

**HERITAGE INVESTORS MANAGEMENT CORPORATION**

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**ADV Part 2A**

**January 5, 2018**

**(updates March 29, 2017 ADV Part 2A  
for change of address)**

**This brochure provides information about the qualifications and business practices of Heritage Investors Management Corporation. If you have questions about the contents of this brochure, please call 301-951-0440. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Heritage Investors Management Corporation is available on the Securities and Exchange Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the Securities and Exchange Commission does not imply a certain level of skill or training.**

## **Item 2: Material Changes**

Heritage Investors Management Corporation relocated its offices to:

7101 Wisconsin Avenue, Suite 950  
Bethesda, MD 20814

## **Item 3: Table of Contents**

<b>Item 1. Cover Page .....</b>	<b>1</b>
<b>Item 2. Material Changes .....</b>	<b>2</b>
<b>Item 3. Table of Contents .....</b>	<b>2</b>
<b>Item 4. Advisory Business .....</b>	<b>3</b>
<b>Item 5. Fees and Compensation .....</b>	<b>3</b>
<b>Item 6. Performance Based and Side-by-Side Management .....</b>	<b>4</b>
<b>Item 7. Types of Clients .....</b>	<b>5</b>
<b>Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>5</b>
<b>Item 9. Disciplinary Information .....</b>	<b>6</b>
<b>Item 10. Other Financial Industries Activities and Affiliations .....</b>	<b>6</b>
<b>Item 11. Code of Ethics, Participation or Interest in Client Transaction and Personal Trading .....</b>	<b>6</b>
<b>Item 12. Broker Practices .....</b>	<b>7</b>
<b>Item 13. Review of Accounts.....</b>	<b>10</b>
<b>Item 14. Client Referrals and Other Compensation .....</b>	<b>11</b>
<b>Item 15. Custody .....</b>	<b>11</b>
<b>Item 16. Investment Discretion .....</b>	<b>11</b>
<b>Item 17. Voting Client Securities .....</b>	<b>12</b>
<b>Item 18. Financial Information .....</b>	<b>12</b>
<b>Part 2B - Item 1. Cover Page - Michael S. Cornfeld .....</b>	<b>23</b>
<b>Part 2B - Item 1. Cover Page - Derek R. Stone .....</b>	<b>25</b>
<b>Part 2B - Item 1. Cover Page - Kenneth J. Long .....</b>	<b>27</b>
<b>Part 2B - Item 1. Cover Page - Jean M. Kennedy .....</b>	<b>29</b>
<b>Part 2B - Item 1. Cover Page - Michael DeMayo .....</b>	<b>31</b>
<b>Appendix A - Qualifications Required for Professional Designation Credentials..</b>	<b>33</b>

#### **Item 4: Advisory Business**

Heritage Investors Management Corporation, founded in 1974, provides investment management services and is registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. The firm, owned by its President, Michael S. Cornfeld, offers professional, personalized investment management to meet the individual objectives of its clients. We manage portfolios of stocks, bonds, exchange traded funds, and money market instruments for individuals, IRAs, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, partnerships, endowment funds, conservatorships, associations, foundations, and guardianships.

Each portfolio is tailored to the needs of the client. We consider each client's risk level, tax situation, age, income and growth needs among other factors when selecting securities for a portfolio. Clients may wish to restrict Heritage from investing in certain types of securities or in certain industries. These restrictions are respected. The exclusion of tobacco stocks in a portfolio is an example of such a restriction.

A prospective client or current client requesting information about our services is provided with a description as detailed in the ADV Part 2A and an overview of investment alternatives available from other financial institutions.

As of December 31, 2017, Heritage manages \$2,458,689,759 on a discretionary basis and an additional \$1 on a non-discretionary basis.

#### **Item 5: Fees and Compensation**

Heritage charges a fee for its investment services. Usually a percentage of assets under management is charged, but occasionally an hourly charge or a fixed fee may be negotiated. The fee for the first six months of service is based upon the market value of the account at its inception. Thereafter, the fee is based on the value at the beginning of each subsequent semi-annual period. The annual rate shall equal:

1% on the first \$1,000,000 under management and  
.50% on the balance over \$1,000,000.  
The minimum fee is \$10,000.

In certain circumstances, the fees may be negotiable.

Accounts of family members are managed separately, but are often combined for fee purposes. Clients are given the option of paying the management fee by check or by having the fee deducted from the client's portfolio. In the event the relationship terminates prior to the end of a billing period, the fee is refunded on a pro-rata basis. Fees will be assessed on all the holdings in the portfolio including mutual funds, money market funds, and exchange traded funds, asset categories which carry their own fees. Heritage does not participate in any sales based compensation. Unless directed otherwise, we do not buy

mutual funds for our clients. Thus, we do not have a conflict of interest other advisors might have who may receive asset based sales or service fees.

Occasionally, Heritage will be engaged to consult on a financial matter. Such consulting services are available to individuals and entities that are not clients on an hourly basis not to exceed \$500 per hour. Investment advisory clients are not charged for meetings or consultations.

As a condition of Heritage's managing their assets, clients are required to custody assets either at a trust department, trust company, or a brokerage firm. These qualified custodians provide many valuable services which include holding the client's assets, settling trades, collecting dividend and interest payments, providing statements to the client, arranging for transfers of cash to the clients, issuing tax statements, and following instructions for collecting fees from the account.

When a client has an account at a trust company or a trust department, that arrangement allows Heritage to trade with any number of brokerage firms. We believe that the advantages of this type of relationship are greater flexibility on stock broker selection, lower commission rates when trading stocks, and lower transaction costs when trading bonds. These custodians charge asset-based monthly or quarterly fees to administer the account. We believe these fees are cost effective.

Clients who custody their assets at brokerage firms will generally not pay asset-based fees to administer the account. However, stock trading in these accounts may be more or less expensive than for clients who have selected a trust company or a trust department custodian. These stock trades are effectively limited to the brokerage firm that holds custody. For this reason, these relationships are considered Directed Brokerage (see discussion in Item 12: Brokerage Practices). Bond trades are generally executed through financial institutions other than the brokerage firm which holds custody and have an added cost of a trade away fee.

There are other fees that clients of investment advisory firms are charged. For example, sales of stock are subject to a nominal Securities and Exchange Commission fee. All security trades are subject to negotiated broker commission rates and bid/ask spreads. Heritage is not a brokerage firm and does not receive cash compensation for the trades it enters on behalf of its clients. Additional information on Heritage's brokerage practices can be found in Item 12.

## **Item 6: Performance-Based and Side-by-Side Management**

Heritage does not charge performance-based fees; consequently, we have no incentive to favor one client over another.

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

Heritage manages portfolios for individuals, IRAs, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, partnerships, endowment funds, conservatorships, associations, foundations, and guardianships. Our minimum account size for new relationships is \$1,000,000 although exceptions are made from time to time.

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

Heritage utilizes a variety of methods and strategies to analyze stocks, bonds, and portfolios. These include the use of fundamental research and technical analysis. Our portfolio managers read financial newspapers, news services, magazines, and research materials prepared by analysts, companies, brokerage firms, and professional rating services. We analyze corporate reports, both annual and quarterly, prospectuses, filings with the SEC, as well as company press releases and online services. We also examine financial reports issued by municipal bond issuers.

The investment strategies used to implement advice given to clients include long-term purchases, short-term purchases, trading (securities sold within 30 days), short sales, margin transactions, and derivative instruments such as bank notes and options. Heritage engages almost exclusively in long-term purchases of securities.

Investment strategies are dependent upon the requirements and objectives of the clients. Strategies will vary depending upon domestic and international economic and political events and the impact they might have on the stock and bond markets. We do not subscribe to the philosophy that securities can be acquired and held forever. Investments generally are held for a time period to provide maximum after-tax returns. We believe strongly in diversification and adjust the proportion of classes of securities to be held at any given time due to economic and market conditions. Very infrequently, we will write covered options, buy securities on margin, and sell securities short, but only after we have consulted with the client to discuss the potential risks and rewards and have obtained written approval.

Our main investment strategy is to buy and sell publicly traded U.S. stocks, bonds, and exchange-traded funds for our clients, and in some cases to buy foreign bonds and foreign stocks which in most cases are traded in the U.S. as ADRs (American Depositary Receipts). The value of U.S. stocks will rise and fall due to changes in the financial results of individual companies, the condition of the U.S. and world economies, interest rates, market conditions, and many other factors. While historically the U.S. stock market has generally done well over the long term, there have been many periods during which stock prices have dropped and, in some cases, sharply. The value of bonds depends on the credit quality and ratings of individual issuers, and also on the general level of interest rates, which are affected by the health of the U.S. economy, U.S. government fiscal and monetary policy, and market conditions. At times in the past, interest rates and bond prices have fluctuated sharply, particularly during times of extreme stress in the U.S. economy. In

addition to the factors already mentioned, the value of foreign stocks and bonds will also fluctuate due to the state of foreign economies, foreign interest rates, and currency exchange rates. Political instability in foreign countries may also adversely affect the value of foreign investments. Clients need to recognize that such wide fluctuations will occur and at times substantial losses may result in their portfolios especially if securities are sold at times of low valuations. Historically, patient investors have been rewarded with positive returns.

All investing involves risks, and investors should recognize that losses are possible in their portfolios. Over the last few years, market swings of 50% have occurred and may occur again. We believe that constructing a diversified portfolio of stocks (by industry), quality bonds (by maturity), and cash instruments will mitigate some but not all of those risks. We believe that by not trading frequently and by focusing the portfolio and the clients on the longer term, the inherent risks in investing may be decreased but not eliminated.

#### **Item 9: Disciplinary Information**

We have never had any legal or disciplinary actions against our firm nor have any of our employees ever been involved in a legal or disciplinary event.

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

Heritage is not registered as a broker-dealer nor are its employees registered as registered representatives of a broker-dealer firm. Occasionally, Heritage may recommend or suggest accountants, attorneys, or other financial professionals to our clients, but we do not receive compensation directly or indirectly for such activities. We believe that recommending other professionals with whom we have had successful business dealings and who may refer clients to us may appear to create a conflict of interest; therefore, we will acknowledge to our clients existing business relationships at the time such referrals are made or received.

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

We have adopted a Code of Ethics (“the Code”) which sets forth standards of conduct expected of all our personnel and addresses conflicts of interest that may arise from their work in an advisory firm. The Code is intended to promote compliance with fiduciary standards to which advisory firms are required to adhere. We expect all of our employees to conduct themselves with honesty, integrity, and professionalism toward our clients and one another.

The Code covers conflicts of interest with clients, confidentiality of client information, insider trading, and employee personal trading. A copy of the Code will be provided upon request.

One of the purposes of the Code is to prevent the firm, associated persons, and certain relatives from benefiting from any price movement that may be caused by client transactions or the firm's recommendations regarding such securities. Among other things, the Code requires employees to obtain clearance before they buy or sell any security (other than certain government securities and money market funds) and prohibits transactions when the employee knows that the firm is contemplating effecting similar transactions in client accounts. Generally, the firm does not allow employees to trade in individual securities that clients hold, except for mutual funds and exchange traded funds. From time to time, employees may trade in individual securities also held by clients. Each trade in individual securities is examined to make sure that the employee's trade would not create a conflict of interest at the time of the trade. Quarterly, employees are required to disclose all reportable personal securities transactions in which they engaged and are required to disclose all reportable securities held.

## **Item 12: Broker Practices**

### **Brokerage**

#### *General*

Our clients generally rely on us to determine the broker or dealer through which their transactions will be effected although some clients may direct us to use (or not to use) a particular broker or dealer for a portion or all of the transactions in their accounts. We generally make those determinations on a transaction-by-transaction basis. We may use electronic trading networks for equity trades when their use is consistent with the execution quality factors discussed below. Bond trading is effected through brokerage firms and electronic trading networks based on the factors discussed below.

#### *Execution Quality*

In selecting brokers and dealers, the firm's primary objective is to obtain the highest overall quality execution of transactions. In evaluating whether a broker or dealer will be able to provide "best execution," historical net prices (after brokerage commissions, if any, and other transaction costs) on previous transactions is a principal factor, but other, related factors are relevant, including: the execution, clearance and settlement capabilities of the broker or dealer generally and in connection with securities of the type involved; the nature, quality, and quantity of proprietary investment information and research services and products the broker or dealer has provided or is willing to provide; the broker or dealer's ability and willingness to commit its capital to facilitate transactions (by participating for its own account); the broker's or dealer's reliability, integrity, and financial stability; the size of the particular transaction and its complexity in terms of execution and settlement;

the importance of speed or confidentiality in the particular transaction; and the market for the security. In light of our consideration of the various factors above, commissions or other transaction compensation paid to brokers and dealers on client transactions may not be the lowest available; however, we believe considering factors beyond commission rates is important to optimizing overall execution quality and overall investment management services.

### *Aggregation and Allocation of Orders*

When we buy or sell the same security for two or more clients, we may place concurrent orders with a single broker, to be executed together as a single “block” in order to facilitate orderly and efficient execution. The securities are allocated to client accounts, either before or promptly after the transaction, based on client investment objectives and client guidelines which include factors such as account cash levels, asset allocations, sector weights, and securities holdings. Whenever we do so, each account on whose behalf an order was placed receives the average price and bears a proportionate share of all transaction costs, based on the size of that account’s order. On occasion, we will not block orders because in doing so we may create a block which might result in the clients receiving a less advantageous execution. In our experience, the commission paid for large stock orders and small stock orders have been about the same cost per share.

Heritage and its employees’ related accounts generally will not be included in the client aggregations. An exception to this restriction is accounts of clients who are related to our employees. We are mindful of our duty to do the best for clients and to be fair to all clients with no favoritism.

Heritage will normally allocate partially filled orders on a pro rata basis but will consider random allocation at times. For example, a random allocation program may be used to fill client orders of limited availability or thinly-traded securities, in order to avoid allocating tiny blocks of such securities.

### *Research Services*

*Generally.* As indicated above, when selecting broker-dealers for particular transactions, we often consider the value of proprietary research that a broker-dealer has provided or may be willing to provide. This is commonly known as paying for those services or products with “soft dollars.” Because many of those services could be considered to provide a benefit to the firm and, because the commissions used to acquire them are client assets, the firm could be considered to have a conflict of interest in allocating client brokerage business. In other words, Heritage could receive valuable benefits by selecting a particular broker or dealer to execute client transactions and the transaction fee charged by that broker or dealer might not be the lowest fee the firm might otherwise be able to negotiate.

During the last fiscal year, we did not direct any client transactions to any broker dealers that may have referred clients to us. We believe that trying to obtain the most



favorable execution for our client is more important than receiving client referrals from broker-dealers.

*Proprietary Research and Brokerage Products and Services.* The proprietary research products and services we may receive from brokers may include economic surveys, data and analyses, financial publications, and specific stock recommendations or other information about particular companies and industries (through in-depth research reports and otherwise). All research products and services received provide lawful and appropriate assistance to the firm in the performance of its investment decision-making responsibilities, consistent with Section 28(e) of the Securities Exchange Act. This section of the law details the circumstances in which client commission dollars can be used by investment advisers to obtain research materials. We use these products and services in the conduct of our investment decision-making generally, not just for those accounts whose commissions may be considered to have been used to pay for the products or services.

The firm's practices in this area are done in a manner that satisfies the requirements of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934. That safe harbor is available if, among other things, when placing orders with a particular broker we determine, considering all the factors described above, that the commissions to be paid are reasonable in relation to the value of all the brokerage and research products and services provided by the broker-dealer. In making that determination, we typically consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services in our performance of our overall responsibilities to all of our clients. The commission a broker who provides research charges for a particular transaction or set of transactions may be greater than the commission another broker who did not provide such services or products might charge.

We do not exclude a broker from our list of eligible brokers simply because the broker has not been identified as one providing soft dollar research products and services, although we may not be willing to pay the same commission to those brokers as we would have paid had the broker provided such products and services. Importantly, we have no commitments to place commission business with any brokerage firm.

During the last fiscal year, we executed the vast majority of our stock trades at what we believe are very low commission rates usually 3/4 of a penny per share.

*Review.* Our Trading Committee is responsible for overseeing the firm's brokerage and trading practices. The Committee is comprised of key personnel who are knowledgeable in trading and compliance practice. They devote time to implementing our broker-dealer selection process and monitor the quality of executions provided by the various brokers and dealers through whom we execute transactions on behalf of clients as well as the reasonableness of the compensation paid to those brokers and dealers in light of all the factors described above.

Directed Brokerage

From time to time, some clients may instruct us to use one or more particular brokers or dealers for some or all of the transactions in their accounts. They may decide to choose a brokerage firm as opposed to a Trust Company as their custodian in order to save the custodian fee as described in Item 5 or to receive a loan at an attractive interest rate. Clients who may want to direct us to use a particular broker-dealer should understand that their direction may prevent us from aggregating orders with other clients, executing trades at the same time as other clients, or from effectively negotiating brokerage commissions on their behalf, and they may even prevent us from obtaining the most favorable net price and execution. Bond transactions in particular may be limited and/or have wider spreads (markups and markdowns). Thus, in directing brokerage business, those clients may lose possible advantages that non-designating clients may have. Clients who direct brokerage should consider whether the lower custodial fees offset the higher commission expense, and different execution, clearance and settlement capabilities they will obtain. Bond trades are generally executed through financial institutions other than the brokerage firm which holds custody and have an added cost of a trade away fee.

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

Accounts are reviewed periodically to determine achievement of client objectives, adequacy of the cash balances on hand, the diversification of the portfolio, and the appropriateness of the security positions. Reviews may be triggered by economic and political events, client requests, changes in specific company or issuer information, changes in market conditions, and changes in objectives. The portfolios are reviewed by our staff of six portfolio managers. Each portfolio manager may be responsible for up to 100 family relationships involving no more than 275 portfolios. Since all of the portfolios are evaluated daily, portfolio managers are always using current information regarding values, performance, asset allocation, and upcoming withdrawals when reviewing the client's portfolio. In depth performance reports are generated monthly and reviewed by portfolio managers.

On a quarterly basis, a performance report and a statement of assets are provided to each client. All holdings on the statement show cost and market value as well as dividend and interest income and indicated yield. At year-end, a schedule of transactions having tax consequences is furnished. The client's independent custodian or brokerage firm also issues reports at least quarterly. Performance reports are provided by Heritage for the total portfolio and for the fixed income, equity, and cash components. Monthly transaction reports are also provided. Heritage will provide additional reports upon request. Clients are urged to compare the value of their portfolio as prepared by Heritage with the value calculated by the client's custodian. Values differ due to timing differences, trades in progress, accrued income, miscellaneous assets, and differences in pricing as reported by the different pricing services utilized by each firm. On a routine basis, Heritage compares the prices of its security pricing service with that of the custodians to verify the accuracy of its prices which are used in client evaluations, billing, and performance reports. When a discrepancy is found, appropriate action is then taken.

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

Heritage does not compensate any person for client referrals nor do we receive any compensation from other firms or individuals for any referrals. Occasionally, Heritage may recommend or suggest accountants, attorneys, or other financial professionals to our clients, but we do not receive compensation directly or indirectly for such activities. We believe that recommending other professionals with whom we have had successful business dealings and who may refer clients to us may appear to create a conflict of interest; therefore, we will acknowledge to our clients existing business relationships at the time such referrals are made or received.

Occasionally an employee of Heritage may receive a gift of limited value from a service provider or a client. Such gifts are recorded and reviewed to see if the acceptance of the gift might result in a conflict of interest. If the gift was determined to present a conflict of interest, the gift would be returned or donated to charity.

#### **Item 15: Custody**

All client assets are held by a brokerage firm, a bank custodian, or a trust company. Brokerage firms usually send statements to clients on a monthly basis; while bank custodians and trust companies send statements to clients at least quarterly. Clients should review these statements carefully and compare them with the statements Heritage provides. Many clients have authorized their custodian to withdraw the Heritage fee from their account. Please note that the custodian receives a copy of the invoice but does not verify the fee calculation. An invoice and statement are also sent to the client. Heritage is deemed to have custody of its clients' accounts because we are authorized by our clients to have management fees debited from their accounts held by custodians, we manage our own retirement plan, and we are requested by clients to assist in the movement of funds and assets to clients and to third parties. As required by the Securities and Exchange Commission to make sure that client assets are safeguarded, Heritage has engaged an independent accounting firm to conduct a surprise audit annually to verify the assets held by the client's custodian.

#### **Item 16: Investment Discretion**

Generally, clients grant us, as provided by our advisory agreement, the discretionary authority to select which and how many securities to buy or sell. This authority is granted by a limited power of attorney. We agree to adhere to all investment objectives, guidelines, and restrictions imposed by the client. These may include restrictions limiting our ability to purchase companies in certain industries such as tobacco or alcohol to name a couple. We manage each client's account on an individual basis. When we determine that a particular security should be acquired, the accounts are reviewed

to ascertain if the security is suitable and appropriate for the client. We take into consideration many factors. Among them are the client's objectives and risk tolerance level, the diversification needs of the portfolio, the cash position and liquidity needs of the client, and the holdings in the specific industry or similar companies. Only then will a security be purchased for a client's portfolio.

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

Heritage has adopted and implemented policies and procedures that are reasonably designed to ensure that proxies are voted in the best interest of the clients. Authority to vote the proxies is established by our advisory agreement. Upon request by a client, Heritage will provide a copy of these policies and procedures along with a record of how proxies were voted.

Proxies are voted based on what Heritage believes is in the best interest of each client. Heritage believes that the company's recommendation on any issue should be given substantial weight in determining how an issue should be voted. Therefore, our votes may be consistent with the company's recommendations. However, when we believe the company's position on an issue is not in the best interests of our clients, we may cast a different vote.

Should there be any material conflicts between Heritage's interests and the clients' interests such conflicts should be resolved in the best interest of the clients. Clients may direct us to vote their proxies in a specific manner. We document and honor all special requests and vote proxies accordingly.

Where clients have reserved the right to vote their own proxies, the clients will receive their proxies directly from the custodian or the company designated to handle the distribution of proxy voting materials by the custodian. Should these clients wish to discuss the voting of their proxies, they may do so with a portfolio manager.

#### **Item 18: Financial Information**

We believe that our strong financial position is sufficient to allow us to honor all our contractual commitments to our clients.

**HERITAGE INVESTORS  
MANAGEMENT CORPORATION**

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**Balance Sheet  
with  
Independent Auditor's Report  
December 31, 2016**

## CONTENTS

	<u>Page</u>
Independent auditor's report	2
Balance sheet	4
Notes to financial statement	5

## **INDEPENDENT AUDITOR'S REPORT**

To the Stockholder  
Heritage Investors Management Corporation

We have audited the accompanying balance sheet of Heritage Investors Management Corporation at December 31, 2016 and the related notes to the financial statement.

### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENT**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



#### OPINION

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Heritage Investors Management Corporation as of December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

*Grossberg Company LLP*

January 26, 2017



HERITAGE INVESTORS MANAGEMENT CORPORATION

BALANCE SHEET

DECEMBER 31, 2016

<u>Assets</u>	
<b>Current assets:</b>	
Cash and cash equivalents (Note 2)	\$ 2,486,670
Short-term marketable securities (Note 3)	2,881,262
Accounts receivable - trade	1,001,298
Accrued interest receivable	69,631
Prepaid expenses	107,249
<b>Total current assets</b>	<b>6,546,110</b>
<b>Furniture and equipment, net of accumulated depreciation of \$274,260</b>	<b>88,012</b>
<b>Cash value of insurance policy (Note 4)</b>	<b>132,167</b>
<b>Long-term marketable securities (Note 3)</b>	<b>2,122,672</b>
	<b>\$ 8,888,961</b>
<u>Liabilities and Stockholder's Equity</u>	
<b>Current liabilities:</b>	
Accrued compensation	\$ 64,125
Deferred fee revenue (Note 5)	2,573,990
<b>Total current liabilities</b>	<b>2,638,115</b>
<b>Deferred rent obligation (Note 6)</b>	<b>14,235</b>
<b>Total liabilities</b>	<b>2,652,350</b>
<b>Stockholder's equity:</b>	
Common stock - no par value; 250 shares authorized; 135 shares issued and 35 shares outstanding	8,500
Additional paid-in capital	700,000
Retained earnings	5,878,723
Accumulated other comprehensive loss	(47,612)
	<b>6,539,611</b>
Treasury stock, 100 shares	(303,000)
<b>Stockholder's equity - net</b>	<b>6,236,611</b>
	<b>\$ 8,888,961</b>

See accompanying notes.

# HERITAGE INVESTORS MANAGEMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 1. *Accounting policies*

Nature of operations - Heritage Investors Management Corporation operates from a single location in Bethesda, Maryland. We provide investment advisory services to clients on a for-fee basis.

Use of estimates - We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which require management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include currency on hand, demand deposits with banks and other financial institutions, and all highly-liquid debt instruments purchased with an original maturity of three months or less.

Marketable securities - Marketable securities are classified as available-for-sale and are carried at fair value, with related unrealized gains and losses reported as accumulated other comprehensive income (loss), a separate component of stockholder's equity. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income, along with interest and dividends. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in investment income.

Investment securities are reviewed for impairment in accordance with FASB Accounting Standards Codification Topic 302, *Investments - Debt and Equity Securities*. We periodically review our investments for indications of other than temporary impairment considering many factors, including the extent and duration to which a security's fair value has been less than its cost, overall economic and market conditions, and the financial condition and specific prospects for the issuer. Impairment of investment securities results in a charge to income when a market decline below cost is other than temporary.

Accounts receivable and bad debts - Accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. U.S. GAAP requires that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Property and equipment - We record property and equipment at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets, which range from five to ten years. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Depreciation expense for the year ended December 31, 2016 aggregated \$18,437.

# HERITAGE INVESTORS MANAGEMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 1. Accounting policies (continued)

Revenue recognition - We recognize fees for services in revenue ratably over the billing period. Generally, our fees are billed in advance of the service period. Fee payments received and billed in advance of the service period are deferred.

Subsequent events - The Company has evaluated subsequent events through January 26, 2017, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2016 have been incorporated into these statements.

### 2. Cash and cash equivalents

We maintain a portion of our cash and cash equivalents in a deposit account with a major U.S. bank. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2016, there is no were no balances in excess of the FDIC coverage limit. We have not experienced any losses in this account and do not believe we are exposed to any significant credit risk on our deposits.

At December 31, 2016, we had invested \$2,305,896 in a money market mutual fund. The fund invests in short-term debt instruments and seeks to maintain a stable \$1 per share value. This account is not insured by the FDIC. We have not experienced any losses in such account and do not believe we are exposed to any significant credit risk on the balance of our account in this fund.

### 3. Marketable securities

All of our marketable securities are classified as available for sale-type securities consisting of tax-exempt municipal bonds as follows consisted of the following at December 31, 2016:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Accumulated Unrealized Gain</u>	<u>Accumulated Unrealized Loss</u>
Municipal debt securities				
Due in 2017	\$ 2,884,460	\$ 2,881,262	\$ 215	\$ (3,414)
Due in 2018-2021	1,591,468	1,589,002	293	(2,759)
Due in 2022-2026	277,650	236,488	13	(41,175)
Due after 2026	297,968	297,182	-	(785)
	<u>\$ 5,051,546</u>	<u>\$ 5,003,934</u>	<u>\$ 521</u>	<u>\$ (48,133)</u>

# HERITAGE INVESTORS MANAGEMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 3. Marketable securities (continued)

The following table sets forth by level, within the fair value hierarchy, the Company's investments which are measured at fair value at December 31, 2016.

	<u>Fair Value</u>	<u>Level 1</u>
Municipal debt securities issuing by state:		
Maryland	\$ 1,876,404	\$ 1,876,404
Florida	831,541	831,541
New York	426,639	426,639
DC	309,525	309,525
New Jersey	308,037	308,037
California	239,871	239,871
North Carolina	207,518	207,518
South Carolina	200,022	200,022
Nevada	181,193	181,193
Texas	152,282	152,282
Other	270,902	270,902
	<u>\$ 5,003,934</u>	<u>\$ 5,003,934</u>

Accounting principles generally accepted in the United State have established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 3 inputs are used only when Level 1 or Level 2 inputs are not available for specific assets. The Company uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets. When available, the Company measures fair value using Level 1 or 2 inputs because they generally provide the most reliable evidence of fair value. No Level 3 or 2 inputs were needed to determine fair value of investments held at December 31, 2016.

### 4. Cash value of officer's life insurance

We are the owner and beneficiary of insurance policies with a face value aggregating \$500,000 on the life of the president/stockholder. The liquidation value of the policies was \$132,167 at December 31, 2016.

# HERITAGE INVESTORS MANAGEMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 5. *Deferred fee revenue*

Generally, we bill our clients in advance of the service period and recognize such billings in revenue ratably over the service period. The terms of the contracts with our clients require that we refund any unearned fees upon cancellation of such contracts. At December 31, 2016, \$919,764 of unpaid customer billings are included in deferred fee revenue.

### 6. *Lease*

We conduct our operations in office space rented under an operating lease which expires March 31, 2018. Rent expense for the year ended December 31, 2016 was \$147,880.

Future minimum payments under this lease are as follows:

<u>Year ending December 31,</u>	
2017	\$ 158,000
2018	40,000
	<u>\$ 198,000</u>

We have the option of extending the lease for an additional three-year term. The above amounts only include future minimum lease payments due during the current lease term.

Our lease agreement provides for fixed annual escalations of rental payments. As required by U.S. GAAP, we recognize the portion of our rental payments that represent base rents in expense ratably over the term of the lease. The deferred lease obligation at December 31, 2016 represents the cumulative amount of rent expense recognized for financial statement purposes in excess of our actual cash payments for base rents through such date.

### 7. *Retirement plans*

We maintain a qualified defined contribution cash or deferred arrangement profit sharing and 401(k) plan (the Plan) covering substantially all employees. The Plan also permits participants to make Roth 401(k) contributions. Annual contributions to the Plan are at the sole discretion of the Board of Directors, but are limited to 25% of the compensation paid or otherwise accrued to all participants during the year. Expense recognized for safe-harbor contributions to the Plan was \$56,510 for the year ended December 31, 2016. Expense recognized for other employer contributions to the Plan for the year ended December 31, 2016 was \$188,365.

# HERITAGE INVESTORS MANAGEMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 8. *Income taxes*

We elected S corporation status under the Internal Revenue Code effective July 1, 2001. In lieu of corporate income taxes, the stockholders of an S corporation are required to report on their personal federal and state income tax return their proportionate share of our taxable income.

Our Company is no longer subject to U.S. Federal or state income tax examinations by tax authorities for years prior to 2013.

### 9. *Change in accounting for leases and revenue recognition*

On February 25, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) which establishes new accounting principles applicable to leases, including leases for office space.

When implemented the new standards will require us to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the balance sheet
2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis
3. Classify all cash payments within operating activities in the statement of cash flows.

In addition, also consistent with current accounting standards, a lessee (and a lessor) should exclude most variable lease payments in measuring lease assets and lease liabilities, other than those that are in substance fixed payments.

Nonpublic companies will have to begin applying the new standards for fiscal years that start after December 15, 2019, while early implementation ahead of the effective date is permitted.

We have not yet evaluated the impact of the new standard on our financial statements, nor made a decision as to whether we will implement the standard prior to its effective date.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, a revenue recognition standard that will result in companies recognizing revenue from contracts when control for the service or product that is the subject of the contract is transferred from the seller to the buyer. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers-Deferral of the Effective Date, which defers the effective date of the new revenue recognition standard until January 1, 2019. The Company is assessing whether the new standard will have a material effect on its financial position or results of operations.

## **Part 2B**

### **Item 1. Cover Page**

Michael S. Cornfeld

Heritage Investors Management Corporation  
7101 Wisconsin Avenue, Suite 950  
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January 5, 2018  
(updates March 29, 2017 ADV Part 2A  
for change of address)

This brochure supplement provides information about Michael S. Cornfeld that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration, if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Michael S. Cornfeld  
Year of Birth: 1949

**Education:**

Columbia University, MA 1973  
Cornell University, BA 1971  
Chartered Financial Analyst 1978  
Chartered Investment Counselor 1984

**Business Background:**

Heritage Investors Management Corporation:  
Chairman of the Board of Directors, September 1990 to present  
President and Treasurer, October 1985 to present  
Chief Compliance Officer, October 2004 to present  
Vice President, January 1975 to October 1985

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. Cornfeld.

**Item 4: Other Business Activities**

Mr. Cornfeld is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. Cornfeld's sole source of compensation is from Heritage Investors. He has no other business compensation.

**Item 6: Supervision**

Mr. Cornfeld is the President of Heritage Investors Management Corporation and is an active participant in and supervisor of the investment management process. As the Chief Executive Officer, Mr. Cornfeld is responsible for the day-to-day activities of the entire firm. Mr. Cornfeld is also the Chief Compliance Officer. As President, Mr. Cornfeld is deemed to supervise himself.



**Item 1. Cover Page**

Derek R. Stone

Heritage Investors Management Corporation  
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Email: DStone@HeritageInvestors.com

January 5, 2018  
(updates March 29, 2017 ADV Part 2A  
for change of address)

This brochure supplement provides information about Derek R. Stone that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration, if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Derek R. Stone  
Year of Birth: 1958

**Education:**

University of Pennsylvania, Wharton School, MBA 1982  
Harvard College, BA 1980  
Chartered Financial Analyst 1985  
Chartered Investment Counselor 1985

**Business Background:**

Heritage Investors Management Corporation:  
Vice President, July 1992 to present  
Portfolio Manager and Analyst, July 1982 to present

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. Stone.

**Item 4: Other Business Activities**

Mr. Stone is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. Stone's sole source of compensation is from Heritage Investors. He has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. Portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.

**Item 1. Cover Page**

Kenneth J. Long

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January 5, 2018  
(updates March 29, 2017 ADV Part 2A  
for change of address)

This brochure supplement provides information about Kenneth J. Long that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration, if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Kenneth J. Long  
Year of Birth: 1968

**Education:**

Duke University, Fuqua School of Business, MBA 1995  
University of Maryland, Baltimore County, BA 1990  
Chartered Financial Analyst 1998  
Chartered Investment Counselor 2000  
Certified Public Accountant, State of Maryland 1990

**Business Background:**

Heritage Investors Management Corporation:  
Vice President, December 2002 to present  
Portfolio Manager and Analyst, August 1995 to present  
Coopers and Lybrand, CPA's:  
Staff Accountant, July 1990 to July 1993

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. Long.

**Item 4: Other Business Activities**

Mr. Long is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. Long's sole source of compensation is from Heritage Investors. He has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. Portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.

**Item 1. Cover Page**

Jean M. Kennedy

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January 5, 2018  
(updates March 29, 2017 ADV Part 2A  
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This brochure supplement provides information about Jean M. Kennedy that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration, if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Jean M. Kennedy  
Year of Birth: 1960

**Education:**

Tulane University, Freeman School of Business, MBA 1986  
Stanford University, BA 1981  
Chartered Financial Analyst 1989  
Chartered Investment Counselor 2006

**Business Background:**

Heritage Investors Management Corporation:  
Vice President, July 2007 to present  
Portfolio Manager and Analyst, September 2000 to present  
SOL Capital Management Company:  
Vice President, Relationship Manager, January 1999 to August 2000  
Alex, Brown & Sons:  
Vice President, Equity Research, January 1994 to February 1995  
Brice Enviro Ventures:  
Strategy Consultant, October 1990 to January 1994  
Bear, Stearns:  
Equity Research Analyst, August 1986 to July 1990

**Item 3: Disciplinary Information**

There have been no disciplinary events for Ms. Kennedy.

**Item 4: Other Business Activities**

Ms. Kennedy is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Ms. Kennedy's sole source of compensation is from Heritage Investors. She has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. Portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.

**Item 1. Cover Page**

Michael DeMayo

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January 5, 2018  
(updates March 29, 2017 ADV Part 2A  
for change of address)

This brochure supplement provides information about Michael DeMayo that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration, if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Michael DeMayo  
Year of Birth: 1959

**Education:**

University of San Diego, School of Law, JD 1988  
Pace University, Lubin School of Business, BBA, MBA 1981  
Certified Public Accountant (inactive), State of California 1990  
Chartered Financial Analyst 2007  
Chartered Investment Counselor 2013

**Business Background:****Heritage Investors Management Corporation:**

Vice President, January 2012 to present  
Portfolio Manager and Analyst, November 2007 to present  
Research Analyst and Trader, November 2004 to November 2007

**Duncan-Hurst Capital Management:**

Chief Financial Officer, December 2003 to November 2004  
Vice President, Finance & Legal, January 1998 to November 2003  
Controller, January 1995 to December 1997

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. DeMayo.

**Item 4: Other Business Activities**

Mr. DeMayo is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. DeMayo's sole source of compensation is from Heritage Investors. He has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. Portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.



**Item 1. Cover Page**

Andrew M. Schenker

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January 5, 2018  
(updates March 29, 2017 ADV Part 2A  
for change of address)

This brochure supplement provides information about Michael DeMayo that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration, if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Andrew M. Schenker  
Year of Birth: 1979

**Education:**

Columbia University Business School, MBA 2008  
Duke University, BS 2001

**Business Background:****Heritage Investors Management Corporation:**

Director of Research, November 2016 to present  
Portfolio Manager and Analyst, January 2017 to present

**Morgan Stanley:**

Executive Director, January 2016 to October 2016  
Lead Analyst: Managed Care and Healthcare Facilities,  
July 2012 to October 2016  
Vice President, January 2012 to December 2015  
Lead Analyst: Mid-market PBMs, September 2011 to December 2012  
Equity Research Associate, September 2009 to December 2012

**Sanford C. Bernstein:**

Research Associate, July 2008 to September 2009

**Oppenheimer Capital (now Allianz Capital):**

Summer Associate, June 2007 to August 2007

**Advent Capital Management:**

MBA Intern, September 2006 to May 2007

**Richard L. Hanley Associates:**

Research Associate, May 2002 to June 2006

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. Schenker.

**Item 4: Other Business Activities**

Mr. Schenker is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. Schenker's sole source of compensation is from Heritage Investors. He has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. Portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.

## Appendix A

### Qualifications Required for Professional Designation Credentials

Heritage Investors Management Corporation  
7101 Wisconsin Avenue, Suite 950  
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## **CFA Institute Financial Adviser Statement for SEC Form ADV**

The Chartered Financial Analyst (CFA) charter is a globally respected, graduate-level investment credential established in 1962 and awarded by the CFA Institute - the largest global association of investment professionals.

There are currently more than 135,000 CFA charter holders working in 150 countries/territories. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

### **High Ethical Standards**

The CFA Institute Code of Ethics and Standards of Professional Conduct, enforced through an active professional conduct program, require CFA charter holders to:

- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

### **Global Recognition**

Passing the three CFA exams is a difficult feat that requires extensive study (successful candidates report spending an average of 300 hours of study per level). Earning the CFA charter demonstrates mastery of many of the advanced skills needed for investment analysis and decision making in today's quickly evolving global financial industry. As a result, employers and clients are increasingly seeking CFA charter holders—often making the charter a prerequisite for employment.

Additionally, regulatory bodies in 22 countries and territories recognize the CFA charter as a proxy for meeting certain licensing requirements, and more than 300 colleges and universities around the world have incorporated a majority of the CFA Program curriculum into their own finance courses.

### **Comprehensive and Current Knowledge**

The CFA Program curriculum provides a comprehensive framework of knowledge for investment decision making and is firmly grounded in the knowledge and skills used

every day in the investment profession. The three levels of the CFA Program test a proficiency with a wide range of fundamental and advanced investment topics, including ethical and professional standards, fixed-income and equity analysis, alternative and derivative investments, economics, financial reporting standards, portfolio management, and wealth planning.

The CFA Program curriculum is updated every year by experts from around the world to ensure that candidates learn the most relevant and practical new tools, ideas, and investment and wealth management skills to reflect the dynamic and complex nature of the profession.

To learn more about the CFA charter, visit [www.cfainstitute.org](http://www.cfainstitute.org).

### **CIC – Chartered Investment Counselor**

The Chartered Investment Counselor (CIC) charter is a professional designation established in 1975 and awarded by the Investment Adviser Association (IAA). The Charter was designed to recognize the special qualifications of persons employed by IAA member firms whose primary duties involve investment counseling and portfolio management.

A key educational component of the program is the requirement that candidates hold the Chartered Financial Analyst® (CFA®) designation, administered by CFA Institute (see <http://www.cfainstitute.org/cfaprogram/Pages/index.aspx>). In addition to successful completion of the CFA program, the CIC designation requires candidates to demonstrate significant experience (at least 5 cumulative years) in a position performing investment counseling and portfolio management responsibilities. At the time the charter is awarded, candidates must be employed by an IAA member firm in such a position, must provide work and character references, must endorse the IAA's Standards of Practice, and must provide professional ethical information. For more information, see: <https://www.investmentadviser.org/eweb/dynamicpage.aspx?webcode=cic>.

### **CPA – Certified Public Accountant**

#### **Initial requirements**

- Complete an approved accounting college curriculum
- Pass the Uniform CPA Examination
- Earn 2,000 hours of experience in accounting-related activities

#### **Continuing requirements**

- For active status, complete 80 of continuing education hours every two years (not required for inactive status)