

Financial Engines Advisors L.L.C.  
3315 Scott Blvd, 4th Floor  
Santa Clara, California 95054

Chief Compliance Officer: Jonathan Robbins  
[www.EdelmanFinancialEngines.com](http://www.EdelmanFinancialEngines.com)

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

This Brochure provides information about the qualifications and business practices of Financial Engines Advisors L.L.C. ("FEA"), an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). Registration does not imply a certain level of skill or training. If you have any questions about the contents of this Brochure, please contact us at 1-800-601-5957. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

Additional information about FEA is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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## Item 2: Material Changes

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This document includes updates to the Firm's Form ADV Part 2A that have occurred since the last annual amendment was filed on March 29, 2019. These changes relate mainly to continuing harmonization between the formerly separate entities Financial Engines Advisors L.L.C. ("FEA") and Edelman Financial Services, LLC ("EFS"), as well as to the addition of certain new and expanded service offerings by the Firm.

As is discussed in more detail below, our wrap fee investment advisory program now features enhanced options for clients. To that end, the program now includes an expanded set of models which can help clients achieve their financial goals. We refer to the expanded set of options as our "Wrap Fee Program" throughout this document.

The Firm has also expanded the range of products and services we offer to clients. This includes the introduction of Personalized Portfolios into our retail branches, bringing a level of customization to applicable clients previously unavailable through our planners. Other new services are described within this document as well. We have likewise enhanced our ability to discuss relevant "ancillary services" with our clients to better help them meet their financial needs.

Edelman Financial Engines no longer has an affiliated broker-dealer, as that entity was sold to a third party. The TMFS Insurance Agency, LLC was also sold to a third party. These changes are reflected within this document.

As harmonization continues and additional changes occur, we will communicate them as appropriate to clients. The harmonization of fees, service offerings and other aspects of how we engage with clients is expected to continue in 2020 and beyond.

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## **Item 4: Advisory Business**

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Financial Engines Advisors L.L.C. ("FEA" or "Firm") is an investment advisory firm registered with the United States Securities and Exchange Commission ("SEC"). FEA provides comprehensive financial advisory services to clients to help them meet their financial and retirement goals. We offer a suite of services which provide different levels of interaction with FEA based upon the unique requirements and needs of each client. We are committed to acting as a fiduciary, with our planners being fee-only, in that none of our planners receive commissions or fees tied to the sale of certain types of products or services (see Item 10 for more information on commissions and fees).

FEA was established in 1997; Edelman Financial was founded in 1986 by Ric and Jean Edelman. On or about November 1, 2018, Financial Engines Advisors L.L.C. (sometimes referred to throughout this brochure as "legacy FE" or "legacy Financial Engines") and Edelman Financial Services, LLC (referred to throughout this brochure as "legacy EFS" or "legacy Edelman Financial") came together under one ADV to offer investment advisory services to clients. The name of the registered investment advisor remains Financial Engines Advisors L.L.C.; our overall business now primarily operates using the name "Edelman Financial Engines" (also referred to as the "Firm"). For those clients who have access to our services through our network of retail branches, we generally refer to our business as Edelman Financial Engines. For those who have access to our services primarily through the workplace, we historically referred to our business as Financial Engines, although this aspect of our business will soon be known primarily as Edelman Financial Engines as well. In all circumstances, advisory services are provided by Financial Engines Advisors L.L.C., the investment advisory firm registered with the SEC.

The principal owner of FEA is Edelman Financial Engines, LLC. The ultimate parent company of Edelman Financial Engines, LLC, and in turn FEA, is Edelman Financial Engines, L.P.

### **I. Overview of FEA's Advisory Services**

As a result of the combination described above, the advisory services that FEA provides are being integrated with a goal of being fully harmonized over time. Until that time, FEA will generally continue to provide the same services that each legacy firm has been providing to its clients while also introducing additional opportunities to clients, as is discussed in more detail below. As harmonization continues, and additional changes occur, we will communicate them as appropriate to clients and/or prospective clients.

FEA provides technology-enabled comprehensive financial advisory services, including financial planning, investment management and retirement income solutions, covering accounts including employer-sponsored defined contribution accounts (401(k), 457, and 403(b) plans), individual retirement accounts ("IRAs"), and taxable accounts. We help individuals, either online, through one of our tools or with an advisor, develop a strategy to help reach investing and retirement goals by offering a comprehensive set of services, including holistic, personalized plans for saving and investing, assessments of retirement income, and the option to meet face-to-face with a dedicated financial advisor. As further explained below, our services generally can be accessed either through the workplace or directly through a planner in one of the Edelman Financial Engines' branch offices nationwide.

Historically, clients who worked with legacy FE planners would invest in one of the services available through legacy FE's branch network. Other legacy FE clients received advisory services through their workplace. Similarly, clients who worked with legacy EFS planners would invest in one of the services available through legacy EFS' branch network. New clients who began working with the Firm after November 1, 2018 generally were able to invest in one or more of the legacy firms' suite of services. With ongoing harmonization, both new and existing clients also have had increased access to an expanding set of programs and services, as is described further below. Until full harmonization of service offerings occurs, both new and existing retail clients might still have different services offered to them depending upon where and how they engage with FEA. In all cases, FEA works to ensure that clients are engaged with services which will help them achieve their long-term goals. FEA maintains practices to reasonably ensure that clients are geared towards services which will help them work towards those goals in a method that is in their best interest.

## **II. Advisory Services Offered to Clients through the Workplace**

Financial Engines offers the following services for employees' workplace retirement and other accounts through an agreement between Financial Engines and the plan and/or the sponsoring employer ("plan sponsor"). Financial Engines also has arrangements with certain financial institutions to provide similar services on a sub-advisory basis.

### **Online Advice**

Online Advice is a service that is available to participants in employer-sponsored defined contribution plans through an agreement between Financial Engines and the plan and/or the sponsoring employer. Online Advice is also available to retail clients or other interested parties, who can sign up online at any time for this service. The Firm may also refer relevant clients or prospective clients to this service if it may be in the client or prospect's best interest to engage with the Firm in this manner.

Online Advice includes the following educational and guidance features

- a forecast of the potential future account value or the potential annual retirement income;
- a forecast of the likelihood that a client will achieve their retirement income or account value goals, taking into consideration the total household investment portfolio;
- phone access to investment advisor representatives via a toll-free number;
- guidance on savings rates and retirement age; and
- access to ongoing monitoring, including optional email quarterly Retirement Updates.

Financial Engines typically offers the following two service levels in connection with Online Advice:

- Total Retirement: advice on a household's tax-deferred accounts; or
- Total Portfolio: advice on all of a household's tax-deferred and taxable assets.

Plan participants who enter into or adopt an Investment Services Agreement with Financial Engines can receive recommendations among the investment alternatives available in the employer-sponsored retirement plan. Such alternatives generally include mutual funds and other investment company securities, and in some cases, one or more equity securities issued by the plan sponsor. With Online Advice, the participant retains discretion over their employer-sponsored retirement plan and is free to decide whether to implement the Financial Engines' recommendations, in whole or in part.

*Investment recommendations.* Online Advice clients generally receive specific buy and sell recommendations to allocate assets among the universe of investment alternatives that have been selected by the plan sponsor or other plan fiduciary for inclusion in the applicable defined contribution plan (or by another financial institution or the adopter in the case of other retirement accounts outside the plan account). These alternatives are generally mutual funds, and, in some cases, one or more equity securities issued by the plan sponsor. Financial Engines provides advice and recommendations with respect to:

- mutual funds (buy/sell);
- commingled funds (buy/sell);
- separate accounts (buy/sell); and
- exchange-listed equity securities (sell only).

Financial Engines may take into consideration closed-end funds and exchange-traded funds as well as other holdings, as appropriate.

Other types of investments (such as those listed below) held outside of a client's defined contribution plan account can be entered and defined by the participant for inclusion in portfolio forecasting analyses:

- certificates of deposit;
- variable annuities;
- stocks trading on foreign exchanges;
- bonds (including municipal securities, corporate debt securities and Treasury securities);
- warrants; and/or
- options

*Advice implementation.* The Online Advice client is responsible for determining whether and when to implement the recommendations they receive from Online Advice. Financial Engines has established electronic communications links with certain defined contribution plan providers ("plan providers") and other financial institutions to enable plan participants to transmit their contribution and investment decisions to the plan provider or institution for execution. With Online Advice, Financial Engines does not have discretion over client accounts and does not initiate trade instructions on behalf of clients.

*Account monitoring through Online Advice.* Plan participants may use Online Advice as frequently as they choose to monitor progress toward their retirement goals, receive forecasts and investment recommendations, and access educational content. Online Advice updates the

values of most mutual funds and stocks in plan accounts daily. A participant is responsible for periodically revisiting Online Advice to:

- update account information to reflect changes in investments, including purchases and sales of investments;
- update personal information, including retirement goals, to reflect changes in personal or financial circumstances; and/or
- review any updates regarding changes to the participant's account value or forecast.

The failure of an Online Advice client to review and periodically update their personal and financial information can materially affect the value of this service. For certain participants, some account information may be updated automatically when the client revisits Online Advice if Financial Engines has established an electronic communications link with the participant's plan sponsor and/or plan provider or other financial institution. Financial Engines may from time to time provide e-mail notifications to clients concerning Retirement Updates, changes in the value of the client's investments or the chances of reaching the client's goal.

*Investment analysis.* Financial Engines offers plan participants who use Online Advice investment analysis of mutual funds and stocks in the form of Scorecards. Each Scorecard presents an analysis of the risk, expenses, style, turnover and historical performance of a particular mutual fund compared to its peers and assigns the fund a score. A fund's score describes how the fund might perform in the future relative to its peers. The Fund Scorecard also presents a graphical representation of historical performance of a hypothetical investment in the fund. Financial Engines' Scorecards for individual equity securities depict the relative risk and historical performance of the individual stock.

*Online Advice for Non-Workplace Participants.* Online Advice is available to those interested in the service even if they are not a workplace client of the Firm. Non workplace individuals interested in accessing Online Advice can do so by subscribing directly with Edelman Financial Engines. The Firm may also refer leads to Online Advice if a prospect may be best served by accessing that service instead of engaging with the Firm through a planner.

## **Professional Management**

Financial Engines provides discretionary investment management of a client's retirement plan account through the Professional Management service, which includes the following features:

- a Retirement Plan or similar document showing how Financial Engines will manage and allocate the account, e.g., the portfolio allocation target, suggestions regarding the client's savings and a forecast regarding achievement of their retirement goals;
- periodic portfolio monitoring;
- Quarterly Retirement Updates;
- phone access to investment advisor representatives via a toll-free number as well as online account access;
- subject to availability, non-discretionary investment advice on retirement accounts outside the plan account;

Plan participants who already have a managed workplace account may also, where contemplated under the relevant agreement, access the Firm's "Income+" service, which provides for the following portfolio management and income payout features for retirees and near retirees for their 401(k) or similar plan account.

- Prior to retirement, Financial Engines manages the client's portfolio to balance between safety and growth, intending to protect the ability of the account generate future income;
- Once a client is retired, Income+ seeks to manage investments and to create payouts that can generally last into their early 90s; and
- Upon request, Financial Engines will calculate and facilitate withdrawals from a client's plan account through the plan provider.

Clients pay no additional fees for the Income+ service, and they can transition to an Income+ portfolio either automatically upon eligibility or at their request, if available. An account balance is maintained for an optional out-of-plan annuity purchase. An in-plan annuity need not be included in a plan's investment lineup for a plan sponsor to offer Income+ services to its participants.

While Financial Engines may provide general educational information regarding an out-of-plan annuity, it does not sell or distribute annuities and does not receive any compensation related to out-of-plan annuity purchases. Income+ availability is subject to establishment of certain data connectivity arrangements between Financial Engines and the applicable plan provider and is subject to applicable retirement plan provisions related to plan withdrawals.

If affirmatively selected and available, plan participants who already have a managed workplace account may also access the Firm's "Workplace IRA" offering, a fee-based individual retirement account ("IRA") management service offered through the workplace. In some limited circumstances certain of these IRA management services may also be available to spouses or for rollovers.

#### Clients of Professional Management

As part of the Professional Management service, clients authorize Financial Engines to direct the plan provider to execute transactions to move toward the allocation target for the account without prior approval of each transaction. Professional Management is generally made available to plan participants in a defined contribution plan through an agreement between Financial Engines and the plan and/or the sponsoring employer. That agreement will specify the methods of enrollment into Professional Management for eligible plan participants, which may include:

- an "opt-in" method of enrollment where a retirement plan participant actively elects to enroll in the program;
- an "opt-out" method of enrollment where eligible plan participants are automatically enrolled in Professional Management in accordance with plan or plan sponsor specifications, with the ability to withdraw at any time without penalty (with this type of enrollment, Professional Management may be designated as a qualified default



- investment alternative or QDIA), as permitted under the Employee Retirement Income Security Act (“ERISA”); or
- some combination of both methods, as determined by the plan or plan sponsor and as agreed to by Financial Engines.

Plan participants who become clients of Professional Management give Financial Engines discretionary authority to determine an allocation target for the plan account. This discretionary authority allows Financial Engines to allocate the client’s plan account among the menu of investment alternatives that have been selected by the plan or plan sponsor, typically excluding any brokerage window option, if applicable, or other plan restricted investments.

To allow Financial Engines to provide Professional Management, the plan provider supplies information about each plan participant and the plan account to Financial Engines. Professional Management clients may provide additional information to Financial Engines concerning preference for a growth or income focus, desired retention of company stock, risk preference, asset class exposure limitations, assets held outside the plan and desired retirement age. Financial Engines may take into consideration a client’s holdings outside the retirement plan in the following types of investments in determining the allocation target: stocks or ADRs traded on the major U.S. exchanges, exchange-traded funds, closed-end funds, open-end mutual funds and certain cash holdings. The portfolio forecasting analysis of Financial Engines may also take into consideration other investments in household portfolios, such as certificates of deposit, variable annuities, stocks trading on foreign exchanges, bonds (including municipal securities, corporate debt securities and Treasury securities), warrants, options and futures.

Financial Engines determines an investment strategy and an allocation target based on the client’s current age, an assumption about the retirement age, the available investments for the account, any pension plan information provided, an assumption about risk tolerance that is based on the client’s current age and assumed retirement age, the client’s current portfolio allocation, and any additional information provided by the client. Additional information provided by the client may modify these parameters.

Due to the statistical nature of the Financial Engines investment process, more than one potential portfolio will satisfy the criteria for an appropriate investment strategy. This optimal set of portfolios that offer the highest expected return for various levels of risk is often referred to as the “efficient frontier.” The efficient frontier is not a line, but instead is a thin band of portfolios with varying allocations. The portfolio that is selected for implementation is the product of optimization enhancements developed by Financial Engines which consider, among other factors, portfolio turnover, concentration, risk and expected return, number of positions and transactions.

During the period following enrollment, Financial Engines determines how to transition the account toward the allocation target and directs the plan provider regarding allocation of the account (which may include transfer or exchange directions) and provides directions regarding new contributions to the account. Accounts of then-current Professional Management clients newly eligible for the Income+ feature of Professional Management (when available) may also be subject to a similar transition. Financial Engines does not give account directions relating to plan restricted investments. Certain plan sponsor “insiders,” as defined under applicable

regulations, and non-U.S. participants in plans, may not be eligible for the Financial Engines Professional Management program.

### **Retirement Evaluation**

As part of the suite of advisory services available to participants in employer-sponsored retirement plans described above, Financial Engines may provide clients with a Retirement Evaluation. The Retirement Evaluation is delivered in printed or electronic format to specified plan participants, and is designed to communicate some (or all) of the following information:

- a summary of the current value of the participant's plan account;
- a forecast of how much the plan account investments, and other investments that participants submit for analysis, might be worth at retirement;
- whether a change is suggested to the participant's contribution rate, their portfolio's risk and diversification, unrestricted company stock holdings, if applicable, target date usage, if applicable, and/or investment style and allocation;
- investment proposals; and
- a projection of how much annual income the participant may anticipate at retirement, based on how much the plan account plus Social Security and certain other benefit accounts could provide.

### **Portfolio Monitoring**

Financial Engines provides ongoing monitoring of participants' retirement accounts, including access to Retirement Updates that are sent out quarterly. Portfolio Monitoring may include:

- updates on current retirement account balance and estimated contributions, and retirement income forecast;
- for accounts where the feature has been activated, Financial Engines provides suggestions for ways to improve the income forecast, set appropriate risk, and get a more holistic picture of retirement finances; and
- quarterly print-based Retirement Updates are available as an option instead of email and contain more general indicators of how on track the participant is for retirement.

### **Additional Workplace Services**

Financial Engines workplace clients may have access to additional services that are designed to be combined with Professional Management. Such services may include management of outside (non-plan) tax-deferred and taxable accounts. Services may be provided as part of a higher level of service that includes access to a designated investment advisor representative, in-person meetings, and financial planning intended in part to support and supplement the workplace retirement plan. Availability is subject to plan sponsor authorization. The Income+ feature discussed above is currently not available in connection with the additional workplace services described here.

Financial Engines provides clients with ongoing and continuous advice, based on the individual needs of the client, and will manage client accounts on a discretionary basis, guided by the

stated objectives of the client. Where available, Financial Engines may also provide investment advisory services for non-workplace accounts held by workplace clients (referred to as “Personal Advisor”). Some of these services are also available through legacy EFS planners as well either currently or, potentially, more broadly in the future. The availability of such services is expected to increase as more planners offer the capacity and as situations warrant. For management of such non-workplace accounts, client assets may generally either be invested in individual portfolios generated from Financial Engines’ advice platform or they may be invested in one of several model portfolios derived from the Financial Engines proprietary methodology. Plan participants who select this higher level of service pay an additional fee, as described below.

When this higher level of service is presented in conjunction with currently available Online Advice and Professional Management in the workplace, the service levels may be referred to as Self Service (a.k.a. Online Advice), Management (a.k.a. Professional Management), and Personal Advisor (the additional level of service described above). For Personal Advisor, if selected, management of a workplace account is generally required, and the service is offered on a unified basis across all accounts under management. Personal Advisor generally charges a higher fee than Professional Management, as described further in Item 5. Personal Advisor may also require use of a Financial Engines-designated custodian for management of non-workplace assets. For clients who do not have access to Personal Advisor in the workplace, similar or comparable management of outside accounts may be available directly from Edelman Financial Engines through a planner at a branch office, as further described in Section III below.

### **Sub-Advisory Services**

In addition to providing investment advisory and related services directly to clients under arrangements with employer-sponsored plans and plan sponsors, Financial Engines also has arrangements with certain financial institutions to provide similar services on a sub-advisory basis. Financial Engines may license certain technology and software and provide other services to financial services firms to enable those firms to provide investment advisory and related services. For example, Financial Engines may develop and host customized or private-labeled websites to enable a financial institution to make investment advisory and related services available to that institution’s clients. Depending on the arrangement with the financial institution, Financial Engines may act as sub-advisor to the financial institution, or Financial Engines may act as a technology vendor and the financial institution will be responsible for making investment recommendations to its clients.

### **III. Advisory Services Offered to Clients Through Planners**

Harmonization of services available to clients will continue in 2020. Certain services are currently available to both new and legacy clients of both legacy firms, while other services remain available mainly to clients of one legacy firm. The services described below are those available as of the filing of this ADV. As harmonization continues, services will become increasingly available to all Firm clients.

#### **a. Advisory services available to new and existing clients**

Edelman Financial Engines offers investment advisory services for qualified and taxable accounts through planners working in one of our nationwide branch offices. These services include

providing ongoing advice and making and implementing investment decisions for a client based on their needs. Planners will most typically recommend a model offered through the Firm's Wrap Fee Program. At times planners may also create a more customized set of investments for a client whose needs are best served outside of the traditional models offered by the Firm. For more information on the Firm's Wrap Fee Program, please see our Wrap Fee Brochure.

Portfolios available through the Wrap Fee Program and the more individualized planner created models feature diversified asset allocation as is appropriate for each client and their needs. The investments in these accounts include, but may not be limited to, mutual fund shares of no-load and/or load-waived open-end registered investment companies, exchange traded funds ("ETF"), and cash equivalent products (which may be referred to collectively as "securities"). Cash equivalent products may include mutual funds and/or ETFs, as well as Federal Deposit Insurance Corporation ("FDIC") insured bank certificates of deposit or other types of holdings as appropriate. Securities in various asset classes will be purchased.

Edelman Financial Engines will generally manage such client accounts on a discretionary basis, in accordance with the client's objectives. However, there are also situations where certain assets may be, for some period of time, held in the client's account without being managed by the Firm. Unless a different arrangement is discussed with a particular client, we do not charge the client an advisory fee for such assets.

The securities, asset categories and portfolio weightings will vary for each model. In order to determine the model most suited to a client's needs and circumstances, planners speak with clients to discuss their specific situation and review various information provided. Investment objectives and risk tolerance are the primary factors that help the planners recommend an appropriate model. Objectives are generally capital preservation, income, or growth, or a combination of these. Planners also consider other inputs, which can include, but are not limited to, the client's age, health, family circumstances, income, expenses, assets, debts, liquidity needs, goals, personal objectives, time horizon and other relevant factors. Tools are available to help clients choose appropriate models in appropriate situations. If a client's investment objectives, risk tolerance or financial situation changes, they are instructed to contact a planner.

Clients may request reasonable restrictions on the types of investments that will be made on their behalf or on the management of their account. For example, clients may request that certain securities or types of securities not be purchased or sold, although the Firm has no control over the mix of securities held by a mutual fund or ETF. A client will ultimately be placed in a model that is most suited to their needs and which allows for such reasonable restrictions as appropriate. A client cannot usually request that we buy specific holdings or types of holdings, although exceptions may be granted. We reserve the right, at our sole discretion, to close an account (or decline to open one) if unreasonable or overly restrictive conditions are requested. The Firm offers clients the ability to aggregate and share with Edelman Financial Engines information concerning other investment accounts, bank accounts, credit cards, 401(k) accounts, brokerage accounts and other financial account information established through or held with third parties. While aggregating and sharing such information does not mean that Edelman Financial Engines will manage or advise on those outside accounts, it does help our planners offer more holistic and personalized investment advice to our clients.

Planners generally prepare a written financial plan for prospective clients prior to the commencement of advisory services. This financial plan is based on their financial and personal circumstances and is designed to help them create a plan which will assist them in achieving their stated goals and objectives. The financial plan addresses a number of areas, including personal considerations, tax considerations and cash flow, death and disability, retirement, and investments. Whether to implement the financial plan with Edelman Financial Engines or elsewhere is entirely at the client's discretion. Clients who choose to implement the financial plan elsewhere will not receive ongoing investment advice from the Firm. The Firm may also offer a retirement review to prospective clients in certain marketing campaigns. A planner may, at their sole discretion, decline to assist a client with the implementation of investment strategies or choices that have not been recommended or that the planner deems not to be in the client's best interest.

Edelman Financial Engines does not provide legal or tax advice and clients are advised to work with an attorney or accountant on matters requiring legal or tax counsel. In the context of providing comprehensive, holistic financial planning for our retail clients, planners may also at times refer clients to third-party "ancillary services" which can potentially assist them with their financial needs. In such situations, the Firm introduces the client to the service provider, who then works directly with the client to assist them with those ancillary services. The Firm is not compensated for such introductions.

Clients working with Edelman Financial Engines who request an insurance solution will generally be directed to relevant non-affiliated third parties as circumstances warrant. Edelman Financial Engines planners do not receive commissions or fees as a result of making such a referral, although one of FEA's affiliates receives commissions on insurance referred by a planner and placed through Crump.

#### **b. Advisory services available to certain clients**

Historically, the services offered to a client opening a retail account were driven by when and with whom a client opened that account. To that end, before the integration of Edelman Financial Services, LLC and Financial Engines Advisors L.L.C., a client opening an account with a legacy FE planner would likely invest in an FE historic service; similarly, a client working with a legacy Edelman Financial Services planner would likely invest in an EFS historic service. Currently, while harmonization continues, most legacy clients remain invested in services offered through the legacy firm they began working with. However, as explained throughout this document, both legacy and new clients now have a broadened array of services to choose from. Until full harmonization occurs, however:

*Clients who opened or open new accounts through a Legacy Financial Engines planner* continue to have available to them historic legacy FE services. Certain legacy FE clients, and certain new clients who work with legacy FE planners, also may, where relevant, enroll in legacy Edelman Financial Services offerings, as well as in certain new service offerings.

*Clients who opened or open new accounts through a Legacy Edelman Financial Services planner* continue to have available to them historic legacy EFS services. Certain legacy EFS clients, and certain new clients who work with legacy EFS planners, also may, where relevant, enroll in legacy FE services offerings, as well as in certain new service offerings.

The availability of different services offered directly to legacy and new clients is expected to evolve as harmonization continues and as additional service offerings are made available to more clients and potential clients.

In addition to the advisory services available to new and existing clients described above, Edelman Financial Engines offers other advisory or associated services to a more limited subset of clients. Until harmonization is complete, some of these services may be limited to clients of a planner affiliated with one legacy firm or other limitations may apply. Information on these services is provided below.

### Retirement Paycheck® Service

The Retirement Paycheck service creates and manages a portfolio for clients with two main components: investment company securities (mutual funds and/or exchange-traded funds) and non-mutual fund fixed income investments. The broad purpose of Retirement Paycheck is to permit clients to request and receive a recurring payment of an amount specified by the client over time (subject to the amount of assets that individual clients maintain in the service).

Clients utilizing the Retirement Paycheck service will have individual investment portfolios and accounts. The portfolios will consist primarily of mutual funds and/or exchange-traded funds for the growth component, and other fixed income investments for the income protection component. Each client's investment portfolio in the growth component will be nearly identical to other clients' in the Retirement Paycheck service, meaning they will hold the same investment products in the same proportions. Each client's investment portfolio in the income protection component will be similar or the same as other clients' in the Retirement Paycheck service. That is, clients may hold the same investments, or if different investments are held, those investments will share identical or nearly identical quality ratings for safety and payment of any interest and principal. Minor differences among client portfolios may occur due to limited availability of a specific investment type, or because the clients commenced using the Retirement Paycheck service on different dates. There may also be some differences between portfolios of clients who reside in different states, as some investments may not be available in all every state. In such situations, a similar investment will be utilized for such clients. There may also be differences in the numbers of steps in clients' individual income protection investment ladders.

Mutual funds can be in different asset categories and might include large cap growth, large cap value, small cap growth, international equity, fixed income and/or other categories of funds. Other fixed income investments might include FDIC insured bank certificates of deposit, securities issued by national or local governments or government agencies and highly rated fixed income and related debt securities issued by corporations. Each client's portfolio will be held by the client in the client's investment account opened and maintained by the client at the custodian designated by them.

Clients of Edelman Financial Engines who have elected to be placed in the Retirement Paycheck service authorize and direct Edelman Financial Engines to provide portfolio management and to direct the investment and reinvestment of the client's assets. For the Retirement Paycheck service, the client can request reasonable restrictions on the types of investments that will be

made on their behalf. However, a restriction request must be reviewed and accepted by Edelman Financial Engines. If Edelman Financial Engines believes a requested restriction will limit their ability to provide the Retirement Paycheck service, or otherwise feel that the restriction is unreasonable or inappropriate for a given account, Edelman Financial Engines may decline to provide a client with the Retirement Paycheck service with the requested restrictions.

#### Edelman Retirement Program (ERP)

Edelman Financial Engines makes the Edelman Retirement Program (“ERP”) available to plan sponsors of 401(k), profit-sharing, non-qualified deferred compensation and retirement plans (“Plans”). These Plans include both participant-directed and trustee-directed Plans. Through ERP, Edelman Financial Engines creates and maintains model asset allocation portfolios for Plans. ERP is only offered by legacy EFS planners, utilizing exclusively legacy EMAP models. It is aimed at smaller Plan Sponsor clients and will not be offered to our legacy Financial Engines Plan Sponsor clients.

Edelman Financial Engines offers Plan sponsors the option of delegating discretionary authority to Edelman Financial Engines with respect to the selection of models on behalf of the Plans in ERP. In such cases, Edelman Financial Engines will select the underlying asset classes for the models and the underlying investment securities for each underlying asset class. Usually, the investment securities consist of funds including, but not limited to, mutual funds and ETFs. The Plan sponsor (or other plan fiduciary or agent) approves models to be used for the Plan’s assets, and then Edelman Financial Engines invests pursuant to those models on behalf of the Plan. Generally, in the case of a participant-directed Plan, after the Plan sponsor (or other Plan fiduciary or agent) reviews and approves certain recommended models, the models are offered to Plan participants as investment options. Participants select an investment option for their Plan accounts. We do not have discretion to choose a particular option for participants and are not responsible for reviewing or changing any participant’s decision to invest in a particular investment option. ERP may also offer, as negotiated, assistance with Investment Policy Statements, Designated Investment Alternatives, Qualified Default Investment Alternatives or Retirement Plan Consulting Services.

Plan sponsors (or other Plan fiduciaries or agents) are permitted to impose reasonable restrictions on the underlying assets used in the Investment Options recommended to the Plan. For example, a Plan sponsor (or other Plan fiduciary or agent) may request that securities or types of securities not be purchased, or that such securities be sold. Edelman Financial Engines reserves the right, at our sole discretion, to reject any Plan account where unreasonable or overly restrictive conditions are requested.

Plan sponsors (and other Plan fiduciaries or agents) may be introduced to ERP through other unaffiliated registered investment advisers. The unaffiliated registered investment adviser initiates and maintains the relationship with the Plan sponsor. The unaffiliated adviser may charge a separate fee for its services and does not share in the advisory fee generated from any Plan assets that are invested in ERP. Edelman Financial Engines receives no compensation or economic benefit from products or services offered by the unaffiliated adviser to Plans, other than ERP. In addition, neither will receive any additional compensation related to the Underlying Funds.

Separate from, but related to the ERP business, legacy EFS planners provide certain investment advisory services on certain non-ERISA (e.g. a simple IRA or solo 401(k)) and certain ERISA covered plans. The latter could be solo Defined Benefit plans or individuals within a Defined Benefit or Defined Contribution plan where the employees are able to hire an investment advisor to manage their investments within the plan. These services are provided to a variety of small and mid-sized companies, organizations, endowments and associations.

In addition, legacy Financial Engines planners may also provide certain investment advisory services such as investment management or participant education directly to smaller employee retirement plans.

#### Legacy EFS Institutional Advisory Services

Utilizing exclusively EMAP models, legacy EFS planners provide investment management services to a variety of small and mid-sized companies, organizations, endowments and associations. The services offered can include drafting an investment policy statement, developing an asset allocation model, preparing a financial profile and/or providing investment management services.

#### Personalized Portfolios

Certain new and existing Edelman Financial Engines retail clients can invest in Personalized Portfolios through their planner. While the investment management philosophy is either entirely or mostly the same as for model portfolios in the Firm's Wrap Fee Program, Personalized Portfolios determine appropriate allocations at the household level for individual clients. Personalized Portfolios consider factors such as individual tax circumstances, outside assets, concentrated positions, asset allocation preferences, objectives, dynamic risk tolerance changes, and other relevant factors. Downside protection is available to relevant Personalized Portfolios clients willing to accept modestly lower long-term portfolio growth. This strategy may be especially appropriate for recent retirees or near-retirees and seeks to help clients limit outsized losses in declining markets. Downside protection is not a guarantee against losses or declines in account value but rather acts as a tool to help reduce and manage such instances. Downside protection, when implemented, is offered at no additional cost to the client.

#### **IV. Amount of Discretionary and Non-Discretionary Client Assets that FEA Manages**

As of December 31, 2019, FEA managed approximately \$229.0 billion in assets on a discretionary basis, including both Professional Management in the workplace and management of assets outside of the workplace. Because Online Advice does not constitute continuous and regular supervisory management, FEA did not manage any assets on a non-discretionary basis as of December 31, 2019.

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

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As is discussed above, FEA offers clients a range of services intended to provide them with options that meet their varying circumstances and needs. The fees for these services vary. For individual clients, fees for FEA's advisory services are generally based upon: (1) whether services



are accessed through the workplace or directly; (2) the scope of services and associated costs authorized by the applicable plan fiduciary for workplace-accessed services; (3) the level of service chosen by the client both when obtaining services through the workplace or directly; (4) whether the client was referred through a referral arrangement (see Item 14), and/or (5) whether services were first accessed before November 1, 2018. For clients who are not individuals, services and fees are generally negotiated and subject to agreement. Fees may be subject to negotiation in certain situations; if non-standard fees are assessed that fee is documented in writing.

Legacy Financial Engines clients as of November 1, 2018 will continue to pay the same fees that they were paying prior to that date unless otherwise agreed to in writing. All other new and existing retail clients pay according to the fee schedule as outlined below. Any changes to fees paid will be disclosed to clients, as relevant, per the terms of the client agreements which govern their relationship with Edelman Financial Engines.

#### **I. Fees for Advisory Services Offered through the Workplace**

As is described more fully below, services offered through the workplace are generally defined by contracts entered into between Financial Engines and a plan, plan sponsor or plan provider. As a result, clients who interact with Financial Engines through the workplace will generally continue to see their services and fees be defined by the agreements between Financial Engines and those entities.

##### **Online Advice Fees**

The Financial Engines arrangements with a plan or plan sponsor to provide Online Advice to plan participants generally provide for the Financial Engines fees to be paid by the plan, the plan sponsor or plan provider. As such, fees are neither paid in advance by clients nor deducted from client accounts. Such fees generally range up to \$12 per eligible plan participant per year, depending on the services provided. Financial Engines and the plan, plan sponsor, or plan provider, may negotiate a different fee schedule based on other factors, including but not limited to the amount of aggregate assets in the plan or the assets in client accounts, or a flat annual or other periodic fee. Payment schedules and the ability to obtain refunds for prepaid but unearned fees are a part of the Financial Engines agreement with the plan sponsor or plan provider. Neither Financial Engines nor its supervised persons sell investments or receive commissions or compensation for the recommendations Financial Engines makes in connection with Online Advice.

For individuals who subscribe to Online Advice directly from Edelman Financial Engines (and not through the workplace), fees range from \$149.95 per year to \$300 per year, depending on the services provided. Such fees are payable in advance by credit card. A refund of prepaid but unearned fees is available by contacting Edelman Financial Engines' Investor Services Center at 1-800-601-5957. The fee schedule is subject to change and Edelman Financial Engines may offer certain clients discounted fees or other promotional pricing.

##### **Professional Management Fees**

Workplace clients in Professional Management (which may include, as applicable, management of IRAs) pay Financial Engines fees as a percentage of the managed assets in their applicable accounts (up to 0.60% for Professional Management and up to 0.75% for IRA management, generally declining for account balances greater than \$100,000). Professional Management clients generally pay quarterly in arrears. Fees are deducted directly from client accounts. Financial Engines does not bill clients and does not deduct the fees from clients' take-home pay. Alternatively, the plan sponsor may pay such fees in whole or in part for plan participants. The Professional Management fee schedule is subject to change, and Financial Engines may offer certain clients discounted fees or other promotional pricing. Fee schedules may vary depending on the method of enrollment used for Professional Management.

### **Personal Advisor Fees**

Financial Engines workplace clients who opt for the Personal Advisor service pay a fee for that service, generally up to 1.2% on assets under management, although fees may be less for individually negotiated arrangements with certain employers (fees apply to both workplace and any outside accounts). A \$225 minimum quarterly fee may apply for the Personal Advisor service. As applicable, this fee will still be applied if the fees for aggregated assets do not result in a fee greater than \$225 quarterly. Personal Advisor clients generally pay quarterly in arrears. Fees are deducted from each account managed through the Personal Advisor service. Financial Engines does not bill clients and does not deduct the fees from clients' take-home pay.

### **Sub-Advisory Fees**

For services offered through the workplace, Financial Engines indirectly offers sub-advisory services to clients or potential clients of certain financial institutions by arrangements with those financial institutions. Financial Engines receives sub-advisory fees from the financial institutions that are based upon the investment advisory fees charged by those financial institution. The amount of the fee is subject to negotiation between Financial Engines and the financial institution and is typically calculated based on the number of clients or potential clients eligible to receive Financial Engines' services, the amount of assets in accounts of clients receiving Financial Engines' services, flat annual or other periodic fees or on another basis. Financial Engines and its supervised persons do not sell investments and do not receive commissions or compensation for the investment decisions Financial Engines makes about the specific investment alternatives available within a plan.

## **II. Fees for New Retail Clients, Legacy EFS Wrap Fee Program and Turnkey Asset Management Program ("TAMP") Clients**

New retail clients who begin working with Edelman Financial Engines on or after November 1, 2018, as well as clients who held Wrap Fee Program or TAMP accounts through legacy EFS planners that were established prior to that date, pay fees for services pursuant to the following schedule. The fee schedule below is applicable to new retail clients regardless of whether they work with a legacy FE or legacy EFS planner and regardless of which service they choose to enroll in, although different fees may be assessed in individual situations. Fees may be discounted in certain situations; in such cases, the applicable fee will be disclosed in writing.

### **Client Fee Schedule**

<b>Assets</b>	<b>Annual Fee</b>
\$0-400,000	1.75% on the first \$400,000
\$400,001-750,000	1.25% on the next \$350,000
\$750,001-1,000,000	1.00% on the next \$250,000
\$1,000,001-3,000,000	0.75% on the next \$2,000,000
\$3,000,001-10,000,000	0.60% on the next \$7,000,000
\$10,000,001-25,000,000	0.50% on the next \$15,000,000
\$25,000,000 +	Negotiable

In certain situations, clients who are referred to planners by our National Advisor Center may receive a discount. Those discounts generally range up to 0.40% on the first \$400,000 invested. Employees and their spouses/households are eligible for a discounted fee of 0.10%.

Clients authorize their custodian, on behalf of Edelman Financial Engines, to deduct the applicable advisory fee from their accounts. The fee is based on the average daily balance of the account. The first payment is prorated and calculated based on the number of days assets are held in the account during the calendar quarter. Subsequent fees are determined based on the average daily balance for the quarter ending on the last day of each calendar quarter. Fees are deducted from the client's account in arrears. In certain circumstances where clients are referred to Edelman Financial Engines, different rates apply (see Item 14).

When calculating advisory fees, household accounts that are managed as one relationship are aggregated to determine the lowest percentage per the relevant fee schedule. Also, when calculating advisory fees, we may exclude, at our discretion, certain assets if they are unable to be invested in the Wrap Fee Program. Edelman Financial Engines does not provide investment advisory services on "unmanaged assets". Edelman Financial Engines planners may be compensated differently depending on the source of a client and may in some circumstances get a bonus if a current client introduces a new client to a planner they are already working with.

Legacy EFS has established a TAMP program, whereby the Firm makes certain EMAP models available to clients of select unaffiliated investment advisers ("TAMP Advisors"). The wrap fee, per the above fee schedule, is shared between Edelman Financial Engines and the TAMP Advisors on a negotiated basis. The client does not pay an increased advisory fee because of this arrangement. Clients will pay the same fee, regardless of whether the client selects a legacy EMAP model through an Edelman Financial Engines planner or a TAMP Advisor. Edelman Financial Engines pays a negotiated percentage, up to 60% of the annual account fee, to TAMP Advisors on Wrap Fee Program accounts initiated and serviced by TAMP Advisors. Also, at no additional cost to the client, Edelman Financial Engines may occasionally pay additional basis points to a TAMP Advisor.

All Wrap Fee Program clients, including TAMP clients, authorize their custodian, on behalf of Edelman Financial Engines, to deduct fees from their accounts. The fee is based on the average daily balance of the account. The first payment is prorated and calculated based on the number of days assets are held in the account during the calendar quarter. Subsequent fees are determined based on the average daily balance for the quarter ending on the last day of each calendar quarter. Fees are deducted from the client's account in arrears. For margined accounts, the fee may be added to the margin balance unless the client elects to deposit cash or liquidate

securities. If an account is terminated prior to the end of a calendar quarter, the terminating client will pay prorated fees due up to the termination date.

### **III. Fees for Legacy EFS Institutional Clients**

Edelman Financial Engines charges a variety of small and mid-sized companies, organizations, endowments and associations advisory fees for the provision of various investment management services. These institutional clients pay fees as follows on their Wrap Fee Program account:

<b>Institutional Fee Schedule</b>	<b>Fee</b>
Up to \$999,999	1.40%
\$1 million to \$1,999,999	1.00%
\$2 million to \$4,999,999	0.75%
\$5 million to \$9,999,999	0.60%
\$10 million to \$24,999,999	0.50%
\$25 million +	negotiable

Institutional client wrap fees are not negotiable other than as disclosed in the fee schedule above. The above advisory fee schedule is based on the assets under management the client invests in the program and are not dependent on the amount of trading in the account or the advice given in any particular time period. Lower fees for comparable services may be available from other sources.

Institutional clients authorize their custodian, on behalf of Edelman Financial Engines, to deduct fees from their accounts. The fee is based on the average daily balance of the account. The first payment is prorated and calculated based on the number of days assets are held in the account during the calendar quarter. Subsequent fees are determined based on the average daily balance for the quarter ending on the last day of each calendar quarter. Fees are deducted from the client's account in arrears. For margined accounts, the fee may be added to the margin balance unless the client elects to deposit cash or liquidate securities. If an account is terminated prior to the end of a calendar quarter, the terminating client will pay prorated fees due up to the termination date.

### **IV. Fees for Edelman Retirement Program (ERP) Clients**

Edelman Retirement Program (ERP) clients pay fees as follows on their account.

<b>ERP Plan Assets</b>	<b>Fee</b>
\$0 to \$2 million	1.00%
\$2 million to \$5 million	0.85%
\$5 million to \$10 million	0.70%
\$10 million to \$15 million	0.60%
\$15 million to \$20 million	0.50%
\$20 million +	negotiable

Except as otherwise agreed to by the Plan sponsor (or other Plan fiduciary or agent) and Edelman Financial Engines, the Plan's recordkeeper, custodian or other service provider will deduct the wrap fee from Plan accounts and remit such amounts to Edelman Financial Engines. The fee is based on the balance of the total assets of the Plan accounts invested in the models and underlying funds as of the end of each calendar quarter and does not include Plan assets that are invested in other options (such as those available through self-directed brokerage windows or funds or securities other than the underlying funds). The first payment is prorated for assets that are placed in Plan accounts during a calendar quarter. Subsequent fees will be determined based on the last day of each quarter. Fees are deducted from the client's account no later than the thirtieth (30th) day after the end of each quarter, in arrears. If an account is terminated prior to the end of a calendar quarter, the terminating client will pay prorated fees due up to the termination date. The fee schedule above shows the annual percentages.

If a Plan sponsor (or other Plan fiduciary or agent) is introduced to ERP through an unaffiliated registered investment adviser, Edelman Financial Engines' services will be limited to discretionary management of the models. In such cases, Edelman Financial Engines charges an annual fee of 0.35% of Plan assets invested in the models and underlying funds. The unaffiliated adviser is not paid any portion of the wrap fee and may charge a separate fee for its services that is in addition to the Edelman Financial Engines fee.

#### **V. Other Relevant Fee Information for Wrap Fee Program Clients**

Wrap Fee Program clients pay a wrap fee, which covers brokerage execution costs associated with trades placed through one of the program custodians, without regard to the number of transactions executed during the billing period. Edelman Financial Engines has negotiated fees with E\*TRADE Savings Bank (doing business as "E\*TRADE Advisor Services", formerly known as Trust Company of America), TD Ameritrade ("TDA"), Fidelity Institutional Wealth Services ("Fidelity", as cleared through National Financial Services LLC), and Charles Schwab & Co., Inc. ("Schwab", as cleared through Charles Schwab Clearing Services) for clearing and execution services in relevant situations. For ERP clients, the Plan's recordkeeper, custodian or other service provider may charge a separate fee to cover the administrative, trust, custody and other record-keeping costs associated with Plan accounts invested in the investment options. Transaction costs imposed by the above custodians are covered as part of the wrap fee. The wrap fee does not include certain account and securities-related costs, including the fees embedded in the mutual funds, ETFs or other holdings in which Wrap Fee Program accounts invest. These underlying fees vary and are deducted by the fund company directly from invested assets. Further information on these fees can be found in the prospectuses of the relevant mutual fund or ETF. In addition, the fee does not include debit balances, related margin interest, IRA and retirement plan fees, transfer fees, fees imposed by regulators, fees associated with certain money market and mutual funds, wire transfer fees, overnight check fees, account closing fees, paper statement delivery fees, non-standard asset fees, insufficient fund fees, returned check fees, transaction charges for fund level model trades, expenses charged by the mutual funds (including management fees, transaction charges incurred for fund-level model trades, custody of fund assets and other fund expenses), expenses charged by the variable annuities and exchange-traded funds, or other fees or taxes that are required by law.

As noted above, we anticipate that transactions placed in a client's account will be executed through one of the program custodians. However, in the limited circumstances, Edelman Financial Engines may choose to execute trades with another broker-dealer if we reasonably believe that another broker-dealer can likely obtain a more favorable execution under the circumstances. Where Edelman Financial Engines trades through a broker-dealer other than one of the custodians, the wrap fee does not include the compensation that is paid to that broker-dealer. This compensation is embedded into the price of the security which is paid by the client. These additional costs are in addition to the wrap fee paid to Edelman Financial Engines by the client.

Transactions executed on behalf of Wrap Fee Program clients are executed for a single wrap fee (except as noted above and in Item 12), which reduces the potential conflict of interest associated with executing a large number of orders for client accounts and earning transaction-based compensation following each order. Wrap Fee Program models invest client assets primarily or exclusively in no-load shares of open-end registered investment companies and ETFs. Edelman Financial Engines and its planners receive compensation based on the assets under management the client has invested in the program. Neither Edelman Financial Engines nor its planners earn any additional revenue from Wrap Fee Program accounts beyond the wrap fee. A portion of the advisory fee is paid to the planner; however, such compensation does not vary based on which securities are bought, sold or held in each Wrap Fee Program account. The advisory fee earned may be more or less than what Edelman Financial Engines or its planners might earn from other programs available in the financial services industry or if the services were purchased separately. Compensation paid to planners from the wrap fee does not vary depending upon the number of trades made in Wrap Fee Program client accounts. Edelman Financial Engines may negotiate a reduction in fees or other costs on services provided by third-party service providers based on size, volume or other factors. Because the cost to the client of these services is included in the wrap fee, any negotiation of lower costs to Edelman Financial Engines will not be reflected in the client's costs.

The Firm recently changed the way that clients holding fee-based variable annuities are charged for their management. Fee-based variable annuities were previously aggregated with other assets and the client was charged the standard fee schedule on all assets in their account. As of April 1, 2020, clients holding certain fee-based variable annuities as of that date will be grandfathered and charged a flat 25 bps fee for any investment advice that the Firm's planners provide on the sub-accounts that the variable annuity is invested in.

#### **VI. Fees for Advisory Services Provided to Legacy Financial Engines Clients**

Clients who have already established accounts as of November 1, 2018, and who obtain advisory services directly from legacy Financial Engines planners, will continue to pay the same fees they have historically for the near term. Such fees might see variation in 2020 and beyond. Any such changes in fees will be communicated to clients as explained in the client agreements governing the accounts at issue. The fees associated with the Firm's services may differ from each other for legacy clients. Fees for services accessed through the workplace are as outlined above.

When calculating advisory fees, household accounts that are managed as one relationship are aggregated to determine the lowest percentage per the relevant fee schedule. Also, when

calculating advisory fees, we may exclude, at our discretion, certain assets if they are unable to be invested in the selected advisory service.

#### IRA and Taxable Account Fees

The fee charged for IRA and taxable account management accessed through legacy FE planners is based on a percentage of the client's assets under management. The following schedule lists the fees that Edelman Financial Engines will assess for these services when accessed through legacy F planners. Clients of legacy Financial Engines will be charged according to their existing fee schedule as detailed below unless and until such fees are changed. Fee changes will be communicated, as appropriate, per the terms of the agreements governing the accounts.

<b>Legacy FE Client Fee Schedule</b>	
<b>Assets</b>	<b>Annual Fee</b>
\$0-250,000	1.50% on the first \$250,000
\$250,001-500,000	1.30% on the next \$250,000
\$500,001-750,000	1.10% on the next \$250,000
\$750,001-1,000,000	1.00% on the next \$250,000
\$1,000,000-1,250,000	0.90% on the next \$250,000
\$1,250,000 +	0.90% flat, on the entire amount managed

The fees will not exceed these scheduled percentages and rates and might be lower in some negotiated instances. Instances where a fee might be lower than the percentages listed could include, without limitation, a client bringing additional assets into the account at some future date, a client who has a family member, relative or other interested person who is or becomes a client of Edelman Financial Engines, or a client that has access to services in the workplace and requests an additional or higher level of service directly. There may also be instances where limited promotional offers are made which include a lower fee amount or other item of value to clients who engage Edelman Financial Engines to manage assets that it did not previously manage. In certain circumstances where clients are referred to Edelman Financial Engines, different rates apply (see Item 14). Fee discounts may also be negotiated with a client in specific situations; the fee charged will be disclosed in writing. Employees and their spouses / households are eligible for a discounted fee of 0.10%.

We calculate and assess our fee based upon the average daily balance of the account. Fees are billed in arrears at the end of each calendar quarter, based upon the period's daily average values (market value or fair market value in the absence of market value, plus any credit balance or minus any debit balances) on that amount of the client's investments that the Firm is managing during the preceding quarter. Unless otherwise agreed to in writing, such fees are withdrawn from the client's accounts maintained at the custodian. A client authorizes the fee withdrawal when they complete account opening paperwork provided by the custodian. The fees withdrawn, including the dates and amounts, will be reflected on the quarterly statement clients will receive from the custodian. Clients should review those statements and the fees withdrawn. Any questions on the fees withdrawn from a client's accounts may be directed to either Edelman Financial Engines or the custodian. In some limited circumstances, fees may not be assessed on some assets in client accounts, for example if as an accommodation some assets are held within accounts but are not being managed.

### Retirement and Pension Plan Fees

Fees for investment advisory services provided to Retirement and Pension and other ERISA plans will not exceed the fees referenced above for IRA and taxable account management and may be lower than the listed rates. Such fees will be determined through discussion and agreement between Edelman Financial Engines and the plan. The fee negotiated will be noted in the written investment management agreement between Edelman Financial Engines and the plan. Fees will be withdrawn or billed as described in that agreement. Such pension and Retirement Plan advisory fees are calculated and billed quarterly in arrears. We calculate and assess our fee on a calendar quarter basis if such is the billing fee standard utilized by the plan's custodian or record-keeper. Subsequent billings will occur every calendar quarter end after that initial assessment. The amount of the assessed fee is provided to the plan's sponsor, trustee or other designee. The fee collection will occur as specified by the plan's sponsor or trustee, e.g., directly from the plan or directly from the sponsor.

### Other Relevant Fee Information for Legacy Financial Engines Clients

The following fees that are unrelated to Edelman Financial Engines may impact client accounts as relevant. For example, clients in multiple services may hold investments in mutual funds and/or ETFs. If they do, the fees described below may apply to them.

**Mutual Fund and/or ETF Fees.** Fees paid to Edelman Financial Engines for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or exchange-traded funds. A fund's fees and expenses are described in the fund's prospectus. These fees will generally include a management fee, which mutual fund and/or exchange-traded fund managers generally charge the fund for their services as investment managers, other fund expenses, and sometimes a distribution fee, also known as a 12b-1 fee. Some funds may impose sales charges, either as an initial or deferred sales charge; these are also known as front-end or back-end loads. If Edelman Financial Engines purchases any of those funds for a client, those funds will usually be purchased on a load-waived basis, so the client will not incur this front-end or back-end load.

Some mutual funds and/or exchange-traded funds that are redeemed within 90 days of purchase, or some other time frame, such as 10 days or 180 days, may impose a short-term redemption fee. This fee is usually 1% - 2% of the sale amount. These fees are imposed by funds to minimize market timing and excessive trading that impair the value of the fund for long-term shareholders. Other fees could be charged by the fund company. Please see the fund's prospectus for full details. Edelman Financial Engines does not receive any portion of the above fees.

Clients should review both the fees charged by the funds and the fees charged by Edelman Financial Engines to understand the total amount of fees. A client could invest directly in many of the investment products recommended by Edelman Financial Engines without its assistance or services. In that case, the client would not receive services from Edelman Financial Engines designed - among other things - to assist in determining which mutual funds and/or exchange-traded funds are more appropriate to that client's financial condition and objectives, nor would



the client benefit from the ongoing mutual fund and/or exchange-traded fund research and monitoring performed by Edelman Financial Engines.

**Custodial Fees.** The custodian for a client's account may receive certain fees, including administrative service fees and fees associated with certain money market and mutual funds, from some mutual fund and/or exchange-traded fund companies for some of the funds that are owned by clients and held in clients' account at the custodian. Additionally, the custodian may assess fees or receive fees and payments on other services it offers. Edelman Financial Engines does not receive any of these fees.

**Brokerage Fees.** Clients may incur other fees, both directly and indirectly, which are paid to the custodian. These fees may include commissions paid on certain stock and bond trades as well as transaction fees on certain mutual fund and/or exchange-traded fund purchases or sales. Transaction fees are often assessed on those funds that do not pay or limit payment of fees, such as administrative service and fees associated with certain money market and mutual funds.

**Retirement and Pension Plan Fees.** Retirement and pension plans, for which Edelman Financial Engines is the investment adviser, may pay fees to the custodian of the plan's assets, or to the record-keeper of the plan, if different than the custodian. Edelman Financial Engines does not receive any portion of those fees.

A client agreement for services can be canceled as described in the relevant account agreement. Upon the termination of the service, any prepaid and unearned fees for Financial Planning and Consulting services will be refunded promptly, and any earned, unpaid fees will be due and payable. The fees for the standard and Retirement Paycheck® services are billed in arrears and are due and payable upon termination of the service(s).

## **VII. Other Fees Earned by Edelman Financial Engines**

### **Financial Plans**

Edelman Financial Engines charges a one-time initial fee of \$800 for financial plan development and presentation. Clients or prospective clients who pay for a plan are under no obligation to implement the plan with our Firm. The financial planning fee can be waived in part or in whole for clients or prospective clients at the discretion of the planner and/or the Firm. The Firm currently waives financial planning fees for those working in certain industries, for members of professional associations in certain industries, and for Edelman Financial Engines employees and their spouses/households. The Firm can also, at its discretion, waive financial planning fees that are contingent upon the client making a pledge, or other philanthropic donation, to unaffiliated non-profits, such as PBS. The value of these donations or pledges may or may not be equal to the one-time initial fee of \$800. If the fee is charged, planners receive a portion of that fee. The Firm, at times, promotes special offers (e.g. a Free Retirement Review) to both workplace and retail clients or prospective clients under certain parameters. The content of plans may differ over time or based upon in what context and how the plan is prepared.

Edelman Financial Engines planners may create an arrangement with a corporation or other organization where a combination of financial planning, advice and/or educational services are provided to employees or members. Bundled services of this type may be offered at a reduced

fee. Nominal costs for additional products or services may be charged at the discretion of Edelman Financial Engines. The Edelman Financial Engines planner can further waive that subsidized fee, in whole or in part, at their discretion. The Firm also, at times, promotes special offers to clients or perspective clients under certain parameters as solely set by Edelman Financial Engines.

### **Speaking Engagements**

Ric Edelman is a public speaker, as well as a radio, television and webinar host covering topics related to investing and financial education. Generally, fees for his speaking engagements range from free to \$30,000 plus travel expenses, depending on sponsor, date, location and program requested.

### **Educational Products**

Edelman Financial Engines publishes the newsletter *Ric Edelman's Inside Personal Finance* on a subscription basis for \$39.95 annually (free to clients). Subscribers may cancel at any time and receive a full refund of the unused subscription. Mr. Edelman's books include *The Truth About Money* (4th ed.); *The New Rules of Money*; *Ordinary People, Extraordinary Wealth*; *Discover the Wealth Within You*; *What You Need to Do Now*; *The Lies About Money*; *Rescue Your Money*; *The Truth About Retirement Plans and IRAs*; *The Truth About Your Future*; and *The Squirrel Manifesto*. Jean Edelman has also published *The Other Side of Money*. Books are available for sale through booksellers, with prices ranging up to \$26.00. Edelman Financial Engines may provide these books at a discount or for no cost to organizations, individual clients or prospective clients. Legacy EFS has in the past asked third-party service or product providers to buy copies of a book and going forward Edelman Financial Engines may ask them to buy copies of a current or future book or provide financial incentive for doing so. Such purchases may be a conflict of interest. Edelman Financial Engines and/or Ric and Jean Edelman receive book royalties or other revenue from the sale of any books written by them. Any direct receipt of revenue by Mr. Edelman from the sale of books, as well as the indirect receipt of an economic benefit by Mr. Edelman by promotion of the Firm in books, the radio show, seminars and other mediums could result in a conflict of interest in how Mr. Edelman promotes the Firm or its products.

### **VIII. Additional Fee Information**

The advisory services offered by the Firm may be available elsewhere at a lower cost to the client. This includes situations where a planner recommends that a client holding an employer sponsored retirement plan or IRA outside of the Firm rolls it over into a service which we provide. Both as part of the Firm's general philosophy and as part of acting as a fiduciary, we always strive to provide services in the best interest of plan participants. Edelman Financial Engines generally does not solicit rollovers from 401(k) plans. In certain cases (e.g. an existing high-fee 401(k), or because of a participant's desire to consolidate assets) we may roll money out of a 401(k), but the Firm has strict safeguards in place to ensure that the rollover is in the participant's best interest. A conflict of interest exists for our planners as they have an economic incentive to offer certain advisory services, including recommending rollovers, to clients. This applies to those services for which the advisory fee that Edelman Financial Engines charges, and the compensation that the planner receives, is a function of the assets under

management. Specifically, with respect to rollovers of qualified plans, participants are under no obligation to roll them over to Edelman Financial Engines and should carefully consider all relevant factors before doing so. The Firm has policies in place to help ensure that rollovers are in the best interest of the client and that clients are otherwise in the appropriate level of service at the appropriate fee structure.

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

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Edelman Financial Engines does not charge any performance-based fees (that is, fees based on a share of capital gains on or capital appreciation of the assets of a client). Given this, Edelman Financial Engines does not manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee at the same time (or engage in side-by-side management). Please see Item 5 above for additional details on fees and compensation related to the advisory services which Edelman Financial Engines offers.

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

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Edelman Financial Engines generally provides investment advice to individual investors, participants in employer-sponsored defined contribution plans, trusts, estates, pension, retirement and profit-sharing plans, charitable organizations, foundations, associations, high net worth individuals, institutions, small to mid-sized businesses including corporations, and other business entities.

There are certain requirements for opening or maintaining accounts at Edelman Financial Engines, including (in certain cases), minimum account sizes. For clients who traditionally obtained services through the workplace or directly from Financial Engines, the following minimum account balances may apply: 1) defined contribution plan participants may be required to have and maintain a nominal account balance of \$5.00 prior to initiation of transactions in, and ongoing servicing of, a workplace plan account; 2) for IRA management through the workplace, clients may be required to have an account balance of \$10,000.00, although this minimum may be waived; and 3) an account minimum of \$50,000.00 may apply when IRA management services are accessed directly (that is, not through the workplace).

For Wrap Fee Program clients who traditionally obtained services directly from legacy EFS, the following minimum account balances may apply: 1) For retail clients, the household minimum account size is \$5,000 (\$3,000 for legacy EFS employees of the Firm), although this minimum may be reduced or waived at our discretion; 2) for institutional clients, the minimum account size is \$500,000, although this may be waived or reduced at our discretion; and 3) the ERP program has no minimum account size.

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

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Below we describe the methods of analysis and investment strategies we currently use in formulating advice or managing assets. In addition, because investing in securities involves risk of loss that clients should be prepared to bear, we describe material risks below that attach to the methods of analysis and investment strategies we use (and more generally to anyone

investing in securities). Our description of methods of analysis and investment strategies is organized into sections tied to the general service offering options described above. Since the risks associated with each legacy firm's investment management methodology are similar, we have described them together. Please note that methods of analysis and investment strategies may change over time.

The Firm's Investment Committee has overall responsibility for the oversight of advisory and investment management services, including the application of proprietary investment methodology that generates its advice recommendations and portfolio management. The Committee meets regularly to review and approve methodology and parameter updates, investment policies, new service and client communications designs, and ongoing monitoring of portfolio allocations. The Committee is comprised exclusively of Edelman Financial Engines employees with a broad range of experience and expertise. Most members of the Committee have long tenure with Edelman Financial Engines, and the majority has been integrally involved in the development of the advisory platform for many years. For specific information about the membership on the Investment Committee, please see the Firm's Form ADV Part 2B.

#### **I. Overview of Methods of Analysis and Investment Strategies**

Fundamental to the mission of Edelman Financial Engines is providing comprehensive financial advisory services which will help our clients work towards achieving their long-term financial goals. The mechanism to achieve those desired outcomes will depend on a variety of factors, some applicable to most or all clients and some highly personalized to individual account holders. While individual circumstances are prioritized, we are also guided by certain overarching methods of analysis and investment strategies. Some of those broad methods of analysis and strategies are addressed below.

Broadly speaking, Edelman Financial Engines' investment philosophy is guided by certain basic principles, including:

- Developing diversified portfolios that feature a range of asset classes and market sectors;
- Utilizing holdings that strike a balance between those that are the most cost-effective and those that we forecast may offer added return;
- Maintaining investment strategies, and often individual investments, longer term;
- Strategically reallocating investments as conditions warrant and as goals, time frames or other material realities of clients change; and
- Periodically rebalancing as needed to ensure long term commitment to overall strategies and allocation targets.

On an individual client level, Edelman Financial Engines recommended or managed portfolio allocations are driven by many factors. Some of the key factors include:

- A client's investment objectives (such as growth or income or a combination of such objectives);
- A client's risk tolerance;

- Circumstances specific to the client's individual situation (their time horizon, availability of pensions to supplement their retirement accounts, other household investments held by the client, state of residence, etc.);
- Investment options available to a given client (for example, the suite of investments available within their 401(k) plan); and
- Forward-looking models of securities' risk, expected returns, and correlations

Edelman Financial Engines' approach may also be informed by certain established academic research, such as Modern Portfolio Theory and returns based style analysis, as well as by established discoveries in behavioral finance.

Although Edelman Financial Engines may recommend more frequent trading or holding assets short-term in certain circumstances, frequent and/or short-term trading strategies are generally avoided. To that end, it is generally anticipated that the dominant mode of advice will reflect strategies geared towards consistent and long-term strategies and holding periods. At times, however, there may be reasons to effect changes within an account. Reasons for reallocations to new or different allocations, or for tweaking existing portfolios, may include:

- Client-driven changes – Changes in client objectives, preferences or financial status may necessitate a revised target allocation or portfolio;
- Rebalancing – When an asset category or an investment product has experienced a material appreciation or decline in value, beyond the assigned percentage for that asset category or investment product in comparison to other asset classes or investment products, an appropriate amount may be bought or sold, and the proceeds invested in other asset categories or investment products as appropriate; and
- Updated assessment of forward-looking returns, risks, and correlations – Edelman Financial Engines regularly updates its risk and return models, which may affect its assessment of prospects at the level of macroeconomic factors, asset classes, and/or individual investments. These updates may in turn lead to revised target allocations in client accounts.

Edelman Financial Engines may also periodically review available investment vehicles to determine if changes in cost, performance, or other factors may lead towards shifts from specific holdings to others. Listed below is additional information related to methods of analysis and investment strategies as applied to services historically offered through the workplace by Financial Engines, services traditionally offered directly through legacy Financial Engines, and services traditionally offered directly through legacy Edelman Financial.

## **II. Methods of Analysis and Investment Strategies for Services Offered through the Workplace**

The methods of analysis and investment strategies applied to services offered to participants through the workplace depend in part on their stated goals. For participants on the growth objective, Financial Engines' advice platform generates a recommended portfolio allocation that is generally designed to maximize expected returns in a manner consistent with the client's stated risk level. For participants on the income objective, on the other hand, the advice

platform generates a portfolio designed to provide steady payouts in retirement in line with the participants' needs, stated risk tolerance and time horizon, among other factors.

Due to the statistical nature of Financial Engines' process, a number of potential portfolios will satisfy its criteria for an appropriate investment strategy and allocation. This optimal set of portfolios that offer the highest expected return for various levels of risk is often referred to as the "efficient frontier." The efficient frontier is not a line, but instead is a thin band of portfolios with varying allocations. The portfolio that is selected for implementation is the product of optimization enhancements developed by Financial Engines, which takes into account, among other factors, portfolio turnover, concentration, risk and expected return, number of positions and transactions.

The universe of available investment alternatives may be designated by the plan sponsor or other plan fiduciary (in the case of a defined contribution plan account) or by a financial institution. Investments or securities not available in such defined universes may have characteristics similar or superior to those available investment alternatives being analyzed, potentially at lower cost. Except in connection with its IRA management services, Financial Engines has no authority or responsibility to select the universe of investment alternatives available for client accounts, nor does Financial Engines have the authority or responsibility to monitor investment choices for the continued appropriateness for inclusion in the universe, or to monitor the adequacy of the universe as a whole. Such decisions are made by individual plan sponsors, the plan fiduciary or other third parties. In such situations, Financial Engines bases its recommendations on the universe of available holdings.

The above methodology may also apply to certain other services offered by Edelman Financial Engines, such as in Personalized Portfolios offered through planners to relevant clients.

### **III. Methods of Analysis and Investment Strategies for Services Offered Directly**

For clients who obtain services directly through legacy Financial Engines planners (or who accessed services previously available only through such planners) (as opposed to through the workplace or through a legacy Edelman Financial service offering), the Firm provides clients with two primary asset management services: a standard service and a "Retirement Paycheck" service. The investment products recommended for both services are usually actively and/or passively managed mutual funds and/or exchange-traded funds geared towards the stated goals of clients. For the Retirement Paycheck service, fixed income investments are also recommended, and may include highly rated bonds, FDIC insured certificates of deposit and U.S. government issued or guaranteed securities. While most investment products recommended in both cases fall into several large buckets (mutual funds and exchange-traded funds), there is significant diversity within those very broad categories and therefore Edelman Financial Engines does not believe that there are material risks associated with the universe of securities traded or recommended to clients.

While Edelman Financial Engines can and may at times provide investment recommendations on other securities, including equity securities, U.S. government securities, corporate and municipal bonds and variable life insurance and annuities, its focus is on mutual funds and/or exchange-traded funds. On an isolated basis, Edelman Financial Engines may advise a client (upon request

of the client), on other strategies, including stock or bond trading, margin transactions, option writing and short sales. This is infrequently done.

Edelman Financial Engines – consistent with the general principles outlined above – relies upon an investment philosophy which seeks to help clients achieve their long-term investment goals. The Firm uses a number of different methods to model the risk and return properties of these investments, including returns-based style analysis, compositional analysis, and qualitative review of fund managers. Assessments of forward-looking returns may incorporate information on expenses, turnover, and risk-adjusted manager performance. For investments held in taxable accounts, Edelman Financial Engines may also analyze the tax efficiency of those investments.

For all account types, and consistent with its fiduciary duties, Edelman Financial Engines' policy is to exercise high levels of care and prudence in making and implementing investment decisions for client accounts. Edelman Financial Engines typically employs validation tests and operational oversight and quality control procedures. We also obtain and utilize information and data from a wide variety of public and private sources as well. Neither Edelman Financial Engines nor our planners independently verify or guarantee such information and data, which may not be free from error.

#### **IV. Risk of Loss**

For all clients who invest in the markets through Edelman Financial Engines (or otherwise), regardless of the services they choose, investments (including investments in mutual funds and/or exchange-traded funds) have risks associated with them – including the risk of loss of principal. Edelman Financial Engines strives to help clients manage these risks to within acceptable levels. For example, Edelman Financial Engines constructs portfolios with allocations across numerous asset categories. This diversification is intended to reduce the volatility in clients' investment portfolios when compared to a single asset category, such as large cap growth stocks or small cap value stocks. While a diversified investment portfolio, including a portfolio of investment products representing different asset categories, can mitigate some risks, it does not and cannot prevent all loss. Ultimately, such risks are borne by the client, so we encourage clients to carefully read and consider these risks and discuss them with their planner if any questions arise.

Because any mutual fund, ETF, or annuity held in a client's Wrap Fee Program account has its own internal expenses, changing one or more investment funds in a model and, as a result, the relevant client accounts, will likely result in a change to the expense ratio of the overall portfolio. The resulting expense ratio may be higher or lower than the expense ratio of the original portfolio. If a change is made and the expense ratio of the new fund is in fact higher than that of the fund or investment that was replaced, clients will incur a greater expense than previously incurred (or vice versa if the expense ratio is lower). Clients should understand that, while Edelman Financial Engines takes the cost of particular investments into account when making investment decisions, cost is one of the many factors that are considered. Other factors that are considered include: overall diversification, return, risk adjusted return, exposure to particular asset classes or market sectors in which the Firm and Investment Committee have conviction, internal characteristics, trading impact, liquidity and manager reputation.

While not all risks are listed below, some of the material risks which may lead to a loss in the value of a client's overall account and/or risks which may attach to a specific investment product or vehicle include:

- **Market Risk** – The price of a security, bond, mutual fund or other investment may drop in reaction to tangible or intangible events and conditions at any time. Economic, political and/or issuer-specific events may cause the value of securities to rise or fall. Because the value of investment portfolios and holdings will fluctuate, there is the risk that a client will lose money and their investments may be worth less upon liquidation than it was at the time of purchase.
- **Business Risk** – There can be certain risks associated with investing in a particular industry or market sector. For example, investments in a fund which invests in energy sector holdings may be affected by external political or economic events affecting oil-producing companies or countries.
- **Category or Style Risk**: During various periods of time, one category or style of holdings may underperform or outperform other categories and styles. For example, during certain periods of time value-oriented mutual funds may outperform large cap growth funds, or vice versa.
- **Foreign Securities and Currency Risk** - Investments in international and emerging-market securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.
- **Capitalization Risk** - Small-cap and mid-cap companies may be hindered due to limited resources or less diverse products or services, and their stocks have historically been more volatile than the stocks of larger, more established companies.
- **Interest Rate Risk** – Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds may become less attractive, causing their market values and the market value of any mutual fund or exchange-traded fund holding those bonds to decline.
- **Reinvestment Risk** – There is a risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (for example, at a lower interest rate). This risk is primarily related to fixed income securities.
- **Inflation Risk** – When any type of inflation is present, purchasing power may be eroding at the rate of inflation. Also referred to as purchasing power risk, this risk also reflects the possibility that the cash flows from an investment will not be worth as much in the future due to changes in purchasing power due to inflation.
- **Credit Risk** - Credit risk is the risk that the issuer of a security may be unable to make interest payments and/or repay principal when due. A downgrade to an issuer's credit rating or a perceived change in an issuer's financial strength may affect a security's



value and, thus, impact the performance of the issue – and any mutual fund or exchange-traded fund which holds it.

- **Concentration Risk** - There is a risk associated with having too much invested in a given sector, type of holding, or similar concentration. Concentration risk may be further compounded by factors such as asset correlation or performance, and may be compounded by certain securities, or types of securities, being held in various investment vehicles in a portfolio.
- **Risks Associated with Positions in ETFs with which Legacy EFS was Involved** – Certain Firm models include positions in the SPDR S&P North American Natural Resources ETF (“NANR”) and/or the iShares Exponential Technologies ETF (“XT”). At a certain point of time, Ric Edelman became interested in how new economy innovation and technology disruption would change investing. As a result, he articulated certain principles that BlackRock later used in creating XT. Ric Edelman played a similar role with respect to NANR. XT and NANR are sponsored and managed by BlackRock and State Street Global Advisors, respectively. Neither Ric Edelman nor Edelman Financial Engines receives any direct or indirect compensation from either of the funds or their respective affiliates based on the sale of, or investment in, either fund. For each of these funds a very significant percentage of each ETF’s total assets may be held by Firm clients. Such large concentrations present a variety of risks. For example, should the Firm decide to transition out of one or both of the funds, the high concentration of clients within NANR and XT could lead to liquidity risk and/or reputational risk. This risk may occur in relation to other ETFs or mutual funds within models at various times due to portfolio allocations and holdings as well.
- **Exchange-Traded Funds** – Exchange-Traded funds present market and liquidity risks. They are listed on a public securities exchange and are purchased and sold via the exchange at the listed price, which will vary based on current market conditions and may deviate from the net asset value of the exchange-traded fund’s underlying portfolio. There may also be a lack of an active market for certain funds, and/or losses from trading in secondary markets.
- **Performance of Underlying Managers** - We select the mutual funds and ETFs in a client’s portfolio based on a variety of criteria. However, we depend on the manager of such funds to select individual investments in accordance with their stated investment strategy. Should a fund manager deviate from such norms, or do a poor job of selecting investments, a given investment might underperform or face enhanced risk.

## Item 9: Disciplinary Information

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There are no legal or disciplinary events to disclose that are deemed material to a client or prospective client’s evaluation of FEA’s advisory business or the integrity of FEA’s management.

## Item 10: Other Financial Industry Activities and Affiliations

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FEA is not a registered broker-dealer or insurance agency. It is affiliated with Edelman Financial Services, LLC ("EFS"), which is an insurance agency. FEA is also under common indirect ownership and control with other broker-dealers and investment advisers, but FEA does not maintain any material business relationships with such other investment advisers and/or broker-dealers. We do not believe that these affiliations create a material conflict of interest for FEA's current or prospective clients.

All Edelman Financial Engines planners are fee-only and receive no commissions from affiliates or other entities. Neither Edelman Financial Engines nor any of its planners sell new broker-dealer products or services. The Firm continues to receive insurance related compensation in relation to products or services previously purchased by clients in certain circumstances, as discussed below. FEA does not sell or distribute proprietary investment products or assess sales charges. It does sponsor the Wrap Fee Program, for which a separate brochure is available.

Certain planners maintain individual insurance licenses in order to enable them to provide comprehensive investment advice and financial planning to clients. No planners sell insurance products or services; for clients who have insurance needs, Edelman Financial Engines planners generally refer them to unaffiliated third-party insurance agencies or carriers to provide the most appropriate insurance product. The Firm is at times compensated with a percentage of relevant revenues generated on the sale of certain life insurance products. However, no client facing personnel receive commissions or other revenue as a result of this arrangement. No Edelman Financial Engines planners receive any commissions, sales credits or other compensation from such referrals. We do not believe that any of these activities create a material conflict of interest for Edelman Financial Engines' current or prospective clients. Clients are advised that they are under no obligation to purchase any insurance products through any FEA affiliate or unaffiliated insurance agency or carrier and that other, similar products may be less expensive elsewhere.

Financial Engines may reimburse or compensate certain plan providers for maintaining secure communications links between the plan provider's information systems and Financial Engines' systems for the purpose of facilitating the provision of services to workplace clients who are plan participants. If applicable, Financial Engines also may reimburse or compensate certain plan providers for coordinating Financial Engines' activities with certain plan sponsors with whom the plan provider has a service agreement, who may be interested in providing Financial Engines' services to participants. The amount and structure of reimbursement generally is a function of the number of participants in a plan and the number of participants who use our services, or in limited circumstances, a percentage of the advisory fees Financial Engines receives in connection with the provision of advisory services to clients using the communications links. These reimbursements may vary among plan providers based upon, without limitation, respective roles and responsibilities among the parties and systems' capabilities and/or constraints. The connectivity arrangement and the communications link between a plan provider and Financial Engines do not constitute an endorsement, sponsorship or solicitation by the plan provider of Financial Engines or its services. Plan participant clients receiving Financial Engines' advisory services pursuant to such an arrangement with a plan provider are not charged any additional fees due to such data connectivity arrangements. In addition to its investment advisory business, Financial Engines may offer technical computer and software set-up and support services on a fee basis that is not deemed to be investment advice. Financial Engines may also provide education and other investment-related services that are separate

from its investment advisory services. Financial Engines' time spent on these activities is incidental to its investment advisory business. Financial Engines does not believe that any of these activities create a material conflict of interest for Financial Engines' current or prospective clients.

FEA is not a futures commission merchant, commodity pool operator, or commodity trading advisor, nor does it have any applications pending to register as one. Similarly, none of FEA's management persons are associated persons of a futures commission merchant, commodity pool operator, or commodity trading advisor, nor do they have any applications pending to register as one.

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

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Edelman Financial Engines has adopted a Code of Ethics (the "Code") pursuant to SEC Rule 204A-1 and/or similar state rules. A copy of the Code will be provided to any client or potential client upon request. To request a copy, please call 1-800-601-5957, or request a copy in writing at: Compliance Department, Edelman Financial Engines, 28 State Street, 21st Floor, Boston, MA 02109.

Of primary importance to the policies within the Code is adhering to a fiduciary standard and putting the interests of our clients first. Maintaining high standards of ethical conduct is core to Edelman Financial Engines and the manner in which we approach financial planning. To that end, the Code establishes and reinforces the standard of business conduct that is expected of employees and provides specific guidance related to avoiding actual or apparent conflicts of interest. The Code emphasizes certain governing principles that employees should always be mindful of in the course of their work, including the duty to place the interests of clients first, the importance of protecting material non-public information and the obligation to report violations of the Code. Persons designated as Access Persons under the Code are subject to additional, specific requirements with respect to their personal securities transactions, including the disclosure of all securities holdings on an annual basis, certain reporting on a transactional and quarterly basis and prior approval of transactions for certain designated securities and offerings. Neither the Firm nor its employees recommend to clients, or buys or sells for client accounts, securities in which the Firm or a related person has a material financial interest.

The Code contains procedures for distribution and acknowledgement of the Code to all employees and the Firm provides training on its content and requirements both at the time of hire and periodically thereafter. The Code has a series of rules designed to ensure that trading activity of Access Persons is appropriate. At times, officers and employees may purchase securities for their own accounts that may, in certain instances, be the same securities as those recommended to clients, such as shares of certain exchange-traded funds. Planners may also invest their personal funds in the same programs used by clients, including in models contained in the Wrap Fee Program. They may participate in a 401(k) plan which similarly invests in one or more Wrap Fee Program model. In this way, planners (through investments in these models) may buy or sell the same underlying securities as clients also invested in such models. This can include interests in mutual funds, ETFs or insurance products. Although employees get a fee reduction on certain Wrap Fee Program accounts, these accounts are not given preferential

trading treatment. Such accounts are monitored and rebalanced in the same manner as client accounts, in accordance with the same underlying model strategy.

In the course of providing its advisory services Edelman Financial Engines does not select the investment alternatives available to workplace clients within their plans or publish any recommended list of securities. The Code has policies and procedures designed to prevent and/or detect such activities as front-running, trading in securities on the restricted or watch list, trading on insider information. This also ensures that employees comply with certain ethical constraints and otherwise act in a manner designed to ensure that no conflicts of interest take place. Violations of the Code risks serious sanctions, including potential loss of employment.

To comply with the agency cross provisions of the Investment Advisers Act, Edelman Financial Engines has policies and procedures in place to ensure that transactions introduced on behalf of Wrap Fee Program clients are not crossed with transactions introduced to the clearing firm on behalf of EFLS clients. Cross transactions do not apply to mutual funds since shares of mutual funds are purchased from their issuers and are not exchange-traded. Although ETFs are exchange-traded, Edelman Financial Engines does not, acting as investment adviser, recommend that such shares be crossed from one advisory client account to another and does not act as a broker-dealer with respect to any such potential cross transaction.

## **Item 12: Brokerage Practices**

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As part of obtaining services from Edelman Financial Engines, many clients will also open and maintain an account at an independent third-party brokerage firm. The roles of Edelman Financial Engines and the brokerage firm are different, but both work to help the client achieve their goals. This section describes certain brokerage practices related to Edelman Financial Engines, including in the areas of research and soft dollar benefits, brokerage for client referrals and directed brokerage. While harmonization is anticipated in the future, these practices are described below for clients enrolled in both legacy Financial Engines and legacy Edelman Financial programs. New Edelman Financial Engines clients should refer to the relevant policies for whichever program they enroll in and will generally work within the practices of either legacy Financial Engines or legacy Edelman Financial.

### **I. Brokerage Selection**

Retail clients who have direct account relationships with an Edelman Financial Engines planner may choose from a number of unaffiliated registered broker-dealers as custodians for their accounts: Charles Schwab & Co., Inc. ("Schwab", as cleared through Charles Schwab Clearing Services), E\*TRADE Advisor Services; TD Ameritrade Institutional, a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade" or "TDA"), an unaffiliated SEC-registered broker-dealer and FINRA member, or Fidelity Institutional Wealth Services ("Fidelity", as cleared through National Financial Services LLC). While Edelman Financial Engines has arrangements established with these custodians, it does not select which ones to effect trades or determine commissions paid. Clients acknowledge that the selection of one of these custodians is made at their discretion. In addition, the Firm does not enter into directed brokerage arrangements with clients, engage in agency cross transactions or make any principal trades for advisory clients. Some specific services offered by the Firm may require a client to open an account with

a particular custodian, and in some circumstances other factors may require the use of a specific custodian. Any such obligations will be communicated as appropriate to relevant clients.

While we anticipate that transactions placed in a client's account will be executed through one of the custodians listed above, in limited circumstances the Firm may choose to execute trades with another broker-dealer, as is detailed below. Each custodian also makes available other trading options that Edelman Financial Engines can select, if deemed necessary, such as algorithmic trades. Each custodian also provides services that are typically made available to institutional investment managers and generally not to retail clients. These services include duplicate client statements and confirmations (with the exception of E\*TRADE Advisor Services), access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts), the ability to have advisory fees deducted directly from client accounts and access to mutual funds with no transaction fees. Custodians receive compensation for their services either through a fixed percentage fee based on all account assets that are maintained in the custody of their firm or on a transactional basis. All clients in the Institutional program and a limited number of retail clients are handled on a transactional basis. Because the cost of what each custodian charges the Firm is included in the wrap fee, whether the custodian charges the Firm a fixed percentage or on a transactional basis has no bearing on what the client pays.

In selecting broker-dealers, including custodians, we evaluate the full range of services offered, the quality of those services and any costs indirectly borne by clients, to determine if the firm provides overall quality of service for the price. Quality of service includes, among other things, execution capability, commission rate, financial responsibility, responsiveness to the adviser, and the value of any research provided. While we attempt to negotiate favorable rates for transactions and believe that each custodian we select offers competitive rates, we do not select a custodian solely due to cost. While another custodian may offer the same services at a lower overall cost, Edelman Financial Engines is not required to move accounts to that custodian.

## **II. Research and Other Potential Benefits**

As a policy and practice, legacy Financial Engines does not have arrangements to utilize research, research-related products and/or other services obtained from broker-dealers or third parties on a soft-dollar commission basis. Legacy Edelman Financial does obtain or have available to it certain research-related tools and other broker related services from certain brokerage firms. More information on these benefits, and potential conflicts associated with them, are detailed in Item 14. For non-workplace accounts, legacy FE annually reviews a sample selection of trades made in clients' accounts at the recommended brokerage and custodian. The review is to verify that trades were executed at the appropriate market price, and that any trading fees or other charges did not exceed the custodian's printed fee and expense schedule.

## **III. Step-Out Trades**

In certain circumstances, Edelman Financial Engines may choose to execute trades for client accounts with a broker-dealer other than those listed above if we reasonably believe that another broker-dealer can obtain a more favorable execution under the circumstances. Occasionally, Edelman Financial Engines will utilize a broker-dealer other than one of the

Custodians to execute large transactions if we determine that it is in our clients' best interest and that other broker-dealer has the capability to handle such large transactions and to reduce or eliminate any potential negative price fluctuation. This generally will occur when the size of the transaction in any one security is so large that it could cause the price of the security to fluctuate, up or down, resulting in an unfavorable execution price for our clients. Where Edelman Financial Engines trades through a broker-dealer other than one of the Custodians, the wrap fee does not include the compensation that is paid to that broker-dealer. This compensation is embedded into the price of the security which is paid by the client. These additional costs are in addition to the wrap fee paid by the client.

#### **IV. Trade Errors**

As a fiduciary, Edelman Financial Engines seeks to effectuate trade orders and account related actions correctly, promptly and in the best interests of its clients. In the event an error occurs in the handling of any client transaction due to Edelman Financial Engines' actions or inactions, Edelman Financial Engines' policy is to promptly investigate and correct such errors without disadvantaging its clients, seeking a fair and appropriate resolution while taking into account the surrounding facts and circumstances.

Generally, if an error is categorized as a trade error and is the responsibility of Edelman Financial Engines, the client transaction will be corrected, and Edelman Financial Engines will be responsible for client losses resulting from an inaccurate or erroneous order, with certain possible exceptions.

Occasionally, an error is caused by a client. In those situations where Edelman Financial Engines can correct it, the error will be corrected promptly in the client's best interest and reviewed on a case-by-case basis to determine the party responsible for potential losses. Edelman Financial Engines relies on a significant amount of data from multiple sources and cannot guarantee that all relevant data are free from error. Clients should always review relevant documents to ensure that trades, information and data are accurate and free of error to the best of the client's knowledge.

#### **V. Order Aggregation for Services Offered Directly and Best Execution**

Legacy Financial Engines utilizes investment products consisting primarily of mutual funds and/or exchange-traded funds. Clients' mutual fund trades are not aggregated. This means that when a mutual fund is purchased or sold in a client's account, that transaction request is forwarded to the executing broker as a stand-alone transaction request. Unlike mutual funds, which are typically purchased and redeemed at a price derived daily from the net asset value of the fund's underlying portfolio, exchange-traded funds ("ETFs") are listed on a public securities exchange and are purchased and sold via the exchange at the listed price, which price will vary based on current market conditions and may frequently deviate from the net asset value of the ETF's underlying portfolio. Clients wishing to include ETFs in their portfolio will typically do so by selecting a Wrap Fee Program model, which offers centralized trading services to help ensure that purchases and sales of ETFs are arranged and executed in a manner that is fair to all applicable clients. In connection with these centralized trading services, legacy FE may aggregate the purchase and sale of any ETFs by processing a single trade order aggregating the quantity of ETF shares necessary to meet the objectives for multiple clients, instead of processing a series of

similar securities transactions for each client. Accordingly, at the time of any such transactions, legacy FE will determine the amount of securities it must purchase or sell to meet the clients' objectives, and divide the securities purchased or the proceeds from any securities sold into proportional pieces for each applicable client.

Clients will not incur additional transaction costs related to the aggregation of transactions, and each client will pay the same purchase price or, if applicable, receive the same sale price for transactions in the same security. In cases where more than one transaction may be necessary to obtain or liquidate the aggregated quantity of securities, each client will pay a purchase or receive a sale price, as applicable, reflecting the average price paid or received with respect to all such transactions.

Whenever appropriate, Edelman Financial Engines may aggregate same side (purchase/sale) transactions for certain securities on behalf of all Wrap Fee Program accounts, including accounts of planners and employees. It is Firm policy that such transactions will be allocated to all participating client accounts in a fair and equitable manner. There is no preferential treatment given to any account. Transactions may be aggregated together to achieve an average execution price. Mutual funds are purchased directly from the issuer, and no aggregation of these transactions occurs.

The Retirement Paycheck service will aggregate purchases, and any sales, of investments in the income protection component, which primarily utilizes fixed income investments. These may include FDIC insured bank certificates of deposit, securities issued by national or local governments or government agencies, and highly rated fixed income and related debt securities issued by corporations. When income protection component purchases are made, legacy FE will determine the amount of investments needed for all Retirement Paycheck service clients for each investment step in their income protection ladder. Legacy FE will then make purchase requests for the investments for that step and divide the purchase or purchases into proportional pieces for each client. Clients will not incur additional transaction costs related to the aggregation of transactions, and each client will pay the same purchase price or, if applicable, receive the same sale price for transactions in the same security. Most transactions will likely be effectuated through our recommended brokers, but legacy FE may utilize other appropriately qualified brokerages for these purchases if the securities and prices are more advantageous than available through our recommended brokers. If such occurs, any security will be forwarded by that brokerage to our recommended brokers, for deposit into the clients' accounts.

A specific investment selected by legacy FE might not be available to all Retirement Paycheck service clients, either because the security is not available for sale to residents of some states or because there is not enough of the security available for purchase to meet the demand in that step of the income protection ladder. When there are limitations specific to the residents of some states, legacy FE will shop separately for those clients and purchase a security that is available for sale to them. If there is insufficient supply, legacy FE will identify two or more securities for purchase to fulfill the ladder step for all clients, and if those securities have differences in the interest yield, legacy FE will use a randomized selection method to select clients' accounts to receive the highest yielding, then the second highest yield, etc., until all clients have been invested.

Edelman Financial Engines seeks the best available execution for client transactions and monitors transactions (including rebalancing, reallocation, model changes and liquidations) retrospectively to evaluate whether best execution was obtained. The Firm monitors best execution with its Custodians. Additionally, the Firm reviews each broker-dealer's execution reports to evaluate the services provided, quality of executions, fee rate, and other services.

It is Firm policy to allocate investment opportunities amongst its clients on a basis that it determines in good faith is reasonable and appropriate, considering contractual obligations, portfolio diversification objectives, the specific nature of the investment, the risk-return profile of the investments, the specific investment objectives of each client, trade size, regulatory considerations, and any operational or logistical considerations or limitations, or other factors deemed relevant by the Firm under the circumstances. While the goal of this policy is to achieve fair and equitable allocation of investment opportunities over time, it may not be possible to treat each client or group of clients exactly alike in every circumstance. Transactions for different accounts or for other clients' accounts might not be made at the same time, may be made on different days, and may be made over multiple days. In handling purchases and liquidations, we will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers, or other corporate or financial events. The Firm will seek to resolve any conflicts of interest associated with the allocation of any investment opportunity in a manner that it determines in good faith to be reasonable and appropriate.

## **VI. Cost Basis Tax Reporting**

For services offered directly, outside of workplace accounts, all custodians are required to report details of clients' gains or losses to clients and to the Internal Revenue Service ("IRS") on Form 1099-B, for those accounts that have an IRS reporting requirement. Unless notified in writing by a client to proceed in a different manner, Edelman Financial Engines will instruct custodians to sell lots of a security with the objective of taking losses first (short term then long term, taking in both instances the greatest loss to the least loss) and gains last (long term then short term, taking in both instances the least gain to the greatest gain).

Clients are solely responsible for any tax liabilities associated with their accounts, and for contacting their personal tax advisors to determine if this accounting method is the right choice for them. If clients believe another accounting method is more advantageous for their accounts, clients may provide written notice to Edelman Financial Engines and we will alert the client's custodian of the client's selected accounting method. Decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

## **VII. Client Referrals**

Edelman Financial Engines participates in the TD Ameritrade Institutional Program known as AdvisorDirect®. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade"), an independent and unaffiliated SEC registered broker-dealer and FINRA member. The AdvisorDirect® program allows TD Ameritrade to refer its brokerage clients and other investors seeking fee-based personal investment management or financial planning services to other investment advisers such as Edelman Financial Engines. TD Ameritrade will generally not allow its clients to participate in AdvisorDirect® unless they have a



minimum of \$750,000 in investable assets. TD Ameritrade does not supervise Edelman Financial Engines and has no responsibility for our management of client models or other advice or services. To participate in AdvisorDirect®, an advisor must meet certain minimum eligibility criteria. However, AdvisorDirect® is not open to all advisors who meet these minimum criteria. TD Ameritrade limits the number of advisers based on the services provided and investment style of the advisor.

We receive client referrals from TD Ameritrade through participation in the AdvisorDirect® program that result in an economic benefit to Edelman Financial Engines. We pay TD Ameritrade an ongoing fee for each successful client referral. For referrals that occurred through AdvisorDirect before April 10, 2017, this fee is a percentage (not to exceed 25%) of the advisory fee that the client pays to the Firm. For referrals that occurred through AdvisorDirect on or after June 9, 2017 the fee is annualized, based on the amount of referred client assets that does not exceed 25% of 1%, unless such client assets are subject to a "Special Services Addendum." In the case of a Special Services Addendum, the fee is annualized, based on the amount of referred client assets that does not exceed 10% of 1%.

We also pay TD Ameritrade a referral fee on any assets we receive from any of certain of a referred client's family members who also become an Edelman Financial Engines client on the recommendation of such referred client. Clients who are referred to Edelman Financial Engines through this program will generally pay a lower fee for the services they receive than other clients. For more information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect® Disclosure and Acknowledgment Form.

Additionally, Edelman Financial Engines participates in E\*TRADE Securities LLC ("E\*TRADE")'s referral program. E\*TRADE is an independent, unaffiliated broker-dealer registered with the SEC. E\*TRADE does not have the authority to make representations or accept clients or accounts on behalf of Edelman Financial Engines. E\*TRADE is not providing any investment advice to Edelman Financial Engines. It is Edelman Financial Engines' sole discretion whether to accept or reject a referral from E\*TRADE and Edelman Financial Engines is solely responsible for determining the suitability of any advisory services provided to the referred client. Planner's participation does not reduce or eliminate planner's fiduciary duties to clients it otherwise would have. E\*TRADE will generally not allow its clients to participate in the E\*TRADE Advisor Network unless they have a minimum of \$400,000 in investable assets.

Edelman Financial Engines pays E\*TRADE a referral fee (not to exceed 23 basis points) for as long as the referral remains an investment advisory client of Edelman Financial Engines. Edelman Financial Engines also pays such referral fees to E\*TRADE if additional accounts over which a referred client has beneficial ownership or authority engages with Edelman Financial Engines for investment advisory services, or if certain of the referred client's relatives or members of their household also engage with Edelman Financial Engines for investment advisory services. Referred clients will not pay any additional or higher fees as a result of being referred from E\*TRADE. Clients who are referred to Edelman Financial Engines through this program will generally pay a lower fee for the services they receive than other clients.

## Item 13: Review of Accounts

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A key part of helping clients achieve their financial goals includes periodic reviews of client accounts in most service offerings. Below, we describe generally the frequency and nature of such reviews, which will vary depending on the service clients choose to enroll in and, at times, whether they are interacting with legacy FE or legacy EFS services. We also describe the content and frequency of the regular written reports provided to clients, if any, regarding their accounts. While we envision increased harmonization in 2020 and beyond, clients of legacy Financial Engines and/or legacy Edelman Financial will have accounts reviewed, and will receive reports, as outlined below. New clients of Edelman Financial Engines will have accounts reviewed depending upon which service they enroll in; they will generally receive reports per the process described for legacy EFS clients.

### **I. Review of Services Offered Through the Workplace by Legacy Financial Engines Services**

Clients who are enrolled in legacy Financial Engines services have accounts which are periodically reviewed, as is described below. The one exception is clients who enroll in Online Advice; such clients, due to the nature of that service, are responsible for monitoring accounts on their own and do not receive periodic reports from Financial Engines.

#### **Services Offered through the Workplace**

##### **Online Advice**

Financial Engines' Online Advice service allows clients to review their accounts on demand at their own initiative. While Online Advice clients can generate their own reports as frequently as they choose, such reports are not generated or sent to them on a periodic (or other) basis by Financial Engines. If clients elect to receive them, Financial Engines may from time to time provide e-mail notifications to Online Advice clients about their accounts. Such emails may include updates on changes in the value of their investments, the likelihood of reaching their stated goals, or other Online Advice account-related information. Such updates are sent at the discretion of Financial Engines; there are not specific triggers for such communications.

##### **Discretionary Management**

For clients enrolled in Professional Management and/or IRA management through the workplace, Financial Engines generally conducts account reviews monthly. The account review process begins with an automated analysis of the account, which generates a retirement plan and proposed adjustments, if applicable, to an account's allocation target. Financial Engines' Portfolio Management team compares the proposed allocation target with the current portfolio and previous activity to detect variances in certain factors (such as turnover and concentrations) and determines whether transactions are desirable in the current period. Variances outside of predetermined tolerances may prompt additional review and adjustments by the Portfolio Management team. Additional review may also be triggered by market events or information provided by Professional Management members or IRA clients related to assets held in outside accounts that may impact the management of the account(s). Certain changes to investment

preferences, such as risk level, retirement age, or limitations regarding company stock, can also trigger additional review. Financial Engines' Portfolio Management team conducts these reviews under the supervision of the Firm's Investment Committee.

All discretionary management clients in the workplace will receive printed or electronic quarterly Retirement Updates, which generally include information concerning account holdings and balances.

## **II. Review of Services Offered Directly**

Accounts of wrap fee clients who interact with Edelman Financial Engines planners directly are typically reviewed daily for rebalancing; other accounts are reviewed periodically. While many accounts are reviewed as frequently as daily, all accounts are reviewed at least monthly and more frequently as market conditions dictate. Personalized Portfolios with downside protection are typically reviewed weekly. Such reviews are geared towards determining if rebalancing or reallocation is appropriate to keep clients invested in a manner which will help them achieve their financial goals. In addition to this account level review, the investment products recommended to clients are reviewed by members of the Investment Management team periodically, with that review considering amongst other things a fund's history, performance, cost, risk and asset exposure. Allocations are reviewed frequently to assess the need, if any, for a reallocation.

In addition to the above, individual planners review accounts on as frequent a basis as is appropriate to ensure that client accounts are invested appropriately. To that end, the planner review seeks to ensure that clients are enrolled in accounts and investments that are appropriate given their risk tolerance, goals and a variety of other factors. In addition, Edelman Financial Engines periodically performs an analysis of selected clients' accounts to determine if market movements or other changes have produced a deviation from the clients' designated investment models. If clients experience or anticipate changes in their personal situation, such as tolerance for risk, investment objectives or time horizon, clients are urged to contact Edelman Financial Engines to report those changes, so Edelman Financial Engines and client can assess whether changes to the client's investment accounts should be made. On at least an annual basis, clients are contacted in order to update their personal and financial information. The information is used to determine if there are any changes that could impact relevant account allocations, risk tolerance or other factors important to determining each client's investment portfolio. Clients may request an additional review at any time.

Clients enrolled in standard service offerings, as well as Retirement Paycheck clients, will receive written monthly or quarterly account statements directly from the relevant custodian. Additionally, Edelman Financial Engines currently sends or makes available to clients quarterly written reports about their investment portfolio, including a listing of their current holdings and recent investment performance information (the type and frequency of such communications may change in 2020 or beyond). Financial Planning and Consulting clients will not receive regular reports from Edelman Financial Engines unless other arrangements have been negotiated or agreed to. Retirement and pension plan clients will receive periodic written reports (frequency to be determined jointly by the plan and Edelman Financial Engines) describing the recent performance of investments available in the plan.

Clients are able in many cases use a personal finance information management tool which allows clients to aggregate information from both their Edelman Financial Engines account and relevant outside accounts (such as 401(k) accounts, external brokerage accounts, and other financial accounts). Such information is only made available if and as the client instructs. While such information is viewable by the client's planner and can be a valuable tool in helping maintain focus on a client's overall financial situation, it is for informational purposes only. Edelman Financial Engines and its planners are unable to, and do not purport to, make trading decisions about such outside accounts, and will use such information as relevant to help best understand the client's overall financial situation. Clients may request in writing that their financial planner consider their outside accounts as part of any annual review of their advisory accounts managed by Edelman Financial Engines and the planner may choose to do so at their sole discretion. Clients should further understand that Edelman Financial Engines does not manage or supervise any outside account linked through the account aggregation portal.

ERP Plan assets invested in ERP models are monitored on an ongoing basis. Plan assets invested in the models are rebalanced or reallocated based on market or other conditions as warranted, consistent with changes recommended by the Investment Committee. Changes in the models, which include adding, removing or replacing securities at the recommendation of the Investment Committee, are made infrequently based on a variety of factors, which include but are not limited to changes in the economic, financial or political climate (only as expressed in market moves); and the management of the securities used by the model. Changes may also be made based on the Plan's circumstances or restrictions that the Plan sponsor (or other Plan fiduciary or agent) may place on the investments in the Plan's account.

Clients enrolled in legacy Edelman Financial services will receive written monthly or quarterly account statements directly from the relevant custodian. Quarterly statements produced by Edelman Financial Engines can be viewed online but are not affirmatively sent to clients.

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

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This section of the ADV describes certain arrangements that Edelman Financial Engines has with third parties, as well as certain other compensation and benefits Edelman Financial Engines may receive from third parties while conducting business. For example, in some circumstances, Edelman Financial Engines compensates individuals or companies for client referrals. Edelman Financial Engines may also receive economic benefits from actions or inactions of certain individuals or companies. Edelman Financial Engines never charges a client more as a result of such referrals, compensation or benefits, and always acts in a manner it deems in the best interest of its clients pursuant to its fiduciary duties. Nonetheless, we describe certain of those items below.

### **I. Referrals and Solicitors**

Edelman Financial Engines compensates certain persons, entities and/or institutions for referrals. Compensation for client referrals is paid out of client fees paid to Edelman Financial Engines; however, clients pay only the fees and rates noted in the applicable fee schedule. Compensation paid to a solicitor is negotiated between the solicitor and Edelman Financial

Engines. These referrals comply with the Cash Solicitation Rule of the Investment Advisers Act, respective federal and state laws governing the same where relevant, and ERISA, if applicable.

Edelman Financial Engines has policies in place meant to ensure that those who are referred to Edelman Financial Engines through a non-client referral receive appropriate disclosures where appropriate. To that end, new clients are provided a copy of the FEA ADV and a copy of relevant written disclosure documents about fees. In addition, each client for which Edelman Financial Engines pays a referral fee receives disclosures setting forth the nature of activities conducted by the person or entity making the referral, the nature of the fees paid by Edelman Financial Engines, whether Edelman Financial Engines is affiliated with the solicitor and any other material terms which may be important to a prospective client's decision to become an Edelman Financial Engines client under such circumstances.

In instances where Edelman Financial Engines utilizes a non-affiliated solicitor, the solicitor's role is limited to that of a solicitor. Such solicitors are not an agent, representative or employee of Edelman Financial Engines, and that solicitor does not provide investment-related advice on behalf of Edelman Financial Engines. Each such solicitor has agreed to act in accordance with Edelman Financial Engines' instructions and will not make any specific recommendations of securities or any other type of investment. Only Edelman Financial Engines will make specific recommendations to a client of Edelman Financial Engines. Edelman Financial Engines may also pay for advertising services on digital or other platforms.

Financial Engines offers Online Advice to plan participants in certain retirement plans by arrangement with the plan, plan sponsor or plan provider. Certain of these arrangements provide for Financial Engines' fees to be paid by the plan, the plan sponsor or the plan provider. The amount of the fee is subject to negotiation with the plan sponsor or plan provider and may be calculated based on the number of individuals eligible to participate in the plan, the amount of aggregate assets in the plan or assets in client accounts, or a flat annual or other periodic fee. In such situations, Financial Engines does not compensate the plan, plan sponsor or plan provider for clients, although fee structures generally may have some relationship to the number of enrollees from a plan.

Those who become clients (or enhance the services they obtain from us) due to some or all of those scenarios will not pay more than other clients (and will generally pay less as is disclosed above), will not pay fees beyond those listed in relevant fee disclosures, and will receive the same level and quality of service as other clients. In addition, the fiduciary responsibilities of Edelman Financial Engines, including the duty to obtain best execution when selecting brokers to execute securities transactions on behalf of clients, are in no way impacted or reduced based on whether a client was referred. From time to time, the Firm may initiate programs for employees to refer clients to legacy EFS that result in funded accounts. Separately, supervised persons of Edelman Financial Engines who are employees of Edelman Financial Engines and who work in Edelman Financial Engines' National Advisor Center may receive referral or other fees based on client engagement with our services. To the extent that these referral or other fees based on client engagement are paid to Edelman Financial Engines National Advisor Center employees, Edelman Financial Engines does not consider them material and does not deem them to present a conflict of interest.

Edelman Financial Engines participation in the AdvisorDirect® program poses potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect® to Edelman Financial Engines by TD Ameritrade will have their assets custodied at TD Ameritrade. We have agreed not to solicit clients referred through AdvisorDirect® to transfer their accounts from TD Ameritrade nor to establish brokerage or custody accounts at other Custodians, except when our fiduciary duties require doing so. Edelman Financial Engines participation in AdvisorDirect® does not diminish our duty to seek best execution of trades for client accounts.

Edelman Financial Engines participation in unaffiliated E\*TRADE Securities LLC (“E\*TRADE”)’s referral program poses potential conflicts of interest. Clients who are referred to Edelman Financial Engines by E\*TRADE will have their assets custodied by E\*TRADE Advisor Services. Edelman Financial Engines participation in AdvisorDirect® does not diminish our duty to seek best execution of trades for client accounts.

## **II. Other Compensation and Benefits**

In some situations, Edelman Financial Engines or its employees might receive compensation or benefits from third parties or receive products or services which others might not be entitled to. This section describes such potential compensation or benefits and how it may relate to services provided to clients. Edelman Financial Engines has policies and procedures in place to ensure that any such compensation or benefits does not impede Edelman Financial Engines’ acting in the best interest of clients and in a fiduciary capacity. Edelman Financial Engines does not believe that the information disclosed below acts as an actual material conflict.

Legacy Financial Engines has entered into a marketing support agreement with Charles Schwab & Co., Inc. (“Schwab”) for which legacy Financial Engines receives payment from Schwab each quarter. This money reduces legacy Financial Engines’ expenses tied to client acquisition efforts. In addition to benefiting legacy Financial Engines, Schwab will benefit indirectly from those efforts through the establishment of multiple client accounts at Edelman Financial Engines with Schwab as a custodian of client non-workplace accounts. Financial Engines clients are not required to select Schwab as their custodian in order to receive Financial Engines services generally but are currently required to select Schwab as custodian in order to receive the Personal Advisor level of service. Because Financial Engines receives an economic benefit, Financial Engines has a conflict of interest if it encourages or requires that clients use Schwab as a custodian. Financial Engines clients are not charged a different or additional fee based on their custodian selection, and such agreement does not have any impact on the determination of the advice and/or management that Financial Engines provides to its advisory clients. In addition, such agreement does not require the maintenance of any specified number of accounts or amount of assets under management in Schwab accounts.

Unrelated to its services in the workplace, if a client accesses services directly, and the client selects Charles Schwab as custodian, its business unit, Schwab Advisor Services provides certain services to Edelman Financial Engines. These services include access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail clients. Schwab also makes available various support services, some of which help us manage or administer our clients’ accounts, while others help us manage and grow our business. Edelman Financial Engines does not charge clients a different advisory fee based on the client’s selection of custodian.

*Schwab Services That May Benefit Clients:* Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a higher minimum initial investment by our clients.

*Schwab Services That May Not Directly Benefit Clients:* Schwab makes available to us other products and services that benefit legacy Financial Engines but may not directly benefit clients or client accounts. These products and services assist Edelman Financial Engines in managing and administering our clients' accounts and include software and other technology that: provide access to client account data; facilitate trade execution in individual clients' accounts as well as aggregated trade orders for multiple client accounts; provide pricing and other market data; facilitate payment of fees from clients' account; and assist with back-office functions, recordkeeping, and client reporting.

*Schwab Services That Generally Benefit Only Legacy Financial Engines:* Schwab offers other services intended to help Edelman Financial Engines manage and further develop our business enterprise. These services include software and information technology programming; educational conferences and events; consulting on technology and business needs; and publications and conferences on practice management and business succession. Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to Edelman Financial Engines. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide Edelman Financial Engines with other benefits, such as occasional business entertainment of our personnel.

*Edelman Financial Engines' Interest in Schwab's Services:* Schwab normally charges a fee to registered investment advisers for the services described above, but because Edelman Financial Engines has clients whose assets in accounts at Schwab total more than \$10,000,000, the Schwab quarterly service fee of \$1,200 is not charged to Edelman Financial Engines. The availability of these services from Schwab, especially the support for software and information technology programming, benefits Edelman Financial Engines because we do not have to produce or purchase them.

We believe that Edelman Financial Engines cooperation with and, in some cases, selection of Schwab as a custodian and broker as a default and/or as a necessity (in the case of certain Personal Advisor accounts) is in the best interest of our clients. We perform an annual review of Schwab's custodial and trade execution services, as well as that of the other recommended custodians, to verify the quality of those services and that the fees paid by clients are comparable to similar custodians and brokerages and/or makes sense given the support and services provided by Schwab. If the client utilizes National Financial Services LLC and Fidelity Brokerage Services LLC (collectively "Fidelity Investments") as custodian, Fidelity Investments provides Edelman Financial Engines a waiver of quarterly fees once a certain asset threshold is met. This may provide a benefit to Edelman Financial Engines, but that benefit is not deemed material.

Legacy EFS has established a Turnkey Asset Management Program (“TAMP”), whereby the Firm makes exclusively legacy EMAP models available to clients of select unaffiliated investment advisers (“TAMP Advisors”). Edelman Financial Engines performs a due diligence review of each TAMP Advisor and their investment advisor representatives who will be offering legacy EMAP models prior to establishing the relationship and on an ongoing basis thereafter. We provide systems, services, and back-office support to the TAMP Advisors. Dedicated staff at Edelman Financial Engines administer and supervise the TAMP program. The TAMP Advisor initiates the relationship with the client and is the ongoing client relationship manager responsible for the relationship and such tasks as making investment recommendations and maintaining books and records. In such situations the advisory fee is shared between Edelman Financial Engines and the TAMP Advisor on a negotiated basis. The client does not pay an increased advisory fee because of this arrangement.

Edelman Financial Engines also participates in the TD Ameritrade Institutional Program. We receive services that include custody of client securities, trade execution, clearance and settlement of transactions as a result. The Institutional Program provides additional economic benefits to Edelman Financial Engines that are not typically available to TD Ameritrade retail investors. There is no direct link between Edelman Financial Engines participation in the program and the investment advice it gives to its clients. The economic benefits include the following products and services, which are provided at no cost or at a reduced cost to Edelman Financial Engines:

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving Edelman Financial Engines
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology and/or other services
- Practice management products or services provided to Edelman Financial Engines by third-party vendors
- Business consulting and professional services received by Edelman Financial Engines - related persons (may be paid for by TD Ameritrade)

Some of the products and services made available by TD Ameritrade through the Institutional Program may benefit Edelman Financial Engines but may not benefit client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Edelman Financial Engines manage and further develop our business enterprise. The benefits received by legacy EFS or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. Edelman Financial Engines at times recommends TD Ameritrade to clients for custody and



brokerage services. Therefore, receiving these economic benefits creates a conflict of interest and could directly or indirectly influence Edelman Financial Engines to recommend TD Ameritrade to clients for custody and brokerage services.

The Custodians that Edelman Financial Engines uses (TD Ameritrade, Fidelity, Schwab or E\*TRADE Advisor Services) offer various services to Edelman Financial Engines, including custody of client securities; trade execution; clearance and settlement of transactions; access to platform systems; duplicate client statements; research-related products and tools; access to a trading desk; access to block trading; the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and use of overnight courier services. Some of these services may benefit Edelman Financial Engines but may not benefit our clients and receipt of these economic benefits creates a conflict of interest and could directly or indirectly influence Edelman Financial Engines to recommend a certain Custodian to clients for custody and brokerage services. These custody services are paid for as part of the client's wrap fee.

### **III. E\*TRADE Advisor Services**

For retail clients, E\*TRADE Advisor Services provides custodial services to Edelman Financial Engines which include safekeeping of assets, producing quarterly account statements, deducting advisory fees from client accounts, and performing account allocations. E\*TRADE Advisor Services also directs third parties to handle trade execution, clearance, and settlement of transactions. These tools benefit Edelman Financial Engines but may not benefit client accounts. Furthermore, the annual asset fee that E\*TRADE Advisor Services charges is contingent upon the assets under custody that legacy EFS holds with E\*TRADE Advisor Services. Edelman Financial Engines participates in E\*TRADE Securities LLC ("E\*TRADE")'s referral program. Please see Item 12 for discussion of these conflicts.

These arrangements with E\*TRADE Advisor Services and E\*TRADE, and the economic benefits to Edelman Financial Engines that result, create a potential conflict of interest and could directly or indirectly influence Edelman Financial Engines to make it more likely that a client will choose E\*TRADE Advisor Services for custody and brokerage services even though a Custodian other than E\*TRADE Advisor Services may be able to provide better quality service or provide services at a lower cost. However, because the cost to the client of these custodial services is included in the wrap fee, lower costs to Edelman Financial Engines will not be reflected in the client's costs. However, Edelman Financial Engines would not act in a manner which it felt was not in the best interest of its clients.

### **IV. Advisory Panels**

From time to time, Edelman Financial Engines employees serve on TD Ameritrade Institutional, Dimensional Fund Advisors LP ("Dimensional"), Envestnet, Charles Schwab & Co., Inc., and/or Skience LLC Advisory Panels. The panels are sponsored by those companies and consist of independent advisers who advise those companies on issues relevant to the service, technology and products provided by them. Panel members are not compensated for their participation; however, some of these companies will at times either pay or reimburse FEA employees for travel, lodging and/or meal expenses incurred when they attend panel meetings. From time to

time, Dimensional or other companies may sponsor FEA corporate events, which could include use of their facilities. While service on these panels could create a conflict of interest, the economic sums involved are minimal and such conflicts, if they did exist, would be in FEA's opinion immaterial. The potential benefits received by either FEA or its employees by serving on either the TD Ameritrade Institutional or Charles Schwab & Co., Inc. panels does not depend on the amount of brokerage transactions directed to them.

#### **V. Evaluation of NANR, XT and Other ETFs**

Certain models available through the Wrap Fee Program include positions in the SPDR S&P North American Natural Resources ETF (NANR) and the iShares Exponential Technologies ETF (XT). Ric Edelman initially articulated the principles that BlackRock later used in creating XT. Legacy EFS played a similar role with respect to NANR. XT and NANR are sponsored and managed by BlackRock and State Street Global Advisors, respectively. Neither Ric Edelman nor legacy EFS receives any direct or indirect compensation from either of the funds or their respective affiliates based on the sale or investment in either fund. For each of these funds, a very high percentage of each ETF's total assets may be held by Wrap Fee Program clients. There is a conflict of interest regarding the initial role that legacy EFS and/or Ric Edelman played in the suggestion for or the creation of these two ETFs, as well as any promotion of NANR or XT by legacy EFS and/or Ric Edelman, in that legacy EFS may receive indirect economic and other benefits from the association of its name with that ETF. That conflict could influence our decision to use either State Street Global Advisors' SPDRs or BlackRock's iShares to provide ETFs in the Wrap Fee Program.

Ric Edelman frequently speaks, writes and opines on a variety of topics through multiple platforms, including on blockchain technologies, cryptocurrencies and assets, cybercurrencies and exponential technologies. His views do not necessarily represent those of the Firm generally, and do not constitute a recommendation for any specific Firm client or groups of clients. He has passive and non-passive participation with, and investments in, various bodies, boards and entities tied to these and similar technologies. This may create a potential conflict of interest to the extent that Edelman Financial Engines and/or Edelman Financial Engines models contain investments or allocations associated with such areas of the economy.

#### **VI. TD Ameritrade Sponsorship of Legacy EFS Corporate Events**

From time to time, TD Ameritrade may sponsor legacy EFS corporate events or make certain donations. The decision to act as a sponsor of legacy EFS corporate events is at their sole discretion and expense. The sponsorship of legacy EFS corporate events by TD Ameritrade provides indirect economic benefits to legacy EFS and creates a potential conflict of interest that could indirectly influence legacy EFS to recommend TD Ameritrade to clients for custody of assets and brokerage services.

#### **VII. Salentica**

Salentica, along with other companies is part of an "Institutional Alliance" with TD Ameritrade. Legacy EFS uses Salentica as its Client Relationship Management (CRM) system. The relationships between legacy EFS, Salentica and TD Ameritrade, and their participation in the

Institutional Alliance present a conflict of interest in that it may make it less likely that legacy EFS would move away from relationship with TD Ameritrade.

#### **VIII. Economic Benefits from Third Parties**

Edelman Financial Engines and/or Ric Edelman may enter into discussions with a third-party, including existing vendors or other service providers regarding joint ventures, partnerships, marketing initiatives or other such forms of cooperation. Legacy EFS may also use third-parties, including existing vendors or service providers in a consultative manner, sounding them out for advice or insight, at no or a reduced cost to legacy EFS, which the Firm could use for its proprietary purposes and/or for the potential benefit of our clients. This activity could create a conflict of interest to the extent that it benefits Edelman Financial Engines and such benefits are not passed on to the client, or Edelman Financial Engines otherwise makes decisions with respect to that third-party which may adversely affect the client. In addition, to the extent Edelman Financial Engines has an arrangement or relationship with a third-party separate and apart from that third-party's provision of services to our clients, Edelman Financial Engines judgment with regard to those services could be affected by its arrangement or relationship.

#### **IX. Funding Our Future Initiative**

Funding Our Future is an alliance of organizations dedicated to making a secure retirement possible for all Americans. The alliance informs the public about the barriers to retirement security and calls on policymakers to make strengthening retirement policies a top priority. It was co-founded by legacy EFS and the Bipartisan Policy Center, a non-profit organization acting as a think tank to address key challenges facing the nation. Legacy EFS has asked third-party service providers to make donations to the initiative. The publicity which Edelman Financial Engines receives from the initiative represents an economic benefit. The donations may affect our judgment with regard to the services provided by those third-parties, which may not benefit the client, creating a conflict of interest.

All of the above conflicts, to the extent they are deemed to actually exist, are considered immaterial to Edelman Financial Engines. Further, policies and procedures are in place to ensure that the Firm and its personnel act in the best interest of clients.

### **Item 15: Custody**

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Where applicable for accounts outside of the workplace, client assets are held at a qualified custodian in accounts that are registered in the name of the client. To that end, Edelman Financial Engines has established relationships with various non-affiliated third-party clearing/custodian broker-dealers who are responsible for taking custody of and maintaining client funds and securities. For purposes of providing its advisory services, Edelman Financial Engines does not maintain actual possession or custody of client assets. While Edelman Financial Engines does not maintain actual possession or custody of client assets in the manner of its qualified custodians, as disclosed in Form ADV Part 1A we do have custody of client funds or securities under applicable SEC guidance for certain clients who have authorized us to deduct our advisory fees from the clients' account or who have granted us the limited power to transmit funds to one or more third parties as specifically designated by the client through a

Standing Letter of Authorization. However, even in such situations the custodian maintains actual possession of the clients' assets.

Clients receive account statements directly from the custodian at least quarterly which will reflect the withdrawal of any fee, funds or other account activity. These statements will be sent to the email or postal address the client provided to the custodian. Clients may also receive periodic account statements from Edelman Financial Engines. We urge clients to compare the account statements received from Edelman Financial Engines with those received from the custodian to verify the accuracy of their balances and fees.

## **Item 16: Investment Discretion**

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Edelman Financial Engines accepts discretionary authority to manage securities accounts on behalf of clients in relation to the provision of certain investment advisory services. Below we outline the services where we accept such discretionary authority and describe any limitations clients may (or customarily do) place upon this authority. We also describe the procedures we follow before we assume this authority.

### **I. Investment Discretion for Workplace Clients**

For legacy Financial Engines clients, Financial Engines accepts discretionary authority to manage assets on behalf of clients who enter into an agreement for any of Financial Engines' investment advisory or management services except Online Advice. Clients who utilize the Online Advice service are responsible for executing their own transactions. Where Financial Engines accepts discretionary authority to manage assets on behalf of clients in relation to other services, it does so through an explicit grant of such authority by clients to Financial Engines. This authority is granted to Financial Engines when clients open an account and ask Financial Engines to manage those accounts on their behalf through acceptance and agreement to the Professional Management Terms and Conditions or other relevant advisory agreements. No discretionary authority is accepted by Financial Engines unless explicitly granted by the client.

Discretionary trading authority permits Financial Engines to send trading instructions to a recordkeeper for the client accounts on their behalf to help them achieve their financial goals. It also allows us to implement the investment plan that was created for that client after significant client inputs about such preferences as risk tolerance, time horizon, goals and needs. Financial Engines makes ongoing changes as is appropriate to effectuate the relevant plan. Those changes may include periodic rebalancing of asset classes or reallocations as appropriate.

Clients in services where discretionary authority is exercised may place reasonable restrictions on their accounts. For example, clients enrolled in the Professional Management program may communicate to Financial Engines a desired allocation for the stock of the plan sponsor that may be held in their workplace retirement account, subject to the program's management parameters and processes. Where available, and subject to Financial Engines' investment methodology, Professional Management clients may also place short-term (12 months) limitations on a single asset class in their account. Clients have the option to renew the limitation for an additional 12 months. We reserve the right, at our sole discretion, to reject any account for which unreasonable or overly restrictive conditions are requested.

## **II. Investment Discretion for Retail Clients**

Clients who enroll in the Wrap Fee Program grant Edelman Financial Engines discretionary authority to manage their account by signing a written client agreement granting the Firm that authority. This limited discretionary authority gives the Firm the authority to execute client-approved investment strategies in their accounts. This includes permission to place orders through custodians, make investments in accordance with the model selected by the client, select and modify those investments, and reallocate assets and rebalance accounts in accordance with the client's specified investment objectives.

In a reallocation, we change the target percentages of some or all of the asset classes or types of assets relative to the total model. Models and accounts are monitored on an ongoing basis and assets reallocated based on market or other conditions as warranted. Changes in the model are can be made based on a variety of factors, including but not limited to changes related to the economic, financial or political climate and the management of the underlying securities used by the model. The Firm may replace a particular security (or securities) if its risk, return and costs, in the context of the portfolio and/or in comparison to similar securities suggest a change is appropriate, or if there is a different security that, in our opinion, would be better suited for the model portfolio. Personalized portfolios are generally managed as outlined above for Workplace clients.

As markets fluctuate, and values change, amounts originally allocated to a fund will either exceed or fall below the target allocations. We periodically adjust account holdings to be in line with the asset allocation targets, or "rebalance" the account.

Generally, if a client asks to place reasonable restrictions on the management of their Wrap Fee Program account the Firm will discuss those proposed restrictions with the client. For example, clients may request that securities or types of securities not be purchased or sold, subject to restrictions, although Edelman Financial Engines has no control over the mix of securities held by, for example, a mutual fund or ETF in which client accounts may be invested. Ultimately, a client will be placed in a model that is most suited to their needs and which allows for such reasonable restrictions as appropriate. A client cannot usually request that we buy specific holdings or types of holdings, although exceptions may be granted. We reserve the right, at our sole discretion, to close an account (or decline to open one in the first place) if unreasonable or overly restrictive conditions are requested.

Contributed cash or money market fund shares in client accounts may initially remain uninvested in securities. Although clients may deposit freely tradable securities in their accounts to meet the minimum account size, we will liquidate those securities positions and invest the proceeds in securities matching the client's selected investment strategy. Tax consequences associated with this liquidation and reinvestment process will likely occur, and clients should consult with their tax professional before depositing securities in their accounts. Edelman Financial Engines does not provide legal or tax advice to clients. Clients are advised to discuss the possible legal or tax consequences of their investment decisions with their legal or tax advisers prior to effecting any transaction.

The above description generally also pertains to those clients who are not enrolled in the Wrap Fee Program and who have an account with a planner constructed model, although while the Firm has been granted discretionary authority over these accounts, certain clients may be permitted to trade directly with the custodian on their own and may also buy securities.

Wrap Fee Program and planner constructed model accounts may contain assets for which the Firm has not been granted discretionary authority and generally does not provide investment advisory services. The Firm does not charge advisory fees on these “unmanaged assets”, although certain exceptions may apply.

### **III. ERP Clients**

Edelman Financial Engines offers discretionary services with respect to the selection and monitoring of designated investment alternatives (“DIAs”), qualified default investment alternatives (“QDIAs”), and models made available to Plans. If these services are selected by the Plan sponsor (or other Plan fiduciary or agent) under the ERP agreement, Edelman Financial Engines will have discretionary authority to select, replace, and remove DIAs, QDIAs, and Models available under the Plan. DIAs, QDIAs, and Models will be monitored on an ongoing basis for consistency with the Plan’s Investment Policy Statement (“IPS”), investment objectives, and financial circumstances, as well as market conditions and other relevant factors. Plan sponsors (or other Plan fiduciaries or agents) will generally be notified of any additions to or removals of the Plan’s DIAs, QDIAs, and models.

Under the ERP Investment Management Agreement, Edelman Financial Engines has the limited discretionary authority to change a model’s asset allocations and its underlying investments. Models are monitored on an ongoing basis and reallocations are made based on market or other conditions as warranted and appropriate pursuant to the Firm’s Investment Committee’s recommendations, and/or the Plan’s circumstances or restrictions as imposed by the Plan sponsor (or another Plan fiduciary or agent). We will notify the Plan sponsor (or other Plan fiduciary or agent) when replacing an underlying fund from the Plan’s investment menu, if it significantly diverges from its relevant index in terms of risk or return, with another underlying fund that is more in line with the risk/return profile of the relevant index. Generally, Plan sponsors (or other Plan fiduciaries or agents) are notified of reallocations after the transactions are made.

Each investment option is invested in a mix of underlying funds in accordance with the corresponding model approved by the Plan sponsor (or other Plan fiduciary or agent) and the target allocation percentages determined by that model. As markets fluctuate and values change, the actual percentage allocations of some or all of the underlying funds for the investment option’s model may either exceed or fall below the target percentage allocations. At Edelman Financial Engines’ discretion, we may periodically rebalance an investment option’s holdings in underlying funds to return the investment option to be in line with its target percentage allocations under the model.

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

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As a general policy, Edelman Financial Engines will not vote proxies on behalf of clients. The Firm did agree to vote proxies on behalf of certain legacy Financial Engines clients in the past. The Firm is in the process of revisiting that agreement with relevant clients, who will receive relevant communications on this topic.

#### *Situations in Which Edelman Financial Engines Does Not Vote Client Securities*

Unless the Firm has agreed in writing to vote proxies on behalf of a client, it will not do so. In particular, Edelman Financial Engines does not have authority to vote client securities, and will not do so, for clients enrolled in any legacy Edelman Financial programs or for clients enrolled in Financial Engines' Professional Management or Personal Advisor services. Clients enrolled in these services will receive proxies or other solicitations directly from their provider or applicable custodian or, in applicable situations, from ERISA plan sponsors or fund companies. Edelman Financial Engines does not have the legal authority or responsibility for initiating, taking, advising on, or responding to any action with respect to potential or existing class action litigation, bankruptcy or any other proceeding involving any security held in such clients' accounts. Clients in such accounts wishing to discuss a particular solicitation can contact their planner or call 1-800-601-5957, although Edelman Financial Engines does not offer recommendations as to how to vote such proxies absent extraordinary circumstances.

#### *Situations in Which Edelman Financial Engines Does Vote Client Securities*

For taxable, IRA and other accounts historically managed through the retail channel at legacy Financial Engines (excluding those listed above), Edelman Financial Engines votes relevant proxies for clients if they have indicated to their custodian that proxies should be forwarded to Edelman Financial Engines and if the agreement between the client and Edelman Financial Engines indicates that the Firm will vote proxies on the client's behalf. Edelman Financial Engines votes proxies in such accounts only for mutual funds and exchange traded funds which appear on the Select List of mutual funds and ETFs. In rare circumstances, upon written request by a client directing us how to vote and meeting certain criteria, Edelman Financial Engines will vote a proxy related to an individual security or non-Select List mutual fund or ETF. If a client wishes to discuss directing Edelman Financial Engines on how to vote on a given proxy, such a client should speak to their planner or contact Edelman Financial Engines at 1-800-601-5957.

Edelman Financial Engines maintains a written policy regarding the standards considered when determining how a proxy will be voted for a security on the Select List. Generally, Edelman Financial Engines will look at a variety of factors to determine whether a given vote will reasonably appear to lead the fund or ETF to operate more or less efficiently with the best possible performance. Clients wishing to obtain a copy of this policy or wishing to obtain information about how specific securities were voted may call 1-800-601-5957 or request a copy in writing at: Compliance Department, Edelman Financial Engines, 28 State Street, 21<sup>st</sup> Floor, Boston, MA 02109.

As Edelman Financial Engines votes only relevant mutual funds and ETFs, it is not anticipated that conflicts of interest will arise. This is because of the diversification offered by mutual funds and ETFs and because Edelman Financial Engines planners do not receive sales loads, fees or

other compensation from investment companies. In all circumstances, proxies are voted in a manner Edelman Financial Engines perceives to be in the best interest of the client.

## **Item 18: Financial Information**

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Edelman Financial Engines does not require or solicit prepayment of more than \$500 in fees per client six months or more in advance. While Edelman Financial Engines has discretionary authority or custody of client funds or securities, Edelman Financial Engines does not believe that there is any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients. Edelman Financial Engines has not been the subject of any bankruptcy proceeding at any time during the past ten years.



Financial Engines Advisors L.L.C.  
3315 Scott Blvd, 4th Floor  
Santa Clara, California 95054

Chief Compliance Officer: Jonathan Robbins  
[www.EdelmanFinancialEngines.com](http://www.EdelmanFinancialEngines.com)

September 25, 2020

## **Part 2B of Form ADV: Brochure Supplement**

This Brochure Supplement provides information about Edelman Financial Engines, LLC Investment Committee, advisory services provided by Financial Engines Advisors L.L.C. (FEA). You should have received a copy of that Brochure. If you have any questions about the contents of this Brochure Supplement, please contact us at 1-800-601-5957. The information in this Brochure Supplement has not been approved or verified by the SEC or by any state securities authority.

Additional information about Financial Engines Advisors L.L.C. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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**ITEM 2****EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

The Investment Committee at Financial Engines Advisors L.L.C. (FEA) has overall responsibility for the oversight of advisory and investment management services, including the application of proprietary investment methodology that generates its advice recommendations and portfolio management. The Committee meets regularly (typically bi-weekly) to review and approve methodology and parameter updates, investment policies, new service and client communications designs, and ongoing monitoring of portfolio allocations. The Committee is comprised exclusively of Edelman Financial Engines employees with a broad range of experience and expertise. Most members of the Committee have long tenure with Edelman Financial Engines, and the majority has been integrally involved in the development of the advisory platform for many years.

**FEA's Investment Committee****Christopher L. Jones (1967), Chairman**

A.B. Economics, Stanford University;  
M.S. Engineering – Economic Systems, Stanford University;  
M.S. Business Technology, Stanford University  
Mr. Jones is an Executive Vice President and Chief Investment Officer

**Wei-Yin Hu (1967)**

A.B. Economics, Stanford University;  
Ph.D. Economics, Stanford University  
Mr. Hu is Vice President, Financial Research

**Gregory D. Stein (1970)**

A.B. Economics, Stanford University;  
A.M. Economics, Stanford University  
Mr. Stein is Vice President of the Analytics Office

**Robert L. Young (1966)**

A.B. Economics, Georgetown University;  
M.B.A., Stanford Graduate School of Business  
Mr. Young is Senior Director of Investments

**Neil Gilfedder (1971)**

B.A. Philosophy, Economics, University of York;  
M.A. Economics, Stanford University  
Mr. Gilfedder is Senior Vice President, Portfolio Management

**Patricia Wang (1971)**

B.A. Industrial Engineering and Economics, Stanford University  
Ms. Wang is Senior Director, Portfolio Management

**Michael Agostino (1968)**

B.S. Computer Science, California Polytechnic State University, San Luis Obispo  
Mr. Agostino is Vice President, Product – Platforms

**Brian Lipps (1974)**

B.S. English, Radford University;  
M.B.A., University of Southern California  
Mr. Lipps is Regional Director, Financial Planning

**ITEMS 3, 4 & 5****DISCIPLINARY INFORMATION, OTHER BUSINESS ACTIVITIES,  
ADDITIONAL COMPENSATION**

There is no disciplinary information, other business activities or additional compensation to report for each of the above persons.

**ITEM 6****SUPERVISION**

The Investment Committee at FEA has overall responsibility for the oversight of advisory and investment management services, including the application of Edelman Financial Engines' proprietary investment methodology that generates its advice recommendations and portfolio management.