



**Hefren-Tillotson, Inc.**

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**Part 2A Appendix 1 of Form ADV:**

***Wrap Fee Program Brochure***

**Hefren-Tillotson Managed Account Program**

12/29/2014

This wrap fee program 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 412-424-0990 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.

## **Item 2                      Material Changes (Part 2A Appendix 1 of Form ADV)**

### **Summary of Material Changes to Form ADV Part 2A Appendix 1: *Wrap Fee Program 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 nature of the material changes.

**There were no material changes to the Wrap Fee Program since Hefren-Tillotson's last annual update of Form ADV Part 2A on 12/9/2013.**

A new brochure will be provided to clients as needed based on changes and/or new information at any time without charge. Also a copy of our current Part 2A of Form ADV: Wrap Fee Program Brochure will be provided upon request and without charge. Please forward your written request to: Donald Belt, Hefren-Tillotson, Inc., 308 Seventh Avenue, Pittsburgh, PA 15222, or to the email address [Donald.Belt@hefren.com](mailto:Donald.Belt@hefren.com), or by calling 412-434-0990.

Additional information about Hefren-Tillotson, Inc. is also available on the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about persons affiliated with Hefren-Tillotson, Inc. who are registered, or are required to be registered, as investment advisor representatives of Hefren-Tillotson, Inc.

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# **HEFREN-TILLOTSON MANAGED ACCOUNT PROGRAM**

## **Item 4 Services Fees and Compensation**

### **SERVICES**

Hefren-Tillotson, Inc. is a SEC-registered investment adviser. We sponsor the Hefren-Tillotson Managed Account Program, a wrap fee program. The HT Managed Account Program is designed to provide access to third party investment managers on a discretionary basis within client accounts. The program is available to individuals, pension and profit sharing plans, trusts, estates, charitable/non-profit organizations, and other business entities.

A wrap fee program is an advisory program under which a specified fee or fees not based directly on transactions in the client's account is charged for advisory services, which may include portfolio management or advice concerning the selection of other investment advisers, and the execution of client transactions.

### **SERVICES PROVIDED**

The HT Managed Account Program provides clients access to the investment advisory services of professional portfolio management firms for the individual management of client accounts together with brokerage services, commissions, and custody for an all-inclusive fee. The minimum initial investment for participation in the program is \$100,000. The minimum account size per manager ranges between \$50,000 - \$100,000.

Clients receive initial and ongoing consultation from their Advisor at Hefren-Tillotson with regard to the selection of portfolio managers and determination of investment objectives. 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. Pursuant to program agreements, the Advisor and client agree to provide information regarding material changes in the client's financial circumstances or investment objectives to the portfolio manager.

A portfolio may be invested in one or more of the investment styles as listed on page 12. Security types used in the implementation of the strategy may vary between individual stocks, mutual funds, or exchange traded notes/funds (ETF/ETN).

Execution and clearance of transactions is provided by Pershing LLC, a subsidiary of the Bank of New York Mellon, who acts as custodian. Hefren-Tillotson has worked with Lockwood Advisors, also a subsidiary of the Bank of New York Mellon, to establish a trading platform through which portfolio managers implement their respective investment strategies. In situations where the investment manager strategy involved mutual funds, Hefren-Tillotson may implement the trades through Pershing in accordance with the third-party manager's portfolio models. HT Managed Account Program clients receive account statements from Pershing LLC for every month there is account activity, as well as quarterly performance evaluations and portfolio management commentary from Hefren-Tillotson. The client has the option to suppress trade confirmations and delegate proxy voting rights to the Portfolio Manager, or in the case of ERISA accounts, withhold such delegation.

A complete description of the third party manager's services, fee schedules and account minimums (if any) will be disclosed in the independent manager's applicable Form ADV disclosure brochure(s) which will be provided to clients at the time an agreement for services is executed and account is established.

## **Fees**

### **PROGRAM FEE**

The Client shall compensate the Advisor and Portfolio Manager an advisory fee for services rendered on behalf of the Client. The advisory fee is an annual fee, calculated, billed and payable quarterly in advance based on the market value of the Account, including cash and its equivalents, at the following rates:

Portfolio Manager Fee (as outlined on page 12)

plus

Hefren-Tillotson Fee

1.00% on the first \$2,000,000

0.75% on the next \$8,000,000

Negotiable on assets from \$10,000,000 and above

In computing the value of the assets in the Account, securities listed on any national securities exchange shall be valued at the last quoted sale price on the principal exchange in which the security is traded on the valuation date. Other assets shall be valued in a manner determined in good faith by the Advisor to reflect its fair market value. Client authorizes the independent custodian selected by the Client (the "Custodian") to deduct from Client's Account and pay to Advisor and Portfolio Manager on the submission of a bill the advisory fee for each calendar quarter. Advisor will send to Client a quarterly statement showing the amount of the advisory fee due, the Account value on which the fee is based and how the fee was calculated. The Custodian will send Client a quarterly statement showing all amounts paid from the Account, including all advisory fees paid by Custodian to Advisor.

The HT Managed Account Program bills clients of Hefren-Tillotson an all-inclusive fee. Hefren-Tillotson absorbs any SEC or exchange fees arising from account activity. Any trading commissions normally applicable in executing trades are assumed by the program and not charged to the client. The Custodial/Maintenance fees normally applicable to retirement and qualified retirement plans for which Pershing LLC acts as custodian are waived. Pershing LLC, subject to certain exceptions, may act as principal on securities transactions. There is no mark-up or mark-down on such trades. Subject to certain exceptions, cash balances in accounts are generally swept into a Pershing LLC affiliated money market fund. The client pays internal expenses on such funds, including the management fees of the funds. This program may cost the client more or less than purchasing similar services separately, assuming the services could be purchased directly from the various providers thereof. The client will also pay internal expenses of mutual funds and exchange trade funds/notes. HT Managed Account fees may be negotiable at the discretion of, and within the means of, the Hefren-Tillotson Advisor.

## **CLIENT REPORTING**

Hefren-Tillotson provides Quarterly Investment Reviews to clients on a quarterly basis. Return performance is calculated in a manner compliant with the Global Investment Performance Standards (GIPS®) standards, unless otherwise indicated. Quarterly Investment Reviews, distributed by Hefren-Tillotson, use the performance reporting software provided by Advent Software. Quarterly Investment Reviews are reviewed for accuracy by Hefren-Tillotson prior to delivery to clients and are intended to inform clients as to how their investments have performed for a period, both on an absolute basis and relative to market indices. For clients who have other Investment Advisory accounts (Portfolio Review, Asset Management, Advisory) through Hefren-Tillotson, consolidated reporting on all Investment Advisory accounts will be included in the client's regular Quarterly Investment Reviews.

## **GENERAL INFORMATION**

### ***Termination of the Advisory Relationship***

This Agreement shall continue until terminated upon written notice by either party to the other of such termination. The Advisory Client has a right to terminate the contract *without penalty* within five business days after entering into the contract. Advisory Fees will be prorated to the date of termination specified in the notice of termination

## **COMPENSATION**

Hefren-Tillotson Financial Advisors receive compensation as a result of the client's participation in the program. Depending on, among other things, the size of the account, changes in its market value, ability to negotiate fees or commissions, the amount of compensation may be more than what the Advisor would receive if they chose other investment options available through Hefren-Tillotson. Therefore, while compensation to the Advisor cannot be determined in advance, there may be an incentive to recommend this program over other services.

Hefren-Tillotson (HT) is licensed both as a securities broker-dealer and an investment adviser. Consequently, in its capacity as a securities broker-dealer under separate licensing and registration agreements, HT sells securities and insurance products on a commission basis to clients. In accordance with the Investment Advisers Act and rules thereunder, HT may enter into referral arrangements with certain registered persons of HT who will be compensated for referring advisory clients to HT. Typically, these individuals will receive a percentage of the annual advisory fee earned by HT for so long as the client remains a client of the firm.

## **Item 5 Account Requirements and Types of Clients**

### **MINIMUM ACCOUNT REQUIREMENTS**

The HT Managed Account Program provides clients access to the investment advisory services of professional portfolio management firms for the individual management of client accounts together with brokerage services, commissions, and custody for an all-inclusive fee. The minimum initial investment for participation in the program is \$100,000 per family of accounts. The minimum account size per manager ranges between \$50,000 to \$100,000. Given the minimum account size per manager and Hefren-Tillotson's approach toward diversification and asset allocation, the HT Managed Account Program is generally recommended for clients with investment assets exceeding \$1 million if the client is choosing individual equity managers rather than asset allocation strategies.

### **TYPES OF CLIENTS**

The HT Managed Account Program is designed to provide clients access to third party investment managers. The program is available to individuals, pension and profit sharing plans, trusts estates, charitable/non-profit organizations, and other business entities.

## **Item 6 Portfolio Manager Selection and Evaluation**

### **PORTFOLIO MANAGER SELECTION**

As previously disclosed, Hefren-Tillotson, Inc. may recommend the services of independent managers to provide asset management services to our clients based on the client's individualized needs. Clients receive initial and ongoing consultation from their Advisor at Hefren-Tillotson with regard to the selection of portfolio managers and determination of investment objectives.

### **SELECTION OF MANAGERS**

Participating portfolio managers are selected for the program and reviewed on an ongoing basis by members of Hefren-Tillotson's Investment Committee. The Committee consists of senior managers within Hefren-Tillotson. Utilizing quantitative and qualitative information obtained by Hefren-Tillotson, portfolio managers are reviewed and analyzed by the committee based on various criteria which may include:

#### **A. Quantitative Analysis**

- a. Above average rates of return
- b. Volatility of returns - Standard deviation, best and worst historical results
- c. Risk-adjusted returns – Beta, Sharpe, and Alpha
- d. Portfolio Turnover
- e. Correlation to investment category
- f. Assets under Management
- g. Expense Ratio
- h. Style Consistency

## B. Qualitative Analysis

- a. Investment Philosophy & Approach
- b. Depth of Organization
- c. Portfolio Manager Tenure and Experience
- d. Decision making process
- e. Portfolio Construction

The Investment Committee reviews the quantitative and qualitative factors outlined above for each manager on a quarterly basis. The Committee may elect to replace a participating portfolio manager in the event of the following:

1. Chronic underperformance on a risk-adjusted basis relative to benchmark or peer group;
2. A disadvantageous change in terms, including rising expenses or the introduction of stringent redemption fees;
3. Meaningful portfolio management turnover or dissatisfaction with expansion of investment team;
4. Disadvantageous changes to the construction of the portfolios;
5. Asset bloat resulting in style drift or difficulty in employing strategy;
6. A change in investment process;
7. Changes in corporate ownership or board that could disrupt integrity of the management, portfolio construction, or investment process; or
8. Evidence of poor stewardship, including permission of late trading, market timing, etc

In making a decision to replace a manager, the Committee takes into consideration all criteria; no one criterion is necessarily a determinant in the replacement decision. Additionally, in its review process the Committee places emphasis on long-term overall portfolio manager performance. Due to the periodic reviews of the Investment Committee and the role of the Hefren-Tillotson Financial Advisor in the formation of each client's investment program, direct contact with a portfolio manager by a client is not allowed.

## **Item 7 Client Information Provided to Portfolio Managers**

Clients receive initial and ongoing consultation from their Advisor at Hefren-Tillotson with regard to the selection of portfolio managers and determination of investment objectives. 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. Pursuant to program agreements, the Advisor and client agree to provide information regarding material changes in the client's financial circumstances or investment objectives to the portfolio manager.

## **Item 8 Client Contact with Portfolio Managers**

Clients utilizing third party portfolio managers for management of their assets generally do not come in contact with their portfolio managers. In this program, Hefren-Tillotson, Inc.'s representatives typically serve as the communication conduit between the client and the independent manager. Clients are required to contact their financial consultant with any questions they may have regarding their account(s).



## **Item 9 Additional Information**

### **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, our registered investment adviser has never been subject to a disciplinary or regulatory action by the SEC. Likewise our broker-dealer affiliate has never been subject to an enforcement or disciplinary action by the SEC. However, 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. Nonetheless, because our advisory clients use our broker-dealer services, we are making this disclosure. If you have any questions regarding these matters, we invite you to contact us. Alternatively, you may follow this link and search the FINRA website for information about Hefren-Tillotson and our employees: <http://www.finra.org/BrokerCheck>.

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

#### ***FIRM Registrations***

In addition to being 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 LLC 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 distribution fees) may be generated by various transactions and received as compensation by Hefren-Tillotson.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Hefren-Tillotson, Inc. and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

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 company has also established a Code of Ethics to which employees of Hefren-Tillotson are held:

- 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 identical to or different than those recommended to customers for their personal accounts. 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 its fiduciary responsibilities.

Members of the Research Department are prohibited from trading in a security which 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 Portfolio Management Team are prohibited from trading in a security following the dissemination of an initial recommendation to the Portfolio Management Team. 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 portfolio management team during a formal review.

A Research Analyst or Portfolio Management Team 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 would not result in such prohibition.

No person associated with Hefren-Tillotson may buy or sell securities for two 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's 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.

## **Review of Accounts**

Hefren-Tillotson may provide reports to Investment Advisory clients in periodic client 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 among other things 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.

Hefren-Tillotson also provides investment information on a quarterly basis, through Quarterly Investment Reviews. These reports, which are usually disseminated roughly 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 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 are reviewed on a periodic basis by Donald M. Belt, Chief Investment Officer, Brian J. Koble, Director of Research, Mauricio Viaud, Senior Research Analyst, and Jonathan Bernstein, Senior Research Analyst. 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. It is understood that such reviews are made without an in-depth knowledge of the client's personal situation, which may result in unique portfolio attributes.

## **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. In order to attract and retain qualified Advisors, Hefren-Tillotson, like most financial service companies compensates our Financial Advisors based on a percentage of the commission and fee-based revenue they generate for 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.

## **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.

#### Available Investment Managers & Styles

A portfolio may be invested with one or more investment managers or styles as outlined below. Security types used in the implementation of the strategy may vary between individual stocks, mutual funds, or exchange traded notes/funds (ETF/ETN).

Manager Name	Style/Strategy	Estimated Allocation (Bonds/Stocks)	Est. Fund/ETF Expenses	Management Fee
NWQ	Large Cap Value Equity	0% / 100%		0.70%
Delaware	Large Cap Value Equity	0% / 100%		0.60%
Parametric	Tax Managed Core Equity	0% / 100%		0.40%
Lazard US Strategic Equity	Large Cap Core Equity	0% / 100%		0.50%
Fred Alger Large Cap Growth	Large Cap Growth Equity	0% / 100%		0.50%
Thornburg Int'l Value	International Equity	0% / 100%		0.80%
Brandywine Int'l Equity	International Equity	0% / 100%		0.50%
<b>RiverFront Investment Group</b>				
Conservative Income Builder	Asset Allocation	70% / 30%	0.25%	0.50%
Moderate Growth & Income	Asset Allocation	50% / 50%	0.25%	0.50%
Dynamic Equity Income	Asset Allocation	30% / 70%	0.30%	0.50%
Global Allocation	Asset Allocation	25% / 75%	0.30%	0.50%
Global Growth	Global Equity	5% / 95%	0.25%	0.50%
<b>Fund Evaluation Group</b>				
Moderate Growth	Asset Allocation	30% / 70%	0.77%	0.30%
Balanced	Asset Allocation	50% / 50%	0.68%	0.30%
Income & Growth	Asset Allocation	60% / 40%	0.65%	0.30%
Capital Preservation	Asset Allocation	80% / 20%	0.58%	0.30%
Equity	Global Equity	0% / 100%	0.77%	0.30%
Fixed Income	Global Fixed Income	100% / 0%	0.54%	0.30%
Real Assets	Real Assets		0.80%	0.30%
Diversifying Strategies	Alternative Strategies		1.30%	0.30%
<b>Russell Investments</b>				
Conservative	Asset Allocation	78% / 22%	0.91%	0.00%
Moderate	Asset Allocation	58% / 42%	0.99%	0.00%
Balanced	Asset Allocation	38% / 62%	1.09%	0.00%
Growth	Asset Allocation	19% / 81%	1.16%	0.00%
Equity Growth	Global Equity	5% / 95%	1.20%	0.00%