City of Reading RFI for DROP Program
Prepared by Andrew R. Avellan, CFP®, CLU®, ChFC®, Founding Partner
The Philadelphia Wealth Management Co.
November 7th, 2014

Organization

#1.

AXA Advisors and the Philadelphia Wealth Management Co. (PWMC)

40 Monument Road

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#2.

AXA Advisors, LLC (the "Company"), a Delaware limited liability company, is a wholly owned subsidiary of AXA Distribution Holding Corporation ("Holding"), and an indirect subsidiary of AXA Equitable Financial Services, LLC, whose parent is AXA Financial, Inc. ("AXF"). AXF is a wholly owned subsidiary of AXA, a French holding company for an international group of insurance and related financial services companies. The Company is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is also a registered investment advisor under the Investment Advisers Act of 1940. Its principal businesses are the distribution of shares of investment products, primarily mutual funds offered by affiliates and third parties, as well as the sale of brokerage products and variable life insurance and annuity contracts issued by AXA Equitable Life Insurance Company ("AXA Equitable") and MONY Life Insurance Company of America ("MLOA"), wholly owned indirect subsidiaries of AXF. The Company focuses on the development and management of retail customers and currently offers a variety of asset management accounts with related services, as well as money management products such as asset allocation programs and advisory accounts. Retail distribution of products and services is accomplished by financial professionals ("FP's") contracted with AXA Network, LLC ("AXN"), an affiliate, and the Company. LPL Financial LLC ("LPL"), an independent brokerage firm, provides clearing and certain back office brokerage services to the Company. The current agreement between LPL and the Company, as amended January 1, 2012, is in effect through December 15, 2019 (the “LPL Agreement”). The LPL Agreement will renew automatically for an additional twenty-four month term unless terminated under certain conditions.

#3.

See Exhibit B (ADV part #1 and #2).

The Philadelphia Wealth Management Co. is a producer group within AXA Advisors, LLC. Independently incorporated and formed on 11/01/2013. There are four founding partners (Andrew R. Avellan, CFP®, CLU®, ChFC®, Peter D’Amico, CFP®, Benjamin Bross and W. Casey Fehl) two associate partners, (Vincent Maimone and Christopher McDonald) and three staff employees (Tina Yeager, Office Manager, Joan Silva, Scheduling Coordinator, and Kelly Bradley, Implementation Coordinator).

#4.

See Exhibit B.

#5.

Yes.

#6.

See Exhibit C.

#7.

The cornerstone of our philosophy is holistic planning coupled with academic and scientific based investment solutions. Systematic and ongoing monitoring of financial plans and investment portfolios is paramount to add value to our clients’ situations.

We have an established procedure of frequent contact and meeting to cultivate and develop meaningful client/advisor planning relationships.

#8.

None

#9.

Yes. We have the ability to utilize most money mangers' accepting funds for public investment. We do have a specific relationship with Dimensional Fund Advisors (DFA). As a firm, one must be approved by DFA to administer their investment solutions to clients. We are an approved firm with them.

#10.

We received no such fees.

#11.

100% of our clients with whom we engage in active portfolio management.

#12.

Please see Exhibit 'D'. We use the CFP Board of Standards Code of Ethics as the documentation for our procedure.

#13.

Yes. LPL financial (see LPL attachments). The trades they place automatically are only for systematic rebalancing purposes.

#14.

No

#15.

No

#16.

No

#17.

E&O: The Company obtains Errors and Omissions professional liability coverage for its agents each calendar year. The current insurer is Zurich American Insurance Company and participation in the E&O program is mandatory for all captive agents. The minimum required coverage is $2.4 million per claim with a $4 million annual aggregate; higher levels of coverage are available to agents at their option. Coverage applies to all insurance, annuities, securities and investment advisory products offered by or through AXA Network, LLC and its affiliates and subsidiaries. A declaration page and copy of the policy are attached for your reference and can be shared with third parties.

See attachments titled "AXA 2014 EO".

#18.

See question # 7.

Our limitation is time. Relationship driven, holistic, comprehensive planning takes time and effort. This limits the number of clients we are able to service up to our standards of satisfaction. We impose a limit of 500 in-depth planning households per partner/associate. We currently average 120 households per partner/associate.

#19.

We provide full insurance analysis and implantation along with cash flow, budget and accumulation/distribution planning.

#20 and #21.

Global Strength:

AXA Equitable is a member of the global **AXA Group**,* one of the world's largest insurance and wealth management organizations.**

AXA Equitable's assets under management totaled $519.3 billion as of June 30, 2013.

AXA Equitable has sole responsibility for its life insurance and annuity obligations. Guarantees are based on the claims-paying ability of AXA Equitable Life Insurance Company.

*AXA Group refers to AXA, a French holding company for an international group of insurance and financial services companies, together with its direct and indirect consolidated subsidiaries. AXA Equitable Life Insurance Company is an indirect, wholly-owned subsidiary of AXA.

** “The World’s Biggest Public Companies for 2011, Forbes 2000,” Forbes magazine. Values calculated in April 2012: **www.forbes.com/global2000/**

*** AXA Equitable’ s assets under management are inclusive of assets under management held by an affiliate, AllianceBernstein L.P.

“AXA Equitable” is the brand name of AXA Equitable Financial Services, LLC and its family of companies, including AXA Equitable Life Insurance Company, MONY Life Insurance Company of America, AXA Advisors, LLC, AXA Network, LLC and AXA Distributors, LLC. All AXA Equitable companies are directly or indirectly owned by AXA Equitable Financial Services, LLC, and have offices at 1290 Avenue of the Americas, New York, NY 10104, and (212) 554-1234.

* AXA Group refers to AXA, a French holding company for an international group of insurance and financial services companies, together with its direct and indirect consolidated subsidiaries. AXA Equitable Life Insurance Company is an indirect, wholly-owned subsidiary of AXA.

AXA Financial, Inc.

AXA Financial, Inc. is a premier financial services organization.
The AXA brand is represented in the United States by:

- AXA Equitable Life Insurance Company
- AXA Advisors, LLC
- AXA Distributors, LLC
- AllianceBernstein L.P.

AXA Financial offers financial services and products to individuals and businesses. AXA Financial is a member of the global AXA Group,[1] which had 1.1 trillion Euros in assets under management as of 6/30/13.[2]

AXA Financial’s family of brands and affiliates provides a comprehensive selection of financial products and services.

AXA Equitable Life Insurance Company (AXA Equitable) New York, NY, is an affiliate of AXA Advisors, LLC.

1 “AXA Group” refers to AXA, a French holding company for an international group of insurance and financial services companies, together with its direct and indirect consolidated subsidiaries.
2 Figure is $1.457 trillion using 6/30/13 closing exchange rate of Euro 1 = $1.300. AXA Group is based in France, where the official currency is the Euro.

Clients

#1.

See 'Marketing Stats' spreadsheet.

Being one of the largest asset managers in the world, AXA Advisors does specifically define the portion of their assets under management that are in pension, ERISA and endowment plans.

#2 and #3.

Please see #1.

#4.

Being engaged primarily in personal and family wealth management, PWMC does not currently have any DROP program management agreement to obtain a reference.

#5.

As per questions #18 above, we believe 500 comprehensive planning households per partner/associate is the limit of our capacity. Our growth plan to achieve this level. Asset size is irrelevant as we would approach any sized client with an equal service standard. In relation to staff, we feel that a fluctuation between three and six support people depending of the speed of our growth is appropriate.

#6.

Our initial steps, as defined by the American College of Financial Planning, are to begin a relationship with an extensive fact find. We utilize planning software developed exclusively for AXA Advisors, LLC., called 'Asset Map™'. This gives us the ability to backload any and all past transaction and investment data. Apart from being short on time, we have encountered no mentionable issues onboarding new clients.

Personnel

#1.

See questions #5 and #7.

#2.

See Exhibit E.

#3.

We have no ‘middle-man’ between the advisors and clients; therefore we do not employ ‘relationship’ managers. Despite having the sizable support of AXA Advisors, LLC. PWMC maintains a ‘boutique’ feel and experience for our clients, negating the need for a relationship manager to fill a gap.

#4.

No. We are not CFA’s. We do, however, use and adhere to the CFP Code of Ethics and Standards and that is monitored with a mandatory, annual compliance review.

Investment Management

#1.

Please see Questions #4, #18 & #19.

#2.

Evidence from practicing investors and academics alike points to an undeniable conclusion: Returns come from risk. Gain is rarely accomplished without taking a chance, but not all risks carry a reliable reward. Financial science over the last fifty years has brought us to a powerful understanding of the risks that are worth taking and the risks that are not.

Everything we have learned about expected returns in the equity markets can be summarized in three dimensions. The first is that stocks are riskier than bonds and have greater expected returns. Relative performance among stocks is largely driven by the two other dimensions: small vs. large and value vs. growth. Many economists believe small cap and value stocks outperform because the market rationally discounts their prices to reflect underlying risk. The lower prices result in higher returns to investors as compensation for bearing this risk.

We believe the right posture is to seek opportunities in positive markets and be cautious in down markets to try and avoid those large downdrafts. We seek to add value in all conditions, so we negotiate ever-changing markets using a dynamic and active management style.

#3.

See question #2.

#4.

See question #2. Also, our frequent, pre-set review meetings are an opportunity to access the present situation and measure ourselves against the applicable benchmarks. These data points allow for us monitor and ascertain risk.

#5.

See questions #2. We have not created a risk budget model.

#6.

With our ability to independently deliver any security and/or product available in the open market, our capacity to create a custom solution a client may desire is really unlimited. Speaking directly toward risks mitigation and/or management: CD's, structured products, annuities, and volatility dampening investment platforms have all been implemented in the past.

#7.

See Questions #2 and 'Clients' # 6

#8.

We employ a five step process when conducting an investment manager search : 1. Initial Screening 2. Quantitative Analysis 3. Qualitative Analysis 4. Stress Tests 5. Ongoing Monitoring.

1. **Initial Screening**.   Within an asset class, there can be multiple styles and variations, each of which will act differently in a given market condition.   LPL Financial Research focuses on finding the managers that best represent each sub-style within an asset class. Even the best sub-style manager may underperform when market conditions cause their sub-style to be out of favor. Therefore, we also try to find 'all-weather' managers. These managers tend to perform well regardless of what sub-style is in or out of favor. These managers typically do not have dramatic outperformance or underperformance in any market condition – instead they post more consistent returns. Statistical tools such as regression, optimization, and attribution analysis are used to determine the value that a manager has added within a particular asset class.   Some of the characteristics that we screen for include style factors, market capitalization, tracking error and beta.
2. **Quantitative Analysis.** Once the managers have been narrowed to a group with appropriate characteristics, we begin an exhaustive review of historical performance. The goal is not to find the managers that have recently performed the best, but to find managers that meet the performance requirements of the investment policy, whose performance demonstrates effective implementation of

their strategy, and are positioned to deliver future outperformance. Performance and risk statistics that we consider include (but are not limited to) periodic excess returns, rolling excess return, rolling risk, up and down capture and scenario based period performance which helps explain "where" the managers' return came from or "how much" risk they took.

3. **Qualitative Analysis.** Once the universe has been narrowed down, through quantitative screens, the next step is to delineate why we would recommend one manager over another with similar performance. We learn as much as we can about the investment management team, their strategy, and their investments' performance by interviewing them directly and gathering information from third-party sources to develop our "investment thesis" for each manager. The critical role of this thesis is to tie what we have learned about the manager's historical performance in various market environments to the team and strategy. The investment thesis helps us to decide not only whether to recommend a manager but also to determine why in the future we might remove the recommendation (more to come on that when we discuss ongoing manager due diligence and the "watch list"). The factors we look at include these primary elements: Team, Performance and Strategy
4. **Stress tests.** Once a manager has been selected, it is presented to our investment committee (comprised of the Chief Investment Officer, strategists and analysts) that makes the final decision as to whether the "fund" is appropriate for the specific purpose. The committee reviews the recommendation for red flags, anomalies, and performance as a piece of a portfolio. Stress test questions include, but are not limited to hidden risks (Are we aware of the different risks that a manager is currently taking and may take), position and sector concentrations (Given our views of the markets and what sectors and types of securities will perform well, is the timing of the recommendation appropriate), peer comparison (How does this recommendation stack up against other managers in the universe as well as the other "finalists" in the search) and fit within a model (Is the recommended strategy the right complement to the other components of the portfolio).
5. **Ongoing Monitoring.** Ongoing monitoring is an essential component of the process. Often overlooked, ongoing monitoring of a manager's investment process, personnel changes, and performance results is one of the most important aspects of our value proposition. Our rigorous monitoring process focuses on a number of key factors that can be leading indicators of deviations from historical performance patterns and enhance our ability to make proactive investment decisions before investment performance deteriorates substantially. Monitoring our recommendations and, when appropriate, making a sell recommendation are just as important as the initial buy recommendation. We monitor and track several key factors:

a. **Performance:** We monitor our recommendations on a daily basis. When we observe performance that is inconsistent with what we expect in a given market condition, it may signal an underlying shift in the investment philosophy, process, style or portfolio construction methodology.
b. **Changes in Portfolio Risk Levels:** Overall portfolio risk levels are also monitored. Increases or decreases in security, industry, or sector concentrations may signal changes in the investment approach of the manager
c. **Style Drift:** Deviations in investment style (for example, if a manager who has traditionally invested in value stocks begins to take significant positions in growth stocks) can change the risk/return characteristics of a fund. Some managers thrive on drift so we monitor differently those from whom we expect drift and those from whom we do not expect drift.
d. **Changes in Key Investment Personnel:** Changes in the management team can be early indicators of fundamental changes to the investment process. Those changes can, in turn, lead to changes in traditional performance profiles and risk levels.
e. **Investment Thesis:** We monitor our strategies against our investment thesis, which becomes the basis or our sell discipline. If there are any material changes to the team, performance, or investment strategy, we will re-evaluate the manager to determine if a sell recommendation is warranted.

#9.

Yes. All well diversified portfolio structure should have at least a small cash position.

#10.

Our fees are not rooted in performance per se, however being a true 'fee-based' planning establishment, we charge flat investment advisory fees on our clients' portfolios. If their portfolios grow, so does our compensation. Our compensation itself is not enhanced specifically due to performance and we do not engage in, nor plan to in the future, that pricing model.

#11.

We are not aware of what is defined as a 'transition manager'.

Performance Measurement / Portfolio Analytics and Reporting

#1.

With LPL as our broker-dealer (see LPL attachments), this is completely taken care of. LPL is the largest broker-dealer service in the world with an established track record of diligent service and accuracy as well as a significant array of reporting and analytical tools.

#2.

The LPL Financial benchmark, which is displayed in the Quarterly Performance Report, is calculated using the weighted average of the indices used to measure the performance of stocks, fixed income, and cash, in the percentages specified, as noted in the chart below. The LPL Financial benchmark represents the benchmark for the current investment objective of the account.

The LPL Financial Benchmark performance is calculated using the month-end value of the index for each day of the month, rather than the actual daily value of the index.

Index	LPL Financial Income with Capital Preservation Benchmark	LPL Financial Income with Moderate Growth Benchmark	LPL Financial Growth with Income Benchmark	LPL Financial Growth Benchmark	LPL Financial Aggressive Growth Benchmark
3 Month Treasury Bill Yield	10%	7%	5%	5%	5%
Barclays Capital U.S. Aggregate Bond Index	70%	53%	35%	15%	0%
Russell 3000 Index	20%	40%	60%	80%	95%

#3.

Sample QPR for MWP and monthly statements are attached as exhibit ‘F’.

#4.

Everything is customizable and the time frame is immediate as this system is completely web-based.

#5.

See the above answers. Also, with our periodic review method, we have the ability to measure performance in the same manner as we measure risk (see 'Investment Management' questions #6)

#6.

Yes to all. See Exhibit 'F'.

#7.

LPL and Asset Map. LPL has the capacity to assist in discovering and analyzing all the mentioned topics. Asset Map allows us to filter that information through the lens of the client's individual financial situation, in order to make a suitable recommendation.

#8.

Clients will have online access through Account view but that will be limited and will not include ad hoc performance reports.   Access will be available through AXA Online and possibly through other tools including eMoney and/or Broadridge.   Further, performance analysis reports will not be available.

Assessment of Investment Managers

#1.

Ongoing monitoring is an essential component of the process. Often overlooked, ongoing monitoring of a manager's investment process, personnel changes, and performance results is one of the most important aspects of our value proposition.   Our rigorous monitoring process focuses on a number of key factors that can be leading indicators of deviations from historical performance patterns and enhance our ability to make proactive investment decisions before investment performance deteriorates substantially. Monitoring our recommendations and, when appropriate, making a sell recommendation are just as important as the initial buy recommendation. We monitor and track several key factors:

Performance: We monitor our recommendations on a daily basis. When we observe performance that is inconsistent with what we expect in a given market condition, it may signal an underlying shift in the investment philosophy, process, style or portfolio construction methodology.

Changes in Portfolio Risk Levels: Overall portfolio risk levels are also monitored. Increases or decreases in security, industry, or sector concentrations may signal changes in the investment approach of the manager

Style Drift: Deviations in investment style (for example, if a manager who has traditionally invested in value stocks begins to take significant positions in growth stocks) can change the risk/return characteristics of a fund. Some managers thrive on drift so we monitor differently those from whom we expect drift and those from whom we do not expect drift.

Changes in Key Investment Personnel: Changes in the management team can be early indicators of fundamental changes to the investment process. Those changes can, in turn, lead to changes in traditional performance profiles and risk levels.

Investment Thesis: We monitor our strategies against our investment thesis, which becomes the basis or our sell discipline. If there are any material changes to the team, performance, or investment strategy, we will re-evaluate the manager to determine if a sell recommendation is warranted.

Our sell discipline framework helps take much of the emotion out of the investing process and helps us monitor the risk/return characteristics of our trades on a real time basis. The sophisticated sell discipline is an important part of our risk control and portfolio monitoring process. The result is our team can focus on the continued validity of the investment thesis, or simply put, the basis for the recommendation. We review such factors as macro variables, valuations, fundamentals, technicals to ensure whether or not the thesis is still valid.

LPL Financial has an approved list of managers that have passed LPL's Due Diligence screening. The screening takes into account assets under management, audited performance, clean regulatory record, strong organizational control, reviews of the qualitative and quantitative aspects of the manager to determine if it is suitable for LPL to offer the manager and product on the platform. These managers are reviewed on an annual basis. LPL Financial Research does maintain a recommended list of managers. These managers are reviewed on a quarterly basis, on-site visits are performed, and a more detailed ongoing analysis of manager's qualitative and quantitative aspects is considered.

LPL Financial Research has no proprietary investment products to sell, no investment banking relationships to promote, nor any other business conflicts to get in the way of providing your advisor with unbiased recommendations. The LPL Financial Research team's compensation is not tied to any revenue-sharing arrangements, but is tied instead to the performance of their recommended investments.

Our investment manager selection and due diligence efforts for mutual funds and money managers is based on strong and thorough investment discipline.   Our recommendations are unbiased.   As an independent firm, you can be confident we are making decisions solely on recommending the best investment option for a specific purpose.

Other Information

#1.

See exhibit 'G' and 'F'.

#2.

As previously mentioned, our administrative staff is 'in-house'. Our 'benchmarks' are relative, but as we engage in in-depth planning with our clients, we frequently ask for candid feedback on our service platform. This becomes the basis for our staff evaluation.

#3.

Typically, we agree with the client on a cycle (quarterly, semi-annually, or annually) for reviews. We formalize that in writing as per exhibit 'H'.

Fees

#1.

See exhibit 'H'.