

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 for 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, management of other E*TRADE Financial subsidiaries that provide various financial services. ETCM does not maintain an intercompany agreement with OptionsHouse for services or support for the ETCM advisory programs.

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

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

*IARs, outside of the IAR Service Team, are paid additional compensation related to products offered by ETCM. Any compensation paid by ETCM for client referrals or solicitations will only be made in accordance with Investment Advisers Act of 1940 ("Advisers Act"). Any referral payment does not represent an incremental amount above and beyond the Advisory Fee paid by the client to ETCM. All payments are administered in accordance with the provisions of a written compensation plan that is administered and supervised by the Human Resources Department and/or other departments within E*TRADE Financial. All written compensation plans are subject to change.*

From time to time, ETCM IARs may refer clients to ETS. In the event that an IAR refers a client to an affiliate, the IAR discloses to the client at the time of the referral the nature of the affiliation between the referring party and the affiliate.

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

ETS receives compensation in connection with the purchase and holding of mutual fund shares by clients. Such compensation may include, but may not be limited to Rule 12b-1 fees, shareholder service fees, and sub-accounting fees that are paid out of fund assets. ETS may also receive payments from affiliates of a mutual fund, such as the adviser or distributor, out of its own resources.

ETS may also have negotiated business relationships with the affiliated distributor or investment adviser of some mutual funds. Under these business relationship arrangements, ETS receives revenue-sharing payments from the mutual fund affiliates. The payments are

for distribution, shareholder servicing, and marketing services (e.g. advertising on E*TRADE Financial's website, co-branding in sales materials, and/or website disclosures) performed by E*TRADE Financial and for access to sales representatives and sponsored sales conferences and/or training programs. These payments are not made from mutual fund assets and are in addition to the Rule 12b-1 fees and shareholder service fees disclosed in each mutual fund's prospectus. The fee ETS or its affiliates receives varies and can be a flat fee, a payment based on sales, or an asset-based fee calculated based on the dollar value of fund accounts held by ETS customers.

No part of the revenue-sharing fees received by ETS are paid or directed to any sales representatives. To the extent revenue-sharing arrangements may pay for conferences and other educational opportunities for these representatives, 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 mutual fund's payment and compensation practices, please see the fund's prospectus and statement of additional information.

ETS has revenue-sharing arrangements with the JPMorgan U.S. Government Money Market Fund Capital Class ("JPM Government MMF"). Uninvested cash balances for the Wrap Fee Programs are generally invested in the Morgan Class or E*TRADE Class Shares of the JPMorgan Government MMF, unless otherwise designated by ETS or client direction. Under these arrangements, JPMorgan pays ETS for offering the money market funds on the ETS platform, for distribution, and for sub-accounting and related administrative services performed by ETS for its clients who are invested in the fund. These payments are in addition to any Rule 12b-1 fees, shareholder service fees, and sub-accounting fees disclosed in each fund's prospectus.

Potential Conflicts of Interest

Overview

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

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

An internal E*TRADE Financial group is responsible for (1) identifying conflicts of interests within the brokerage and adviser-related business lines of E*TRADE Financial and (2) reviewing controls, policies and procedures in order to assess the associated risks of such conflicts. Although the group attempts to assess the risk, this does not mean these applicable risks are eliminated. This group reviews and discusses potential conflict-of-interest practices and procedures for ETCM and implements enhancements as necessary. The group meets at least quarterly and may hold special meetings from time to time.

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

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

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

For more information about the potential conflicts of interest related to trading activities of certain employees, please refer to the sections immediately below.

Clients may also refer to Lockwood's Co-Sponsored Programs Wrap Fee Program Brochure for the UMA product regarding any other potential conflicts of interest that might apply.

ITEM 11. CODE OF ETHICS, PARTICIPATION, OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

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

- (1) Standards of business conduct required of access persons, which standards reflect fiduciary obligations and those of supervised persons to advisory clients;
- (2) Terms requiring supervised persons to comply with applicable federal securities laws;
- (3) Terms and procedures relating to the review and approval of certain securities transactions and holdings by supervised persons with access to client information;
- (4) Procedures for reporting violations of the Code; and
- (5) Procedures for the receipt and acknowledgement of the Code by supervised persons.

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

Participation or Interest in Client Transactions and Personal Trading

ETCM's supervised persons may have multiple brokerage accounts and may have different investment objectives, risk tolerances, and financial goals for those accounts. ETCM access persons may also enroll their accounts in one or several of ETCM's advisory programs.

While ETCM's managed portfolios are designed for long-term investing, the investment strategies for the accounts associated with ETCM's supervised persons may differ substantially from those of ETCM's clients. As such, supervised persons may buy, sell, or sell short securities that may also be 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 may also include mutual fund holdings that engage in short selling, alternative investment strategies or the use of various options strategies.

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

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

In the event that a conflict or potential conflict of interest arises, ETCM's Chief Compliance Officer, or E*TRADE Financial's Global Head of Brokerage Compliance, if the potential conflict involves ETCM's Chief Compliance Officer, will review the facts and circumstances and may take appropriate steps, including but not limited to administrative actions, trade sanctions, and/or the reversal of related trades associated with persons subject to the ETCM's 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.

ITEM 12. BROKERAGE PRACTICES

Selecting Brokerage Firms

Under the provisions of the Advisory Agreement, Wrap Fee Program clients, except for clients enrolled in the FISMA program, elect to direct all brokerage transactions to execute through ETS, and clients cannot designate or select a different broker. Not all investment advisers require clients to direct their accounts to use a broker that has been selected by the investment adviser. For the FISMA program, Portfolio Managers effect transactions for the purchase and/or sale of

securities through unaffiliated broker-dealers selected and used by the Portfolio Managers. Thus the trades in FISMA will not typically be executed by ETS, and this type of trading is often referred to as "trading away" or "step-out trades."

ETCM or its affiliates and broker-dealers selected by FISMA Portfolio Managers may also aggregate orders when possible to seek to lower the underlying execution costs associated with the transactions. Trade allocations from block trades are executed through an average price account, and shares traded in the same block order are allocated to clients in an equitable and fair manner. There are no trading commissions charged to clients enrolled in ETCM's Wrap Fee Programs. Under certain circumstances, similar trades may be made throughout the trading day to accommodate various client needs, including withdrawal requests. Under these situations, a different trade order (or block trade order) may be placed, and clients may receive different prices compared with client trades placed and executed during other hours of the trading day. All ETCM trade orders are executed in one of ETCM's average price accounts. The price may represent an average of multiple executions or may represent a single execution at the price indicated. Details regarding trades done in the average price account are available on request.

Best Execution

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

In addition, the ETS Order Routing and Best Execution Committee ("ORBEC") is responsible for assessing whether the market centers that receive and execute ETCM trades are upholding their best execution obligations for ETCM clients. The ORBEC meets monthly and reviews data regarding the execution quality of equity and ETF trades completed through ETS, including ETCM client trades. The ORBEC membership includes representation from ETCM.

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 may provide their customers. This practice could result in higher prices paid or lower proceeds received for trades. ETS posts data on "price improvement" and other trade execution data on its website, etrade.com.

For the UMA program, if Lockwood believes in good faith that another broker-dealer would provide better execution, considering all factors including the net price, Lockwood may 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 program fee.

For FISMA, Portfolio Managers, as well as Lockwood and ETCM, have an obligation to seek to obtain best execution for the trades in client accounts. A Portfolio Manager may place trade orders with any broker-dealer if the Portfolio Manager believes that doing so is consistent with its obligation to seek best execution. The ETS Fixed Income Best Execution Committee assists with monitoring, reviewing, and discussing execution statistics for fixed income securities purchased and sold in the FISMA program.

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 provides certain services, such as research, at no additional charge.

ITEM 13. REVIEW OF ACCOUNTS

Periodic Reviews

Wrap Fee Programs

The Wrap Fee Programs' performances are reviewed at least quarterly by the Investment Policy Committee. The IPC, working with the Investment Strategy Team, reviews the Model Portfolio holdings and determines if changes should be made.

Wrap Fee Programs use rebalancing methodologies based on portfolio allocation drift parameters. Out-of-tolerance portfolios rebalance, or self-adjust, when necessary. Client portfolio allocations are compared against target allocation drift parameters and rebalanced periodically to bring the portfolio into alignment with target allocations. AP, MIP, and UMA accounts are reviewed daily for cash deposits and withdrawals, as well as portfolio drift. If the allocation percentages are out of tolerance with the portfolio's model 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.

Accounts that are enrolled in AP, MIP, and UMA for at least a year will undergo semi-annual rebalancing, which rebalances the portfolio regardless of whether the portfolio allocation is outside the drift parameters. Out-of-tolerance parameters and/or rebalancing methodologies are subject to change.

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

For the FISMA, MIP, and UMA programs, the continuing role of the IAR or IAR Service Team for certain MIP clients is to review and monitor the investment 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 model), and performance. The client must contact his or her IAR promptly whenever any significant change in the client's personal or financial condition or investment goals occurs, to discuss whether changes in asset allocation are necessary.

MIP accounts are serviced by Financial Consultants or an IAR Service Team, which may be referred to as a Managed Account Team. Clients with a combined balance exceeding \$100,000 in MIP assets will have a dedicated Financial Consultant. Clients with less than \$100,000 in MIP assets may be serviced by a Financial Consultant or the IAR Service Team. Accounts are reviewed on a periodic basis to determine assignment of a dedicated Financial Consultant or the IAR Service Team. ETCM reserves the right to determine assignment eligibility at its sole discretion.

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

AP clients must update their Adaptive Portfolio account promptly or contact their IAR or IAR Service Team whenever any material change in their personal or financial condition and/or investment goals occurs, for ETCM to determine whether changes in asset allocation are necessary.

In addition, AP clients receive electronic communications that may be sent due to the following events or other circumstances:

- Welcome to Adaptive Portfolio program
- Account opening funding reminders
- Termination of Advisory Relationship alert if account is not funded
- Portfolio update and rebalancing of the account
- Portfolio update and reminder to add funds
- Notification of Quarterly Performance Review availability
- Annual Investor Profile Review and Update Reminder
- Notification of updated Wrap Fee Programs Brochure and Privacy Policy
- Notification of Advisory Agreement Update

ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

Incoming Referrals

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

ETCM may receive 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 under the Advisers Act.

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

IARs may 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.

ITEM 15. CUSTODY

Custody of Client Funds and Securities

ETCM utilizes the services of qualified custodians that hold and maintain securities and funds held in its managed accounts. ETCM utilizes its affiliate, ETS, as its custodian for the Wrap Fee Programs.

Since ETCM is affiliated with one of the custodians, ETCM engaged an independent public accountant to perform a surprise examination of ETCM pursuant to the Advisers Act. The most recent independent public accountant's report ("Form ADV Part E") is filed with the SEC by the accountant and it is available to the public on adviserinfo.sec.gov.

Clients should carefully review the account statements they receive from their qualified custodian and compare the account statements they receive from the custodian with the information contained in reports received from ETCM.

ITEM 16. INVESTMENT DISCRETION

Discretionary Authority for Trading

All of ETCM's products require clients to grant ETCM discretionary authority to manage the account on the client's behalf. The UMA and FISMA programs require clients to grant discretionary authority to both ETCM and Lockwood to manage the account on the client's behalf. When the client enrolls in an advisory program with ETCM, the client executes an investment advisory agreement, and included in the terms of the agreement is a limited power of attorney granting discretionary authority to execute securities transactions.

ITEM 17. VOTING CLIENT SECURITIES

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 retirement account, ETCM, on its own behalf and on behalf of its affiliates, notes that (i) it has been expressly executed from taking such actions on behalf of the retirement account in the Agreement and (ii) 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 receive their proxies directly from the custodian or transfer agent.

For the UMA program only, Lockwood votes proxies associated with the investments held in the portfolios in a manner designed to be consistent with their written proxy voting policy.

Lockwood's proxy voting policy is further described in Lockwood's Co-Sponsored Programs Wrap Fee Program Brochure as well as in ETCM's Wrap Fee Programs Brochure.

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

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

ITEM 18. FINANCIAL INFORMATION

Financial Condition

ETCM does not have any financial impairment that preclude the firm from meeting contractual commitments to clients.

ETCM does not require or solicit prepayment of Advisory Fees and is therefore not required to include a copy of its balance sheet for its most recent fiscal year.