



# HEFREN-TILLOTSON

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Hefren-Tillotson, Inc.

**Part 2A of Form ADV: *Firm Brochure***

May 31, 2022

This brochure provides information about the qualifications and business practices of Hefren-Tillotson, Inc. If you have any questions about the contents of this brochure, please contact us at 412-434-0990 or [hefren@hefren.com](mailto:hefren@hefren.com). 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.

Hefren-Tillotson, Inc. is a registered investment adviser with the SEC. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information to assist you in determining whether to hire or retain an Adviser.

Additional information about Hefren-Tillotson, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 053.

Part 2A of Form ADV and other important information relating to accounts at Hefren-Tillotson can be found through the following link: [www.hefren.com/Information-Disclosures-and-Documents](http://www.hefren.com/Information-Disclosures-and-Documents)

## **Item 2      Material Changes (Form ADV, Part 2A)**

### **Summary of Material Changes to Form ADV Part 2A: Firm Brochure**

This item will discuss only material changes that are made to the firm's Brochure and provide a summary of those changes. The communication of these changes to clients will be in compliance with SEC rules and determined by the nature of the material changes.

### **There has been one material change since Hefren-Tillotson's last annual update of Form ADV Part 2A on January 26, 2022.**

As you are aware, in January 2022, Masterplan Inc., the 100% parent of Hefren-Tillotson, Inc. (Hefren), entered into an agreement with Baird Financial Corporation, the 100% parent of Robert W. Baird & Co. Incorporated (Baird), a privately-held, employee-owned global financial services firm, pursuant to which Baird Financial Corporation would acquire all of the outstanding stock of Masterplan Inc. On May 24, 2022, Baird Financial Corporation completed its acquisition of all of the outstanding stock of Masterplan Inc. As a result, Baird Financial Corporation now indirectly owns 100% of Hefren, and Hefren and Baird are under common control.

It is contemplated that in October 2022 Hefren will merge with and into Baird. Prior to that merger, investment advisory clients of Hefren will be asked to sign new paperwork to become a client of Baird. It is expected that the same Hefren Advisors that currently provide investment advisory services to their clients will continue to provide those services as Baird Financial Advisors once the merger with Baird is completed.

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## Item 4 Advisory Business

### Hefren-Tillotson History

Since 1948, the professionals at Hefren-Tillotson have been driven by a shared ideal: to earn our clients' trust by providing them with comprehensive, unbiased advice surrounding all aspects of their financial situation. Hefren-Tillotson, Inc. ("Hefren-Tillotson", "HT" or "the firm") is licensed and registered as both as a securities broker-dealer and as an investment adviser. Today, the firm is one of the oldest and largest full-service wealth management firms headquartered in Western Pennsylvania serving over \$14 billion in client assets and 270 employees (across both investment adviser and broker-dealer lines of business).

In his early days at Hefren-Tillotson, Willard J. Tillotson, Jr. developed the MASTERPLAN approach, a comprehensive, written review of an individual's financial goals and objectives. While Mr. Tillotson's career was highlighted by numerous accomplishments, one of his greatest successes was the foresight to recognize that for clients to reach their long-term financial goals, coordination of their entire financial situation was necessary. As a result of Mr. Tillotson's vision, Financial Advisors at Hefren-Tillotson were using the MASTERPLAN approach to help clients gain clarity on their financial objectives and apply successful wealth management strategies long before others in the industry. MASTERPLAN remains at the core of our services for individual investors today. Our Investment Advisory Services are a natural extension of the MASTERPLAN process, facilitating ongoing wealth management through periodic reviews, objective and unbiased advice, a program of regular communication, and professional portfolio management.

A family-oriented culture at Hefren-Tillotson gives our professionals an uncommon perspective to serving our clients and has helped forge the unique culture that differentiates the firm today. Our mission is *"To Become and Remain our Clients' Most Trusted Advisor"*. A high moral and ethical character is a critical component to the Hefren-Tillotson philosophy and approach. The firm has four stated values that form the foundation of its unique culture: Deep respect for the individual; Integrity in thought and action; Teamwork supported by a family-oriented culture; and a Relentless commitment to excellence.

We take pride in growing our business in a way that supports the well-being of our employees and our community. Hefren-Tillotson was named as Pittsburgh's Top Workplace in 2017 and 2014 by the Pittsburgh Post-Gazette. Hefren-Tillotson was an inductee to the 2012 United Way Hall of Fame. In 2019, 2015, 2012 and 2011, Hefren-Tillotson was named the Best Place to Work in Pittsburgh by the Pittsburgh Business Times, which followed two 2010 awards that named Hefren-Tillotson one of the Best Places to Work in Pennsylvania by the Central Penn Business Journal and in Pittsburgh by *Pittsburgh Magazine*. Also in 2010, Hefren-Tillotson received the Outstanding Philanthropic Organization Award by the Western PA Chapter of the Association of Fundraising. Hefren-Tillotson was also named the Western Pennsylvania Family Business of the Year (2000) by the Katz Graduate School of Business at the University of Pittsburgh; the #1 Place to Work in PA (2001). We also actively support the communities in which we live and encourage employees to be involved.<sup>1</sup>

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<sup>1</sup> The accolades and awards highlighted herein are not statements of any advisory client, were not contingent on any expenditures by the firm, and do not describe any experience with or endorsement of the Hefren-Tillotson as an investment adviser by any such client.

## Assets under Management

Hefren-Tillotson's range of Investment Advisory services give Clients a choice of management options and fee structures, as well as a consistent, disciplined, and objective approach to wealth management. The following details the amount of client assets under management in each of Hefren-Tillotson's account types:

### Client Assets (as of 10/31/21)

Account Type	Client Assets (\$ million)
<b>Investment Advisory Services (Limited &amp; Non-Discretionary)</b>	
Hefren-Tillotson Asset Management Account	\$2,240.1
Hefren-Tillotson MASTERPLAN Pathway	\$91.2
American Funds F-2 Direct	\$8.0
<b>Investment Advisory Services (Discretionary)</b>	
Hefren-Tillotson Advisory Account	\$6,331.1
Hefren-Tillotson Managed Account Program	\$32.6
Hefren-Tillotson Pathway Pro Account	\$602.6
<b>Total Investment Advisory Assets</b>	<b>\$9,305.6</b>
<b>Hybrid Services (Non-Discretionary)</b>	
Hefren-Tillotson Portfolio Review Account	\$3,087.3
<b>Total Hybrid Assets</b>	<b>\$3,087.3</b>
<b>Broker-Dealer Services (Non-Discretionary)</b>	
Hefren-Tillotson Traditional Brokerage Account	\$3,870.8
Hefren-Tillotson Direct Business Held-Away Account	\$1,333.8
<b>Total Broker Dealer Assets</b>	<b>\$5,204.7</b>
HT Corporate Services	\$959.7
<b>Total Assets (Investment Advisory + Broker Dealer + Hybrid) (2)</b>	<b>\$18,557.2</b>

## MASTERPLAN

The recommendation of brokerage, hybrid or investment advisory accounts is based upon discussions between the Client and a Hefren-Tillotson registered representative/investment advisor (Financial Advisor). These discussions frequently consist of two or more meetings, beginning with a fact-finding session where the Client and Financial Advisor discuss issues relating to investments, taxes, estate planning, retirement planning, insurance, and any other matters relating to the Client's personal financial situation. Following this initial meeting, the Financial Advisor typically prepares written recommendations, often with the assistance of the Hefren-Tillotson team of professionals. The written plan details our recommendations based upon the information provided and understanding of the Client's goals and objectives, providing both an analysis of the current situation and a long-term plan.

It is through our MASTERPLAN process that Hefren-Tillotson tailors investment recommendations to each Client. By understanding cash flow needs, liquidity needs, financial goals, return expectations, risk tolerance, and current assets, Hefren-Tillotson Financial Advisors determine an appropriate asset mix, using the firm's asset allocation models as starting points. Once an appropriate asset mix is established, our team evaluates the client's existing holdings and recommends individual securities or investment managers to fulfill the desired asset allocation.

The recommendations prepared during the MASTERPLAN process, which include the suggested brokerage or Investment Advisory program, are presented to the Client, who then chooses whether to become a client of Hefren-Tillotson.

A key component to our MASTERPLAN process is a team approach that leverages the combined expertise within Hefren-Tillotson. Throughout the MASTERPLAN process and on an ongoing basis, the Financial Advisor is the central figure in the coordination of the Client's financial program, accessing areas of expertise within Hefren-Tillotson and outside as needed.



## **Investment Committee**

One of the key internal resources available to Clients and Advisors is Hefren-Tillotson's Investment Committee. This centralized team consists of nine financial professionals who provide oversight of the allocation and manager selection within Hefren-Tillotson's model portfolios. They meet on a quarterly basis to review the composition of discretionary Advisory strategies, and the asset allocation models that serve as a starting point for developing a personalized and disciplined investment plan for Clients. Individual members of the team have discussions daily on portfolio and research-related items and interim meetings are held weekly. The team structure brings continuity in management, knowledgeable and unbiased advice, and is backed by leading independent research sources. The Investment Committee averages over 30 years of investment experience and has an average tenure at Hefren-Tillotson of over 25 years.

The Investment Committee is comprised of Kimberly T. Fleming, Chairman and Chief Executive Officer; James G. Meredith, Executive Vice President; Donald M. Belt, President; Brian Koble, Chief Investment Officer; Jonathan Bernstein, Director of Research; Kurt E. Carlson, First Vice President; Timothy S. Davis, Director of Fixed Income; Craig McRoberts, Executive Vice President; and John Reba, Senior Vice President. Biographical information on each member of the Investment Committee is available in the brochure supplement. Principal owners of Hefren-Tillotson include Kim Tillotson Fleming, Craig A. Tillotson, James G Meredith, and R. Drew Kistler.

## **Hefren-Tillotson's Investment Advisory Programs**

Our Investment Advisory programs are designed to provide a program of regular communication, comprehensive financial planning, and objective oversight and management. These programs include the following base level of services:

- Periodic meetings with the Financial Advisor utilizing Hefren-Tillotson's MASTERPLAN approach, which seeks to advise Clients in all aspects of their personal financial situation.
- Quarterly investment reviews that include a comprehensive overview of asset allocation, performance, cash flows, and investment detail. These reports serve as a valuable monitoring tool for Clients and Financial Advisors.
- Quarterly market reports providing a review and outlook for the global financial markets and economy. The report also frequently details investment strategies being applied across Client accounts, providing explanations to help Clients understand the positioning recommended by Hefren-Tillotson.
- Portfolio oversight by members of Hefren-Tillotson's Investment Committee. Members frequently participate in Client meetings, review portfolios, and support our Financial Advisors in responses to Client inquiries and questions. The team also maintains monitoring reports used across the firm to assist in the ongoing management of Client portfolios.
- Periodic "Inside the Markets" conference calls updating Clients on developments in the investment markets and economy, as well as, our investment strategies. The conference calls are usually held quarterly, but frequency may increase during times of market stress and Client concern. Participants usually include members of the Investment Committee, but may also include other industry professionals and professionals within Hefren-Tillotson.

- Bi-weekly Market Updates intended to update Clients on changing market conditions, as well as investment opportunities and risks we see in the global financial markets. This two-page report is designed to be easy to read and provides timely insight on the issues impacting Client portfolios.
- Tax reporting that includes a year-end realized gains and losses report and a Tax Management Strategies report. These documents are intended to facilitate annual tax filing and educate Clients on tax management strategies that may be applicable in their personal financial situation.
- Complete custodial services that include online account access, account statements, and trade confirmations.

Building upon this program of regular communication and oversight, each Hefren-Tillotson Investment Advisory program offers additional unique attributes to meet the individual needs and goals of each client.

### **I. Hefren-Tillotson Asset Management Account**

The Hefren-Tillotson Asset Management program combines the flexibility of a non-discretionary, fee-based account with our comprehensive financial planning and reporting services. Management flexibility, ongoing financial planning consultation, and a program of regular communication are key attributes of this program. The program includes the base level of services common across our Investment Advisory programs, but with the following additional key benefits:

- Clients have access to a broad list of available securities without the limitations or costs often associated with sales charges. Portfolio changes can be made usually with minimal or no cost which may provide improved portfolio management flexibility over a commission-based structure;
- Optional cash management account with debit card and check writing privileges; and
- Waiver of IRA, custodial, and inactive account fees.

### **II. Masterplan Pathway Account**

Masterplan Pathway is a limited discretion, fee-based account. The program offers a choice of asset allocation models and a menu of investment options within each asset class including active and passive mutual funds and ETFs. On an ongoing basis, Hefren-Tillotson monitors the investments in the account and is given limited discretion to manage cash flows and rebalance the portfolio. A customized portfolio, flexibility and discipline, prudent diversification, ongoing financial planning consultation, and a program of regular communication are key attributes of this program. The program includes the base level of services common across our Investment Advisory programs, but with the following additional key benefits:

- Limited discretion program authorizing Hefren-Tillotson to manage cash flows (distributions, invest contributions, raise monies for fees) and rebalancing;
- Choice of asset allocation models;
- Menu of investment options within each asset class, including active and passive mutual funds and ETFs, and investment choices with explicit environmental, social and governance (ESG) mandates; and
- Electronically-delivered quarterly investment review.



### **III. Hefren-Tillotson Advisory Account**

Hefren-Tillotson provides discretionary portfolio management through its Advisory account program. Portfolios are managed according to six diversified asset allocation portfolios containing investments selected by our Investment Committee for the respective investment objectives. Accounts managed under this program fall into three categories: traditional diversified portfolios, tax managed portfolios, and impact portfolios. The program includes the base level of services common across our Investment Advisory programs, but with the following additional key benefits:

- Experienced Investment Committee making decisions on a discretionary basis;
- Option for goal-based approaches including tax-managed or impact portfolios;
- Advisory Program Strategy Updates to inform Clients of manager or asset allocation shifts within Advisory accounts; and
- Written Investment Policy Statement that provides guidelines for the Investment Committee on how the account is to be managed.

Client accounts may differ from the Models in asset mix and portfolio holdings for several reasons. These reasons may include unrealized capital gains, restrictions and guidelines set forth by the Client in the Investment Policy worksheet, or through discussions with the Financial Advisor. Retail and Institutional accounts may be comprised of any combination of security types, but most frequently will include non-load or institutional class mutual funds, exchange traded funds, and individual bonds.

### **IV. Hefren-Tillotson Pathway Pro Account**

Hefren-Tillotson's Pathway Pro Account provides discretionary portfolio management. Portfolios are managed according to five diversified asset allocation objectives. Discretion is given the client's Financial Advisor to manage the asset allocation within predetermined ranges of the account's objective by allocating across five portfolio segments: Fixed Dollar, Diversified Fixed Income, Domestic Equity, International Equity, and Income & Diversifying Strategies. Within each of these portfolio segments, advisors may adjust the allocation to various sub-sectors, for example large and small-cap stocks. Furthermore, the Advisor has discretionary authority to choose individual investments (i.e. mutual funds, exchange traded funds) from a preselected Approved List.

The program includes the base level of services common across our Investment Advisory programs, but with the following additional key benefits:

- Financial Advisor making decisions on a discretionary basis; and
- Customized asset mix based upon individual needs or anticipated distributions/withdrawals.

Client accounts under the same objective may differ in asset mix and portfolio holdings for several reasons. Pathway Pro portfolios are customized to the needs of each Client. Retail and Institutional accounts may be comprised of any combination of security types, but most frequently will include non-load or institutional class mutual funds, exchange traded funds, and individual bonds.

### **V. Hefren-Tillotson Managed Account Program (Wrap Fee Program)**

The Hefren-Tillotson Managed Account is a discretionary, fee-based (wrap fee) program designed to provide high net worth individuals and institutions access to professional investment managers through individually managed separate accounts. Based upon your unique goals and objectives, your Hefren-

Tillotson financial advisor will provides guidance and recommendations on allocating monies to the equity, fixed income, and diversified strategies available in the program.

An Investor Objectives Profile is completed to assist in the analysis of the Client's investment objectives and risk/return preferences, leading to a determination of asset allocation and investment styles. If a Client selects this program, there are two levels of management fees: (1) Hefren-Tillotson receives a management fee for ongoing wealth management advice and ongoing manager monitoring; and (2) a fee is charged by the investment management firm for managing the strategy selected. Additional costs will be incurred if the Portfolio Manager utilizes trade away practices in the purchase or sale of individual stocks, bonds or ETFs.

The program includes the base level of services common across our Investment Advisory programs, but with the following additional key benefits:

- Professional third-party investment managers;
- A separate account structure investing primarily in individual common stocks, bonds or diversified portfolios; and
- Independent and objective manager selection and monitoring by Hefren-Tillotson's Investment Committee.

#### **VI. American Funds F-2 Direct Program**

The American Funds F-2 Direct Program is a non-discretionary, fee-based program that facilitates investments into American Funds F-2 share class offerings directly held at the American Funds. American Funds provides quarterly statements with automated fee-debiting. The program includes the base level of services common across our Investment Advisory programs, but with the following additional key benefits:

- F-2 shares are available with fund minimums of \$250 (\$1,000 for money market or tax-exempt funds) as specified in the funds' prospectus; and
- American Funds F-2 Direct Accounts may be consolidated into quarterly reporting provided by Hefren-Tillotson if accounts exist on other Investment Advisory programs, providing a comprehensive review of investment holdings.

#### **VII. Hefren-Tillotson MASTERPLAN Financial Review**

Hefren-Tillotson's MASTERPLAN Financial Review is designed for individuals interested only in financial planning advice. As described above, a MASTERPLAN Financial Review encompasses the major aspects of a Client's financial situation, emphasizing income and estate tax planning, insurance, and investment and retirement planning. The process may also assist Clients in coordinating the implementation of any recommendations made, including referrals to other practicing professionals whose services may be required.

During the MASTERPLAN Financial Review process, the Client is asked to provide Hefren-Tillotson with relevant financial information and documentation including tax returns, a description of assets and liabilities, wills and trusts, business agreements, investments and personal and family obligations. The Client is also asked to indicate levels of risk tolerance and to work with the Financial Advisor in establishing short and long-term goals. Upon completion of the MASTERPLAN Financial Review, the Client and the Financial Advisor meet again, and the Client is provided with written recommendations

based upon the objectives established in the plan and an implementation schedule. The Client has sole responsibility for implementation and may implement any or all recommendations made in the MASTERPLAN Financial Review, but is under no obligation to use Hefren-Tillotson for the implementation of the recommendations.

## **Hefren-Tillotson's Hybrid Program**

### **Hefren-Tillotson's Portfolio Review Program**

Portfolio Review is a non-discretionary, Traditional Brokerage Account that is augmented with our financial planning and reporting services. The Portfolio Review account facilitates ongoing consultation and reviews through a program of communication that includes the following:

- Periodic meetings with the Financial Advisor applying Hefren-Tillotson's MASTERPLAN approach;
- Quarterly investment reviews that include a comprehensive overview of asset allocation, performance, and investment detail;
- Quarterly market report providing a review and outlook for the global financial markets and economy;
- Periodic "Inside the Markets" conference calls updating Clients on developments in the investment markets and economy, as well as, our investment strategies;
- Bi-weekly market updates intended to update Clients on changing market conditions, as well as investment opportunities and risks we see in the global financial markets;
- Tax reporting that includes a year-end realized gains and losses report and a tax management strategies report; and
- Complete custodial services that include internet account access, account statements, and trade confirmations.

## **HT Corporate Services**

Hefren-Tillotson also offers services through HT Corporate Services ("HTCS"), a division of Hefren-Tillotson.

### **I. Fiduciary Review of 401k and Profit Sharing Plans**

HTCS offers independent third-party reviews of current retirement plan investment options to improve investment performance and help plan sponsors meet their fiduciary duty under ERISA. The fiduciary review includes a review of the plan documents, review and/or creation of the Investment Policy Statement, review of plan investment options by evaluating the investment selection process, the basis for asset mix, plan expenses, performance criteria and on-going management procedures and written recommendations based on the standards designed by The Center for Fiduciary Studies.

### **II. Management of 401k and Profit Sharing Plans**

HTCS manages company retirement plans using a model 401k plan that is monitored and updated on a regular basis. This service provides a "401k Fundamentals" seminar for all employees to explain general

retirement principles, discuss changes in the plan and provide model asset allocation portfolios to assist employees in allocating their 401k contributions. An Annual Fiduciary Review is provided to satisfy the plan sponsors ongoing duty to monitor the plan's investment options. Management reports detailing participation trends are provided to help plan sponsors manage, plan and tailor participant education. Unlimited access to the HTCS website is available for all plan participants.

### **III. MASTERPLAN Services for Executives**

HTCS offers comprehensive financial planning services for key personnel as part of an overall executive fringe benefit package. This financial planning service includes one-on-one fact-finding sessions to discuss goals and objectives, and the preparation of a customized MASTERPLAN for the executive detailing recommendations in the area of estate planning, investments, retirement planning, college funding and income taxes.

### **IV. Employee Education Seminars**

HTCS offers a fee-based employee education seminar to provide employees with the necessary education and support to attain their financial goals. Seminars are customized to the needs of the plan sponsor's employees, such as Cash Flow and Debt Management, Basic Estate Planning and The Basics of Investing. Also, a comprehensive six-hour MASTERPLAN workshop is available to offer employees practical financial planning information, a workshop manual for future reference and three months of complimentary access to the HTCS website.

### **V. Corporate 529 College Savings Plans**

HTCS assists in establishing company-sponsored college savings plans to help employees plan for their children's college funding needs.

### **VI. Insurance Consulting Services**

HTCS provides an analysis of existing corporate insurance policies to improve coverage, limit costs and better meet corporate risk management goals.

### **VII. Personal Retirement Plan Review**

HTCS Personal Retirement Plan Review allows employers to offer assistance to their employees in managing their retirement plan assets. Employees receive initial and ongoing consultation with respect to their retirement plan assets. The program includes an annual review and analysis of plan options, recommendations on plan option changes and asset allocation recommendations aligned with Hefren-Tillotson model portfolios. Employees also receive several supplemental services to assist them in reaching their financial planning goals.

## **Item 5 Fees and Compensation**

This section and Appendix A outline various fees and expenses that are applicable to Hefren-Tillotson's advisory programs and types of accounts. We also identify conflicts of interest and efforts to mitigate these conflicts through supervisory practices. Certain fees may not apply or may be discounted based on the type of account you have and/or the amount of assets you hold in your Hefren-Tillotson accounts. Other fees are only charged when the associated services are requested or when special processing is required. Therefore, some fees listed below may not apply to your account.

Since Hefren-Tillotson is dually registered as a Broker Dealer and Investment Adviser, Clients have flexibility in how they pay for our professional services – commissions, advisory fees, or a combination of both. We often find that Clients will use a combination of different types of accounts depending upon their portfolio structure, needs, and financial goals.

Financial Advisors at Hefren-Tillotson are compensated on a percentage of commission or fee-based revenue, and this constitutes the majority of the firm’s revenue. The payout percentage to the Financial Advisor is level across brokerage and investment advisory programs to avoid conflicts of interest.

**Fees & Compensation Associated with Hefren-Tillotson’s Investment Advisory Programs: Asset Management, MASTERPLAN Pathway, Advisory, Pathway Pro, , American Funds F-2 Direct, & HT Managed Account Programs**

For accounts under our Investment Advisory programs, Clients compensate Hefren-Tillotson through an advisory fee based upon a percentage of assets under management. We receive 12b-1 fees with respect to certain share classes of some mutual fund companies such as A, B, or C shares, but these fees are rebated back to clients if received. Hefren-Tillotson participates in Pershing’s FundVest program. The firm does not receive mutual fund service fees through FundVest for the investment advisory programs listed above. However, Hefren-Tillotson benefits from no transaction fees for funds on the FundVest program. Hefren-Tillotson does not participate in or receive any portion of various account fees (outlined in Appendix A) passed onto clients within these programs. These account fees are charged by the custodian, Pershing LLC (“Pershing”). Fee schedules for the programs are as follows:

**Investment Advisory Fee Schedule**

Asset Management(1)	Masterplan Pathway(1)	Advisory(1)	Pathway Pro (1)	Managed Account Program (2)
<p>1.00% on the first \$1,000,000 plus                      0.75% on the next \$1,000,000 plus                      0.50% on the next \$8,000,000                      Fees are negotiable on assets in excess of \$10,000,000</p> <p>(1) \$6.00 transaction service charge will be incurred on equity and ETF transactions                      (2) Portfolio Manager Fee (typically ranging between 0.25% - 0.80%) is in additional to the schedule above and is paid to the respective Portfolio manager for separately managed account strategies</p>				

**The Investment Advisory Fee Schedule does not include certain additional account fees or other expenses payable to Hefren-Tillotson that could be incurred. See Appendix A for the full list of fees and expenses applicable to Hefren-Tillotson accounts.**

American Funds F-2 Direct Program offers quarterly fee billing, in arrears, based upon eligible accounts’ average daily balance over the previous off-calendar quarter ending February, May, August, and November. The program’s management fee is a flat 1.0% and is non-negotiable. Assets are held directly with American Funds in the F-2 share class, which have no 12b-1 fees. There is a \$10 setup fee charged by the American Funds and an annual \$10 custodial fee for IRAs and Coverdell ESAs. Hefren-Tillotson does not receive any compensation from the setup and custodial fees. Fees can be debited from a single fund or prorated across the account holdings.

Within Hefren-Tillotson's Asset Management, MASTERPLAN Pathway, Advisory, American Funds F-2 Direct, Pathway Pro, and Managed Account Programs, HT is compensated based upon a percentage of assets under management rather than on a transaction-based model. Financial Advisors are compensated based on a percentage of fee-based revenue. As a result, the Financial Advisor is incentivized to (1) grow the Client's investment assets through good investment decisions and (2) keep the accounts by establishing a lasting relationship through exceptional service and sound advice. Within these programs, neither HT or Financial Advisors are compensated on 12b-1 or mutual fund service fee revenue and does not receive additional compensation from the \$6.00 transaction service charge or other account fees that may be incurred in an Investment Advisory account.

### **Fees & Compensation Associated with Hefren-Tillotson's Hybrid Program: Portfolio Review**

The Portfolio Review program is a traditional brokerage account with an annual service fee of 0.25% for financial planning and enhanced reporting services. For accounts under our Portfolio Review program, Clients compensate Hefren-Tillotson in the following ways:

1. 0.25% annual service fee; plus
2. Standard Brokerage commissions or sales charges on transactions executed; plus
3. Third party payments, such as 12b-1 fees and mutual fund service fees; plus
4. Mark-up on trade processing charges and account services fees, including inactive fees and account transfer fees for non-qualified accounts.

Third party payments, such as 12b-1 fees, are part of product-level costs that the client incurs under this program. See Appendix A for the full list of fees and expenses applicable to Hefren-Tillotson accounts.

### **Fees & Compensation Associated with Hefren-Tillotson's MASTERPLAN Financial Review**

Fees charged for the MASTERPLAN Financial Review are outlined in the MASTERPLAN Financial Review Client Agreement that is provided in advance of the creation of the financial plan. Fees are paid 50% in advance and 50% upon completion and delivery of the financial plan. Either party may cancel the MASTERPLAN Financial Review Client Agreement with a full refund by providing written notice to the other party within five business days of signing the Financial Review Client Agreement. Fees for the MASTERPLAN Financial Review may be negotiable or waived in certain circumstances. In addition, fees may be charged on an hourly basis, ranging from \$50 to \$500 per hour, depending on the complexity of the analysis and the individuals involved in the creation of the financial plan. We estimate, based upon historical cases, that most MASTERPLAN Financial Reviews will range between \$500 - \$5,000.

### **Fees & Compensation Associated with HT Corporate Services**

- Fiduciary Review of 401k and Profit Sharing Plans
  - 0.10% on the first \$10,000,000; over \$10,000,000 negotiable
  - Minimum fee of \$5000; fee waived if HTCS manages plan (except for plans under \$1.5 million)
  - Annual review for non-401k clients at one-half of fee schedule
- Management of 401k and Profit Sharing Plans
  - R-2 Shares: 0.75% annual fee
  - R-3 shares: 0.50% annual fee
  - R-4 shares: 0.25% annual fee

- R-5, R-6 or other Institutional shares – custom fee per mutual agreement between the Plan and HTCS
- MASTERPLAN Services for Executives
  - \$2500 per MASTERPLAN
  - Fees are negotiable and in some cases waived if HTCS is managing the company's retirement plan
- Employee Education Seminar
  - \$500 per teaching hour
  - \$250 per customization hour
  - Hourly charges are subject to change
- Corporate 529 College Savings Plans
  - Fees based on traditional 529 plan fee structure
- Insurance Consulting Services
  - Fees based on insurance product fee structure

### **Calculations, Payments, and Other Fees**

Our advisory fee (including Portfolio Review, Asset Management, MASTERPLAN Pathway, Pathway Pro, Advisory, & HT Managed Account Program) is an annual fee, calculated, billed and payable quarterly, in advance, based on the market value of the account(s), including cash and its equivalents. Clients have the option of debiting the management fees across accounts, debiting a single account, or paying by check. For accounts that are established after the calendar quarter begins, fees will be prorated based upon the value at the end of the month the assets are received. Investment Advisory agreements may be terminated by either party at any time without penalty. Upon termination, the Client will receive a pro rata refund for that portion of the prepaid management fee that has not been earned.

Fees are negotiable and adjusted based upon situations deemed appropriate by Hefren-Tillotson. Such situations may include consideration of existing fee arrangements, a relationship to the firm (e.g., friends, family, employees), related households already Clients of the firm, restricted securities, and types of investments to be held in accounts among others.

For clients investing in pooled investment vehicles, such as mutual funds, ETFs, closed-end funds, there are additional internal expenses for such investments, which are unique to each fund (commonly referred to as expense ratios). These additional expenses, which will usually range between 0.05% - 1.20% on average, are charged by the underlying fund for their management expertise and are disclosed in the relevant prospectus.

In an effort to simplify our pricing, Hefren-Tillotson provides complimentary services or waives expenses in a number of areas:

- Monthly account and year-end tax statements
- Online account access through NetXClient
- Secure paperless e-delivery of statements and confirmations
- Waiver of mutual fund and individual bond transaction fees in investment advisory accounts
- Waiver of IRA custodial fees in investment advisory accounts for clients with household assets over \$100,000
- Waiver of inactive fees in investment advisory accounts

- One free cash management account with investment advisory program
- Systematic distributions and partial transfers to facilitate asset movements
- Cost basis information to monitor unrealized capital gains
- TurboTax data imports to assist in tax filings
- Account linking to consolidate monthly reporting

### Conflicts of Interest

Hefren-Tillotson has identified the following conflicts of interest that arise in our normal course of business. The firm seeks to mitigate the impacts of these conflicts through various supervisory procedures.

Conflicts of Interest	
Conflicts Unique to Hefren-Tillotson's Hybrid Program: Portfolio Review	
Transaction-based Revenue	<p>Within the Portfolio Review program, Financial Advisors will typically recommend commission-based products in order to be compensated for the services provided. In addition, Financial Advisors receive a percentage of the 0.25% management fee and 12b-1 fees generated by account investments. Financial Advisors are not compensated on any markup of account service or trade processing charges. There is an inherent conflict of interest in commission-based revenues since compensation will increase with more frequent trading in these accounts. Please refer to Appendix A for commission schedules. The firm seeks to minimize this conflict of interest through a Client-centric culture and supervision by Hefren-Tillotson's compliance department.</p>
Pershing FundVest Program & Third-party Payments	<p>Hefren-Tillotson participates in Pershing's FundVest program. Through FundVest, Hefren-Tillotson receives compensation through mutual fund 12b-1 fees on select funds held in Portfolio Review accounts. 12b-1 fees are an important component of Financial Advisor compensation under the Portfolio Review program. The receipt of this revenue creates a conflict of interest to Hefren-Tillotson to use Pershing as a custodian over other custodians that do not share the 12b-1 shareholder service fees and sub-transfer agency fees paid by mutual funds and to recommend and purchase funds on the FundVest list over other funds and platforms that do not pay and share in shareholder service fees and/or and sub-transfer agency fees.</p>
Markups on Fixed Income Transactions	<p>Within Portfolio Review accounts, Hefren-Tillotson receives compensation from mark-ups on fixed income transactions. Because the mark-up is higher for longer-dated securities, Hefren-Tillotson and its Financial Advisors have a conflict of interest since revenue will increase as the firm invests in securities with maturities over five years. Hefren-Tillotson has policies and procedures in place designed to help assure the Advisor provides recommendations that are in the best interest of our clients.</p>



## Conflicts of Interest

Markup on Account Services	<p>Within the Portfolio Review program, Hefren-Tillotson receives compensation through the markup of account service and trade processing charges above the costs associated with these charges. These charges include the \$4.75 confirmation fee (except for mutual funds), \$125 for account transfer fees on retail accounts only, and the \$22.50 or \$35 inactive account fee on non-qualified accounts. Please refer to Appendix A for more detail. Hefren-Tillotson does not believe these markups represent a material conflict of interest. Furthermore, Financial Advisors are not compensated on the markup of account services or trade processing charges.</p>
Differentiated Compensation within Product Categories	<p>Products within mutual fund, unit investment trusts, variable annuities and insurance products have differentiated commission schedules. HT has an incentive to use products with higher commission rates than other available products within the same category.</p>
Principal Transactions	<p>HT acts as a principal on fixed income transactions for Traditional Brokerage and Portfolio Review accounts, selling and purchasing bonds from its own inventory. HT has an incentive to buy and sell bonds from its inventory. To mitigate conflicts, HT takes a random sampling of fixed income trades each day to review the markup/mark-down and also compares execution prices versus EMMA, a service of the Municipal Securities Rulemaking Board designed to promote fair and efficient municipal securities trading.</p>

## Conflicts Unique to Hefren-Tillotson's Investment Advisory Programs

Fee-based Account Recommendations	<p>Hefren-Tillotson and its Financial Advisors are typically compensated more over time through a fee-based account even though there is a higher level of service and ongoing management delivered. Therefore, Hefren-Tillotson and its Financial Advisors are incentivized to recommend clients utilize a fee-based account over a brokerage account. Conflicts of interest are mitigated through internal procedures that include detailed recommendations, analysis, and comparison covering four areas – diversification and investment strategy, performance, expenses and services.</p>
Pershing FundVest Program	<p>Within Asset Management, Masterplan Pathway, Pathway Pro and Advisory accounts, no load and institutional class mutual funds are typically used. Hefren-Tillotson participates in Pershing's FundVest program. Through FundVest, Hefren-Tillotson will benefit from no transaction fees (NTF) on select funds on the FundVest program. A conflict of interest exists for Hefren-Tillotson to select NTF mutual funds since those transactions would incur less expense than if Hefren-Tillotson selected a mutual fund with transaction fees. To help mitigate this conflict of interest, Financial Advisors are not provided the list of NTF mutual funds. Furthermore, within discretionary accounts, a fund's participation in the FundVest program is not considered by the Investment Committee when selecting individual funds for its investment models.</p>

## Conflicts of Interest

### Conflicts Relevant to both Hefren-Tillotson's Investment Advisory Programs & Portfolio Review

Distribution & Rollover Recommendations	Hefren-Tillotson and its Financial Advisers may recommend clients take a distribution from their retirement plan or another qualified account and roll the distribution amount over to a Retirement Account at Hefren-Tillotson. Hefren-Tillotson and the Financial Advisor receive compensation for providing these services. As a result, Hefren-Tillotson and the Financial Advisor have an incentive to recommend that you take such distribution and transfer the proceeds to a Retirement Account at the firm. Conflicts of interest are mitigated through internal procedures that require a detailed Rollover Analysis for each distribution/rollover recommendation.
Marketing Payments	Hefren-Tillotson receives additional compensation from revenue sharing arrangements with investment advisors to mutual fund companies, in connection with the assets under management and as reimbursement for marketing expenses. So that Hefren-Tillotson's conflict of interest is not passed on to Financial Advisors, their compensation is not impacted by marketing payments. Furthermore, Hefren-Tillotson has policies and procedures in place intended to help ensure the Financial Advisor provides recommendations that are in the best interest of our clients.
Illiquid Securities	There is a conflict of interest in the pricing of illiquid securities which do not price daily or frequently since a higher price would result in higher management fees. Hefren-Tillotson seeks to mitigate this conflict by using independent sources as a basis for historical and/or current pricing.
Third Party Payments for Education, Gifts, & Entertainment	Hefren-Tillotson permits third party wholesaler coordination or payments in support of educational meetings for Financial Advisors and client seminars. Third-party gifts and entertainment are also permitted to be received by Financial Advisors. As a result, Hefren-Tillotson and its Financial Advisors have a conflict of interest since this third-party support, payments, gifts or entertainment could influence the investment recommendations of its Financial Advisors. Hefren-Tillotson has measures in place to mitigate these conflicts of interest, such as limiting gifts to \$100, reviewing the suitability of investment recommendations, and pre-approval of seminar content.
Pershing as Custodian	Hefren-Tillotson uses Pershing as executing broker and clearing agent. In the event a Client chooses a different brokerage and/or custodial provider, custodial fees and brokerage commissions will be as negotiated by the Client and may be higher or lower than the fees that could have been obtained by Hefren-Tillotson. Commissions and other administrative fees (including 12b-1 fees and mutual fund shareholder service fees) will be generated by various transactions and received as compensation by the firm. Commissions for the firm are only generated in the Portfolio Review program. Hefren-Tillotson believes consolidating assets at Pershing provides simplification and ease of management and monitoring. Hefren-Tillotson believes Pershing expenses passed-on to clients or marked-up

## Conflicts of Interest

by Hefren-Tillotson are competitive in the marketplace. Please refer to Item 12 Brokerage Practices, page 30 for more information.

### General Conflicts

#### Markup on Loan Products

Hefren-Tillotson's Financial Advisors may, at times, inform Clients of the availability of non-purpose loans offered by TriState Capital Bank and Pershing. In exchange for referring Clients to TriState or Pershing, Hefren-Tillotson receives revenue in the form of a markup on the interest rate of the non-purpose loans. The receipt of this revenue creates a conflict of interest to Hefren-Tillotson to recommend non-purpose loans to Clients in situations when the Client may otherwise not need capital or to utilize these loan products over those offered by other lenders. We do not believe this conflict is material to Hefren-Tillotson or its Financial Advisors. Hefren-Tillotson has policies and procedures in place intended to help assure the Advisor provides recommendations that are in the best interest of our clients. Please refer to Item 19 Miscellaneous Disclosure.

In working with HT, investors should consider product limitations. Financial Advisors are limited to recommending primarily A and C class mutual fund purchases within Traditional Brokerage and Portfolio Review accounts. C-share mutual funds are limited to \$250,000 of investments. Above that level, A-shares will be used for new purchases. Some exceptions may apply for comparably-priced mutual fund share classes unique to specific fund family. After 8 years, C-share fund holdings are automatically converted to A-shares. Secondly, solicited no-load and Advisor-class (no-load with 12b-1 fees) mutual funds are not permitted in Traditional Brokerage or Portfolio Review accounts. An exception to this limitation is made for short-term bond funds, which tend to have lower yields and total return potential. Finally, within fee-based accounts, HT utilizes the American Funds F2 share class. The expense ratio for F2 shares is .12% higher than F3 shares, which is offset by the waiver of trading costs and IRA custodial fees.

## Item 6 Performance-Based Fees and Side-By-Side Management

Neither Hefren-Tillotson, Inc. nor its Financial Advisors accept or offers performance-based fees.

## Item 7 Types of Clients

Hefren-Tillotson provides a full-range of investment management services for Pension Funds, Non-Profit Organizations, Endowments, Foundations and Individuals.

The firm has established account minimums for the various Investment Advisory programs. Such minimums are applied to a family of accounts (also known as "householding") rather than to individual accounts. Waivers of the account minimums must be approved by a senior executive and may be made in situations deemed appropriate. The following outlines the asset minimums for each program:

### **Minimum Asset Size (Family of Accounts)**

<b>Portfolio Review</b>	<b>Asset Management</b>	<b>Masterplan Pathway</b>	<b>Advisory</b>	<b>Pathway Pro</b>	<b>Managed Account Program</b>
\$100,000 in household assets	\$25,000 in household assets	\$25,000 in household assets	\$100,000 in household assets	\$100,000 in household assets	\$100,000 in household assets

Account minimums for the American Funds F-2 Direct Program are \$250 (\$1,000 for money market or tax-exempt funds) as specified in each fund’s prospectus.

#### **Institutional Clients**

Similar to the approach taken with MASTERPLAN, we believe that investment success for our Institutional Clients can be achieved only when there is a commitment to a long-term plan. We begin our relationships by either establishing or reviewing the current Investment Policy Statement. In doing so, an assessment of the current financial situation helps Trustees gain consensus on goals and guidelines for the ongoing management of assets.

Hefren-Tillotson personnel receive ongoing training in the area of fiduciary responsibility. Several team members have earned the Accredited Investment Fiduciary Auditor (AIFA ®) designation and have successfully completed training to conduct fiduciary reviews for our Institutional Clients and maintain a prudent investment process.

Our composite performance results are prepared in compliance with the Global Investment Performance Standards (GIPS®).

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis, Investment Strategies, Philosophy & Approach**

Hefren-Tillotson employs a conservative, long-term approach in the management of Client assets. We seek to establish and maintain each Client’s portfolio with long-term strategic ranges for each asset class and market sector according to the individual needs and objectives of the Client. In doing so, we build portfolios using four model portfolios. Once clear objectives and a proper asset allocation are established, we then select individual securities and/or investment managers whose areas of expertise complement the Client’s needs and the portfolio’s asset mix. Finally, we continually monitor and manage the portfolio by making allocation shifts, replacing managers, or rebalancing toward defined targets. Because accounts are managed individually for each Client, actual investment returns will vary. We summarize our disciplined approach as follows:

- Conservative, long-term investment philosophy
- Diversified strategy focuses on asset allocation and sector weightings
- Objective selection of investment managers with expertise in specific areas of the markets
- Proactive management and monitoring
- Process maintained through a program of regular communication



## Asset Allocation

The following tables illustrate the six asset allocation models upon which Hefren-Tillotson portfolios are usually established, their risk profiles, time horizons, and general portfolio objectives.

		Diversified Bond	Conservative Income	Income	Balanced	Growth & Income	Capital Growth
Priority of Objectives	1	Capital Preservation	Capital Preservation	Current Income	Moderate Current Income	Long-term Growth of Capital	Long-term Growth of Capital
	2	Current Income	Current Income	Conservative Growth of Capital	Long-term Growth of Capital	Nominal Current Income	
	3	Liquidity	Liquidity, Conservative Growth of Capital	Capital Preservation	Capital Preservation		
Relative Return		Low	Low	Moderate/Low	Moderate	Moderate/High	High
Est. 1 Year Potential Loss		Up to 10%	Up to 15%	Up to 20%	Up to 25%	Up to 35%	Up to 40%
Risk Tolerance		Aversion to Losses	Aversion to Losses	Able to Endure Some Volatility	Able to Endure Moderate Volatility	Able to Tolerate Losses and Volatility	Risk-taker; Tolerance for High Volatility
Time Horizon		Shorter Term	Shorter Term	Short to Intermediate Term	Intermediate-term Horizon	Long-term Horizon	Long-term Horizon
Withdrawal Rate – Suggested Annual Limit		3 – 5%	3 – 5%	3 – 5%	2 – 6%	2% or Less	No Withdrawals

## **Manager Selection & Monitoring**

Our manager selection and monitoring process consists of a combination of quantitative and qualitative analysis and screening. Research tools may include manager databases, industry publications, prospectuses, manager literature, conference calls with portfolio managers, and due diligence visits.

The following criteria form the basis of our investment manager selection. These criteria are intended to serve as general guidelines, as we believe rules-based decision making is a poor substitute for professional judgment. In general, managers will exhibit the following characteristics:

- Industry respected investment organizations
- Consistent/long-term manager tenure and experience
- Proven record of success, considering both returns and risk
- Below-average expense ratios versus category average
- Tax sensitivity (for taxable accounts)
- Priority for passively-managed funds is placed on low expenses and modest tracking error versus benchmark
- Integration of environmental, social and governance practices (Impact Models)

### **Quantitative Analysis:**

Quantitative criteria are evaluated both in terms of a portfolio manager's absolute performance and performance relative to the manager's investment style group, and may include: Rates of Return, Risk analysis (drawdown, standard deviation, etc.), Risk-adjusted returns, Portfolio Turnover, Style Consistency, and Assets under Management.

### **Qualitative Analysis:**

Qualitative considerations surround the "Four P's" and typically are assessed through written manager materials and/or interaction with the manager.

- a. People - Experience, Expertise, Deep Resources, Team Dynamics
- b. Philosophy - Compelling philosophy, Focused on Fundamentals
- c. Process – Skillful, Repeatable
- d. Portfolio – Portfolio construction, diversification, and risk management

Managers are monitored on a quarterly basis for performance and changes in management, strategy, or style. A manager may be recommended for replacement or placed on our internal Watch list, when:

1. A manager exhibits poor risk-adjusted performance relative to the benchmark or its peer group over an extended period
2. There is a change in the professionals managing the portfolio.
3. There is a significant decrease in the strategy's assets.
4. There is an indication the manager is deviating from his/her stated style and/or strategy.
5. There is an increase in the strategy's fees and expenses.
6. Any extraordinary event occurs that may interfere with the manager's ability to fulfill it's role in the future.

Watch List status indicates that Hefren-Tillotson is reevaluating its placement of Client assets with the manager. Ultimately, the decision to hire or fire a manager is not reducible to any single consideration, but rather is made through a comprehensive evaluation of the manager's investment merits. Our manager selection process and criteria can be summarized through the following illustration:

### Step 1: Quantitative Screening

Competitive, long-term risk-adjusted performance  
Long-tenured and experienced management  
Below-average expense ratios



### Step 2: Qualitative Assessment (The 4 P's)

People – experience, expertise, deep resources, team dynamics  
Philosophy – compelling philosophy, focused on fundamentals  
Process – skillful, repeatable  
Portfolio – portfolio construction, diversification, risk management



### Step 3: Implementation

Complementary characteristics to the portfolio  
Timeliness of strategy

### Ongoing Management & Monitoring

Within the ranges specified under each model, our team may recommend or change portfolio exposure to a specific sector or style based upon perceived, value-driven risk/reward characteristics. These tactical decisions, which are ultimately meant to improve long-term potential returns, are based upon intermediate and longer-term trends likely to unfold over the course of 1-3 years or longer. Three general factors are considered in determining a tactical allocation shift, including (1) Valuations - relative and absolute valuations; (2) Fundamentals - the fundamental analysis of economic or market-related conditions; and (3) Technicals - technical analysis of fundamental or market trends.

Tactical allocation shifts typically represent 3-5% of a client's investment assets. Following implementation, our Investment Committee monitors the performance of tactical shifts on an ongoing basis. In the implementation of any portfolio changes, the Client can impose restriction on investments, requesting that they not be sold.

### Tax-Managed Portfolios

Hefren-Tillotson also offers tax-managed model portfolios with four investment objectives – Income, Balanced, Growth & Income, and Capital Growth. The portfolios are designed for non-qualified accounts of individuals, families, or trusts exposed to higher marginal tax rates where limiting income and eventual estate taxation are primary financial objectives. These portfolios are offered on a discretionary basis under Hefren-Tillotson's Investment Advisory program.

The models have the following primary goals:

1. **Competitive After-tax Returns:** The portfolios seek to generate competitive after-tax returns in order to achieve the ultimate purpose of reaching each client's longer-term personal financial goals and objectives.
2. **Sensitivity to Taxable Gains and Income:** Our tax-managed strategies utilize a combination of tax-efficient vehicles, lower turnover strategy, and tax management to control for taxable income and realized capital gains. While there may be times when realized gains are generated (tactical changes,

rebalancing, etc.), efforts are taken to offset gains where possible. At the security level, these portfolios are comprised of municipal bonds or bond funds, tax-managed mutual funds, and exchange traded funds. Multiple tax management strategies are employed to control realized gains, including tax-loss harvesting, managing holding periods, deferring the realization of gains, wider threshold rebalancing, and careful planning for distributions.

3. **Prudent Diversification:** Our portfolios are designed to provide global, multi-asset class diversification with different risk/return characteristics to meet the needs of each Client.
4. **Low-cost Portfolio Structure:** Given an increased emphasis on index-oriented strategies, the portfolios generally have low expense ratios relative to the broader mutual fund industry.
5. **Active Management:** These portfolios will consist predominately of core positions selected to be long-term holdings. However, the Investment Committee has the flexibility to use tactical positions to exploit perceived market opportunities or risks. Select active managers are used to complement index-oriented strategies with the goal of delivering long-term alpha.

Despite a lower-turnover, tax-sensitive approach, our models will incorporate positioning that we believe will benefit from long-term secular trends in the global financial markets. Asset allocation and risk/return characteristics of the tax-managed portfolios resemble traditional Hefren-Tillotson model portfolios identified above.

### **Impact Portfolios**

Hefren-Tillotson offers Impact model portfolios with four investment objectives – Income, Balanced, Growth & Income, and Capital Growth. These portfolios are designed for investors who would like to include environmental, social or governance factors (“ESG”) into the investment process of their portfolios. By doing so, portfolios aim to invest in companies with thoughtful, and, or improving corporate behavior in ESG areas, while seeking to avoid companies with questionable ESG practices. Additionally, by incorporating investment managers that actively campaign for improved company conduct, the portfolios are intended for investors that would like to make a positive impact on the world at large. These portfolios are offered on a discretionary basis under Hefren-Tillotson’s Investment Advisory program.

Asset allocation and risk/return characteristics of the Impact portfolios resemble traditional Hefren-Tillotson model portfolios identified above. Impact portfolios are designed to provide global, multi-asset class diversification with different risk/return characteristics to meet the needs of each Client. Impact portfolios seek to generate competitive returns in order to achieve the ultimate purpose of reaching each client’s longer-term personal financial goals and objectives.

### **Risk of Loss**

Clients must recognize and acknowledge that risk of loss often must be assumed in order to achieve long-term investment objectives. Hefren-Tillotson does not offer any warranty that the strategies utilized will produce desired results or avoid loss.

Investing money into the financial markets carries with it numerous risks. The primary risk involved in the Hefren-Tillotson approach is market risk. Included in this risk is the possibility of loss stemming from market declines in various asset classes, rising interest rates, rising credit spreads, and currency changes among other influences. While the portfolios are designed to be well-balanced and diversified, there is no guarantee that market forces will not overwhelm diversification efforts, subjecting Clients to



Correlation Risk. Additionally, Hefren-Tillotson’s attempts to exploit risks or opportunities in the market through tactical shifts may not be successful or effective.

Recognizing that assuming some type of risk is unavoidable, Hefren-Tillotson applies numerous risk management steps to mitigate the probability and magnitude of losses. Such risk management steps include proper asset and sector allocation, proactive tactical shifts to exploit opportunities or avoid risks, in-depth and independent research, comprehensive financial planning, Client education, and regular portfolio monitoring and Client reviews.

Finally, a program of regular communication with our Clients plays a critical role in maintaining a prudent and successful long-term investment program. Without continuous two-way communication, investment programs can become inappropriate for the Client’s financial situation and the possibility of behavioral mistake can increase. The following table outlines primary investment risks and efforts we apply to mitigate losses:

Risk	Disclosure Statement	Mitigation
<b>Risk of Loss - General</b>	Investing in securities involves risk of loss that clients should be prepared to bear.	Diversification, asset allocation, tactical shifts
<b>Credit Risk</b>	Credit risk, also called default risk, is the risk associated primarily with fixed income securities. This risk set quantifies the likelihood of non-repayment of principal and/or interest as scheduled by the bond issuer.	Diversification, individual bond purchases are primarily Investment Grade, mutual funds or other pooled investment vehicles are used for access to market segments where credit risk is higher (i.e. Corporate Bonds)
<b>Principal Risk</b>	Risk that an investment strategy results in the loss of, or failure to preserve, the principal amount invested.	Diversification, Portfolio Construction
<b>Income Risk</b>	Risk that an investment strategy designed to generate a sufficient income stream fails to produce adequate income, resulting in the inability to sustain a desired lifestyle and/or the need to sell other assets to generate desired income.	Portfolio construction, financial planning to avoid high withdrawal rates
<b>Interest Rate Risk</b>	Risk that changes in interest rates will adversely affect the value of an investor's portfolio. For example, when interest rates rise, bond prices fall. When interest rates fall, bond prices generally rise while reinvestment rates (the rates at which maturing bonds and interest payments are reinvested) fall.	Portfolio Construction, diversification across fixed income sectors, tactical shifts, economic and interest rate forecasting
<b>Currency Risk</b>	Currency risk is evident due to the free floating mechanism present in global foreign exchange markets. With a few notable exceptions, the value of most global currencies freely float against one another. U.S. companies and portfolios with non-dollar exposure directly assume foreign exchange risk.	Diversification, currency forecasting and monitoring, tactical shifts to avoid adverse currency movements
<b>Market Fluctuation</b>	Financial markets and the value of investments fluctuate substantially over time, which may lead to losses in the value of client portfolios, especially in the short run.	Financial planning to align the investment plan to the client's time horizon

Risk	Disclosure Statement	Mitigation
<b>Inflation Risk</b>	Risk that increases in the prices of goods and services, and therefore the cost of living, reduce consumer purchasing power.	Asset allocation and portfolio construction that incorporate assets correlated with inflation
<b>Asset Class Correlation Risk</b>	During times of market turmoil, correlations between asset classes may increase, which may result in higher than expected losses for diversified portfolios.	Asset class and sector monitoring, combining investments with lower historical correlations
<b>Company Management Risk</b>	Risk that the business plan of a publicly-held company is poorly conceived or poorly executed by senior management, or that the company fraudulently misleads the investment community as to its financial condition, either historically or prospectively.	Analyst independent research and relationship building, diversification
<b>Security Selection Risk</b>	Risk that an investment strategy or program loses money, or fails to achieve projected investment returns, even if asset class selection decisions are good. A well-diversified portfolio across a variety of asset classes may still lose money or fail to achieve expected rates of return due to the selection of poorly performing securities within one or more asset classes represented in the portfolio.	Independent research, constant monitoring, regular due diligence conference calls or trips to talk with management
<b>Geopolitical Risk</b>	Possibility of instability or unrest in one or more regions of the world which affect investment markets and portfolio securities. Terrorist attacks, war, and pandemics are just examples of events, whether actual or anticipated, that impact investor attitudes toward the market in general and result in system-wide fluctuations in asset prices. This risk can relate to liquidity risk.	Asset allocation
<b>Derivatives</b>	Derivatives, which primarily include futures and options, may be more volatile than direct investments in the underlying securities, involve additional costs, and may involve a small initial investment relative to the risk assumed. In addition, the value of a future or option may not correlate perfectly to the underlying security, index, or securities markets in general. Use of derivatives can magnify losses.	Limited use of instruments with leverage
<b>Manager Selection Risk</b>	Risk that an investment strategy or program loses money, or fails to achieve projected investment returns, even if asset class selection decisions are good. A well-diversified portfolio across a variety of asset classes may still lose money or fail to achieve expected rates of return due to the selection of poorly performing securities within one or more asset classes represented in the portfolio.	Independent research, constant monitoring, regular due diligence conference calls or trips to talk with management
<b>ETFs</b>	There are risks associated with investment in ETFs, including the risk that the market price of an ETF's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange on which they trade. All of these factors	Portfolio construction and diversification

Risk	Disclosure Statement	Mitigation
	may impact our ability to sell an ETF holding in a timely manner at a fair price.	
<b>Smaller companies</b>	Equity investments in smaller companies involve additional risks such as limited liquidity and greater volatility, which may impact our ability to sell these investments at a fair and competitive price in a timely manner.	Diversification and limitations on exposure
<b>Foreign securities</b>	Investments in foreign securities may introduce greater volatility to client portfolios. Additional risks include political risk, currency translation risk, and lack of transparency (accounting methods, regulatory reporting requirements, shareholder protection rules, etc.). These factors may result in large price swings of foreign security investments, and greater risk of loss.	Diversification and limitations on exposure
<b>Liquidity Risk</b>	Risk evident when investors do not have full access to their funds and/or when assets cannot be converted into cash according to normal market settlement standards. Liquidity risk is generally higher for small capitalization stocks, alternative assets, and private placement securities.	Long time horizon
<b>Managed Account Program</b>	In a managed account program, client assets are invested by outside professional asset managers. Hefren-Tillotson does not directly control the investment decisions of outside managers. One or more managers in this program may stray from their stated investment strategy (known as "style drift") or make poor investment decisions which place client assets at greater risk of loss.	Ongoing monitoring and replacement as necessary of outside managers

## Item 9 Disciplinary Information

Hefren-Tillotson has served the investment needs of our clients since 1948, and has been registered as an investment adviser with the Securities and Exchange Commission (“SEC”) since 1997. In this period of time, Hefren-Tillotson was subject to two disciplinary or regulatory actions by the SEC, both of which occurred in 2019. Additionally, over the course of our 66-year history, our broker-dealer affiliate has been subject to regulatory actions initiated by certain Self-Regulatory Organizations (SROs) and a state regulatory authority. None of these regulatory actions were initiated in the past ten years. If you have any questions regarding these matters, we invite you to contact us. Alternatively, you may follow this link and search the Financial Industry Regulatory Authority, Inc. (FINRA) website for information about Hefren-Tillotson and our employees: <http://www.finra.org/BrokerCheck>

On February 12, 2018, the U.S. Securities and Exchange Commission announced its Share Class Selection Disclosure (“SCSD”) Initiative to encourage self-reporting by registered investment advisers regarding certain industry practices as they relate to receiving 12b-1 fees and the corresponding disclosures of

certain conflicts of interest. Hefren-Tillotson elected to participate in this initiative and self-report to the SEC. Hefren-Tillotson agreed to a settlement under the SCSD Initiative with the SEC for a failure to adequately disclose conflicts of interest. The disgorgement amount for the four-year period covered by the SCSD Initiative between January 2014 and March 2018 is \$338,849.52, plus prejudgment interest of \$32,847.63. The settlement was publicly released on March 11, 2019 along with other registered investment advisers across the industry who also participated in the SCSD self-reporting initiative.

After consultation with outside counsel, Hefren-Tillotson settled a disclosure matter with the SEC. The SEC found, during the time period from February 2012 to August 2016, that Hefren-Tillotson did not adequately disclose in Form ADV Part 2 that it shared in the \$7.95 transaction fee for equity and ETF transactions with our clearing firm. Without admitting or denying the finding, Hefren-Tillotson consented to a disgorgement amount equal to \$254,060, plus interest of \$45,905.29 and a civil penalty of \$80,000.

## **Item 10 Other Financial Industry Activities and Affiliations**

In addition to being a registered investment adviser, Hefren-Tillotson is also licensed as a fully-disclosed securities broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of FINRA. Most individuals associated with Hefren-Tillotson are licensed as registered representatives with many also licensed as insurance agents. Consequently, in our capacity as a securities broker-dealer under separate licensing and registration agreements, Hefren-Tillotson sells securities and insurance products on a commission basis to Clients.

Hefren-Tillotson uses Pershing as an executing broker and clearing agent. Clients in need of brokerage and custodial services may have Hefren-Tillotson and Pershing recommended to them. Commissions and other administrative fees (including 12b-1 and mutual fund service fees) are generated by various transactions and, in certain instances, received as compensation by Hefren-Tillotson. Please refer to the Conflicts of Interest disclosure under Item 5.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

High moral and ethical character is a critical component to the Hefren-Tillotson approach and philosophy. We believe it is a key differentiating factor of Hefren-Tillotson in an industry and business world littered with inappropriate and fraudulent behavior. The company has four stated values that form the foundation of its unique culture:

- Deep respect for the individual
- Integrity in thought and action
- Teamwork supported by a family-oriented culture
- Relentless commitment to excellence

The firm's Code of Ethics includes provisions relating to the prohibition against insider trading, proper handling of material non-public information, political contributions, gifts and entertainment, outside business activity reporting, confidentiality of client information, and personal securities trading among other topics.

In addition, our Code of Ethics requires employees of Hefren-Tillotson to:

- Act with integrity, competence, dignity and in an ethical manner when dealing with the public, Clients, prospects, employers, and employees;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and their profession;
- Strive to maintain and improve their competence and the competence of others in the profession; and
- Use reasonable care and exercise independent professional judgment.

Hefren-Tillotson and individuals associated with Hefren-Tillotson frequently buy or sell securities or may have an interest or position in securities for their personal accounts identical to or different than those recommended to customers. Because our employees have a high level of conviction in our recommendations to Clients, we frequently employ the same recommendations in our own accounts. Sometimes, these situations may represent a conflict of interest, but Hefren-Tillotson has established rules/restrictions to ensure it meets its fiduciary responsibilities.

Members of the firm's Research Department are prohibited from trading in a security that is the subject of a Research Report while such Report is in preparation, unless the Report is an update Report with no change in recommendation. Members of the Research Department and Investment Committee are prohibited from trading in a security following the dissemination of an initial recommendation of that security to the Investment Committee. Dissemination of a research idea can occur through an internal report or weekly research notes. A security is restricted until two business days following the initial purchase of the security for an institutional or individual account, or until the security is disqualified as a potential investment opportunity by the Investment Committee during a formal review.

A Research Analyst or Investment Committee member is prohibited from initially recommending the purchase of a security in which a member of the Research Department holds a position in the security that was purchased during the prior sixty (60) calendar days. Shares owned in excess of sixty (60) days are deemed historic holdings and do not result in such prohibition.

No person associated with Hefren-Tillotson may buy or sell securities for two (2) business days following the addition or removal of a security from the HT Focus List or if a security (equity or ETF) is added to or removed from Hefren-Tillotson Investment Advisory accounts. Hefren-Tillotson's Trading Department monitors trades of associated persons to see if the same security traded in their account has also been traded in any of the associated person's Client accounts on the same day. If so, the Trading Department will review the execution prices of the trade(s) for the associated person and the associated person's Clients and give the best execution price(s) to the associated person's Client(s).

These steps are applied to allow Hefren-Tillotson employees to invest alongside our Clients, but assure that Clients are not disadvantaged in any way by the actions or personal trading of Hefren-Tillotson employees.

Interested parties can request a copy of Hefren-Tillotson's Code of Ethics by contacting Paul Taddeo, Chief Compliance Officer, at 412-434-0990 or by emailing [paul.taddeo@hefren.com](mailto:paul.taddeo@hefren.com).

## **Item 12 Brokerage Practices**

### **Broker Selection**

As an investment advisory Client, you have a choice when selecting a broker-dealer to execute your trades and custody the cash and securities held in your advisory account. We typically recommend clients use Hefren-Tillotson's broker-dealer services, primarily to benefit from one point of contact for all your financial service needs.

Hefren-Tillotson has been a member of FINRA (and its predecessor, the NASD) for more than 60 years and the U.S. Securities and Exchange Commission (SEC) since 1997. During this period, our firm has refined our comprehensive compliance program as required by these regulatory authorities. By working with our registered broker-dealer, your trades will be executed, cleared (securities exchanged for cash) and held in custody (safe keeping) at Pershing LLC. Pershing is the largest clearing firm in the country and is a highly respected custodian through its affiliation with BNY Mellon, a U.S. bank with a legacy of more than 225 years. Please refer to Item #15 for more information about Hefren-Tillotson's custodial relationship with Pershing.

Hefren-Tillotson executes most transactions through Pershing LLC. Where transactions are not executed by Pershing, the custodian is determined and directed by the Client. Hefren-Tillotson has a Best Execution Committee that meets periodically to discuss best execution matters.

Our licensed registered representatives earn commissions for executing trades for some of the firm's investment advisory Clients, specifically within the Portfolio Review program. Client commissions generated within all other investment advisory products and programs are retained by the firm. Our firm is dedicated to the highest ethical standards in discharging our fiduciary duty as an investment adviser. Client interests are always placed first and foremost, which is demonstrated in how we train and supervise our employees, seek to obtain best execution, and negotiate competitive transaction costs on behalf of our Clients.

### **Soft Dollars**

Soft dollars represent payments by investment advisers to brokerage firms for their research services. Soft dollars take the form of commission rather than cash payments. Hefren-Tillotson is not bound by any formal or informal arrangements or commitments to use research, research-related products and other services obtained from broker-dealers, or third parties, on a soft dollar commission basis. Instead, most of our market and security research is generated by our internal team of experienced research analysts who benefit from extensive market tenure and personal knowledge of our Clients. We also utilize research reports generally available in the marketplace; however, we do not pay for this research with Client commission dollars.

### **Directed Brokerage**

As noted above, investment advisory Clients are not required to use Hefren-Tillotson's brokerage services, however most of our advisory Clients choose to do so. If a Client directs Hefren-Tillotson to use a broker-dealer other than our own to execute some or all account transactions, the Client must understand that it is his or her responsibility to negotiate the terms and conditions of such services. Under these circumstances, Hefren-Tillotson has no authority to negotiate prices and commissions or obtain volume discounts on behalf of the Client. This "directed brokerage" arrangement may impair our ability to pursue best execution on your behalf. In fact, in some cases you will pay higher transaction prices and

commissions than those paid by Clients who use Hefren-Tillotson's brokerage services. Nonetheless, we work closely with our Clients to help select a brokerage partner to meet your unique investment needs.

### **Trade Aggregation**

Hefren-Tillotson performs investment advisory services for various Clients based on the unique investment objectives and risk profile of each Client. Because Client investment needs vary, we may advise and take action for one Client in a manner similar to or different from how we advise or take action for another Client. When possible and advantageous to Clients, we aggregate or combine transactions for multiple Clients to achieve more timely and cost effective trade execution. When transactions are aggregated in this manner, execution costs are shared equally by all accounts involved on a pro-rated basis, while all Clients receive the average price for aggregated securities purchased or sold.

There may be times when Hefren-Tillotson is unable to aggregate and execute orders across model groupings of accounts, necessitating the execution of orders over time. In such cases, Hefren-Tillotson will use a trade rotation methodology by model grouping designed to avoid favoring one group of accounts over another and to treat Clients equitably over time. There may be reasons why Hefren-Tillotson deviates from this approach, including but not limited to market liquidity constraints and investment manager redemption/purchase demands. Hefren-Tillotson seeks to implement model changes as quickly, at the best price, and most equitably as possible. Pathway Pro accounts, which are managed account-by-account and not according to model grouping, do not employ model rotation.

### **Special Product Considerations**

**Portfolio Review & Asset Management Accounts:** Brokerage practices for the Hefren-Tillotson Portfolio Review, Asset Management, and American Funds F2 programs vary to some degree from other Client advisory accounts where we retain full discretion in all aspects of trade execution. Because these programs are non-discretionary programs, we are not permitted to initiate a purchase or sale without the prior written or verbal approval of the Client. This approval process usually precludes us from aggregating transactions in these programs.

**Pathway Pro:** Pathway Pro is unique in that the Client's Financial Advisor has discretionary authority over the portfolio. The Client's Financial Advisor will control (1) the asset allocation, (2) investment selection, (3) management of cash balances, and (4) ongoing tax management.

**Managed Account Program:** Based on a Client's specific investment objectives, we may also recommend participation in the Hefren-Tillotson Managed Account Program. This program offers separately managed accounts that are managed by third-party investment firms. Under this program, we continue to manage our relationship with you as a fiduciary, exercising ongoing due diligence of the third-party managers and the appropriateness of the investment strategy in the context of a Client's financial situation.

### **American Funds F-2 Direct Program**

The American Funds F-2 Direct Program facilitates investments into American Funds F-2 share class offerings directly held at the mutual fund company. Monies invested in this program are limited to the American Funds family, unlike other fee-based programs which have an extensive list of available securities. Other differences of this program include account-related fees, billing, and account minimums. These monies are also custodied directly at the American Funds whereas other investment

advisory programs offered through Hefren-Tillotson are custodied at Pershing LLC, unless otherwise directed by the Client.

### **Other Trading Practices**

In our capacity as your designated broker-dealer, we do not transact principal trades in Investment Advisory, MASTERPLAN Pathway, Pathway Pro, Asset Management, or American Funds F-2 accounts. A principal trade by a broker-dealer means the broker-dealer is buying or selling the securities from their own inventory (account) as opposed to carrying out trades for the brokerage's clients. For Portfolio Review accounts, Hefren-Tillotson acts in the normal capacity as a broker-dealer and transacts, in the Clients' best interests, principal transactions which include a markup/markdown (a form of compensation). Furthermore, to ensure that Clients are receiving competitive prices in all transactions, we do not engage in Cross Agency Transactions, meaning that we do not buy securities from one Client account to sell or cross to another. All transactions are executed in the marketplace where we strive to achieve optimal, transparent trade execution.

### **Item 13 Review of Accounts**

Hefren-Tillotson obtains background information about each Client's financial circumstances, investment objectives, risk tolerance, and other factors through an in-depth interview and information gathering process. This comprehensive review of information is critical to the MASTERPLAN process and a successful long-term financial plan.

Some of the information gathered is documented in a Client's personal MASTERPLAN or on account paperwork, including the Implementation Worksheet, Investor Objectives Profile, or the Investment Policy Worksheet. Advisory Clients may have a written Investment Policy Statement that the firm develops as part of the firm's investment services, subject to any revisions or updates from the Client.

Hefren-Tillotson provides reports to Investment Advisory Clients in periodic meetings (e.g., annual or semi-annual reviews). Investment professionals schedule periodic Client meetings to review the Client's portfolio and financial situation, market and account performance, financial circumstances, investment objectives and to confirm the investment decisions and services are consistent with the Client's objectives and goals. In many cases, if an original MASTERPLAN was created, sections of the plan are updated, such as the retirement income analysis or education analysis. The frequency of Client meetings is based upon each Client's personal situation and needs.

Hefren-Tillotson also provides investment information on a quarterly basis, through Quarterly Investment Reviews. These reports, which are usually disseminated approximately two weeks following each calendar quarter-end, consolidate assets under the Investment Advisory programs, providing asset and sector allocation, investment detail, performance vs. benchmarks, and tax-related information. These reports are usually reviewed by the Client's Financial Advisor, potentially initiating a phone discussion or Client meeting. Client accounts may also be reviewed by the Financial Advisor following tactical shift or manager change recommendations from the Hefren-Tillotson Research Department. Furthermore, the Financial Advisor may utilize internal reports that identify which accounts may be in need of changes due to asset or sector weightings or ownership of select securities.

Client relationships and/or portfolios may also be reviewed by members of Hefren-Tillotson's research team, including Brian J. Koble - Chief Investment Officer, Jonathan Bernstein - Director of Research,



Eric Mozur - Research Analyst, Jamie Morgan – Research Analyst, and Tammy Neff – Equity Strategist. In such reviews, the Client’s investment assets under the Investment Advisory relationship are reviewed in the following areas – asset and sector allocation relative to established objectives, style balance, concentration risk, security selection, and performance among other items. These reviews are conducted on a more generic basis without in-depth knowledge of the Client’s specific situation (such personalized reviews are conducted by the Financial Advisors as discussed above).

Financial Advisors also review portfolio management monitoring reports to assist in the monitoring of Client accounts. These reports include information in the following areas: asset allocation, due diligence updates, complex investments screen, mutual fund/ETF expenses, manager performance, accounts with high distribution rates, concentrated positions, and realized gains and losses among others.

### **Review and Management of Discretionary Advisory Accounts**

In addition to the processes outlined above, discretionary Advisory accounts are managed individually according to the pre-established Investment Policy and Hefren-Tillotson’s Asset Allocation Models. Most Client accounts within a particular model own the same or similar account holdings, allowing Hefren-Tillotson’s research team to track the performance of recommended investments and sectors on an intraday basis. Clients have the ability to restrict specific areas of the markets or securities from purchase or sale.

To keep accounts aligned with their investment objective and Hefren-Tillotson models, portfolios are typically rebalanced when the asset allocation drifts meaningfully (5% for traditional portfolios and 8% for tax-managed portfolios) from the specified model targets, otherwise known as threshold rebalancing. Rebalancing serves to reduce portfolio volatility and should result in an equivalent or greater portfolio return. Unrealized gains may discourage or delay the decision to rebalance a portfolio even if the allocation drifts outside the bands mentioned above.

Portfolios may be also reviewed and realigned with the appropriate model through the course of the year in the following instances:

1. Portfolio manager review;
2. Portfolio contributions or distributions;
3. Bond calls;
4. Violations of minimum cash levels;
5. Tactical allocation shifts; and
6. Manager changes.

Broad tactical shifts and manager changes are generally made across all accounts with the same portfolio objective, unless specific restrictions exist that would prevent action. Tactical shifts or manager changes may be delayed due to an upcoming threshold to reach long-term gain status, short-term trading restrictions that are enforced by some mutual funds, account composition that deviates from models, or portfolio restrictions. When tactical shifts are implemented, Hefren-Tillotson distributes to Clients a research report detailing the rationale for the change.

### **Review and Management of Discretionary Pathway Pro Accounts**

Pathway Pro accounts are managed individually. Since the Financial Advisor has discretion in the allocation of the assets and selection of investments, Client accounts with the same objective will commonly vary. Financial Advisors will select investments from a menu of investment options, on which

Hefren-Tillotson's research team performs due diligence and ongoing monitoring. Financial Advisors are also responsible for maintaining sufficient cash and equivalents to meet the cash flow needs of clients. Clients have the ability to restrict securities from sale.

The Financial Advisor customizes the asset mix according to each Client's individual goals and cash flow needs. Portfolio Management alerts are triggered when portfolios drift outside permissible allocation ranges. Manager changes may be handled across a Financial Advisor's Client accounts or on an account-by-account basis.

## **Item 14 Client Referrals and Other Compensation**

We place high value on our Financial Advisors and the work they do each and every day with our Clients. So that we can attract and retain qualified Advisors, Hefren-Tillotson, like most financial service companies in our industry, compensates our Financial Advisors based on a percentage of the commission and fee-based revenue they generate for the firm. Hefren-Tillotson Investment Advisor Representatives receive a percentage of the advisory fees for any investment advisory Clients they introduce to the firm.

In the Managed Account Program, the firm pays an asset-based fee to the third-party asset manager who is managing the separate account on behalf of our Client. For example, a Client generally pays a fee computed as a percentage of the dollars invested in this Program, of which a portion is paid to the third-party asset manager, while a residual amount is retained by Hefren-Tillotson.

Mutual funds represent an important asset class in many Client portfolios. Hefren-Tillotson receives compensation from some investment companies whose funds we use in Client portfolios. This compensation takes the form of payment for training and marketing expenses, or reimbursement for seminars attended by our Financial Advisors and Clients. These types of payments are reviewed and approved by the compliance department to mitigate conflicts of interest and to comply with all applicable rules and regulations.

Hefren-Tillotson has established relationships with Financial Advisors or professionals not employed by the firm, but are registered through the firm. These individuals are referred to as solicitors and Hefren-Tillotson compensates them with a portion of the management fees and, as it relates to the Portfolio Review Account, commissions paid by the client. This compensation is for what is described as "solicitation services". Solicitation services include a number of items, including: assist in establishing a relationship with Hefren-Tillotson or referring Clients to the firm; providing information about and explaining Hefren-Tillotson's investment advisory services; providing client service that may include investment reviews and ongoing financial advice; and updating financial information on behalf of the firm. When a solicitor arrangement exists, it will be disclosed in writing to the client at the time the account is opened.

Kim Tillotson Fleming, Chairman of the Board and CEO of Hefren-Tillotson, is a passive minority shareholder in Aligned Partners Trust Company. Hefren-Tillotson may refer clients to Aligned Partners for trust services. Hefren-Tillotson does not receive referral fees for the Trust Services, but can remain the manager on the account.

## **Item 15 Custody**

Hefren-Tillotson uses Pershing LLC as an executing broker and clearing agent. Clients will receive at least quarterly statements from Pershing or other qualified custodians (if applicable) that holds and maintains

the Client's investment assets. Hefren-Tillotson urges you to carefully review such statements and compare such official custodial records to the reports that we may provide to you. Our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Hefren-Tillotson may accept checks and/or securities from Clients for deposit to Pershing LLC, a qualified non-affiliated custodian and, in such situations, is deemed to have temporary custody. Also, for some Client accounts, Hefren-Tillotson directly debits accounts for payments of management fees.

Investments made in the American Funds F-2 Direct Program are held directly with the American Funds, which provides quarterly statements. American Funds F-2 Direct Accounts may be consolidated into quarterly reporting provided by Hefren-Tillotson. Hefren-Tillotson may accept checks and/or securities from Clients for deposit at American Funds, a qualified non-affiliated custodian and, in such situations, is deemed to have temporary custody. As a result, Hefren-Tillotson is subject to the required regulatory annual surprise examination and internal controls audit.

## **Item 16 Investment Discretion**

Hefren-Tillotson provides discretionary Investment Advisory services through its Hefren-Tillotson Advisory Account, Pathway Pro, and Managed Account services. This discretionary authority authorizes Hefren-Tillotson's Investment Committee, Financial Advisor or a third-party investment manager to make investment decisions without further consultation with the Client within the guidelines of a pre-established investment objective. Such investment decisions may include asset allocation changes, buy/sell/exchange orders, and rendering decisions as to the timing and amount of transactions.

Hefren-Tillotson acts with limited discretionary authority under the Masterplan Pathway program. Discretion exists in portfolio rebalancing, investing cash contributions into the predetermined model, and raising monies for distributions and management fees.

Prior to accepting discretionary authority, required paperwork must be completed and approved by Hefren-Tillotson's compliance department, including the Investment Advisory Agreement, Billing Aggregation Sheet, Investment Policy Worksheet, and an Implementation Worksheet for each account. These required forms are in addition to Hefren-Tillotson's standard new account paperwork and process and are intended to establish clear guidelines for how the account(s) are to be managed. Upon processing and approval of the necessary paperwork, representatives of the Hefren-Tillotson Investment Committee will seek trade authorization from the Financial Advisor prior to beginning trading. Upon receipt of trade authorization, the accounts will be managed on a discretionary basis going forward in accordance with the stated objectives and restrictions or until otherwise directed by the Client.

Hefren-Tillotson does not provide discretionary management outside of the Advisory, Pathway Pro, Masterplan Pathway, and Managed Account Programs. In the other non-discretionary programs, such as Asset Management, American Funds F-2 Direct and Portfolio Review, the Financial Advisor is responsible for implementation of the investment program based upon the Client's goals and objectives, but must receive Client approval prior to all account trades.

## **Item 17 Voting Client Securities**

Clients will receive proxy voting materials directly from the custodian. Hefren-Tillotson, as a matter of policy and practice, does not accept authority to vote proxies on behalf of advisory Clients. The firm may offer assistance as to proxy matters upon a Client's request, but the Client always retains proxy voting responsibility. Hefren-Tillotson's proxy policy is disclosed to Clients in the Investment Advisory agreement

## **Item 18 Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Hefren-Tillotson financial condition. Hefren-Tillotson has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and has not been the subject of a bankruptcy proceeding.

## **Item 19 Miscellaneous Disclosure**

Hefren-Tillotson Financial Advisors, at times, refers some Clients to TriState Capital Bank and Pershing LLC for non-purpose loans. In these situations, Hefren-Tillotson provides information regarding the features of the non-purpose loans, but any activity related to the non-purpose loans is not related to investment advisory services Hefren-Tillotson provides. In exchange for referring Clients to TriState or Pershing, Hefren-Tillotson receives revenue in the form of a markup on the interest rate of the non-purpose loans. The receipt of this revenue creates a conflict of interest to Hefren-Tillotson to recommend non-purpose loans to Clients in situations when the Client may otherwise not need capital or to utilize these loan products over those offered by other lenders. We do not believe this conflict is material to Hefren-Tillotson or its Financial Advisors. Hefren-Tillotson has policies and procedures in place intended to help assure the Advisor provides recommendations that are in the best interest of our clients.

# **Appendix A**

Client Account Fees & Expenses

The following pages outline various fees and expenses that may be applicable to your accounts at Hefren-Tillotson. Certain fees may not apply or may be discounted based on the type of account you have and/or the amount of assets you hold in your Hefren-Tillotson accounts. Other fees are only charged when the associated services are requested or when special processing is required. Some fees listed below may not apply to your account.

**Account Fees and Expenses (as of 10/31/2021):**

Description	Commission-Based Accounts (Traditional Brokerage & Portfolio Review)	Investment Advisory Accounts (Asset Management, Advisory, MASTERPLAN® Pathway, Pathway Pro & HT Managed Account Program)
Asset Management Accounts (Resource Checking/ProCash/Corestone)		
Platinum Accounts	\$150.00	1 Free per Household
Gold Account	\$100.00	1 Free per Household
Silver Plus	\$50.00	1 Free per Household
Silver Account (balances under \$25,000 only)	\$25.00	1 Free per Household
Corporate Gold	\$150.00	1 Free per Household
Corporate Platinum	\$250.00	1 Free per Household
Asset Management Accounts		
Other Checking/Debit-related Fees		
Initial Personal Check Order	None	None
Check Reorder	\$7.50 - \$12.50	\$7.50 - \$12.50
Initial Personal Check Order (Carbon Copy)	\$15.00	\$15.00
Check Reorder (Carbon Copy)	\$25.00	\$25.00
Business Checks	\$50.00	\$50.00
Business Style Reorder	\$40.00	\$40.00
Business Style Check Binder	\$20.00	\$20.00
Overnight Check Reorder	\$20.00	\$20.00
Returned Check	\$25.00	\$25.00
Stop Payment	\$25.00	\$25.00
Cash Advance Fee	0.25% of principal	0.25% of principal
Account Transfer (Retail Accounts Only)	\$125.00 (1)	None
Retirement & Education Account Termination Fee	\$95.00	None
Asset Movement Charges:		
Certified Check Delivery	\$12.00	\$12.00
Returned Checks for Insufficient Funds (Deposits)	\$20.00	\$20.00
Returned Checks for Insufficient Funds (Check Writing)	\$20.00	\$20.00
Profit Sharing Plan Loan Processing	\$50.00	\$50.00
Stop Payment	\$10.00	\$10.00
Overnight Check Delivery	\$12.00	\$12.00
Overnight Check Delivery (Overseas)	\$12.00	\$12.00
Overnight Check Delivery (Saturday)	\$18.00	\$18.00
Wire Fee	\$20.00	\$20.00
ACH Returns (Retail Accounts Only)	\$20.00	\$20.00
Retirement Cash Management (Employer Returned ACH)	\$20.00	\$20.00
Inactivity Fee (Retail Accounts Only)		
Mutual Fund Only	\$22.50 (1)	None
Mixed Account	\$35.00 (1)	None
Dividend Reinvestment	\$1.00	\$1.00
Margin Extension	\$10.00	\$10.00
Voluntary Reorganization	\$20.00	\$20.00
Direct Registration (Retail Accounts Only)	\$10.00	\$10.00
Safekeeping (per position per month)	\$2.00	\$2.00
Foreign Securities (per position per month)	\$2.00	\$2.00

**Account Fees and Expenses (continued):**

Description	Commission-Based Accounts (Traditional Brokerage & Portfolio Review)	Investment Advisory Accounts (Asset Management, Advisory, MASTERPLAN® Pathway, Pathway Pro & HT Managed Account Program)
Foreign Receive & Deliver Fees:		
Euroclear	\$50.00	\$50.00
All other Foreign Depositories	\$75.00	\$75.00
Legal Transfers (Retail Accounts Only)	\$60.00	\$60.00
Limited Partnerships/Alternative Investments		
Subscription Fee	\$50.00	\$50.00
Redemption Fee	\$50.00	\$50.00
Reregistration Fee	\$50.00	\$50.00
Annual Administration Fee (registered positions)	\$35.00	\$35.00
Annual Administration Fee (unregistered positions)	\$125.00	\$125.00
IRS 990-T UBTI Tax Return Filing	\$200	\$200
Document Review Fee to Determine Custody	\$300	\$300
Annual Retirement Plan Maintenance Fees:		
IRA, ROTH IRA, SEP, Education Savings (Mutual Fund Only)	\$12.00	None
IRA, ROTH IRA, SEP, Education Savings (Mixed Account)	\$43.50	None
Qualified Retirement Plan – SIMPLE and 403(b) (Mutual Fund Only)	\$12.00	None
Qualified Retirement Plan – SIMPLE and 403(b)	\$58.50	None
Individual & Simplified 401(k), Profit Sharing, & Money Purchase Plan	\$75.00	None
Flex 401(k), Profit Sharing, and Money Purchase Plan	\$125.00	None
Trade Processing Charges & Commissions:		
Trade Processing Charge (i.e. Stock, ETFs, Options, Individual Bonds etc.)	\$4.75 plus Commissions (1)	None
Common stock and ETF transaction service charge	None	\$6.00 (3)
Interest Expenses on Margin Debits (Charge over Pershing Base Lending Rate)**(2)		
\$0 - \$9,999	2.75%	2.75%
\$10,000 - \$29,999	2.00%	2.00%
\$30,000 - \$49,999	1.50%	1.50%
\$50,000+	0.75%	0.75%
Interest Expense on Non Purpose Loans (Charge over Prime Lending Rate) (4)	0 – 3%	Not Applicable
American Funds F-2 Direct Setup Fee		\$10
American Funds F-2 Direct Custodial Fee		\$10

- (1) Hefren-Tillotson receives compensation through the markup of account service and trade processing charges above the costs associated with these charges. The trade processing charge is not applied on mutual funds transactions. Hefren-Tillotson pays an additional trade processing charge to Pershing that is not passed on the clients.
- (2) The Pershing Base Lending rate is set with reference to recognized interest rates, industry conditions related to the extension of credit, and general credit market conditions. All interest over the Pershing Base Lending Rate minus 0.25% is credited to Hefren-Tillotson.
- (3) The \$6.00 common stock and exchange traded fund transaction service charge does not apply for foreign securities transactions. Instead, Pershing foreign execution, clearance and settlement services fees, which may also include a currency conversion spread and in some cases a foreign tax, are charged for all foreign stock transactions. Fees and expenses will vary depending on which country (market) the stock is being traded in.

**Standard Commission Rates in Traditional Brokerage & Portfolio Review Accounts:**

Category	Compensation in Commission-based Accounts (Traditional Brokerage & Portfolio Review)
Fixed Income Securities	<p><u>Tax-Exempt &amp; Taxable Municipals &amp; Corporate Bonds*</u></p> <p>&gt;5-year Maturity            2.00%</p> <p>&lt;5-year Maturity            1.50%</p> <p><u>Bond Size*</u></p> <p>&lt;=\$250,000 principal      Schedule Above</p> <p>&gt;\$250,000 principal        1.00%</p> <p><i>* Discounts below these levels are permitted</i></p>
Equities & Exchange Traded Funds	<p><u>Principal Invested</u></p> <p>\$0.01 - \$24,999            2.00%</p> <p>\$25,000 - \$99,999        1.50%</p> <p>&gt;=\$100,000                1.00%</p> <p><i>* Discounts below these levels are permitted</i></p>

**Additional Notes Regarding the Accounts Hefren-Tillotson Offers:**

- Commission-based accounts include Traditional Brokerage accounts and Portfolio Review accounts. Commission rates vary by product and product type (i.e. ETFs, mutual funds, common stocks, individual bonds etc.) within these accounts.
- Investment Advisory accounts include: Asset Management, Advisory, MASTERPLAN Pathway, Pathway Pro, and HT Managed Account Program.
- Asset Management Accounts include: Resource Checking, ProCash and Corestone.



# **Appendix B**

Comparison of Hefren-Tillotson's Investment Advisory, Traditional Brokerage, and Hybrid Brokerage & Advisory (Portfolio Review) Services\*

Program	Description	Asset Minimums	Services	Fee Schedules & Compensation
<b>Hefren-Tillotson Traditional Brokerage</b>	A non-discretionary, commission-based account used in conjunction with initial and ongoing consultation with your personal Financial Advisor.	NONE	<ul style="list-style-type: none"> <li>• Initial and ongoing consultation</li> <li>• Internet access</li> <li>• Periodic statements &amp; trade confirms</li> <li>• Complete custodial services</li> <li>• Year-end tax reporting</li> </ul>	Commissions + Third party payments + Markup on trade processing charges and account services fees
<b>Hefren-Tillotson Portfolio Review</b>	A non-discretionary traditional brokerage account augmented with our comprehensive financial planning and reporting services.	\$100,000 Household Assets	<b>Traditional Brokerage services plus:</b> <ul style="list-style-type: none"> <li>• MASTERPLAN &amp; updates</li> <li>• Quarterly Investment Reviews</li> <li>• Quarterly Market Report</li> <li>• Inside the Markets conference calls</li> <li>• Bi-weekly market updates</li> <li>• Account aggregation</li> </ul>	Annual Service Fee of 0.25% of Assets + Commissions + Third party payments + Markup on trade processing charges and account services fees
<b>Hefren-Tillotson Asset Management Account</b>	A non-discretionary, fee-based program ideal for clients currently taking an active role in investment decisions and seeking investment flexibility.	\$25,000 Household Assets	<b>Portfolio Review services plus:</b> <ul style="list-style-type: none"> <li>• Management fees rather than commissions</li> <li>• Extensive list of available securities, including institutional class funds</li> <li>• Exclusions from IRA Custodial fees</li> <li>• Optional cash management account</li> </ul>	<b>Standard Annual Fee Schedule</b>  1.00% on the first \$1,000,000 +
<b>Hefren-Tillotson MASTERPLAN Pathway Account</b>	A limited discretion, fee-based account offering choice of asset allocation models and investments from a menu of options.	\$25,000 Household Assets	<b>Asset Management services plus:</b> <ul style="list-style-type: none"> <li>• Choice of 10 asset allocation models</li> <li>• Menu of institutional class mutual funds, ETFs, and ESG funds</li> <li>• Threshold rebalancing and cash flow management</li> </ul>	0.75% on the next \$1,000,000 +  0.50% on the next \$8,000,000 +  Fees are negotiable above \$10,000,000 in Assets
<b>Hefren-Tillotson Pathway Pro Account</b>	A discretionary, fee-based program with customized asset allocation and investment selection determined by your Hefren-Tillotson Financial Advisor.	\$100,000 Household Assets	<b>MASTERPLAN Pathway services plus:</b> <ul style="list-style-type: none"> <li>• Customized asset allocation and investment selection determined by your Financial Advisor.</li> <li>• Investment policy statement</li> </ul>	<i>\$6.00 fee will occur on equity and ETF transactions within the Asset Management, MASTERPLAN Pathway, Pathway Pro, and Advisory programs.</i>
<b>Hefren-Tillotson Advisory Account</b>	A discretionary, fee-based program with our Investment Committee making investment decisions within established guidelines.	\$100,000 Household Assets	<b>Pathway Pro services plus:</b> <ul style="list-style-type: none"> <li>• Discretionary management by Hefren-Tillotson's investment team</li> <li>• Traditional, Impact &amp; Tax Managed portfolios</li> <li>• Trade rationales of strategy shifts</li> </ul>	Plus: Portfolio Manager Fee (0.25% - 0.8%) for Separately Managed Accounts
<b>Hefren-Tillotson Managed Account Program</b>	A discretionary, fee-based program offering access to professional investment managers through separately managed accounts.	\$100,000 Household Assets	<b>Advisory Services plus:</b> <ul style="list-style-type: none"> <li>• Third-party investment managers</li> <li>• Choice of equity, fixed income or diversified portfolios</li> </ul>	

\* Please see schedule of Account Fees & Expenses in Appendix A

\* This comparison grid does not include HT Corporate Services or the American Funds F-2 Direct Program