

Trade Operations Summary

A Trade Operation is a predefined trading algorithm that can be executed against on one or more accounts. The Envestnet platform (“platform”) supports 11 different Trade Operations and 4 different rebalance modes, which are described below.

Depending on the selection of the operation, the trade modes and parameters that are available will vary. When prompted, users can specify the desired parameters prior to generating trades for the selected account(s). Users **are responsible for reviewing the output of recommended trades to ensure they meet expectations prior to trade submission.**

Trade Operations

Rebalance	Comparison of an account’s current holdings against the target weights as defined by the model. Trading mode will determine how buys and sells are recommended. Accounts may be traded into drift bands (soft rebalance), or traded closer to target (true rebalance).
Rebalance with Constraints	Available for advisor traded accounts. Allows for the user to limit the trading of specific positions in addition to standard rebalance modes. “Freeze” will prevent the position from being purchased and/or sold. “Do Not Buy” will allow the position to be sold, but not purchased. “Do Not Sell” will allow the position to be purchased, but not sold.
Model Change	Recommends buys or sells securities that were affected by the overlay update.
Invest Cash	Buy are recommended in order to invest excess cash.
Raise Cash	Used to raise a specific amount of cash within an account, to replenish model cash for an account or group of accounts, and/or rebalance an account as part of a cash raise. There are two Raise Cash Methods: <ul style="list-style-type: none"> ▪ <u>Fixed Amount</u> - the trade engine will recommend only the necessary sells to raise the amount of cash requested. ▪ <u>Cash to Target</u> - the trade engine will attempt to bring account cash to the model target while raising the requested cash amount (if supplied).
(Harvest) Take Gains/Losses	When tax harvesting is enabled, these trade operations allow the user to provide a dollar amount of gains or losses to be harvested from the account. Based upon a review of eligible gains or losses, trades that represent the unrealized tax impact (if available) will be generated. Note: <i>firm settings dictate minimum trade size and maximum number of trades per harvest.</i>
Liquidate	Used in order to sell all account’s holdings. When an account level liquidate operation is executed, the account is <i>not</i> automatically placed on trade hold.

Style/Asset Class Rebalance	Designed to bring asset classes within drift tolerances without necessarily bringing individual model positions within their respective drift tolerances.
Global Manual Trading	Allows users to buy and/or sell securities across all selected accounts to specified parameters.
Global Trade (Cash%)	Uses existing cash and sale proceeds to purchase securities. The percentage of account cash to be utilized to buy securities is specified in the “Cash Trim Percentage” field.
Global Trade (Target%)	Buys and sells securities to a user defined target. A percentage and a trading mode must be specified.
Global Trade (Model Target %)	Manually buys or sells securities to their model targets. A trading mode must be specified.

Rebalance Modes

Soft Rebalance	Drift and comfort zones are used, rather than target position weights to recommend trades. Each model position’s current weighting will be reviewed against its drift zone and, if needed, traded to within its comfort zone. Default comfort zones are 75% of drift.
True Rebalance	Account positions are brought back as closely as possible to target weights while still respecting the constraints of interface and model trade minimums. In general, true rebalances result in more trades than soft rebalances.
Cash Rebalance – Optimize to Model	Will generate buys <i>or</i> sells and attempt to trade an account across the model, such that positions end up closer to their model targets.
Cash Rebalance – Minimize Trades	Will generate buys <i>or</i> sells and attempt to reduce the number of trades needed to fulfil the trade operation. This operation will take advantage of positions’ allowable drift ranges to buy or sell each to high/low comfort before recommending an additional trade.

Additional Notes

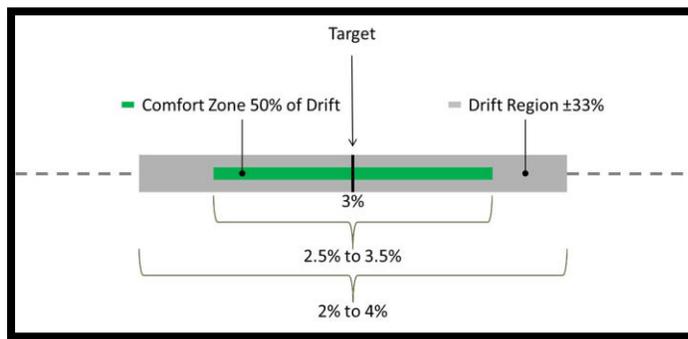
Not in Model

A position that is not part of an account's allocation. A not in model position will be sold and the sale proceeds invested in every trade operation.

Drift Parameters and Comfort Zones

Comfort Zones represent customized platform settings used to minimize trading activity while keeping the portfolio within an acceptable range of the portfolio's target asset allocation. A Comfort Zone is defined as a percentage of the drift parameters. It is used to determine a target range for recommending trades during trading operations. Comfort zone parameters are configured based on client-firm brand values.

For example, the below position has a target weight of 3%, a relative drift range of $\pm 33\%$ and a comfort zone of 50% of drift. During a rebalance, if the position is out of drift (its actual weight is less than 2% or greater than 4%) then the trade engine will recommend a trade that puts the position weight within the comfort zone, between 2.5% and 3.5%.



Disclaimer

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