UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4984 / August 14, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18638 / August 14, 2018

In the Matter of

LOCKWOOD ADVISORS, INCORPORATED,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), against Lockwood Advisors, Inc. ("Lockwood" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

Summary

1. This matter arises from Lockwood's failure to adopt and implement policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder in connection with its assessment, oversight, and disclosure of the trading away practices of the third-party portfolio management firms in its wrap programs. More specifically, as described below, from at least 2008, and continuing on an ongoing basis to the present, Lockwood's policies and procedures failed to require that material information about trading away (i) would be obtained and considered by Lockwood prior to making the third-party portfolio management firms available to clients in its wrap programs and/or (ii) would be disclosed to clients directly or through their third-party registered investment advisers.

2. Lockwood sponsored separately managed account wrap programs that it offered to third-party registered investment advisers and their clients. In the wrap programs, the investments were managed by third-party portfolio management firms pursuant to investment strategies selected by the clients in consultation with their investment advisers. Lockwood and the other participating firms were compensated for the advisory, brokerage, and custodial services that they provided by sharing an annual wrap fee based on a percentage of the assets under management. Certain expenses were not covered by the wrap fee, such as when a portfolio manager elected to direct the execution of a trade through a broker-dealer firm that was not participating in the wrap program. This practice was referred to as "trading away" or "step-out trading," and, in many cases, it resulted in transaction costs being borne by the wrap program client in addition to the annual wrap fee. Despite paying these costs, wrap program clients were not notified that particular trades were stepped-out nor, if applicable, how much step-outs cost on top of the wrap fee.

3. Lockwood's policies and procedures were not reasonably designed to prevent violations of the Advisers Act with respect to trading away in two respects. First, Lockwood's policies and procedures did not require it to determine whether a portfolio manager had a history of trading away or to assess the likelihood that the portfolio manager would do so in Lockwood's wrap programs prior to making that manager available to clients in its wrap programs. Second, the policies and procedures did not require Lockwood to provide information about trading away to clients and their investment advisers once those portfolio managers were on-boarded into Lockwood's wrap programs, even though the policies and procedures did require Lockwood to select and contact, on a quarterly basis, a portion of the portfolio managers that had traded away that quarter and gather details about the trading, the applicable policies of the given manager, and the rationale for trading away. As a result, Lockwood failed to provide clients or their investment advisers with material information about trading away and the full extent of the costs of choosing certain portfolio managers in Lockwood's wrap programs. By contract, Lockwood had allocated to the clients' investment advisers the responsibility of evaluating the suitability of the portfolio managers for the individual clients, but Lockwood did not provide the advisers with enough

information to perform that evaluation. By failing to adopt and implement policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder, Lockwood violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder.

Respondent

4. Lockwood, a Delaware corporation based in King of Prussia, Pennsylvania, is a privately held investment adviser. Lockwood was incorporated in April, 1996 and has been registered with the Commission since July, 1996.

Lockwood's Wrap Fee Programs

5. Among other advisory services, Lockwood sponsored several separately managed account wrap fee programs. Those programs consisted of Lockwood's Managed Account Link, Managed Account Advisor, Lockwood Sponsored Program, Managed 360, and certain Co-Sponsored Programs (collectively the "Wrap Programs" or "Lockwood's Wrap Programs").

6. In Lockwood's Wrap Programs, several entities combined to provide an overall bundle of services to Lockwood's clients in the Wrap Programs (the "Wrap Clients") for a single, generally all-inclusive annual fee based on a percentage of assets under management (the "Wrap Fee"):

a. Lockwood, serving as the Wrap Programs' sponsor, created the programs and contracted with the other entities that would provide services to Wrap Clients in exchange for a portion of the Wrap Fee. Notably, Lockwood was responsible for selecting and contracting with the third-party portfolio management firms (described in subparagraph (d), below) and selecting from among those firms' investment strategies those that would be made available to Wrap Clients in the Wrap Programs. Lockwood also was responsible for vetting these firms on an initial and ongoing-basis.

b. Lockwood contracted with various third-party SEC or state- registered investment advisers (the "RIAs") who were often also registered broker-dealers. The RIAs, acting in their advisory capacity, could then offer participation in Lockwood's Wrap Programs to their clients. If a client chose to invest in a Wrap Program it entered into a contractual advisory relationship with Lockwood and became a Wrap Client. However, the RIAs continued to serve as the primary contact point for Wrap Clients.

c. Brokerage, custody, and clearing services were largely provided by broker-dealers affiliated with Lockwood, but the RIAs that could act in a broker-dealer capacity also provided a portion of those services, depending on the particular Wrap Program.

d. Finally, the Wrap Client's investment portfolios were managed by third-party portfolio management firms ("Portfolio Managers" or "Managers") that the Wrap Client selected from a menu curated by Lockwood. Each Manager offered one or more different investment strategies that Lockwood chose to make available to Wrap Clients. The list of available Manager/strategy combinations differed in each of the Wrap Programs, although there was significant overlap.

Lockwood's Review of the Portfolio Managers

7. As the sponsor of the Wrap Programs, Lockwood evaluated the Portfolio Managers and their investment strategies prior to making them available to Wrap Clients. At a minimum, even in so-called "open architecture" programs, Lockwood conducted an initial screening before on-boarding a Manager, during which it considered factors such as assets under management, personnel, registration status, and disciplinary disclosures and regulatory history. In other cases, such as in creating the list of "Covered" Managers in the Managed Account Link and Managed Account Advisor programs, Lockwood conducted a more extensive analysis before adding a Manager. Covered Managers and their investment strategies were then monitored on an ongoing basis and could be removed from the Covered list if there was deterioration in the criteria being evaluated.

Client-Facing Suitability Review By The RIAs

8. In its contracts with the RIAs, Lockwood allocated to the RIAs the responsibility for evaluating whether or not the Wrap Programs, Portfolio Managers, and investment strategies were suitable investments for their individual Wrap Clients. This suitability review included assessing each Wrap Client's financial situation and assisting the Wrap Client with the selection of particular Portfolio Managers and investment strategies that were suitable for them. It also included evaluating the initial and ongoing appropriateness and suitability, for the individual Wrap Clients, of the fee structure of the Wrap Programs. In some cases, Lockwood offered enhanced services to the RIAs that could assist them in performing these suitability reviews, such as Lockwood's "Investment Strategy Portfolios" and/or "Advisory Consulting Services" services. But the RIAs could not effectively perform the client suitability reviews that Lockwood allocated to them if Lockwood failed to gather and provide material information about the actual costs Wrap Clients would bear when selecting a particular Wrap Program, Portfolio Manager, or investment strategy.

Trading Away in Lockwood's Wrap Programs

9. The services covered by the annual Wrap Fee that Wrap Clients paid to participate in Lockwood's Wrap Programs included brokerage services so long as the Portfolio Managers executed trades through the applicable program's participating broker-dealer.

10. Portfolio Managers were also permitted to execute trades at a broker-dealer that was not participating in the Wrap Program, a practice referred to interchangeably as "trading away" or "step-out trading." Step-out trading could result in benefits to Wrap Clients, such as

improvements to execution quality or access to illiquid securities. However, Wrap Clients had to bear any applicable transaction costs separately from and in addition to the Wrap Fee. Accordingly, step-out trading raised questions about a Manager's compliance with its legal duty to seek best execution on behalf of the Wrap Clients, because best execution depended on the particular costs and benefits of a given step-out trade.

11. More than 100 of the approximately 250 Portfolio Managers that participated in Lockwood's Wrap Programs traded away, with anywhere from 24 to 52 Managers doing so in a given month. Many of those that traded away did so on a consistent and ongoing basis. Affected Wrap Clients were not informed that particular trades were executed away nor the amount of any transaction costs in instances when they were charged, because their account statements and trade confirmations disclosed only net prices charged per trade, with any transaction cost included in the price of the security.

Lockwood's Policies and Procedures Were Not Reasonably Designed to Prevent Violations of the Advisers Act in Connection with Gathering and Disclosing Information About Trading Away

12. Lockwood's policies and procedures did not require Lockwood to consider a Portfolio Manager's prior history of trading away in other sponsors' wrap prgrams, nor the likelihood that the Manager would trade away in Lockwood's Wrap Programs, in the context of Lockwood's initial screening before making a Manager available in any of the Wrap Programs. Even in the context of the "Covered Managers" described above, Lockwood's policies lacked any requirement that such factors be considered. Accordingly, Lockwood's policies and procedures allowed Lockwood to make Portfolio Managers and investment strategies available to Wrap Clients before Lockwood had any information about their history of trading away in other sponsors' wrap programs or the likelihood that they would trade away in Lockwood's Wrap Programs.

13. For the Portfolio Managers that traded away in Lockwood's Wrap Programs, Lockwood's policies and procedures did call for a quarterly review of a portion of the step-out trading activity and the related policies of the Portfolio Managers. Pursuant thereto, each quarter Lockwood generated a report of step-out trading activity, consisting of a trade blotter containing each step-out trade as well as a summary showing the number of step-out trades conducted by each of these Managers.

14. At all relevant times, Lockwood's policies and procedures required Lockwood to review that quarterly report and contact a portion of the Portfolio Managers that traded away. Prior to July 2014, the policies and procedures only required that Lockwood seek to verify that the Managers chosen that quarter had a best execution policy and request verification and/or documentation of the best execution analysis that accompanied the step-out trading. The policies further required the results of these reviews to be discussed at Lockwood's quarterly Best Execution Committee meeting, and then reported to Lockwood's Investment Committee.

15. In July of 2014, Lockwood enhanced the applicable policies and procedures.

a. First, the policies and procedures were updated to require that the quarterly selection of Portfolio Managers for review be conducted such that each Manager that traded away would be included in a quarterly review at least once each year.

b. Second, the policies and procedures became more detailed about the content of Lockwood's request to each Manager, requiring the Manager to provide at least the following additional items, without limitation: (i) verification that the Manager had implemented a best execution policy, (ii) documentation of the Manager's best execution analysis of the trades stepped out, (iii) amounts of any commissions or mark-ups incurred, and (iv) copies of trade confirmations received by the Manager from the executing broker so Lockwood could verify the amounts of commissions or mark ups reported by the Manager.

c. Third, the new version of the Compliance Manual provided that when the data provided by the Manager was inconclusive, Lockwood may contact the Manager's CCO for the purpose of having the CCO confirm back to Lockwood that the Manager's step-out trades were "done in the best interest of the [Wrap] Client."

d. Finally, the policies were updated to require "appropriate corrective action by Lockwood" for any "problematic trading issues."

16. Even as amended, Lockwood's policies and procedures were not reasonably designed to provide key information about trading away to the RIAs in the context of the RIAs' suitability reviews for the Wrap Clients, in two respects. First, Lockwood's policies and procedures did not require Lockwood to acquire information about a Portfolio Manager's history of trading away at the on-boarding phase, thus information was not provided to Wrap Clients and RIAs for the purposes of client suitability reviews until that Manager became the subject of one of Lockwood's quarterly reviews at some later point.

17. Second, even if Lockwood later acquired information about a Portfolio Manager's trading away, Lockwood's policies and procedures failed to require it to provide the RIAs with that information, and Lockwood did not consistently and completely do so, even though Lockwood had contractually allocated suitability analysis of the Portfolio Managers and strategies for the Wrap Clients to them. Even in providing the RIAs with the benefit of substantial analysis of the Portfolio Managers, such as in approving a "Covered" Manager or in providing the "Investment Strategy Portfolios" and "Advisory Consulting Services," Lockwood's policies did not require it to provide the RIAs with information about trading away. That information was material to the suitability analysis that the RIAs were obligated to perform for Lockwood's Wrap Clients; the RIAs needed it in order to evaluate the actual costs that the Wrap Client would bear when selecting, or continuing to use, particular Managers and strategies.

18. In particular, despite gathering a portion of this data during its quarterly step-out trading reviews, Lockwood's policies and procedures did not require it to provide Wrap Clients or the RIAs with (i) data about the frequency with which a selected Portfolio Manager had traded

away in the selected investment strategy, (ii) any information about the actual transaction costs incurred by Wrap Clients as a result of the particular Manager's step out trading, (iii) any evaluation of the benefits that the particular Manager claimed to have sought and/or gained by trading away, or (iv) any of the best execution analysis or information sought and received by Lockwood from the Manager (such as information indicating that the benefits sought and/or realized outweighed the additional transaction costs). This information was critical for RIAs to assess the suitability of a given Manager/strategy combination for a particular Wrap Client.

Violation

19. As a result of the conduct described above, Lockwood violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which requires investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder.

Lockwood's Remedial Efforts

20. In determining to accept the Offer, the Commission considered both the voluntary remedial acts promptly undertaken by Respondent and its cooperation with the Commission staff. In particular, Respondent has, during the last several years, (i) improved the specificity of its policies and procedures regarding the quarterly step-out trading reviews, as described in paragraph 15, above, and (ii) improved its Form ADV disclosures regarding trading away, as follows:

a. At all relevant times, Lockwood disclosed to Wrap Clients in its Brochures that Portfolio Managers are permitted to trade away so long as it is consistent with the Manager's best execution obligations, and that the transaction costs on such trades were an additional cost not covered by the Wrap Fee.

b. Prior to the fourth quarter of 2014, Lockwood had not identified for Wrap Clients or their RIAs which of its Portfolio Managers had a track record of trading away. Beginning with its December 2014 Brochures, Lockwood did so via a footnote in the Appendix, which indicated on the full list of available Managers and investment strategies those which, to Lockwood's knowledge, trade away for certain investment styles.

c. In March 2016, after the staff initiated this investigation, Lockwood revised this footnote to state that there may be fees associated with trading away, and gave an overall range of either $0.005 to $0.03 or $0.0075 to $0.05 per share executed, depending on the particular Wrap Program and Brochure. At the same time, Lockwood also added a second footnote for each applicable Portfolio Manager, indicating that it had traded away with respect to certain investment strategies within one of four ranges of percentages of trading frequency: 0% to 25%, 26% to 50%, 51% to 75%, or 75% to 100%, for the prior year.

d. In March 2017, Lockwood added a new Exhibit to its Brochures, a "Frequently Asked Questions" document about step-out trading. In this document, Lockwood defined trading away, disclosed to Wrap Clients that such trades will likely result in additional charges and provided the same overall range of either $0.005 to $0.03 or $0.0075 to $0.05 per share executed, depending on the particular Wrap Program and Brochure, discussed reasons why a Portfolio Manager might choose to trade away, asserted that Lockwood has no input into a Manager's decision to trade away, and explained that Lockwood's role is to understand the trading practices of its Managers and collect, on a best efforts basis, information about the costs incurred.

Undertakings

21. Respondent has voluntarily undertaken to update its policies and procedures as follows, and act in accord therewith:

a. To require Lockwood to make reasonable inquiries about a prospective Portfolio Manager's history of trading away and intent to trade away in Lockwood's Wrap Programs prior to offering that Manager to Wrap Clients in any of the Wrap Programs.

b. With respect to Lockwood's quarterly trade-away reviews of the Portfolio Managers in its Wrap Programs, to explicitly request that each Manager provide Lockwood with additional information about trading away, including but not limited to:
   i. Trading away frequency and volume in each available investment strategy measured by total trades, shares or units, and dollar value;
   ii. The cost incurred for each step-out trade;
   iii. The benefits sought and/or realized on behalf of the Wrap Clients for each step-out trade; and
   iv. The Manager's conclusion that best execution was sought and/or achieved, and the basis for this conclusion in terms of the benefits sought and/or realized and costs incurred.

c. To provide more detail regarding the consequences of a Manager's failure to satisfy Lockwood that the Manager is complying with its best execution obligations.

d. To require Lockwood to disclose relevant information about trading away, including the information referred to in subparagraphs a, b, and c, above, to Wrap Clients and the RIAs. Such relevant information includes any deliberate and/or repeated failure by a Manager to provide the information requested pursuant to subparagraphs a and b, above.

In determining whether to accept the Offer, the Commission has considered these undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that**:**

A. Pursuant to Section 203(k) of the Advisers Act, Respondent cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder.

B. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of $200,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Securities Exchange Act of 1934 Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Lockwood Advisors Incorporated as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Assunta Vivolo, Division of Enforcement, Securities and Exchange Commission, 1617 JFK Boulevard, Suite 520, Philadelphia, PA 19103.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary