

**Part 2A of Form ADV: Firm Brochure**  
**Item 1 – Cover Page**

**Paradigm Capital Management, Inc.**

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March 29, 2012

This brochure provides information about the qualifications and business practices of **Paradigm Capital Management, Inc.** ["Paradigm" or the "Adviser"]. If you have any questions regarding the contents of this Brochure, please contact us at (518) 431-3500 and/or via electronic mail at [jgulick@paradigmcapital.com](mailto:jgulick@paradigmcapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Paradigm is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information with which you may determine to hire or retain advisory services. Additional information about Paradigm is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search for advisers on this site by using a unique identification number, known as a CRD number. Paradigm's CRD number is 107982.

## **Item 2 – Material Changes**

Pursuant to SEC Rules, Paradigm will ensure that clients receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our fiscal year. The Adviser may also provide other ongoing disclosure information about material changes as necessary and provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

There have been no material changes to the Adviser's previously published March 31, 2011 brochure.

Paradigm's brochure may be requested by contacting John Gulick, Vice President and Chief Compliance Officer at (518) 431-3500 or by email at [jgulick@paradigmcapital.com](mailto:jgulick@paradigmcapital.com).

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#### **Item 4 – Advisory Business**

Paradigm has been in business since 1994 and offers the services described below primarily to corporations, pension and profit sharing plans, foundations, individuals, investment funds, wrap fee programs, trusts and individuals (including high net worth individuals), registered investment companies, other separate accounts, and pooled investment vehicles such as private investment limited partnerships to which the Adviser acts as the investment manager. Paradigm provides investment supervisory services, defined as giving continuous advice to a client or making investments for a client based on specific investment objectives and strategies. Under certain circumstances, the Adviser may agree to tailor advisory services to the individual needs of clients. Clients may impose restrictions on investing in certain securities or certain types of securities.

The Adviser is a wholly-owned subsidiary of Paradigm Capital Holdings, Inc (“Paradigm Holdings”), a Delaware corporation. Paradigm Holdings is owned primarily by Candace King Weir, Director, Chief Executive Officer, President, Chief Investment Officer, and Portfolio Manager of the Adviser.

As of December 31, 2011, Paradigm managed discretionary client assets valued at \$1,710,400,000. Paradigm does not manage assets on a non-discretionary basis.

## **Portfolio Management Services**

### **Item 5 – Fees and Compensation**

Fees charged to clients for investment advisory services are fully set forth in the investment advisory agreement executed by the client at the commencement of the advisory relationship. The Adviser's standard advisory fee schedule for retail and institutional accounts is 1.0% per annum. Nothing precludes the Adviser from charging a higher or lower fee based upon negotiations with the client.

Unless the investment advisory agreement provides otherwise, advisory fees shall be calculated through the last day of the quarter and paid in arrears within 30 days after the last business day of such quarter, based upon the average month-end value of the managed assets for such quarter, as calculated by the Adviser based on values generally obtained from third-party pricing sources. In the absence of such information, the fair value will be reasonably determined by the Adviser on the payable date of each such stated period. If the advisory relationship is terminated prior to the end of the quarterly period, the quarterly fee shall be pro-rated and paid through the termination date. Fees will be debited directly from the account, unless other arrangements are made for payment of fees. The client shall be provided with quarterly statements detailing the activity of the managed assets. The Adviser and any client may discontinue the advisory relationship and terminate the investment advisory agreement upon written notice to the other party.

The Adviser may provide investment advisory services to various institutional and endowment funds or to individuals with substantial account balances. Fee arrangements with such accounts will be negotiated and established individually, based on the particular investment needs, characteristics and size of such accounts. Such fee arrangements may be performance based, whereby the Adviser would be paid a base fee plus a performance fee based on the total return of the account.

Client assets invested in money market funds or other mutual funds managed by independent managers, including funds at custodian banks, broker dealers or other custodians, may be subject to management fees charged by the manager of these funds which are in addition to management fees charged by the Adviser.

The Adviser also may render investment advice to investment partnerships to which affiliates, or related persons, of the Adviser may act as general partner. In these arrangements, the general partner will participate in a pro-rata share of the profits of the partnership. The Adviser's advisory fee and performance-based compensation may be waived, in whole or in part, under certain circumstances including for investors in the investment partnerships who are employees or directors of the Adviser and its affiliates and members of their immediate families. A separate disclosure document for each partnership is furnished to investors.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

The investment adviser has entered into performance fee arrangements with partnerships to which it serves as investment manager. The Adviser will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, the Adviser shall include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for the Adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. When the Adviser and its investment personnel manage more than one client account, a potential exists for one client account to be favored over another client account.

The Adviser as a whole will not restrict a security from being used by another manager or group. Accordingly, it is possible for two or more managers or portfolio series to own the same security. The Adviser has adopted and implemented policies and procedures intended to address potential conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives and strategies are treated equitably. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, the Adviser's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities pro rata based on asset size (unless a client has instructed the Adviser not to invest in a certain company or asset class or certain factors listed below is deemed to be applicable) and require that, to the extent orders are aggregated, the client orders are price averaged.

The following factors, among others, may additionally be taken into account by the Adviser in allocating securities among clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Finally, the Adviser's procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair and equitable allocation among accounts. These areas are monitored by the Adviser's Chief Compliance Officer.

## **Item 7 – Types of clients**

Paradigm offers the services described below primarily to corporations, pension and profit sharing plans, foundations, investment funds, wrap fee programs, trusts and individuals (including high net worth individuals), registered investment companies, other separate accounts, and pooled investment vehicles such as private investment limited partnerships to which the Adviser acts as the investment manager.

With respect to any client that is a pooled investment vehicle, any initial and additional subscription minimums are disclosed in the offering memorandum for the pooled investment vehicle. The minimum size for non-pooled investment vehicles is determined by the Advisor on a case-by-case basis.

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

Investing in securities involves risk of loss that clients should be prepared to bear.

Paradigm believes the equity markets are inefficient with investor psychology and sentiment having a significant impact on short-term pricing. It is Paradigm's opinion that extensive academic research supports the Adviser's assessment that these phenomena are especially prevalent in the smaller end of the market capitalization spectrum. Investor expectations are volatile, and investors often overreact to news, both positively and negatively. Thus, Paradigm believes that disciplined fundamental research can identify mispriced small-capitalization equities whose short-term pricing does not accurately reflect the true earning potential of the company. The Adviser looks for what it believes to be high-quality companies trading at discounts to Paradigm's assessment of intrinsic value.

Paradigm believes the best investment decisions come from an efficient research process that gives portfolio managers individual responsibility for their investment choices. Paradigm's investment team meets weekly to discuss ideas and market trends, but the portfolio managers are empowered to make independent buy and sell decisions. Paradigm's Chief Investment Officer reviews portfolio characteristics weekly to assist in monitoring risk.

Nine strategies are primarily offered to clients as investable products: Micro-Cap, Small-Cap, SMid-Cap, Value, Intrinsic Value, Growth & Income, Balanced, High Net Worth, and Defensive. Clients can select which management approach they would like for their account(s).

**Micro-Cap:** Under normal circumstances, the Micro-Cap strategy is focused on identifying undervalued domestic micro-cap companies with what management believes to be strong catalysts for accelerated earnings. The Adviser generally considers a company to be a micro-cap company if, at the time of purchase, its market capitalization is within the range of capitalizations of companies in the Russell Microcap® Index. These market capitalization measures will fluctuate over time. The strategy may be overweight in certain sectors at various times. Stocks are sold when they have realized the value anticipated by the Adviser or if new investment opportunities with higher expected returns are acquired. Portfolio managers maintain ongoing dialogues with senior managements of portfolio holdings to enhance information flow and provide competitive industry insight.

**Small-Cap:** Paradigm's fundamental, bottom-up process for the Small-Cap strategy is focused on identifying undervalued small-cap companies in the \$100 million to \$2 billion range with strong management teams and underestimated earnings growth potential. The firm utilizes a definitive research process to identify mispriced small-cap equities, employing a contrarian view based on experience and disciplined research. Portfolio managers maintain ongoing dialogues with senior managements of portfolio holdings to enhance information flow and provide competitive industry insight.

**SMid-Cap:** The investable universe of this strategy consists of domestic small- and mid-cap companies with market capitalizations typically ranging from \$500 million to \$5 billion at acquisition. This universe is screened to focus on profitable, positive cash flow-generating companies, which are then ranked according to proprietary valuation criteria. The bulk of the investment process is concentrated on conducting company research. The portfolio managers develop a watch list. Companies on the watch list go through extensive financial analysis and review of public information. Companies that meet our financial criteria are then subject to management interviews and competitive analysis. The portfolio managers develop their own models and financial projections based on this analysis.

**Value:** The investable universe of this strategy consists of domestic small cap companies with market capitalizations typically ranging from \$50 million to \$2 billion. This universe is screened to focus on profitable, positive cash flow-generating companies, which are then ranked according to proprietary valuation criteria. The bulk of the investment process is concentrated on conducting company research. The portfolio managers develop a watch list. Companies on the watch list go through extensive financial

analysis and review of public information. Companies that meet our financial criteria are then subject to management interviews and competitive analysis. The portfolio managers develop their own models and financial projections based on this analysis.

***Intrinsic Value:*** Paradigm's Intrinsic Value strategy invests primarily in the common stocks of small, mid or large capitalization companies that the Adviser believes have the potential for capital appreciation. The portfolio manager screens for companies that meet strict value criteria, as well as companies that have strong or improving balance sheets. Fundamental bottom-up research includes: "forensic" analysis of financial statements, management interviews, and competitor cross checks. Investments typically consist of 40 – 60 names with a mix of long-term holdings and "special situations", which typically reflect shorter-term dislocations between stock price and underlying value. In addition, this strategy may also contain commodity exchange-traded funds (ETFs) (e.g., gold ETFs). The portfolio attempts to achieve long-term capital appreciation; stocks are sold only when "facts on the ground" demonstrate that original research was mistaken or when stock has appreciated well beyond intrinsic value.

***Growth & Income:*** Growth & Income is a balanced strategy of capital appreciation and current income generation. The portfolio manager attempts to accomplish capital appreciation primarily through the investment in what he believes to be underappreciated equity securities and equities with above average earnings growth potential. Income is generated through investments in common and preferred equity securities with above-average yield and fixed income securities (primarily bonds and convertible bonds of out of favor companies). The strategy has the freedom to invest in all market capitalizations as well as commodities and cash. The use of short selling, leverage and derivatives is allowed though used infrequently.

***Balanced:*** The Balanced strategy is a combination of the Intrinsic Value strategy as well as fixed income securities. This strategy has a value orientation with a focus on capital preservation and consistent, long-term performance. Fixed income investments focus on shorter duration instruments, and may include municipal bonds, government agencies or corporate bonds, depending on client needs.

***High Net Worth:*** The High Net Worth strategy invests primarily in equity securities with an emphasis on small cap securities, but has the ability to invest in all market capitalization ranges.

***Defensive:*** The Defensive strategy invests primarily in equity securities with an emphasis on dividend producing, stable companies, but has the freedom to invest in all market capitalization ranges. The strategy has a defensive focus with a goal of capital preservation.

## **Material Risks**

The list of risk factors below is not a complete enumeration or explanation of the risks involved in an investment through Paradigm or any of the client portfolios it manages. Clients investing in registered investment companies or other pooled investment vehicles managed by Paradigm should refer to the applicable prospectus or offering memoranda for a more detailed discussion of the relevant risks.

Trading in Small and Mid-Capitalization Markets. Paradigm invests in the stocks of small and mid-capitalization companies. The earnings and prospects of these companies are generally more volatile than larger companies. Small and mid-capitalization companies may experience higher failure rates than do larger companies. The trading volume of the securities of these companies is normally less than that of larger companies and, therefore, may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies. These securities entail more risk (and potentially more benefit) than investments in shares of companies with higher market capitalizations because of market conditions in general, especially in times of market volatility and illiquidity. In addition, failed expectations concerning particular industries or companies and negative analyst comments could have a relatively dramatic effect on the prices of these securities.

Value Investing. Value investing attempts to identify companies selling at a discount to their intrinsic value. Value investing is subject to the risk that a company's intrinsic value may never be fully realized by the market or that a company judged by the Adviser to be undervalued may actually be appropriately priced.

Sector risk. Sector risk is the possibility that all stocks within the same group of industries will decline in price due to sector-specific market or economic developments. The Adviser's client portfolios may be overweight in certain sectors at various times.

Speculative Purchases of Securities. Client portfolios may also make certain speculative purchases of securities. Such purchases may include securities which the Adviser believes to be undervalued, or where a significant position in the securities of the particular issuer has been taken by one or more other persons or where other companies in the same or a related industry have been the subject of acquisition attempts. There can be no assurances that securities which the Adviser believes to be undervalued are in fact undervalued, or that undervalued securities will increase in value. If Paradigm purchases securities in anticipation of an acquisition attempt or reorganization, which does not in fact occur, the client portfolio may experience losses. Further, in such cases, a substantial period of time may elapse between the purchase of the securities and the acquisition attempt or reorganization. During this period, a portion of the portfolio's funds would be committed to the securities purchased.

Speculative Short Sales of Securities. Certain client portfolios may maintain short positions. This means that the Adviser may purchase and hold those securities for client accounts which the Adviser believes are likely to increase in market value and, at the same time, sell or be short in other securities in an attempt to realize gain or protect the value of the client's portfolio against declines in security prices. Potential losses on short positions are greater than potential losses on securities owned by the portfolio, since the portfolio is obligated to purchase the security and return it to the person from whom it has borrowed, regardless of the cost. When a security is heavily shorted or in limited supply in the market, the portfolio, in order to cover its short position, may have to pay a price higher than the Adviser anticipated in order to replace the security since it will be competing for the supply with other short sellers as well as with purchasers of regular "long" positions.

A short sale is effected by selling a security that the client portfolio does not own. In order to make delivery to the purchaser, the portfolio must borrow the security and may have to pay a premium to the lender of the security. In so doing, the portfolio will become obligated to replace that security, whatever its price may be at the time the portfolio purchases it for delivery to the lender. The portfolio must also pay to the lender of the security the dividends or interest payable during such period.

Risks From Hedging Activities. The Adviser will, from time to time, employ various hedging techniques to attempt to reduce the risk of highly speculative investments in securities. There remains a substantial risk, however, that hedging techniques may not always be effective in limiting losses. If the Adviser analyzes market conditions incorrectly or employs a strategy that does not correlate well with portfolios' investments, the hedging techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. Further, a specific hedge may not be available with respect to a particular investment and even if available, may not perfectly match the position which is sought to be hedged. These hedging techniques may also increase the volatility of client portfolios; may involve a small

investment of cash relative to the magnitude of the risk assumed; or result in a loss if the other party to the transaction does not perform as promised.

Lack of Liquidity. The Adviser monitors the liquidity of strategy holdings in making decisions regarding the client investments. However, certain investments may have to be held for a substantial period of time before they can be liquidated to the portfolio's greatest advantage or, in some cases, at all. In addition, portfolios may hold securities for which no market exists and which have restricted transferability under United States federal or state securities laws, and it may be able to dispose of these securities only at substantial discounts or losses. Portfolios may also hold securities for which a market exists but which generally have a relatively low trading volume. Portfolios may not be able to dispose of such securities at the most favorable price or time if there is limited demand when the Adviser wishes to sell them.

Exchange Traded Funds. Paradigm may also invest in exchange traded funds (ETFs). Investment in an ETF carries security specific risk and the market risk. Also, if the area of the market representing the underlying index or benchmark does not perform as expected for any reason, the value of the investment in the ETF may decline. In addition, due to transactions via market prices rather than at net asset value, the performance of an ETF may not completely replicate the performance of the underlying index.

Foreign Risk. Paradigm may invest in foreign equity securities including American Depositary Receipts ("ADRs"). To the extent Paradigm invests in foreign securities or ADRs, portfolios may be subject to risks not usually associated with owning securities of U.S. issuers. These risks can include fluctuations in foreign currencies, foreign currency exchange controls, political and economic instability, differences in financial reporting, differences in securities regulation and trading, and taxation issues.

New Issues. Paradigm may also purchase so-called "new issue" securities for client accounts. The risk of loss associated with securities purchased in initial public offerings is greater than those in connection with general securities trading. While the Adviser believes that "new issues" offer significant potential for gain, the prices of newly issued securities may not increase as expected, and in fact may decline to a significant extent. The Adviser will have access to new issue markets only if it is able to generate relationships with broker-dealers. Also, if the Adviser is not correct in its assessment of which new issues will appreciate, portfolios will suffer losses. If the Adviser is unable to liquidate such positions in a timely manner, portfolios will be exposed to further losses which could be considerable.

### ***Fixed Income Securities Risk***

Interest Rate Risks. Prices of fixed income securities rise and fall in response to changes in the interest rate paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. Interest rate changes have a greater effect on the price of fixed income securities with longer maturities.

Credit Risks. Credit risk is the possibility that an issuer or counterparty will default on a security or repurchase agreement by failing to pay interest or principal when due. If an issuer defaults, the client's portfolio holding securities of that issuer may lose money. Lower credit ratings correspond to higher credit risk. Bonds rated BBB or Baa have speculative characteristics.

Call Risks. If the fixed income securities in which a portfolio managed by Paradigm invests are redeemed by the issuer before maturity (or "called"), the portfolio may have to reinvest the proceeds in securities that pay a lower interest rate, which may decrease the portfolio's overall yield. This will most likely happen when interest rates are declining.

Government Obligations Risks. No assurance can be given that the United States government will provide financial support to United States government-sponsored agencies or instrumentalities where it is not obligated to do so by law. As a result, there is risk that these entities will default on a financial obligation.

#### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to evaluating the Adviser or the integrity of its management. Paradigm has no applicable disciplinary information to disclose.

## Item 10 – Other Financial Industry Activities and Affiliations

Candace King Weir owns a majority of the outstanding voting stock of both Paradigm Holdings (the sole owner of Paradigm Capital Management, Inc.) and C.L. King & Associates, Inc. In addition, several of the officers of Paradigm Capital Management, Inc. are also officers of C.L. King. C.L. King is a registered broker/dealer pursuant to the Securities Exchange Act of 1934, various state securities laws, and is a member of the Financial Industry Regulatory Association (FINRA).

C.L. King engages in a general securities business including equity and debt trading and execution, option execution and underwriting. The Adviser utilizes C.L. King to effect securities transactions for the accounts of clients who consent to use C.L. King as its broker or agent for such transactions.

Paradigm Funds Advisor LLC, an affiliate of the Adviser, is the adviser to the Paradigm Funds, a series of registered investment companies. Under the terms of the management agreement, Paradigm Funds Advisor LLC manages the investment portfolio of the Paradigm Funds subject to policies adopted by the Paradigm Funds' Board of Trustees. Paradigm has agreed to act as the Paradigm Funds Advisor LLC's guarantor in the event it is unable to meet any obligation to the Paradigm Funds or its shareholders. Under the management agreement, Paradigm Funds Advisor LLC, at its own expense and without reimbursement from the Paradigm Funds, furnishes office space and all necessary office facilities, equipment and executive personnel necessary for managing the assets of the Paradigm Funds. Paradigm Funds Advisor LLC also pays the salaries and fees of all of its officers and employees that serve as officers and trustees of the Paradigm Funds. Paradigm Funds Advisor LLC pays all operating expenses of Paradigm Funds Advisor LLC, with the exception of taxes, borrowing expenses (such as (a) interest and (b) dividend expenses on securities sold short), brokerage commissions and extraordinary expenses.

PCM Advisors LLC ("PCM"), an affiliate of the Adviser, is an SEC registered investment adviser that has been in business since 2004 and offers investment supervisory services primarily to individuals. PCM is owned primarily by Candace King Weir, Director, Chief Executive Officer, President, and Chief Investment Officer of the Adviser.

Paradigm Capital Management Growth Advisors, Inc. ("Growth Advisors"), an affiliate of the Adviser, is an SEC registered investment adviser that has been in business since 2006 and offers investment supervisory services primarily to individuals and other separate accounts. Growth Advisors is owned primarily by Candace King Weir, Director, Chief Executive Officer, President, and Chief Investment Officer of the Adviser.

Paradigm is the adviser to four private investment partnerships (PCM Partners, L.P. I, PCM Partners, L.P. II, PCM Partners, L.P. III and PCM Partners International, Ltd.) wherein limited partnership units and shares respectively, are available to qualified investors. PCM Partners L.P. I is an investor in PCM Partners L.P. II. PCM Partners L.P. II, PCM Partners, L.P. III and PCM Partners International, Ltd. principally take positions in the same equities on both the long and short side. Additionally, PCM Partners L.P. II, PCM Partners, L.P. III and PCM Partners International, Ltd. may from time to time borrow on margin to purchase securities if conditions warrant. The Adviser may solicit its clients, who are also qualified investors, to invest in PCM Partners L.P. I, PCM Partners L.P. II or PCM Partners, L.P. III. Clients of the Adviser may be limited partners in PCM Partners L.P. I, PCM Partners, L.P. II, PCM Partners, L.P. III and /or PCM Partners International, Ltd.

## Item 11 – Code of Ethics

The Adviser has adopted a Code of Ethics which, in general, requires employees to obtain approval prior to opening a brokerage account outside of C.L. King. Unless prior approval is obtained, such outside accounts may not invest in any Paradigm, PCM, Growth Advisors or Paradigm Funds Advisor LLC (collectively the “Company”) name or name on the Company’s restricted/watch list unless the trade is cleared by the Compliance Department. For those employee accounts at C.L. King, employees can generally trade in a Company name if the employee trade is bunched with a trade for a Company client or if the trade is cleared by the Compliance Department. If blocking or bunching of trades is not possible, the Compliance Department is required to review the facts and circumstances of the trade to avoid a possible conflict of interest. Employees are also precluded from investing in initial public offerings or unregistered securities without prior approval from the Chief Compliance Officer. The Code of Ethics also requires employees to certify their holdings, including those in investment companies advised by the Company on an annual basis.

Furthermore, the Adviser for its own account is prohibited from trading in securities traded by the Adviser on behalf of its advisory clients in violation of internal policies and applicable laws. In all cases, procedures have been established to prevent (1) the misuse of any research prepared by the Company or C.L. King, (2) trading in securities appearing on internal restricted lists and (3) trading in initial public offerings and private placements.

A copy of the Adviser’s Code of Ethics is available to our clients and prospective clients. Please contact John Gulick, Chief Compliance Officer, at (518) 431-3500 for a copy of the Code of Ethics.

## Item 12 – Brokerage Practices

The Adviser is responsible for the decisions to buy and sell securities for Advisory clients, the selection of brokers and dealers, and the negotiation of brokerage commissions, if any. The particular securities and the amounts of such securities to be purchased and sold are determined by the Adviser consistent with each Advisory client's investment objective, policies and restrictions. The Adviser has (1) responsibility to act as a fiduciary, (2) duty to obtain best execution and (3) a duty to manage the account consistent with confidential offering memorandum; mutual fund prospectuses and statements of additional information and other related documents. Errors created in an advisory account will be corrected so as not to harm any Advisory client. The Adviser corrects trade errors through its "trade error account" and will be responsible for any losses in the account.

In purchasing and selling securities, primary consideration will be given to obtaining the most favorable prices and efficient execution of transactions. When securities transactions are effected on a stock exchange or on an agency basis, Advisory clients will pay commissions which are considered by the Adviser to be fair and reasonable without necessarily determining that the lowest possible commissions are paid in all circumstances. In seeking to determine the reasonableness of brokerage commissions paid in any transaction, the Adviser will rely on its experience and knowledge regarding commissions generally charged by various brokers and on its judgment in evaluating the brokerage and research services received from the broker effecting the transaction. These determinations are necessarily subjective and imprecise, as in most cases an exact dollar value for those services is not ascertainable.

The Adviser recommends C.L. King as a broker/dealer and as a custodian for its retail clients. Institutional clients may also use C.L. King & Associates as a broker/dealer and/or custodian. The Adviser and C.L. King are both principally owned by Candace King Weir.

Clients who select C.L. King as a broker/dealer will be charged the same commission rates generally as non-investment advisory clients. However, there may be exceptions to the standard rates charged based on the size of the investment advisory relationship and the frequency of transactions, and prior or on-going relationships. Brokerage commission rates are negotiated between C.L. King and clients. C.L. King may negotiate different rates with different clients. This may result in different clients of the Company, whose orders are aggregated, paying different commission rates to C.L. King in the same transaction. C.L. King, when executing trades in over the counter securities on behalf of an advisory client of the Adviser, may acquire such over the counter securities from broker/dealers who are market makers. As such, a client may pay commission charges to C.L. King based on the price at which C.L. King is able to acquire the security from the other broker/dealer.

### **Soft Dollars**

The Adviser may also select non-affiliated broker/dealers to execute orders on behalf of accounts based on the ability of such broker/dealer to provide the best possible execution, the broker/dealer's commission rates, and the value of products and services made available to the Adviser. The Adviser may receive research or brokerage from a broker-dealer and/or a third party in connection with client securities transactions. This is known as a "soft dollar" relationship. The Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software

used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations. In return for these products and services, clients may pay higher commissions than those obtainable from other broker/dealers.

The Adviser is authorized to pay to a broker or dealer who provides such brokerage and research services a commission for executing a portfolio transaction which is in excess of the amount of commission another broker or dealer would have charged for effecting that transaction. The Adviser will determine in good faith that such commission was reasonable in relation to the value of the brokerage and research services provided. There is no policy that the research obtained will be used in selecting investments for the account that generated commissions used to acquire the research. Research obtained from the broker/dealer in exchange for orders is generally used by the Company in selecting investments for other clients of the Company and related accounts.

C.L. King has trading and execution relationships with some broker-dealers whereby the broker-dealer has provided C.L. King with dedicated communications, trading software and/or equipment. Such arrangements provide an incentive to C.L. King to utilize such broker-dealers; however, C.L. King will only do so when it concludes that the prices and terms offered are consistent with obtaining the best execution.

### ***Aggregation of Client Transactions***

The Company may aggregate client transactions when a particular security is bought or sold for multiple client accounts. Employee accounts may also be aggregated with client transactions when a particular security is bought or sold. This practice generally allows the Company to obtain more favorable prices for all its clients trading in such security. In addition, this practice may reduce the transaction costs. The Company will not aggregate client transactions unless it believes such aggregation is consistent with the obligation to seek best execution for each client and is consistent with terms of the investment advisory agreement between the client and the Adviser. No advisory account will be favored over any other advisory account in connection with the aggregation of client transactions, and each account will participate in the aggregated order at the average price of the security on a given business day for all transactions in connection with the aggregated order. Such average price could be higher or lower than would have been received by a client had the transaction been executed for such client individually.

The portfolio manager in his or her individual discretion will allocate the security traded in the aggregated transaction amongst participating client accounts based on several factors, including, but not limited to, the amount of cash available in the accounts, a client's individual portfolio, the tax state of the account and the number of shares acquired in the transaction. In all cases, securities traded in the aggregated transaction will be allocated on a fair and equitable basis. In such circumstances, clients will receive the average price of such security traded during the course of the day which could be higher or lower than would have been received by a client had the transaction been executed for such client individually. Transaction costs will similarly be shared on a pro rata basis.

### ***Client Directed Brokerage***

Any client who directs the Adviser to use a specific broker (including C.L. King) or type of broker may pay higher commission rates or receive less favorable execution on same transactions than non-directing clients at least in part because the directed broker may maintain a higher commission schedule or provide less favorable service or because such transactions may be excluded from combined or block orders and any corresponding economies of scale. In such instances where the client directs Adviser to use a specific broker, the commission rate may be negotiated by the client or by the Adviser depending on the arrangement, or client instructions. The Adviser may also aggregate client transactions, and then "step-out" transactions to satisfy directed brokerage requests. Step-out trading is the practice of brokerage firms executing an order, but giving other brokerage firms credit and the commission for the trade.

### ***Principal and Agency Cross Transactions***

The Adviser may engage in principal and/or agency cross transactions on behalf of clients with C.L. King if such transactions are permitted and believed to be in the best interest of the client. All principal transactions are identified in a written disclosure delivered to the client prior to the completion of the transaction. Agency cross transactions will be identified to the advisory client by written confirmation upon execution of such transaction and an annual summary of all such transactions will be sent to such advisory clients.

From time to time, Paradigm and the general partner to partnerships for which Paradigm serves as investment adviser may engage in a principal transaction with the partnerships, in which the Adviser and/or the general partner purchases from or sells to the partnerships a security. The interests of such a person in obtaining or disposing of the security may differ from those of the Partnerships in retaining or holding the asset, and thus the Adviser will obtain the consent to such a transaction of a Conflicts Committee acting on behalf of the partnerships at or before the settlement of the transaction. This committee will consist of the Chief Compliance Officer and the Chief Financial Officer of the Adviser. The judgment of this Conflicts Committee shall be binding and conclusive. While the Committee has been appointed to act in the best interests of the investors in the Partnerships, there can be no assurance that its decisions will always reflect what investors would have decided independently with respect to any particular transaction.

### **Item 13 – Review of Accounts**

The Adviser offers separately managed accounts to individual and institutional investors. In addition, the Adviser is the investment adviser to investment partnerships; and is also the investment sub-adviser to investment companies. The Portfolio Managers review accounts on an ongoing basis to monitor the disciplined and consistent implementation of their investment decisions. The Chief Compliance Officer conducts account reviews on an ongoing basis to assure adherence to clients' stated investment objectives, investment restrictions and limitations, as well as to Adviser's trading and trade allocation policies and procedures. The Performance Manager reviews monthly account performance for significant variations among accounts within the same composite upon finalization of GPS compliant performance results.

The Adviser offers standardized client reports. The Adviser may also create customized reports at the clients' request. At a minimum, clients receive annual portfolio appraisal reports which specify the total asset value at the end of the period, and list portfolio assets specifying their cost, market value and aggregate market value. Clients may, and often do, request monthly portfolio updates and comprehensive quarterly reporting describing the value and performance of an account. In certain instances, the Chief Compliance Officer prepares monthly, quarterly, and annual reports confirming compliance with stated account limitations and restrictions. In addition, those clients who choose C.L. King as their broker-dealer will receive trade confirmations and monthly account statements as clients of C.L. King.

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

Certain employees of the Adviser are also employees of C.L. King. These employees and Candace King Weir, as owner of C.L. King, may receive economic benefit from C.L. King as a result of the commissions paid by investment advisory clients from security trades done in their accounts. This is in addition to any compensation received by portfolio managers from the Adviser.

The Adviser may compensate third-party marketing firms in compliance with Rule 206(4)-3 under the Investment Advisers Act of 1940. Such compensation is paid pursuant to a written agreement and generally represents a percentage of the fees earned by the Adviser from the accounts solicited.

## Item 15 – Custody

The general partner to the private funds Paradigm manages has custody of those private funds' funds and securities through ability to access and control these assets and withdraw them from custodial accounts. These private funds are audited annually, and investors in the private funds receive the financial statements resulting from the audits within 120 days of the end of each private fund's fiscal year end.

Paradigm may directly debit advisory fees from clients' custodial accounts. These clients receive at least statements from the broker-dealer, bank or other qualified custodian that holds and maintains clients' investment assets. Paradigm urges clients to carefully review such statements and compare such official custodial records to the reports and statements that the Adviser provides to clients. Paradigm's reports to clients may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Paradigm personnel may also serve as trustees of client accounts or have other forms of access to, or control of, client funds and securities. For forms of custody other than that related to private funds Paradigm manages or the ability to deduct fees directly from client custodial accounts, Paradigm will engage an independent accounting firm to conduct a verification of client funds and securities with respect to which Paradigm has custody.

C.L. King & Associates, Inc., an affiliate of Paradigm in that both firms are principally owned by Candace King Weir, acts as a broker/dealer and as a custodian for certain of Paradigm's retail and institutional clients. Paradigm has engaged an independent accounting firm to conduct an annual independent verification and/or internal control report with respect to the client funds and securities for which C.L. King acts as custodian as required by the Advisers Act custody rule.

## **Item 16 – Investment Discretion**

At the start of a client relationship, the client grants Paradigm the discretionary authority to manage a client's account by executing a client Agreement. Investment discretion is limited by a written statement of investment policy, which includes investment objectives. The discretionary authority granted to the Adviser typically includes the power and authority to determine the:

- (1) Securities to be bought or sold for a client's account;
- (2) Amount of securities to be bought or sold for a client's account;
- (3) Broker or dealer to be used for purchase or sale of securities for a client's account; and
- (4) Commission rates to be paid to a broker or dealer for a client's securities transactions.

At a client's request, the Adviser may accept investment guidelines and/or restrictions which will be included in the client Agreement. Clients may change/amend these limitations as required. Such amendments shall be submitted in writing.

## Item 17 – Voting Client Securities

When the Adviser's accounts hold stock which the Adviser will vote in a fiduciary capacity, its voting obligations must be exercised in accordance with (1) the direction and guidance, if any, provided by the document establishing the account relationship, and (2) the principles of fiduciary duty which require the fiduciary to act in the best interests of the account. Thus, in voting such stock, the Adviser will exercise the care, skill, prudence, and diligence under the circumstances that a prudent person would use considering the aims, objectives, and guidance provided by the client.

In general, this will call for the voting of stock consistent with the best interests of the account, including long-term and short-term economic interests. In considering the best interests of the account, the Adviser will take into account, among other things, the effect of the proposal on the underlying value of the securities. All conflicts of interest will be resolved in the interest of the client.

Where the Adviser has an obligation to vote, (1) all stock by proxy will be voted, and (2) a written record of such voting will be kept by Operations. To assist it in analyzing proxies, the Adviser has subscribed to an unaffiliated third-party corporate governance research service ("Proxy Service Provider") that provides in-depth analyses of shareholder meeting agendas, vote recommendations, recordkeeping and vote disclosure services.

Portfolio managers determine how proxies are to be voted. Operations through the Proxy Service Provider will maintain a record of proxy voting determinations, together with all proxy proposals, including shareholder proposals and proposals included in dissident proxy materials. Decisions will be made exclusively in accordance with the economic interests, both long-and short-term, of the account. Except where required by the client, social interests shall not be among the criteria employed by the Portfolio Managers.

Please contact the Adviser at (518) 431-3500 and/or via electronic mail at [jgulick@paradigmcapital.com](mailto:jgulick@paradigmcapital.com) if you would like a record of how proxies for your shares were voted or a copy of the Adviser's proxy voting policies and procedures.

## **Item 18 – Financial Information**

A registered investment adviser is required to provide you with certain financial information or disclosures about its financial condition. Paradigm has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.