



Independent Assessment Report

ABC Advisors, LLC

CEFEX Investment Advisor Certification



Investment Advisor Definition

A fiduciary who is responsible for managing a client's overall investment strategy, which may include deciding on the client's asset allocation, developing the client's investment strategy, implementing the strategy with appropriate Investment Managers, and monitoring the strategy, on a one-time or ongoing basis. The term refers to those who provide specific or comprehensive investment advice including financial advisors, broker-consultants, investment consultants, wealth managers, financial consultants trust officers, financial planners and fiduciary advisers.

SECTION 1 – COMPANY INFORMATION

CEFEX File No.: CFX10287
Company Name: ABC Advisors, LLC
Address: 1121 Fiduciary Way, Pittsburgh PA 123456 US
Phone: 123-456-7890

SECTION 2 – ASSESSMENT DETAILS

Date of Registration: 2018.03.13

Assessment Number: 1

Assessment Team:

Position	Name	Company
Client	Joe Fiduciary	ABC Advisors, LLC
Analyst	Matt Boyle	CEFEX
Lead Analyst	Mark D. Mensack	CEFEX / Prudent Champion, Inc.
Reviewer	David A. Vriesenga	CEFEX

CEFEX Registration Committee (CRC)

The CEFEX Registration Committee is responsible for ensuring the consistency, impartiality and technical merit of CEFEX assessments. Members of the CRC include: Blaine F. Aikin, CFP®, CFA, AIFA® Executive Chairman, Fi360 Inc and CEFEX, J. Richard Lynch, AIFA®, Director Fi360, David A. Vriesenga, Senior Partner Vriesport Consulting Services, Roger Levy, AIFA®, Managing Director Cambridge Fiduciary Services LLC, Matthew Boyle, AIFA® Director of Operations, CEFEX and Carlos Panksep, Managing Director, CEFEX.

Attestation

The Analyst is independent of the registered firm. He/she has not been employed or compensated by the registered firm for a period of at least 2 years prior and 6 months following this assessment, for the purposes of providing fiduciary consulting services. The Analyst is an Accredited Investment Fiduciary Analyst (AIFA®) and has the adequate expertise and proficiency to perform this assessment.

Purpose and Scope of this Assessment:

To evaluate the Advisor's conformance to the practices and associated criteria as defined in the document "Prudent Practices for Investment Advisors" (the Standard) for the declared scope of registration. A full copy of the Standard which is the basis for this assessment, can be found in the Prudent Practices Handbook here. (http://www.fi360.com/main/pdf/handbook_advisor.pdf)

The scope of registration is as follows:

Investment advisory services to ERISA defined contribution plans

Summary of Assessment Methodology:

The assessment requires that the Analyst plan and perform a review of a representative sample of the Advisor's written records, interviews with appropriate personnel and, on a test basis, collect evidence supporting the actions taken by the Advisor in providing services to its clients. Sampling of records was conducted in accordance with the statistical guidelines used by the International Organization for Standardization, which requires a maximum sample size equal to the square root of the total available records.

Assessment elements include:

- Background check (performed at initial assessment), including ADV, FINRA BrokerCheck (if applicable) and civil lawsuit databases.
- Document review including Investment Policy Statement, Investment Committee minutes, client performance reports, RFP's in the selection of service providers, written evidence of Investment Manager reviews, and service agreements.
- Comparison of capital market inputs for asset allocation model assumptions to a benchmark
- Comparison of risk and return models to a benchmark
- Comparison of investment due diligence screens to a standard threshold
- Review of actual investments using a standard fiduciary scoring system. The Fiduciary Score is a measure of an investment's position relative to a group of peers, using factors such as track record, assets, management tenure, style consistency, etc. over a period of three years.
- Review of arrangements with custodians, brokers and other service providers.

SECTION 3 - ASSESSMENT FINDINGS

The following Practices were assessed within the 3 months prior to the Date of Registration shown above and found to be in conformity.

No.	Practice	Status
1.1	IA demonstrates an awareness of fiduciary duties.	Conformity

Detail

1.1.1 The Investment Advisor complies with all laws and rules that apply to the services the Advisor is providing.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a) (1)

Regulations

29 C.F.R. §2550.404a-1

Case Law

Tibble v. Edison, Int'l, 135 S. Ct. 1823, 59 E.B.C.2461 (2015), *on remand* 843 F. 3d 1187 (9th Cir. 2016) and 2017 WL 3523737(C.D.Cal. 2017); *Tussey v. ABB, Inc.*, 52 E.B.C. 2826, 2012 WL 1113291(W.D. Mo. 2012), *aff'd in part* 2014 WL 1044831 (8th Cir. 2014) and 2017 WL 929202 (8th Cir. 2017), *Braden v. Wal-Mart Stores, Inc.*, 588 F. 3d 585(8th Cir. 2009), 6:08-cv-03109-GAF (W.D. Mo. 2012); *Marshall v. Glass/Metal Association and Glaziers and Glassworkers Pension Plan*, 507 F. Supp. 378 2 E.B.C. 1006 (D.Hawaii 1980); *Katsaros v. Cody*, 744 F. 2d 270, 5 E.B.C. 1777 (2d Cir. 1984), *cert. denied*, *Cody v. Donovan*, 469 U.S. 1072, 105 S. Ct. 565, 83 L. Ed. 2d 506 (1984); *Marshall v. Snyder*, 1 E.B.C. 1878 (E.D.N.Y. 1979); *Donovan v. Mazzola*, 716 F. 2d 1226, 4 E.B.C. 1865 (9th Cir. 1983), *cert. denied*, 464 U.S. 1040, 104S. Ct. 704, L.Ed.2d 169 (1984); *Fink v. National Savings and Trust Company*, 772F. 2d 951, 6 E.B.C. 2269 (D.C. Cir. 1985); *Metzler v.Graham*, 112 F. 3d 207 (5th Cir. 1997)

Other

Joint Committee on Taxation, *Overview of the Enforcement and Administration of the Employee Retirement and Income Security Act of 1974* (JCX1690, June 6, 1990)

Staff of the U.S. Securities and Exchange Commission, *Study on Investment Advisers and Broker Dealers, As Required by Section 913 of the Dodd-Frank Act* (Jan.,2011)

Investment Advisers Act of 1940 [IAA]

§202(a)(11) [Definition of an 'Investment Adviser']

§206(1), (2), (3) [Anti-fraud provisions that apply to adviser's fiduciary obligations]

§203A(b)(1) [State authority over 'small' RIAs]

Regulations

Investment Advisers Act Rule 203-1 [Application for Investment Adviser Registration]

Investment Advisers Act Rule 204-2 [Books and Records to be Maintained by Investment Advisers]

Investment Advisers Act Rule 204A-1 [Investment Advisers Codes of Ethics]

Investment Advisers Act Rule 206(4)-1 [Advertisements by Investment Advisers]

Case Law

Scott E. DeSano, et al., SEC Adm Proc 3-12879A (Mar. 6, 2008); *Strong Capital Management, Inc., et al.*, Investment Company Act Release No. 26448 (May 20, 2004); *SEC v. Capital Gains Research Bureau*, 375 U.S. 180 (1963); *Transamerica Mortgage Advisors, Inc. v. Lewis*, 444 U.S. 11, 17 (1979); *In re Arleen W. Hughes*, Release No. 34-4048 (Feb 18, 1948)

Other

Information for Newly-Registered Investment Advisers, Prepared by the Staff of the Securities and Exchange Commission's Division of Investment Management and Office of Compliance Inspections and Examinations,

<http://sec.gov/divisions/investment/advoverview.htm>

(<http://sec.gov/divisions/investment/advoverview.htm>) (July 2011)

Unethical Business Practices Of Investment Advisers, Investment Adviser Representatives, And Federal Covered Advisers, NASAA Model Rule 102(a)(4)-1 (Adopted Apr. 27, 1997, Amended Apr. 18, 2004 and Sept. 11, 2005)
Code of Ethics Guidance for Investment Advisers (June 26, 2015)(im-guidance-2015-03.pdf).

State Insurance Regulation

Suitability and Best Interests in Life Insurance and Annuity Transactions, New York Dep't. of Fin. Svcs. (11 NYCRR 224). (Adopted July 17, 2018; effective Aug. 1, 2019.)

Applicability of the Investment Advisers Act to Financial Planners, Pension Consultants, and Other Persons Who Provide Investment Advisory Services as a Component of Other Financial Services, SEC Interpretive Release No. IA-1092, <http://www.sec.gov/rules/interp/1987/ia-1092.pdf> (<http://www.sec.gov/rules/interp/1987/ia-1092.pdf>) (Oct. 8, 1987)

Uniform Prudent Investor Act [UPIA]

§1(a); §2(a); §2(d)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c)

Model Management of Public Employee Retirement Systems Act [MMPERSA]

§7

Case Law

Harvard College v. Amory, 26 Mass. 446, 9 Pick. 454 (1830); *Davoue v.Fanning*, 2 Johns. Ch. 252 (N.Y. 1816); *Fulton v. Whitney*, 66 N.Y.548 (1876); and *National Labor Relations Board v. Amax Coal Co.*, 453 U.S. 322, 101 S. Ct. 2789, 69 L.Ed. 2d 672 (1981)

1.2 Investments and services provided are consistent with governing documents.	Conformity
Detail	
1.2.1 Investments are managed and investment services are provided in accordance with governing documents, including documents establishing the terms of an account or client engagement and the investment policy statement.	
1.2.2 Documents pertaining to the investment management process, including records of decisions made by fiduciaries and clients, are secure and readily and reliably accessible by authorized persons.	
1.3 Responsibilities of all involved parties are defined and documented.	Conformity
Detail	
1.3.1 All involved parties have acknowledged their roles and responsibilities and fiduciary or non-fiduciary status in writing.	
1.3.2 Each investment committee formed, controlled, or required by the investment advisor has a defined set of by-laws or operating procedures to which the committee adheres.	
1.4 IA identifies and avoids COIs.	Conformity

 Detail

- 1.4.1 Policies and procedures for overseeing and managing conflicts of interest, including to avoid self-dealing and making false or misleading statements, are defined and followed.
- 1.4.2 Conflicts of interest are avoided when prohibited by law and/or governing documents.
- 1.4.3 Conflicts of interest that are not avoided must be managed in the client's best interest.
- 1.4.4 Conflicts of interest that are not avoided must be disclosed to the client and informed client consent must be obtained.

1.5	Agreements are in writing and consistent with fiduciary standards.	Conformity
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Detail

- 1.5.1 The investment advisor fully discloses in writing all compensation arrangements and affiliations associated with the service agreement.
- 1.5.3 Agreements are periodically reviewed to ensure consistency with the needs of the client.
- 1.5.4 Comparative reviews of service agreements for which the Investment Advisor is responsible are conducted and documented approximately every three years.

1.6	Client assets are protected from theft and embezzlement.	Conformity
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Detail

- 1.6.1 The Investment Advisor has a reasonable basis to believe assets are within the jurisdiction of a viable judicial system.
- 1.6.2 Appropriate procedures are in place to secure and prudently protect the privacy of client or plan data.
- 1.6.3 Appropriate procedures are in place to assure that sensitive personal identifying information and assets of clients are prudently protected from physical, operational, virtual, and other material risks associated with business disruptions.
- 1.6.4 The investment advisor has a reasonable basis to believe assets are protected by appropriate insurance, bonding, internal controls, and security measures taken by fiduciaries and other service providers, including the investment advisor's own firm.
- 1.6.5 The investment advisor has procedures in place to manage situations where the advisor reasonably believes that a client's assets are at risk due to suspicious behavior by service providers, the client, or others with access to or influence over the client's assets.
- 1.6.6 The investment advisor has documented a succession plan and a business continuity plan that is reviewed and tested periodically.

2.1	An investment time horizon has been identified for each objective of the client.	Conformity
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Detail

- 2.1.1 Sources, timing, distribution, and uses of each client's cash flows are documented.
- 2.1.4 In the case of a defined contribution retirement plan, the investment options provide for a reasonable range of participant time horizons.

2.2	An appropriate risk level has been identified for the portfolio.	Conformity
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 Detail

2.2.1 The expected volatility of the portfolio is understood by the investment advisor and communicated to the client, and the quantitative and qualitative factors that were considered are documented.

2.2.2 "Large loss" scenarios have been identified and considered in establishing the portfolio's risk level.

2.2.4 In the case of a defined contribution retirement plan, the investment options provide for a reasonable range of participant risk tolerance levels.

2.3 The distribution of projected portfolio returns is evaluated in context. Conformity

Detail

2.3.1 The projected portfolio return is consistent with the client's tolerance and capacity to assume volatility risk and investment goals and objectives.

2.3.2 Projected return assumptions for each asset class are based on reasonable risk-premium assumptions.

2.3.4 For defined contribution plans, the projected returns for pre-diversified options, such as target date funds or model portfolios, are based on reasonable risk/premium assumptions.

2.4 Asset classes are consistent with time horizon, risk and return objectives. Conformity

Detail

2.4.1 Asset classes are appropriately weighted to conform to the portfolio's specified time horizon and risk/return profile.

2.4.2 For participant-directed plans, selected asset classes provide each participant the ability to diversify their portfolio appropriately given their time horizon and risk/return profile.

2.4.3 The methodology and tools used to establish appropriate portfolio diversification are prudent and consistently applied.

2.5 Asset classes are consistent with implementation and monitoring constraints. Conformity

Detail

2.5.1 The Investment Advisor has the time, resources, knowledge and skills to implement and monitor all selected asset classes.

2.5.2 The process and tools used to implement and monitor investments in the selected asset classes are appropriate.

2.5.3 Appropriate investment products are accessible within each selected asset class.

2.6 IPS contains detail to define, implement and monitor the investment strategy. Conformity

 Detail

- 2.6.1 The investment policy statement identifies the bodies of law governing the portfolio.
- 2.6.2 The investment policy statement defines the duties and responsibilities of all parties involved.
- 2.6.3 The investment policy statement specifies risk, return, and time horizon parameters.
- 2.6.4 The investment policy statement defines diversification and rebalancing guidelines consistent with risk, return, and time horizon parameters.
- 2.6.5 The investment policy statement defines the due diligence criteria for selecting investment options.
- 2.6.6 The investment policy statement defines procedures for controlling and accounting for investment expenses.
- 2.6.7 The investment policy statement defines monitoring criteria.

3.1	DD process is followed to select each service provider.	Conformity
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Detail

- 3.1.1 Prudent criteria are identified for each due diligence process used to select service providers.
- 3.1.2 The due diligence process used to select each service provider is documented.
- 3.1.3 Each due diligence process used to select service providers is consistently applied.

3.2	When safe harbors are elected, strategy is implemented with applicable provisions.	Conformity
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Detail

- 3.2.1 Available safe harbors are evaluated to determine if any advance the best interests of the investors and/or beneficiaries.
- 3.2.2 When elected, safe harbor provisions are implemented in compliance with requirements.

3.3	Investment decisions are documented and made IAW fiduciary obligations.	Conformity
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Detail

- 3.3.1 A prudent due diligence process is used to select investment strategies, investment managers, and investments.
- 3.3.2 Decisions regarding the selection of investments consider both qualitative and quantitative criteria.
- 3.3.3 The due diligence process used to select investment strategies, investment managers, and investments is documented and consistently applied.
- 3.3.4 Regulated investments are preferred over unregulated investments when all other characteristics are comparable.
- 3.3.5 Investments that are covered by readily available data sources are preferred over similar investments for which limited coverage is available when all other characteristics are comparable.
- 3.3.6 A prudent due diligence process is used to make decisions regarding the use of proprietary versus non-proprietary products, and separately managed versus commingled accounts.
- 3.3.7 Decisions regarding rollover advice are made in accordance with fiduciary duties of loyalty and care.

4.1	Periodic reviews compare performance against market/peer benchmarks.	Conformity
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 Detail

4.1.1 Investment performance of the overall portfolio is compared against an appropriate benchmark and evaluated in the context of portfolio objectives.

4.1.2 The performance of each investment option is periodically compared against an appropriate market and peer group benchmark and any other performance-related due diligence criteria defined in the investment policy statement.

4.1.3 Underperforming investments are monitored and decisions to retain or replace investments are documented.

4.1.5 Investment performance is periodically reported to the client.

4.2 Qualitative reviews are made of Investment Managers and other service providers. Conformity

Detail

4.2.1 Periodic evaluations of the qualitative factors that may impact the results or reliability of Investment Managers are performed.

4.2.2 Negative news and other material information regarding an Investment Manager or other service provider are considered and acted on in a timely manner.

4.2.3 Deliberations and decisions regarding the retention or dismissal of Investment Managers and other service providers are documented.

4.2.4 Qualitative factors that may impact service providers are considered in the contract review process.

4.3 Procedures exist to review trading practices and proxy voting. Conformity

Detail

4.3.2 Procedures are in place to periodically review each investment manager's policies for special trading practices such as "soft dollars", directed brokerage, and commission recapture.

4.3.3 Procedures are in place to periodically review each investment manager's policies for proxy voting.

4.4 Fees, compensation and expenses are reviewed for reasonableness. Conformity

Detail

4.4.1 A summary of all parties being compensated from client portfolios or from plan or trust assets and the amount of compensation has been documented.

4.4.2 Fees, compensation, and expenses paid from client portfolios or from plan or trust assets are periodically reviewed to ensure consistency with all applicable laws, regulations, policies and procedures and service agreements.

4.4.3 Procedures are in place to avoid or identify and appropriately address unreasonable fees.

4.5 Process exist to review whether organization meets fiduciary responsibilities. Conformity

Detail

4.5.1 Fiduciary assessments are conducted at planned intervals to determine whether appropriate policies and procedures are in place to address all fiduciary obligations and that such policies and procedures are effectively implemented and maintained.

4.5.2 The investment policy statement is reviewed at least annually to ensure it is aligned with current facts and circumstances.

SECTION 4 - ASSESSMENT CONCLUSIONS AND RECOMMENDATION

Based on the findings obtained during the Assessment, the Company is in substantial conformity to the Standard, and is recommended for CEFEX registration.

This assessment has been reviewed by the CEFEX Registration Committee to maintain impartiality and consistency in the registration process. For details on the complete assessment process, please visit www.cefex.org (<http://www.cefex.org>)

Note to Report

The information contained in this report is a summary of an assessment conducted by CEFEX, Centre for Fiduciary Excellence, LLC and is valid for 1 year from the Date of Registration shown. The report is suitable for public distribution at the discretion of the certified firm. To confirm the registration of this firm, please visit www.cefex.org (<http://www.cefex.org>), where a listing of all currently registered firms can be viewed. For any questions related to this report, please contact CEFEX at admin@cefex.org.