

# OBJECTIVE ADVISORS, INC.

## Form ADV, Part II

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Objective Advisors, Inc. (OAI) is a registered investment advisory firm, regulated by the United States Securities & Exchange Commission (SEC). Registration with the SEC is required because the amount of assets Objective Advisors, Inc. has under management exceeds \$25 million. Please note that SEC registration does not imply any particular level of skill or training.

The content and formatting of this brochure is intended to meet the requirements set forth by the SEC. The purpose of this brochure is to provide information about the business practices of Objective Advisors, Inc. If you have any questions about the content of this brochure, please contact us at the telephone number or e-mail address listed above. Please note that the information in this brochure has not been approved or verified by the SEC or by any state securities authority.

## **Item 2: Material Changes Experienced Since the Last Annual Update**

There haven't been any material changes to the management practices or investment advisory personnel of Objective Advisors, Inc. since the last annual update of the firm's Form ADV, Part II, on 12/31/15.

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## Form ADV, Part II

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## Item 4: Advisory Business

Objective Advisors, Inc. was formed on January 1, 1995 as a registered investment advisory firm, or RIA. The founding partners were John & Michelle Flynn, each of whom had extensive experience in the fields of credit union management and fixed income investments. In 2001, the company sold 30% of its stock to Southwest Business Corporation, or SWBC, a privately held financial services company which had a large presence in the credit union marketplace. In 2002, the company sold another 10% to this same entity. SWBC does not directly participate in any of the activities involved with Objective Advisors, Inc.'s investment advisory business.

Objective Advisors, Inc. provides non-discretionary investment advisory services exclusively to natural person credit union clients throughout the country. These services are tailored to the specific needs of each client, with guidance from the Asset Liability Management (ALM) risk assessment compiled by Objective Advisors.

Investments are limited to those that are specifically approved by each client's Board of Directors, as outlined in their internally generated investment policies. In addition, the list of approved investment products is authorized by each credit union's regulatory entity. If the credit union is federally chartered, this authorization is provided by the National Credit Union Administration (NCUA) in the form of Regulation 703. If the credit union is state chartered, the investment authorization is provided by the state with whom they are chartered.

Individual investment decisions are made by Board authorized credit union personnel, after receiving recommendations from Objective Advisors. Objective Advisors bases its recommendations in large part on the risk assessment it produces for each client by utilizing its asset liability management (ALM) model. This assessment covers liquidity risk, interest rate risk and capital risk.

The primary investment products utilized by Objective Advisors, Inc.'s clients are as follows:

- Certificates of Deposit
- U.S. Treasuries
- Federally Sponsored Agency Debentures
- Federally Sponsored Agency Insured Mortgage-Related Pools and Collateralized Mortgage Obligations (MBS & CMOs)

As of 12/31/16, Objective Advisors had a total of \$300 million in non-discretionary assets under management.

## **Item 5: Fees & Compensation**

The calculation for investment advisory fees is based on the amount of assets under management. The amount of the fee depends on the total amount of investment assets under management and on whether the client also utilizes Objective Advisors' ALM services.

Investment advisory fees are billed monthly and calculated by totaling the amount of assets under management as of the previous month-end. Clients also typically incur brokerage commissions on all trades done through brokerage firms, but these commissions are always included in the purchase or sales price of each individual security traded. These commissions are paid directly by the client to the brokerage firm as part of the transaction between these two parties, and Objective Advisors, Inc. is not involved in the financial part of the transaction in any way except to act as the facilitator of information exchange.

Objective Advisors does not receive any additional compensation from any other source other than the advisory fees it charges its clients. Given that its fees are based only on the amount of assets under management, Objective Advisors does not have any financial incentive to recommend any particular investment type or brokerage firm over another.

## **Item 6: Performance-Based Fees & Side-by-Side Management**

Objective Advisors, Inc. does not offer any type of performance-based fee structure, so there is no conflict of interest in the way client transactions are prioritized. All client orders are executed in the order in which they are received.

## **Item 7: Types of Clients**

As stated in Item 4: Advisory Business, Objective Advisors, Inc. deals exclusively with natural person credit unions throughout the country.

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

As stated in Item 4: Advisory Business, Objective Advisors, Inc. formulates its investment strategies in conjunction with the risk assessment derived from its ALM modeling work. The ALM model produces the risk assessment after simulating the cashflow and income characteristics of each account contained in the credit union's balance sheet.

Modeling risk exists to the extent that the model relies on financial data inputs, as well as assumptions pertaining to future growth and interest rate expectations. Since many of these assumptions pertain to future expectations, the model's forecast may not prove to be accurate. As such, investment strategies that are based on the model's risk assessment may not prove to have been the best course of action when analyzed on some future date with the benefit of hindsight. As always, investing in securities involves risk, and clients should always be aware that this risk exists regardless of how well thought out the investment strategy was at conception.

Typically, the primary form of risk inherent in most of the investment products that are permissible for natural person credit unions is interest rate risk. This type of risk impacts the credit union as market rates move after the purchase has been made. If market rates increase after a given purchase is made, the market value of the previously purchased security will likely decline. If the credit union should need to sell this security prior to its stated maturity date or possible call date, it could possibly have to incur a loss on the sale since the price it purchased the security at is higher than the current market price. At the other extreme, if market rates decline after a given purchase is made, the previously purchased security could end up getting called if it is a callable instrument, or experience faster prepayments of principal if it is a mortgage-related investment. Since any of these events could negatively impact the credit union's earnings, credit union investors should be aware that this type of risk exists when investing in common types of fixed income investments.

## **Item 9: Disciplinary Information**

Objective Advisors, Inc. has never been involved in any legal proceedings or disciplinary actions.

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

No member of Objective Advisors, Inc.'s staff serves in any other capacity that could potentially lead to a conflict of interest with any of the firm's clients. This includes other industry affiliations and/or registrations that would prevent the staff members from working in their clients' best interests at all times. In addition, while Objective Advisors, Inc. is owned in part by SWBC, who is registered to conduct many types of financial transactions in the insurance and brokerage markets, Objective Advisors does not use SWBC for any of these services. In addition, Objective Advisors, Inc. does not share confidential client information with SWBC or any other vendor not specifically mentioned in the firm's client agreement.

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

Objective Advisors, Inc. requires each employee to agree in writing to the company's policies regarding personal securities transactions and the permitted use of non-public client information.

Currently, the company does not have any limits on the types of security transactions its employees can conduct on their own behalf. The only stipulation is that all personnel provide the company with copies of all statements relating to personal transactions involving any securities issued by the U.S. Treasury department or any Federally Sponsored Agency, such as FNMA, FHLMC or GNMA.

In addition, the company requires all employees to hold in complete confidence all information relating to their clients' financial and member data, and to only use such information to perform the task the company has been hired to provide, as described in the company's client agreement.

## **Item 12: Brokerage Practices**

Objective Advisors, Inc. does not have discretionary authority over any client funds, but does make recommendations to clients regarding both the structural content of their investment portfolios as well as which investment products best suit their needs. In this context, the firm obtains investment offerings from various brokerage firms and shares this information with its clients. In this capacity, the firm selects brokerage firms to use on its clients' behalf, using the following criteria to recommend these firms to clients:

- Experience and reputation of individual broker & firm within the brokerage industry;
- Individual broker's knowledge of fixed income securities permissible for natural credit union investors;
- Competitiveness of pricing vs. other brokerage firms;
- Availability of product offerings;
- Quality of market and product research; and
- Capital strength of firm.

### **Annual Review of Recommended Brokerage Firms**

Once a year, Objective Advisors, Inc. reviews its list of recommended brokerage firms and makes changes as needed. This annual review process entails an examination of each of the following areas:

- *Prior year's trade activity with Objective Advisors, Inc.*, to determine how competitive each firm has been in the areas of product selection and pricing;
- *Most recently audited financial data for each brokerage firm*, to confirm the firm's financial strength and stability;
- *Biographical information on each individual sales representative*, to verify the individual's experience and licenses; and
- *Disciplinary records at the National Association of Securities Dealers (N.A.S.D.) for both the individuals and firms*, to ensure that the individuals do not have any outstanding customer complaints or regulatory injunctions against them, and that the firms' disciplinary actions have been minimal.

Once the individuals and firms have successfully met these criteria, they can be selected for use in the company's recommended broker list. This list is then distributed to clients along with the most recent financial information on each of the recommended firms as well as updated biographies on the individual representatives. The suggestion is made to the client that all of these recommended brokers be included in their investment policy and approved by their Board of Directors.

### **Trade Execution**

Objective Advisors, Inc. acts as a liaison between its clients and the brokers listed on the recommended broker list. In this capacity, the trading personnel at OAI solicit offerings and/or bid indications on securities that fit the profile that the company has recommended to its clients.



These specific security offerings and/or bid indications are then discussed with each client, with clarification pertaining to each security's features. The client then communicates their final selection to OAI, who in turn transacts the purchase or sale with the appropriate broker/dealer on their behalf. As such, the choice of investment product is determined by the client. The brokerage commissions are included in the offering price that is shown to the client, so each broker has an incentive to keep the commissions as low as possible in order to win the client's business.

Once the transaction takes place, OAI trading personnel will do the following to record and report the transaction:

- 1) Print two copies of the required regulatory documentation from Bloomberg, with one copy being sent to the client and the other copy being retained by Objective Advisors, Inc.
- 2) Record the transaction in the client's trade log with OAI;
- 3) Fax the settlement documentation to the client;
- 4) Fax the settlement documentation to the bond accounting vendor, FTN Financial, so that the transaction is recorded in the client's monthly bond accounting reports;
- 5) Create and mail file to the client that includes all pertinent trade documentation.
- 6) File all regulatory documentation in client's investment binder with OAI.

### **Research & Other Soft-Dollar Benefits Received from Brokerage Firms**

Objective Advisors, Inc. receives ongoing written research pieces from all of the brokerage firms it works with. In turn, many of these pieces are passed along to its credit union clients from time to time for educational purposes. This research is typically market-related or product specific, and in no way influences the way Objective Advisors selects offerings for its clients.

In addition, Objective Advisors, Inc. has contracted the bond accounting division of one of its recommended brokerage firms to provide bond accounting reports to its clients on a monthly basis. This service is provided by a separate division at the brokerage firm, and the daily pricing of the securities is provided by a documented third party provider in most instances. Given that Objective Advisors, Inc. pays the brokerage firm the publicly quoted fee for these services, it does not receive any preferential treatment from the brokerage firm in the rendering of these services.

### **Clients Use of Brokerage Firms of their own Selection**

Clients may choose to work with brokerage firms who are not on Objective Advisors, Inc.'s Recommended Broker List. Clients are encouraged to make Objective Advisors aware of any such activity so that Objective Advisors, Inc. does not duplicate management efforts on the client's behalf.

## **Aggregation of Client Orders**

Due to the fact that Objective Advisors, Inc. does not have discretion over any of its client's accounts, each transaction is handled separately from all other client transactions. As such, while Objective Advisors might recommend the same types of investment structures or even the exact same investment offering for multiple clients, the orders are never aggregated, but instead, are executed in the order in which they are received from the clients.

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

### **Asset Liability Management Reports**

Objective Advisors, Inc. performs a thorough review of the balance sheet once a quarter for most of its clients. (A few clients have contracted for a semi-annual ALM review, but this is rare.) The findings of this review are documented in a written report that is delivered via e-mail to each account. Part of this review involves a liquidity forecast, as well as a calculation of each client's interest rate risk profile. Both of these items are used by OAI to make investment allocation recommendations to its clients. All pertinent assumptions used in the ALM model are documented in each report set so that each client has full knowledge of them.

### **Investment Planning Reports**

In addition to the ALM reports described above, Objective Advisors, Inc. also performs a written review of each client's investment portfolio on a periodic basis. This document is typically done in conjunction with one of the quarterly ALM reporting cycles so that the assumptions used are in agreement in both documents. This planning document provides each client with an overview of the structure of their current investment portfolio, as well as Objective Advisors, Inc.'s recommendation for changes going forward. Updates to this planning document are made as needed for liquidity management purposes.

### **Bond Accounting Reports**

As mentioned in Item 12, Objective Advisors, Inc. provides third party bond accounting reports to all of its investment advisory clients. These reports are provided to the clients by a third party vendor, and paid for by Objective Advisors, Inc. unless specifically excluded in the client agreement. These reports contain detailed information about each client's investment holdings, and are accessible via the internet. Objective Advisors, Inc. does not have any influence or control over any of the information being provided in these reports, to include individual security pricing and comparative portfolio performance information.

## **Item 14: Client Referrals & Other Compensation**

Objective Advisors, Inc. pays a referral fee to any person who provides an introduction to a credit union which becomes a client of the firm. This fee typically ranges between 5% and 10% of the first year's advisory fees, and is paid monthly as each client's fees are received by the firm.

Objective Advisors, Inc. does not receive any additional compensation from any person or company other than its credit union clients.

## **Item 15: Custody**

Objective Advisors, Inc. does not have custody of any of its client's investment holdings. All transactions are settled via "Delivery vs. Payment" between the client and the respective brokerage firm.

## **Item 16: Investment Discretion**

Objective Advisors, Inc. does not have discretion over any of its clients' investment transactions. Each client provides instructions as to which offering they are interested in purchasing or selling, and Objective Advisors, Inc. executes these instructions with the brokerage firm having the best price on each of the selected offerings. In the event that the pricing is identical between multiple brokerage firms, as is typically the case with "New Issue" Agency offerings, Objective Advisors, Inc. will typically direct the order to whichever firm provided the offering first, or whichever has been the most helpful in providing recent market-related information pertaining to the current offerings.

## **Item 17: Voting Client Securities**

Objective Advisors, Inc. is not involved in voting client securities. Since all of the investments the firm recommends are non-voting debt instruments, there is never an instance where voting is possible.

## **Item 18: Financial Information**

This item is not required of Objective Advisors, Inc. because the firm does not meet the criteria outlined in the instructions for ADV, Part II. Specifically, the company does not require or request the prepayment of client advisory fees in advance.