

GOLSAN SCRUGGS

Investment Management E&O Specialists

GOLSAN SCRUGGS 2023 RIA RISK SURVEY

RIASURE™



GOLSAN SCRUGGS 2023 RIA RISK SURVEY

Conducted August through October of 2023 by electronic survey directed to approximately 8,000 independent Registered Investment Advisors throughout the United States.

The purpose of the survey was to determine what areas of risk are collectively perceived as concerning, significant and central to a U.S. based Registered Investment Advisory operation.

Release Date: 16 Oct 2023

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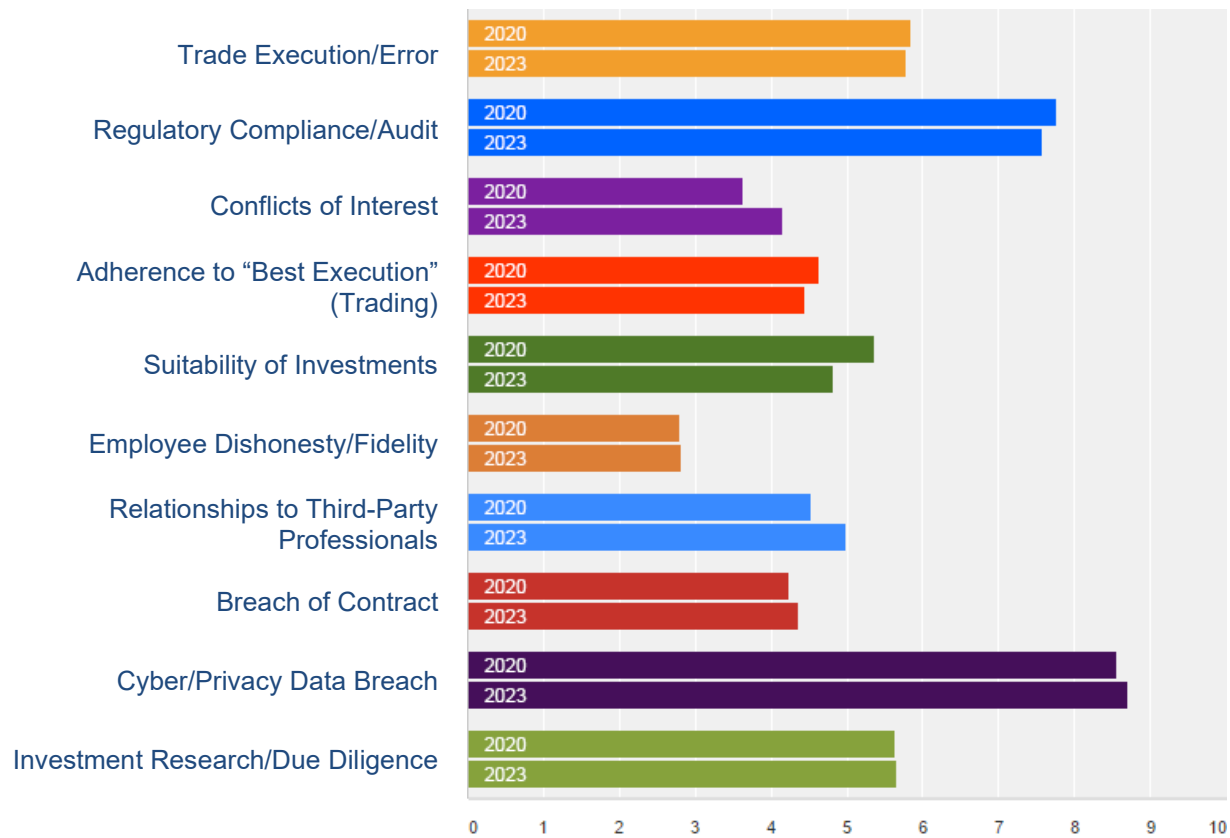
Survey Exhibit

For the RIA industry as a whole, please rank all of the following areas of risk/exposure in order from lowest to highest:

- Trade Execution/Error
- Regulatory Compliance/Audit
- Conflicts of Interest
- Adherence to “Best Execution” (Trading)
- Suitability of Investments
- Employee Dishonesty/Fidelity
- Relationships to Third-Party Professionals
- Breach of Contract
- Cyber/Privacy Data Breach
- Investment Research/Due Diligence

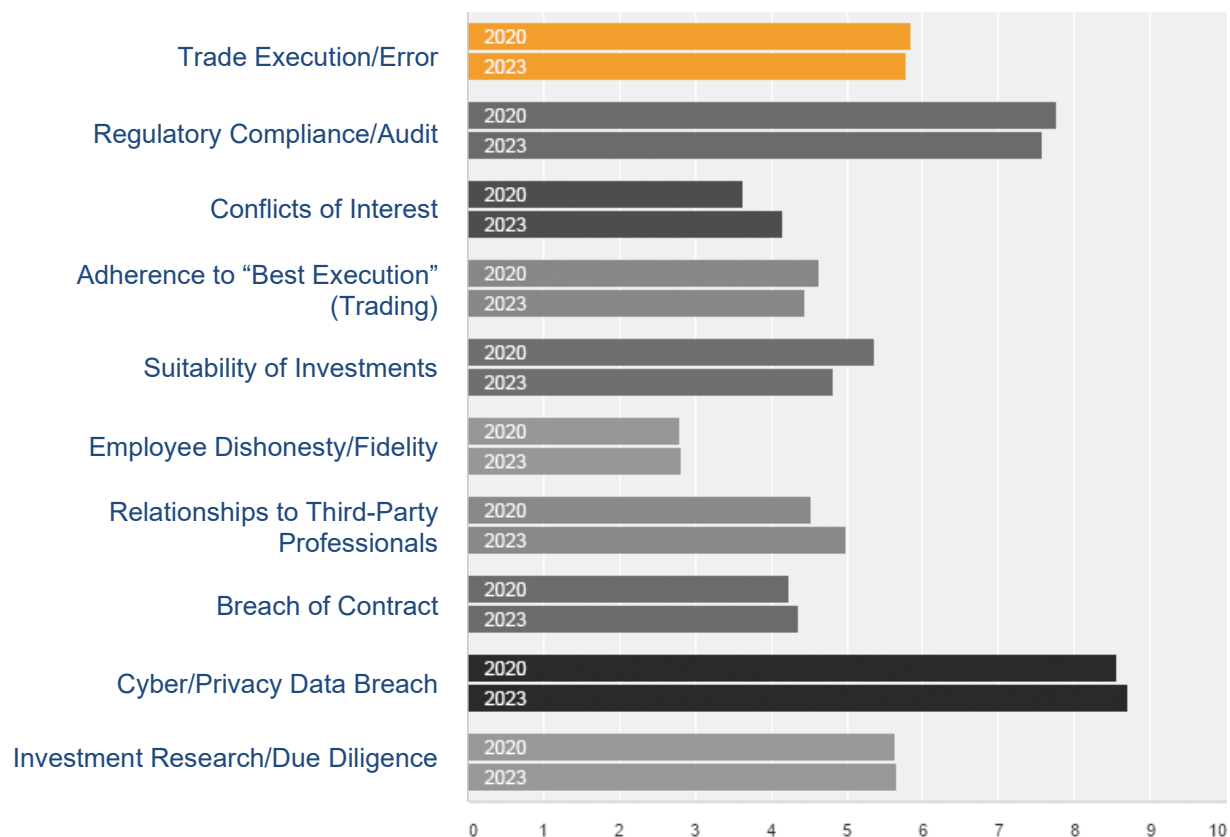
Summary of Survey Results

Registered Investment Advisors, in response to the Golsan Scruggs 2023 RIA Risk Survey conducted from August through October of 2023, ranked the following areas of risk from lowest to highest:



Expansion on Specific Terms:

TRADE EXECUTION/ERROR



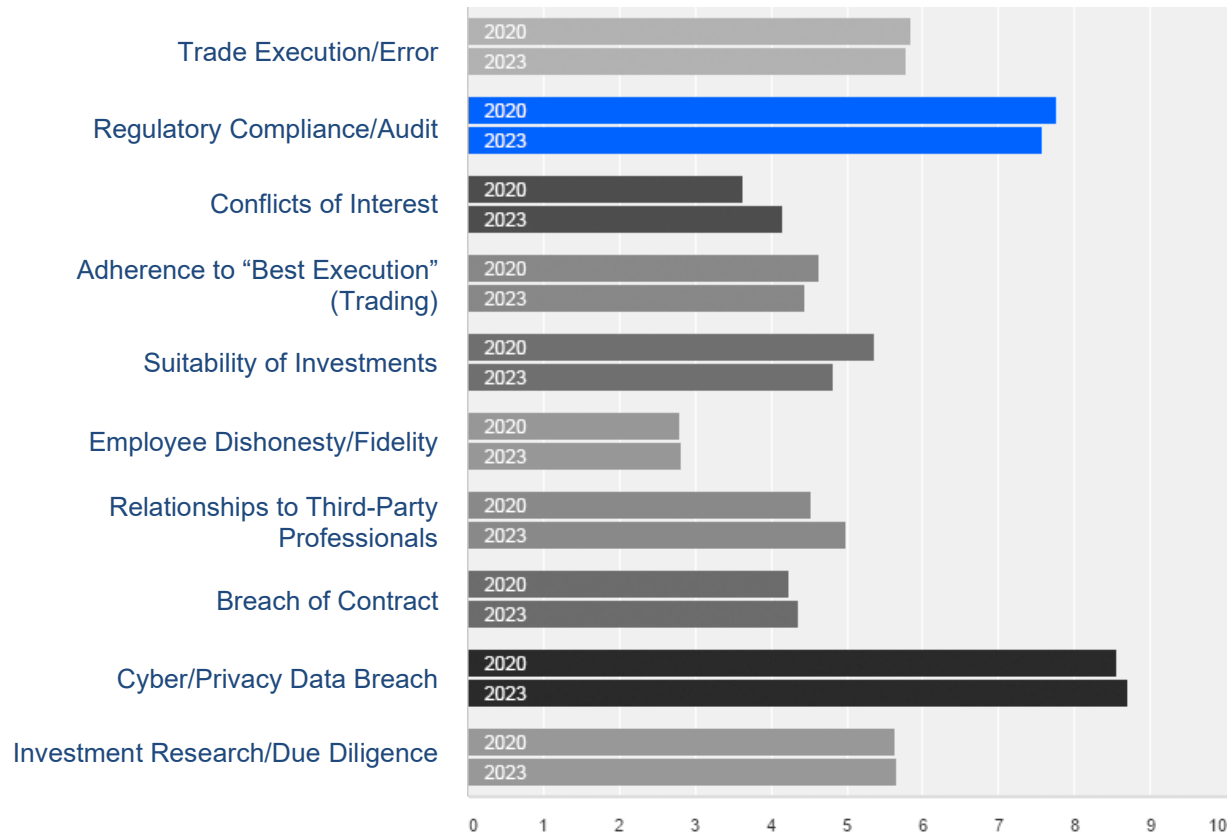
Definition of Risk: Failure or alleged failure to execute a securities trade-transaction as intended or preferred.

Management of Risk: Do you have appropriate mechanisms and adequate controls within your trading system and/or procedures to validate order accuracy, establish limits on block orders that exceed certain parameters, and prevent erroneous orders? Do you have a formal policy and procedure specifying how trade errors are to be handled? Are trade errors identified at the earliest possible time and resolved in a manner that is consistent with disclosures made to clients and your fiduciary relationship with clients?

Legal Substantiation: Pursuant to Sections 203(f), 203(k), 206(1), 206(2), and 211 of the Investment Advisers Act of 1940, such standard of care and conduct is a violation; advisors are held accountable (U.S. Securities and Exchange Commission). Cases can also fall under "negligence", "failure to supervise", and "Breach of Fiduciary Duty". Case law: SEC v. Michael T. Jackson and EGM Capital Corp., Advisers Act Release No. 2374.

Expansion on Specific Terms:

REGULATORY COMPLIANCE/AUDIT



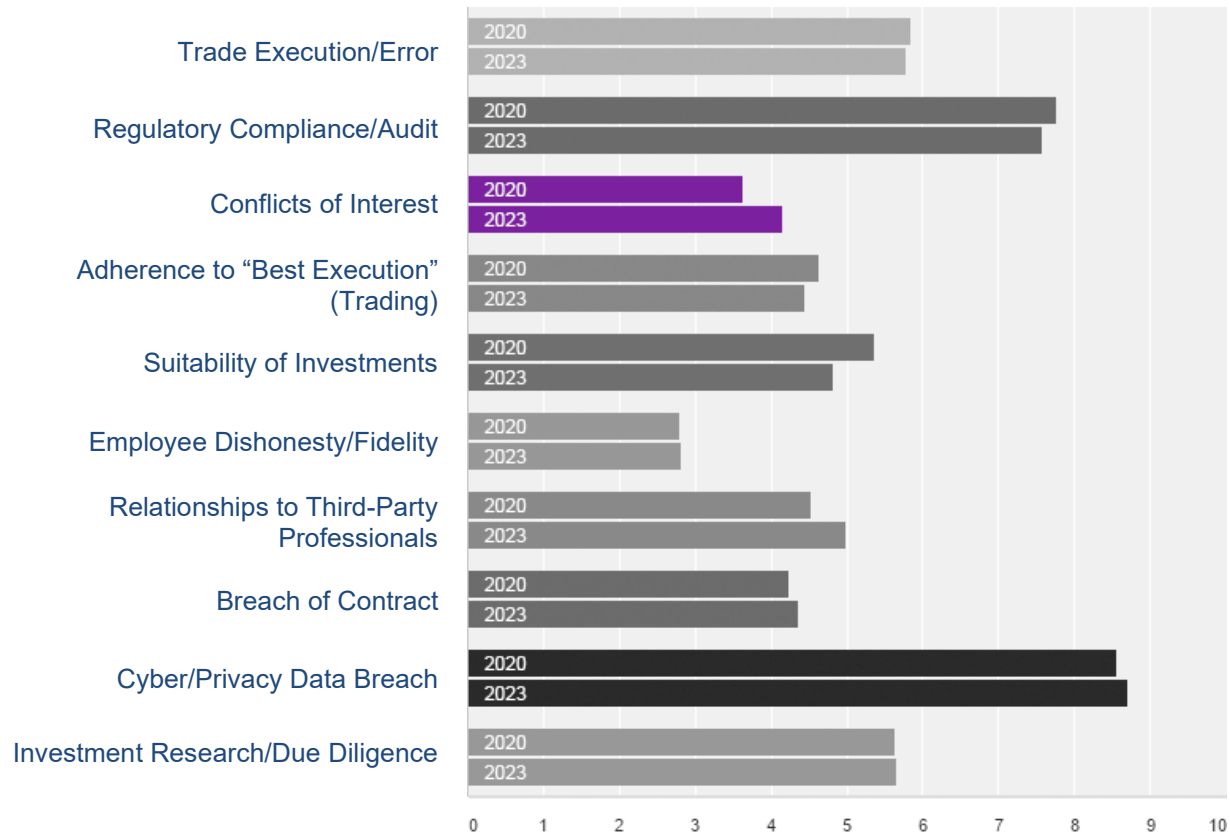
Definition of Risk: Failure and/or alleged failure to meet regulatory requirements of the SEC, DOL & various State Regulators.

Management of Risk: How do you stay up-to-date with the constant changes in the regulatory environment? Do you retain outside compliance counsel to perform mock audits and periodic reviews? Who within the firm is responsible to maintain compliance?

Legal Substantiation: As a registered investment adviser, your books and records are subject to compliance examinations by the SEC staff (under Section 204 of the Advisers Act) and state regulatory agencies. The purpose of SEC examinations is to protect investors by determining whether registered firms are complying with the law, adhering to the disclosures that they have provided to their clients, and maintaining appropriate compliance programs to ensure compliance with the law. If you are examined, you are required to provide examiners with access to all requested advisory records that you maintain (under certain conditions, documents may remain private under the attorney-client privilege). The Department of Labor enforces ERISA and the Pension Protection Act and holds the power to conduct examinations of books and records. These governing bodies hold the authority to assess fines and cease and desist orders.

Expansion on Specific Terms:

CONFLICTS OF INTEREST



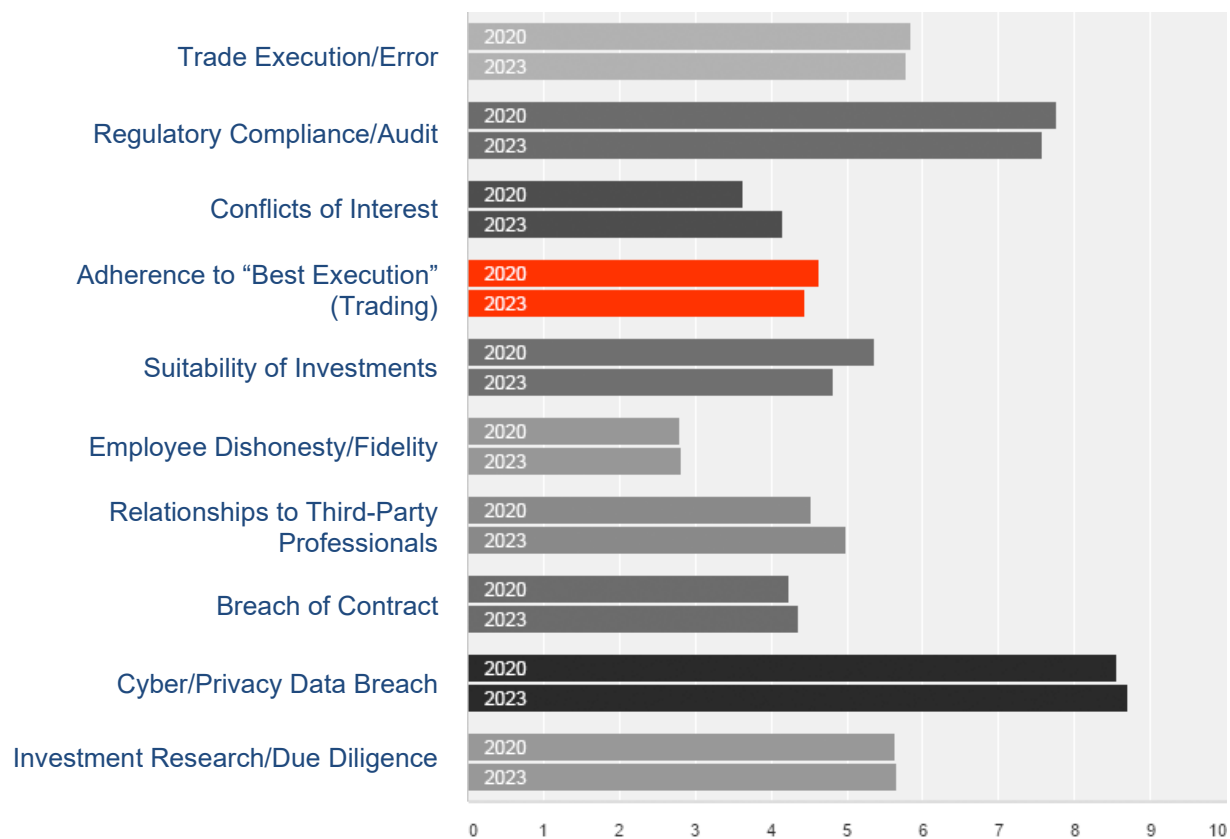
Definition of Risk: Placing or alleged to have placed your interest above the clients’.

Management of Risk: What potential conflicts of interest and/or “self-dealings” exist that might affect your recommendations? What are your sources of compensation and are they prudent? Who benefits the most from investment decisions? To what extent have you clearly and accurately described potential conflicts and how you will maintain impartiality?

Legal Substantiation: The Investment Advisers Act of 1940 imposes a duty on advisors to act as fiduciaries in dealings with their clients, meaning the advisor must hold the client’s interest above its own in all matters. Refer to section 211(g), standard of conduct, and material conflict of interest. Case law: SEC v. Capital Gains Research Bureau, Inc. 375 U.S. 180 (1963). See also ERISA sections 3(14), 404 and 406.

Expansion on Specific Terms:

ADHERENCE TO BEST EXECUTION



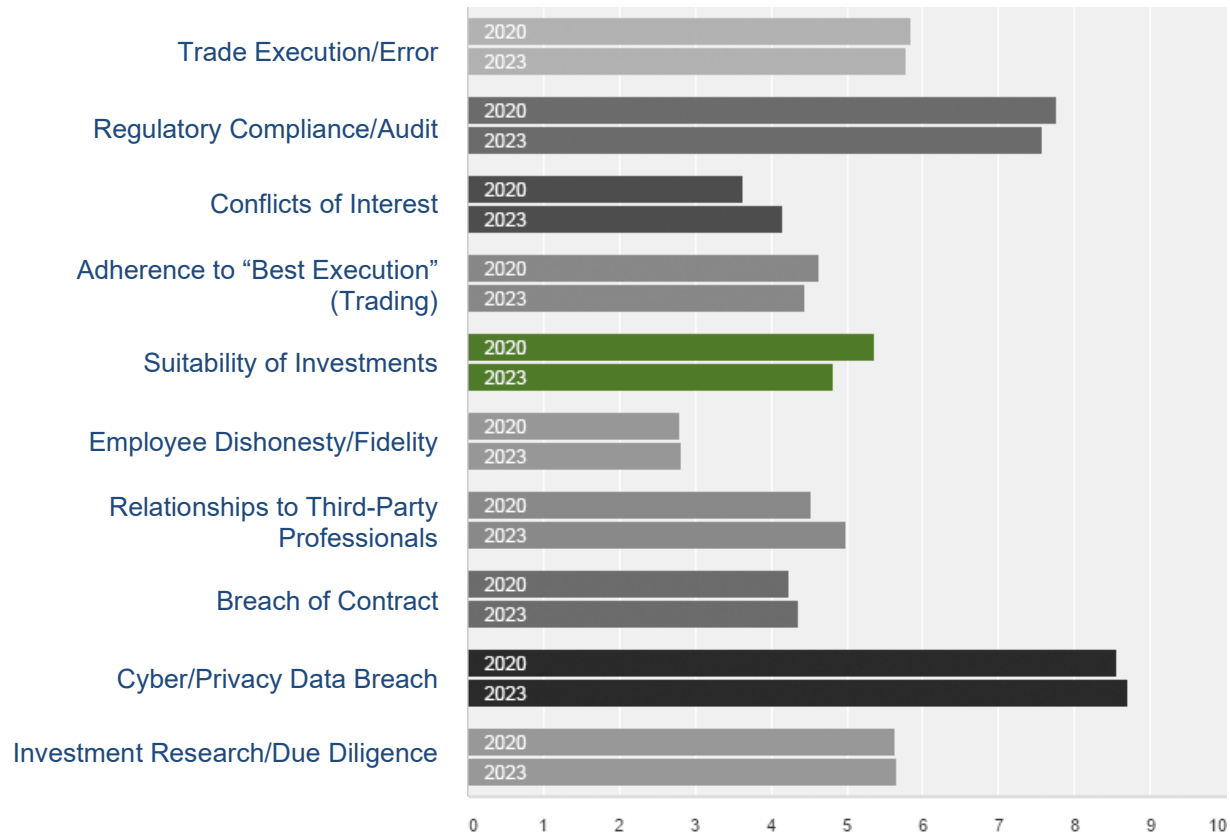
Definition of Risk: Inability or alleged breach of obligation to execute transactions in such a manner that the clients' total cost or proceeds in each transaction is the most favorable under the circumstances; failure or alleged failure to exercise reasonable care to obtain the most advantageous terms for your customer/client.

Management of Risk: In assessing whether this standard is met, to what extent have you considered the full range and quality of the custodial services, including, among other things, execution capability, commission rate, financial responsibility, responsiveness to the adviser, and the value of any research services provided?

Legal Substantiation: As a fiduciary, an adviser has an obligation to obtain "best execution" of clients' transactions. See Exchange Act Release No. 23170 (April 23, 1986). See also Investment Advisor Act of 1940, section 211(g)(1), Standard of Conduct. Case law, *Herman v. NationsBank Trust Co.*, (Georgia), 126 F.3d 1354, 21 E.B.C. 2061 (11th Cir. 1997).

Expansion on Specific Terms:

SUITABILITY OF INVESTMENTS



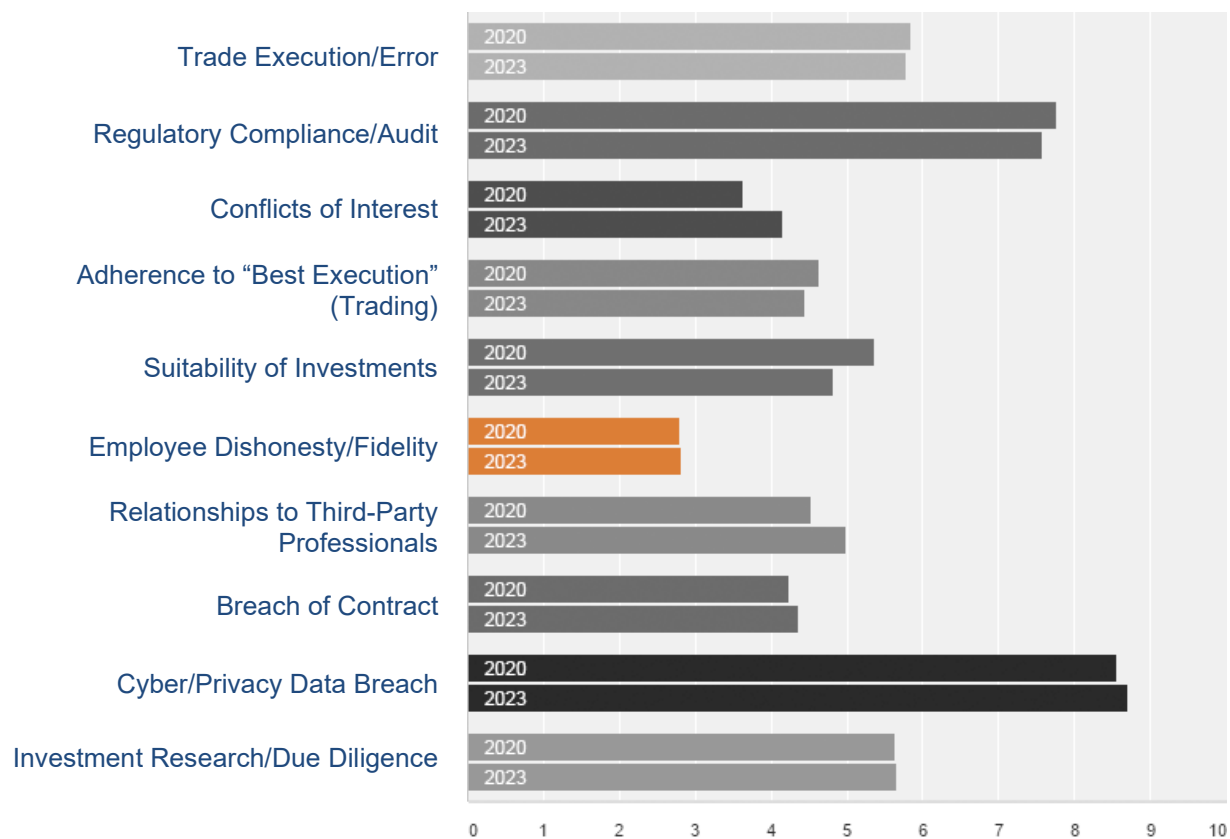
Definition of Risk: Breach or alleged breach of the fiduciary duty owed to your client to determine, provide and transact investment management concurrent and suitable to the client's financial situation, investment objectives and risk tolerance.

Management of Risk: Is the level of each client's portfolio exposure to risk (loss) understood and are the quantitative and qualitative factors that were considered documented? What is the "worst-case" scenario and is it acceptable and manageable? How do you monitor the performance and continued suitability of each strategy and particular investment? Is the investment plan and strategy consistent now and over-time with the client's investment goals and objectives? Are selected asset classes consistent with the risk, return and time horizon expected by the client?

Legal Substantiation: Pursuant to the Investment Advisers Act of 1940, the "client's interest first" standard exists which establishes a higher standard of care yet takes into consideration/incorporates "suitability". See also Investment Advisers Act Release No. 1406 (November 16, 1994) and ERISA 404(a)(1)(B). Case law, Laborers National Pension Fund v. Northern Trust Quantitative Advisors, Inc. 173 F.3d 313, E.B.C. 1001 (5th Cir.).

Expansion on Specific Terms:

EMPLOYEE DISHONESTY/FIDELITY

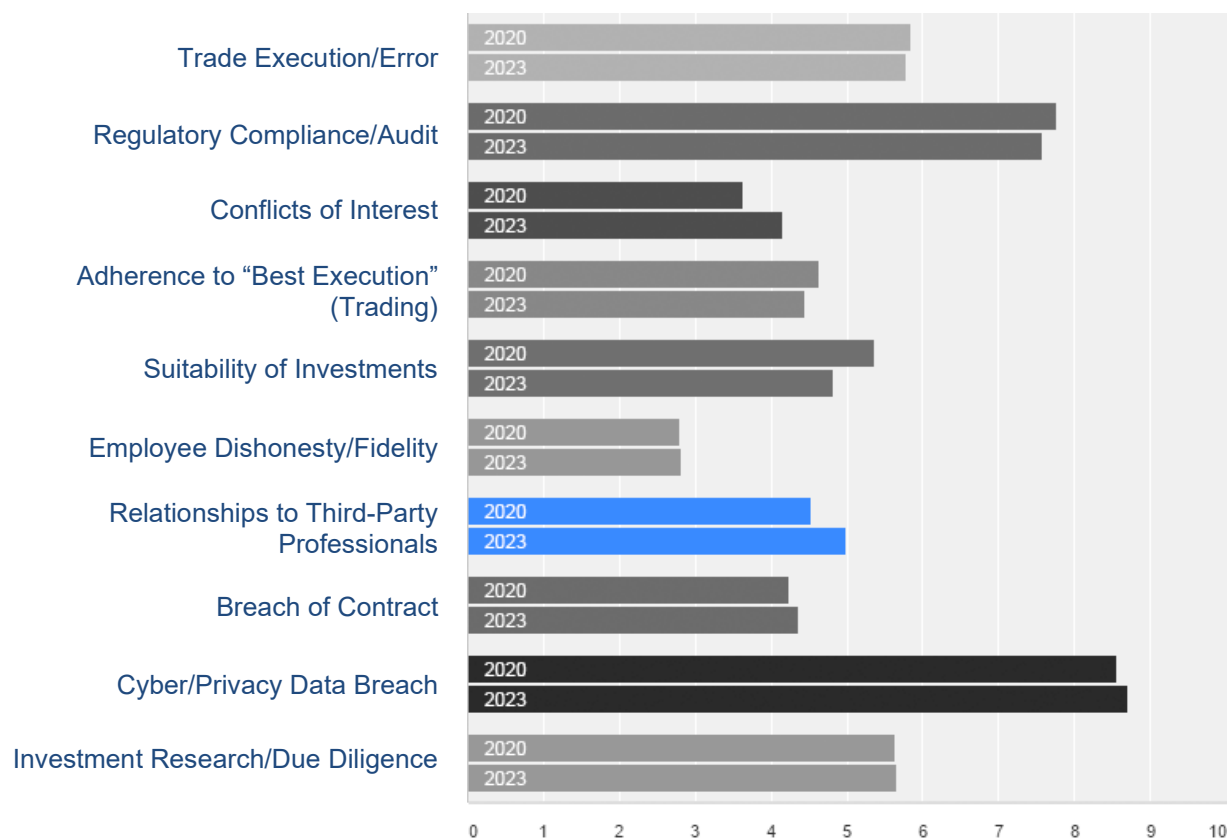


Definition of Risk: Theft by RIA employees of RIA in house assets or from client accounts.

Management of Risk: Who within the firm is granted access to company operating accounts? Who is granted access to client custodian accounts? What controls are in place regarding check writing authority? Does the firm purchase a fidelity bond?

Legal Substantiation: Criminal law dictates the prosecution of the perpetrator. Advisory firms have a duty of care to make prudent hires within the firm and to properly safeguard funds. As a registered investment adviser, you are required to adopt a code of ethics (under the "Code of Ethics Rule" — Rule 204A-1 under the Advisers Act). Your code of ethics should set forth the standards of business conduct expected of your "supervised persons" (i.e., your employees, officers, directors and other people that you are required to supervise), and it must address personal securities trading by these people. Advisors cannot use clients' assets for their own benefit or the benefit of other clients, at least without client consent. Departure from this fiduciary standard may constitute "fraud" upon your clients (under Section 206 of the Advisers Act).

Expansion on Specific Terms: RELATIONSHIPS TO THIRD-PARTY PROFESSIONALS



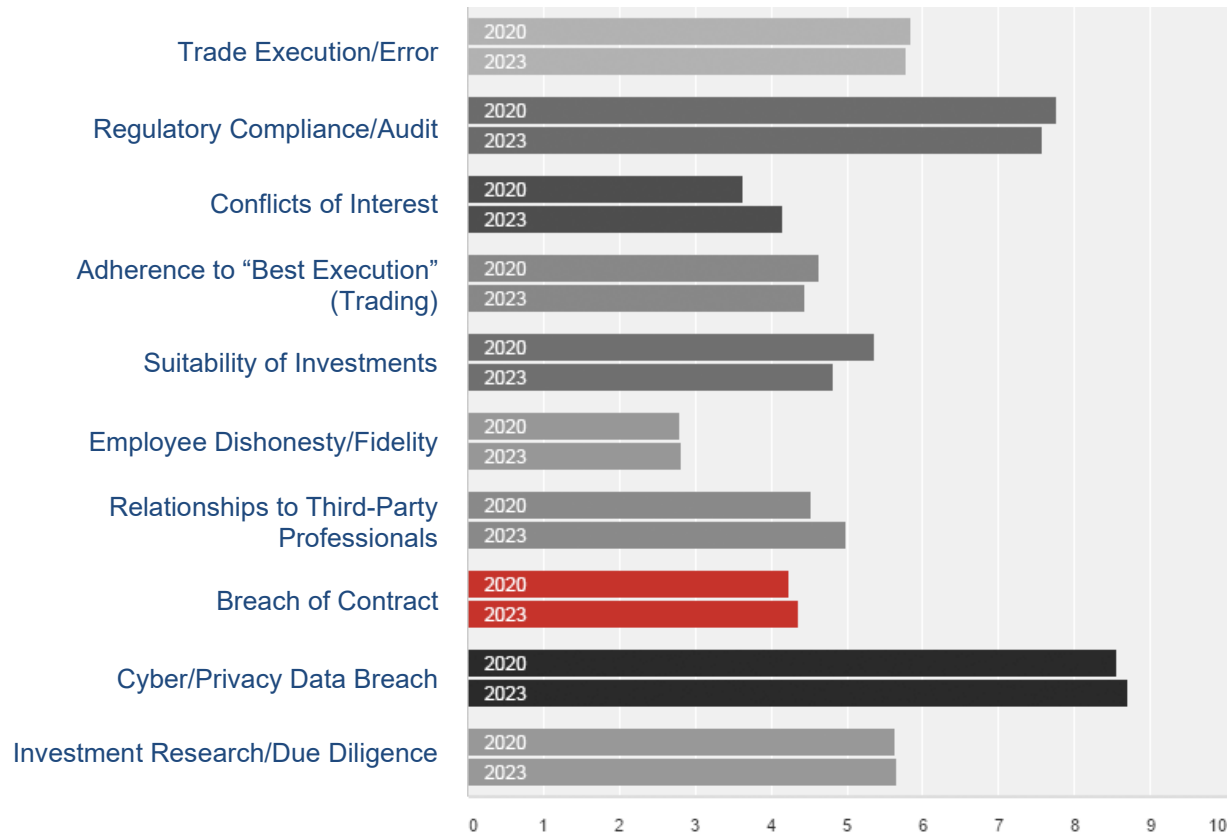
Definition of Risk: Liabilities imputed upon the advisor for the actions of a third-party relationship (ex: sub-advisor, tax and/or estate consultant, independent contractors, outside portfolio/investment managers, etc.).

Management of Risk: What third-party relationships exist? Any relationship of substance should be established in writing to define the scope of the parties' duties and responsibilities. How or what types of actions taken by such third-party relationships could impose responsibility upon you? Have IPS documents, pertaining to any third-parties, been crafted properly and what levels of accountability to its terms exist?

Legal Compliance: The Investment Advisers Act of 1940, section 211(g)(1), Standard of Conduct. As well, section 206(4)-1, 206(4)-2, 206(4)-3, and 206(4)-4 regulate, respectively: advertising, custody or possession; payment of fees to third parties; and disclosure of financial and disciplinary backgrounds. Additionally, refer to ERISA sections 3(38)(C), 402, 403, 404, 405, 406, 408 and 412. Case law, Varsity Corporation v. Howe, 516 U.S. 489, 116 S. Ct. 1065, 134 L.Ed.2d 130 (1996).

Expansion on Specific Terms:

BREACH OF CONTRACT



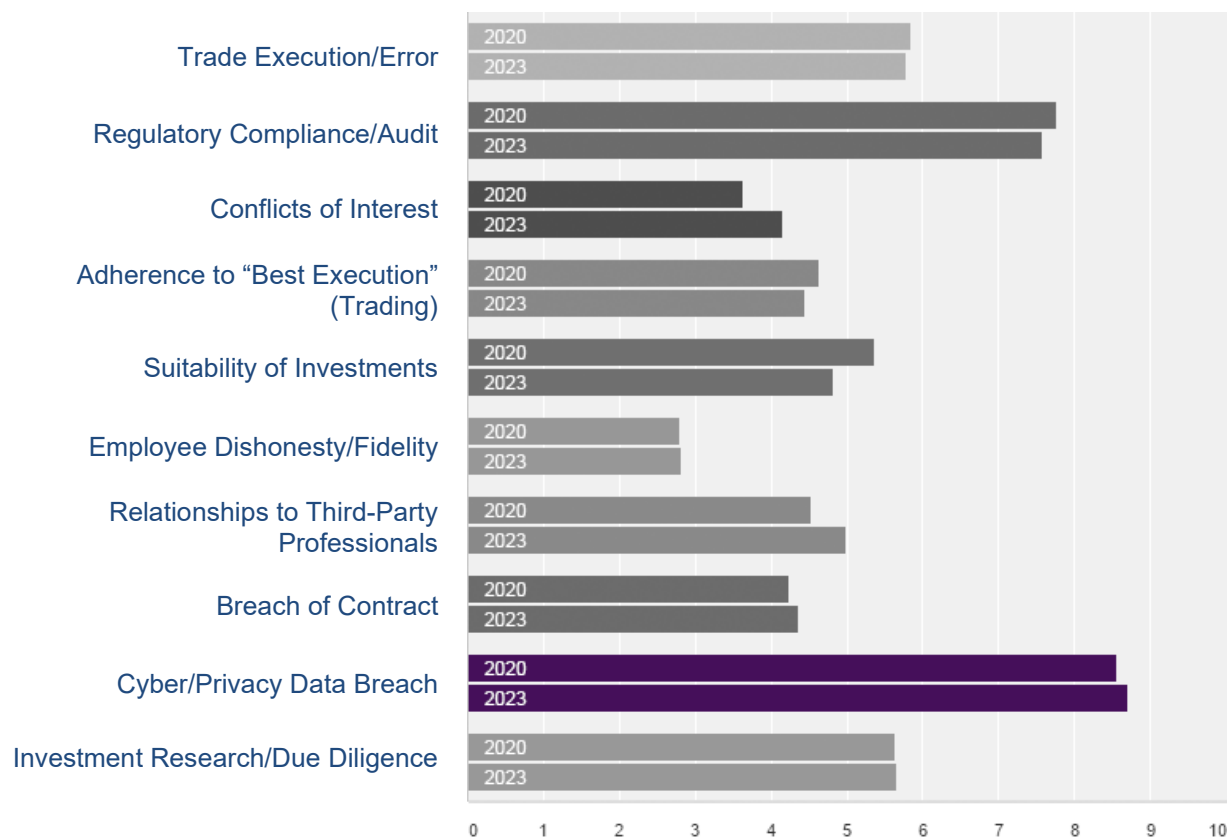
Definition of Risk: Failure or alleged failure to honor and/or fulfill the trust, faith or promise made as described within your client agreements, investment policy statements or trust documents.

Management of Risk: How are clients assets managed in accordance with the written documents governing the investment strategy? Is each client's investment strategy implemented in compliance with the required level of prudence? Do all parties clearly comprehend the roles specified within the documents? Are there any conditions or goals within the documents that contain limitations, impose constraints or which you feel are inappropriate?

Legal Compliance: Breach of contract is a legal cause of action established under "Common Law" (case law). In addition, the Investment Advisors Act of 1940, section 205, affirms the advisor's responsibilities to "prudent practices" which can include adherence to client plans. See also ERISA sections 3(38)(C), 104, 402, 403, and 404. Case law: Dardaganis v. Grace Capital, Inc., 664 F. Supp. 105, (S.D.N.Y. 1987).

Expansion on Specific Terms:

CYBER/PRIVACY DATA BREACH



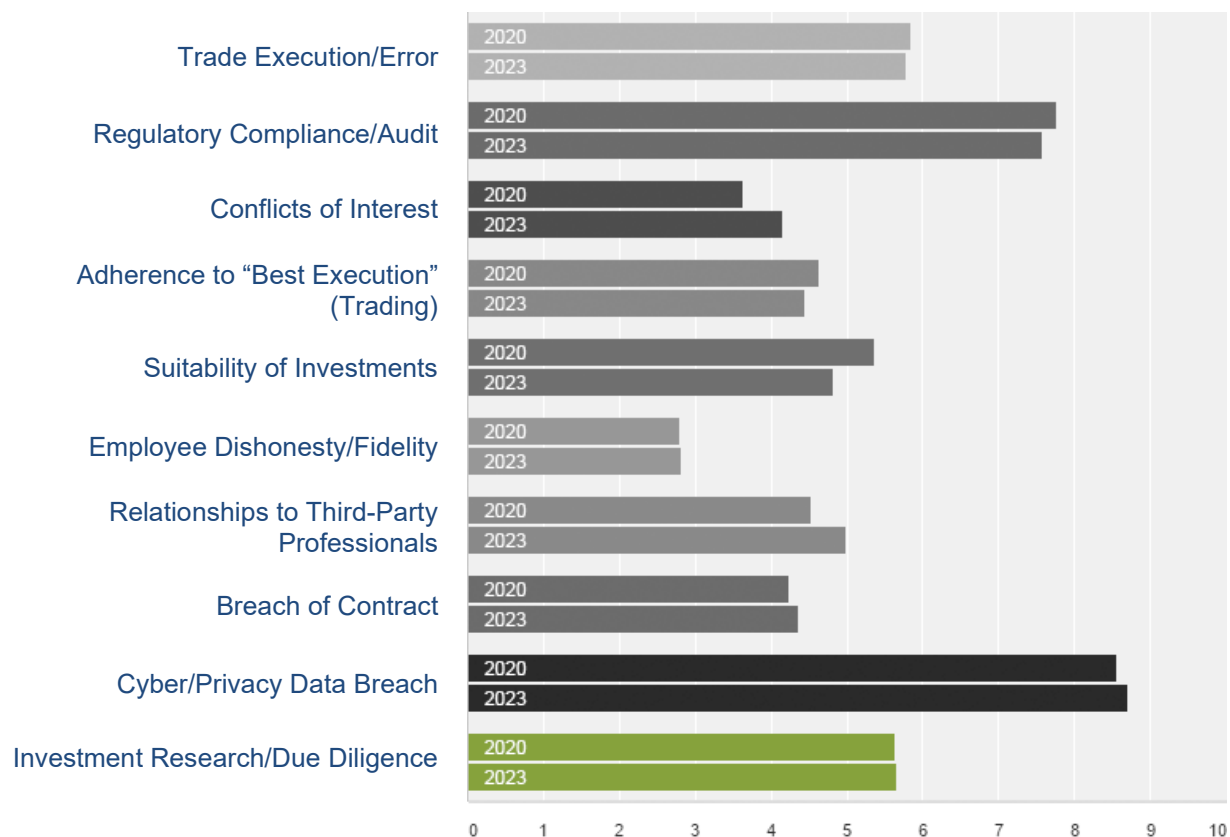
Definition of Risk: Clients' private information obtained and abused by third parties or employees.

Management of Risk: How is client information stored? Who is granted access to client files? How long are records retained? Does the firm purchase cyber liability insurance? Are employees trained to identifying threats? Have system security protocols been established?

Legal Compliance: Effective November 13, 2000, the SEC adopted Regulation S-P, the privacy rules promulgated under Section 504 of the Gramm-Leach-Bliley Act (GLBA). Section 504 of the GLBA required the SEC and other federal agencies to adopt rules implementing notice requirements and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers. Under the GLBA, a financial institution must provide its customers with a notice of its privacy policies and practices. Furthermore, it must not disclose nonpublic personal information about a consumer to nonaffiliated third parties, unless the institution provides certain information to the consumer and the consumer has not elected to opt out of the disclosure. Finally, the subject of cyber security has been a "hot button" item for several years at the SEC and continues to be at the top of their priorities.

Expansion on Specific Terms:

INVESTMENT RESEARCH/DUE DILIGENCE



Definition of Risk: As a fiduciary, it is the duty of an RIA to recommend and advise clients in a nature that puts the clients' interests first and that is best for the client. This is the highest standard of care and applies directly to the research and due diligence required prior to investment recommendations.

Management of Risk: What is your process in selecting investments? Is there a written policy in place regarding the vetting process? Are investments selected by an investment committee or is one person responsible for "approving" investments? To what extent has this research/due diligence process been communicated to clients?

Legal Compliance: Pursuant to the Investment Advisers Act of 1940, the "client's interest first" standard exists which establishes a higher standard of care yet takes into consideration/incorporates "suitability". See also Investment Advisers Act Release No. 1406 (November 16, 1994) and ERISA 404(a)(1)(A), (B) and (C). Case law, Metzler v. Graham, 112 F.3d 207, 20 E.B.C. 2857 (5th Cir. 1997) and GIW Industries, Inc. v. Trevor, Stewart, Burton & Jacobsen, Inc. 10 E.B.C. 2290 (S.D.Ga. 1989).

Disclaimer & Corporate Information

Legal Notice

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