

**Item 1 – Cover Page**



# PATHSTONE

## FAMILY OFFICE

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<http://www.pathstone.com>

March 23, 2012

This Brochure provides information about the qualifications and business practices of Pathstone Family Office. If you have any questions about the contents of this Brochure, please contact us at (201) 994-7284 or [info@pathstone.com](mailto:info@pathstone.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Pathstone Family Office 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 about which you determine to hire or retain an Adviser.

Additional information about Pathstone Family Office also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Pathstone Family Office is 151736.

## Item 2 – Material Changes

This Item of the Brochure discusses only specific material changes that are made to the Brochure and provides clients with a summary of such changes. The most recent update of our brochure was March 23, 2012 and includes the following material changes:

- Item 10, “Other Financial Industry Activities and Affiliations” was updated to include PFO’s business relationship with an unaffiliated third party investment adviser, disclosure of PFO’s new enhanced insurance business (Pathstone Risk Management, LLC) and disclosure of the new trust services offered by Pathstone Trust Services.
- Item 10, “Other Financial Industry Activities and Affiliations” was also updated to reflect the removal of disclosure of the New York City office.
- Item 14, “Client Referrals and Other Compensation” has been updated to reflect the compensation arrangements resulting from the Pathstone Risk Management, LLC and Pathstone Trust Services relationships.

*(Brochure Date: 3/23/2012)*

*(Date of Most Recent Annual Updating Amendment: 3/23/2012)*

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested by contacting Matthew Sher, Chief Compliance Officer at (201) 944-7284 or [info@pathstone.com](mailto:info@pathstone.com). Our Brochure is also available on our web site [www.pathstone.com](http://www.pathstone.com), also free of charge.

Additional information about Pathstone Family Office is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Pathstone Family Office who are registered, or are required to be registered, as investment adviser representatives of Pathstone Family Office.

### Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 -Table of Contents .....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management.....	3
Item 7 – Types of Clients.....	3
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	4
Item 9 – Disciplinary Information.....	6
Item 10 – Other Financial Industry Activities and Affiliations .....	6
Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading .....	8
Item 12 – Brokerage Practices .....	9
Item 13 – Review of Accounts .....	11
Item 14 – Client Referrals and Other Compensation.....	12
Item 15 – Custody.....	12
Item 16 – Investment Discretion.....	13
Item 17 – Voting Client Securities .....	13
Item 18 – Financial Information.....	13
Brochure Supplement(s)	

#### Item 4 – Advisory Business

Having an average of twenty-four years of professional investment experience, managing members Steve Braverman and Allan Zachariah founded Pathstone Family Office, LLC (“PFO”) in the beginning of 2010. Being principally owned by Pathstone Holdings, LLC, PFO is an independent, family and employee owned integrated wealth management organization providing multi-generational financial management services. PFO provides family office services, including financial planning, consulting, expense management, bill pay, concierge services, philanthropic management, tax compliance/tax return preparation, as well as investment management services to individuals, investment limited partnerships, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

The aggregate assets managed by PFO as of December 31, 2011, are \$1,727,469,225. This figure reflects the \$660,658,313 in discretionary and \$368,531,350 in nondiscretionary regulatory assets under management, totaling \$1,029,189,664, in addition to \$698,279,561 in supplemental client assets we manage. The supplemental amount represents assets for which PFO provides advisory and reporting services to clients, which may include personal property, outside investments, and other real assets (e.g., gold, silver, etc).

PFO provides its clients with a broad range of comprehensive family office and consulting services, which may include tax-related and other non-investment related matters. PFO advises private family clients by delivering tailored family-centric wealth management services and solutions which are customized to address each family’s wealth dynamic. These tailored services are based on a comprehensive understanding of each client’s unique circumstances, asset base, interests and financial goals. They are complimented by customized solutions such as succession planning, M&A consultation, trust alignment, investment consolidation and planning, as well as a diverse array of tax-centric estate planning solutions. Clients are permitted to place reasonable restrictions on investing in certain securities.

PFO engages third party, unaffiliated investment advisers (“*Independent Managers*”) to manage portions of the client’s portfolio consistent with the desired investment strategy. PFO performs routine due diligence on outside managers, as well as utilizes the due diligence services of unaffiliated third party wealth management solutions. Factors that PFO shall consider in recommending Independent Manager(s) include the client’s stated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research.

The terms and conditions under which the client shall engage the Independent Manager(s) shall be set forth in separate written agreements between (1) the client and PFO and (2) the client and the designated Independent Manager(s). PFO shall continue to render advisory services to the client relative to the ongoing monitoring and review of account performance, for which PFO shall receive an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated Independent Manager(s). As discussed further in *Item 5*, the client may incur additional fees than those charged by PFO, the designated Independent Manager(s), and corresponding broker-dealer and custodian.

In addition to PFO’s written disclosure statement, the client shall also receive the written disclosure statement of the designated Independent Manager(s).

In performing its services, PFO shall not be required to verify any information received from the client or from the client's other professionals (*e.g.*, attorney, accountant, etc.) and is expressly authorized to rely on such information. PFO may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if PFO recommends its own services. The client is under no obligation to act upon any of the recommendations made by PFO under a family office/ consulting engagement and/or engage the services of any such recommended professional, including PFO itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of PFO's recommendations. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify PFO if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing, evaluating, or revising PFO's previous recommendations and/or services.

PFO's clients are advised to promptly notify PFO if they wish to impose any reasonable restrictions upon PFO's management services.

## **Item 5 – Fees and Compensation**

Prior to engaging PFO to provide family office and/or consulting services, the client will generally be required to enter into a written agreement (herein the "*Agreement*"). This Agreement sets forth the terms and conditions of the engagement and describes the scope of the services to be provided and the portion of the fee that is due from the client prior to PFO commencing services.

The specific manner in which fees are charged by PFO is established in a client's written Agreement with PFO. Depending upon the terms of the Agreement, PFO offers its services on either an hourly and/or fixed fee basis, as well as fees based upon assets under advisement. Generally, PFO requires a retainer for its family office/consulting fee (estimated hourly or fixed) payable upon entering the written agreement. PFO's family office and consulting fees are negotiable, but generally range from \$100,000 to \$500,000 on an annual fixed fee basis and/or from \$300 to \$800 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the services. Calculations for the initial fee/retainer may be estimates based on the projected assets under advisement.

Once engaged for services, PFO shall charge an annual fee based upon a percentage of the market value of the assets under advisement by PFO. PFO's annual fee is exclusive of, and in addition to, brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investments and other third parties such as fees charged by managers, custodial fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus, but ultimately borne by the investor. However, PFO shall not receive any portion of these commissions, fees, and costs. (Refer to *Item 12 "Brokerage Practices"* of this brochure).

Based on the terms of the individual Agreement, PFO's asset based annual fee will be calculated as a percentage of the fair market value of all assets in Client's account on the last trading day of each calendar quarter. For private funds, PFO may utilize the last available value if a more recent valuation has not been provided by quarter end. The advisory fee is payable quarterly, in arrears,

on the last day of the calendar quarter. Clients have the option whether to be billed for fees incurred, or have the fees deducted from their assets automatically.

As a condition for starting and maintaining a relationship, PFO shall generally impose a minimum annual fee of \$75,000. This minimum fee may have the effect of making PFO's service impractical for clients, particularly those with portfolios less than \$2,500,000 under PFO's management. PFO, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client relationships, account retention, and pro bono activities.

*Item 12* further describes the factors that PFO considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

The annual fee shall vary depending upon the market value of the assets under advisement and the type of investment management services to be rendered, as follows:

**INVESTMENT MANAGEMENT ONLY:**

<u>PORTFOLIO VALUE</u>	<u>ANNUAL FEE</u>
up to \$10,000,000	0.75%
\$10,000,001-\$25,000,000	0.50%
\$25,000,001-\$50,000,000	0.40%
\$50,000,001-\$75,000,000	0.30%
\$75,000,001-\$100,000,000	0.20%
above \$100,000,000	negotiable

**INVESTMENT MANAGEMENT w/FAMILY OFFICE SERVICES:**

Investment Management Fee Schedule with Negotiated Retainer

***Terminated accounts:*** Either party may terminate the agreement by at least 30 days written notice to the other. In the event the client terminates PFO's family office and/or consulting services, the balance of the unearned fees (if any) shall be refunded to the client in a timely manner. The advisory fee will be pro-rated based upon the number of days that the client's account was open during the quarter. If termination occurs within five business days of entering into an agreement for such services, the client shall be entitled to a full refund.

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

PFO does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

**Item 7 – Types of Clients**

PFO is a multi-family office providing portfolio management services to individuals, high net worth individuals, charitable institutions, estates, foundations, endowments, family partnerships, corporations, other business entities, and trusts.

Item 4 provides a full description of the family office services available from PFO.

PFO provides investment supervisory services, management of investment advisory accounts, and financial planning services. PFO generally imposes a minimum portfolio value and minimum fee for its investment management services. As a condition for starting and maintaining a relationship, PFO shall generally impose a minimum portfolio size of \$10,000,000.

PFO shall only accept clients with less than the minimum portfolio size if, in the sole opinion of PFO, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. PFO may aggregate the portfolios of family members to meet the minimum portfolio size. Additionally, certain *Independent Manager(s)* may impose more restrictive account requirements and varying billing practices than PFO. In such instances, PFO may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Manager(s)*.

PFO, in its sole discretion, may negotiate or waive its stated account minimum or charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

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

### **Methods of Analysis:**

PFO has established an Investment Committee consisting of members of senior management, trading and a third-party research partner to review the investment strategies and products clients are invested in. PFO's Investment Committee will rely on the following sources of information to assist with their due diligence of an investment product or alternative investments: commercially available investment services, financial newspapers, periodicals, inspections of corporate activities, research materials prepared by others, corporate rating services, company press releases and onsite due diligence visits. In addition, PFO and its Investment Committee rely on the analytical services provided by third-party institutional consultants, such as Fortigent Inc. or Wilshire Associates Inc., particularly with respect to the Independent Managers and alternative investments.

Depending upon the client's financial needs, strategies implemented might include long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days), short sales, margin transactions, option writing, including covered options, uncovered options or spreading strategies, and others.

Though PFO offers advice on the various types of investments described herein, PFO intends to primarily allocate its client's investment management assets, on a discretionary basis among unaffiliated *Independent Managers*. These Independent Managers may invest in mutual funds, exchange traded funds, structured products, individual debt and equity securities, limited partnerships, private placements, and/or options as well as the securities components of variable

annuities and variable life insurance contracts in accordance with the investment objectives of the client.

**Risk of Loss:**

***Investing in any type of security involves risk of loss that clients should be prepared to bear.***

PFO's goal is to communicate the opportunities and risks of potential investments, and to help clients understand how risk/reward tradeoffs affect decision making. PFO will supervise all aspects of asset allocation including manager and product selection, ongoing monitoring and due diligence, consolidated reporting, along with constant review and reconsideration of investment goals.

Although all investments involve risk, PFO's investment advice seeks to limit risk through broad diversification among asset classes and, as appropriate for particular clients the investments in conservative fixed income securities to represent the fixed income class. Risk of loss of principal is the risk that the value of securities (mutual funds, ETFs, individual stocks and individual bonds), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities when sold is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

Certain funds utilized by PFO or an Independent Manager may contain international securities. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be greater with investments in developing countries.

PFO may recommend that clients that are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the client's investment objectives. For those clients, PFO may provide consulting services involving (i) the identification of suitable private placement securities investments based on clients' investment objectives, (ii) due diligence research of the issuer and the business and management of the issuer of the private placement securities, and (iii) structuring of investments in the private placement securities which may include forming a special purpose entity to pool investments in the private placement securities.

When PFO recommends that the client invest in private placement securities, PFO shall receive no additional compensation but shall continue to receive applicable investment advisory fees on the client's assets under management. PFO may also provide advice about exchange traded funds (ETFs) and any type of investment held in a client's portfolio at the beginning of the advisory relationship. On occasion, clients may request guidance on investments that they presently own or are considering, but are not under PFO's management supervision.

PFO will not act as a client's "purchaser representative" (as defined under *Rule 501 of the Securities Act of 1933*, as amended) in connection with an investment in private placement securities. Rather, PFO directs the client to consult with their tax advisor and attorney regarding the purchase of the private placement securities. If the client independently determines to invest in the private placement securities, the client shall work directly with their attorney to close the transaction.



Investments in private placement securities may involve additional risks to the investor. Clients are advised to consult with their tax advisor and/or attorney to weigh the risk of any investment.

As discussed in Item 4, PFO may recommend that clients authorize the active discretionary management of a portion of their assets by and/or among certain Independent Manager(s), based upon the stated investment objectives of the client. PFO shall continue to render services to the client relative to the discretionary selection of Independent Manager(s) as well as the monitoring and review of account performance and client investment objectives. When selecting an Independent Manager for a client, PFO shall review information about the Independent Manager(s) such as its disclosure statement, relevant SEC filings, and/or other material supplied by the Independent Manager(s) or independent third parties as a due diligence of the Independent Manager's investment strategies, past performance and risk results to the extent available.

To the extent that a client authorizes the use of margin, and margin is thereafter employed by PFO in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to PFO may fluctuate. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin shall correspondingly increase the management fee payable to PFO. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The client may make additions to and withdrawals from the account at any time, subject to PFO's right to terminate an account. Clients may withdraw account assets on notice to PFO, subject to the usual and customary securities settlement procedures. However, PFO designs its portfolios as long-term investments and asset withdrawals may impair the achievement of a client's investment objectives.

Additions may be in cash or securities provided that PFO reserves the right to liquidate any transferred securities, or decline to accept particular securities into a client's account. PFO may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

## **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 your evaluation of PFO or the integrity of PFO's management. *PFO has no information applicable to this Item.*

## **Item 10 – Other Financial Industry Activities and Affiliations**

In addition to investment advisory services, PFO also provides the following services to clients. These services may be provided individually or in combination with PFO advisory services provided for additional fees as agreed upon with a client:

- Record keeping and reporting;
- Income tax planning assistance;

- Financial education for family members;
- Family decision-making processes;
- Philanthropic goals (private and public foundations);
- Estate planning;
- Multigenerational wealth planning;
- Coordination of outside professionals;
- Insurance analysis;
- Trustee administration services;
- Business succession planning.

PFO provides family office services, including financial planning, consulting, expense management, bill pay, concierge services, tax compliance, philanthropic management, and investment management services to individuals, investment limited partnerships, trusts, estates, charitable organizations, corporations and business entities. As well, PFO has a related person acting as an accountant for PFO clients.

#### Affiliated Insurance Company, Licensed Insurance Producers, and Trust Services

***Pathstone Risk Management, LLC*** is an affiliated insurance firm to PFO as a result of common control and ownership. Pathstone Risk Management, LLC is a licensed insurance firm and offers consulting services with regard to insurance products, long-term care products, disability insurance, life settlements and fixed annuity products and coordination of the sale of such products. Associated persons of PFO are registered insurance producers of Pathstone Risk Management, LLC and are therefore able to recommend and facilitate the sale of insurance products to PFO clients. In addition, Pathstone Risk Management, LLC has contracted with various select unaffiliated insurance companies to provide insurance services to clients of PFO. Under the terms of the agreement with these unaffiliated insurance companies, PFO may receive a percentage of the commissions earned from the sale of an insurance product.

In its separate insurance capacities, Pathstone Risk Management, LLC will be able to receive separate, yet customary commission compensation resulting from implementing insurance product transactions on behalf of PFO advisory clients. Clients are not under any obligation to engage the services of Pathstone Risk Management, LLC when considering the implementation of insurance recommendations. The implementation of any and all recommendations is solely at the discretion of the client.

While PFO endeavors at all times to put the interest of the clients first as part of PFO's fiduciary duty, clients should be aware that the receipt of additional insurance commission compensation creates a conflict of interest.

***Pathstone Trust Services:*** PFO has contracted with an unaffiliated third party, New York Private Trust Company ("NYPT"), to provide trustee services and trust administration services to clients of PFO. Referred to as "Pathstone Trust Services," (herein "PTS"), PFO clients may avail themselves to the trustee services in accordance with a separately signed agreement with PTS. Services of PTS include trust administration, including accounting, tax preparation, record keeping and reporting, foundation or estate administration, and compliance for administration of trusts and estates.

Fees for these services vary based on the trust services selected and value of the trust, and are separate and distinct from the fees paid to PFO. In addition, PFO has entered into a revenue sharing agreement with respect to clients who contract with Pathstone Trust Services. As such, on a case by case basis and based on existing client relationships, PFO may receive a referral fee for PFO clients that utilize the Pathstone Trust Services. There are conflicts of interest as a result of this revenue sharing arrangement, as PFO receives compensation for referring PFO clients to Pathstone Trust Services.

The current New Jersey office building where PFO leases office space is wholly owned by an unaffiliated private company also engaged in investment management services. On occasion, after completing extensive due diligence, PFO has invested client funds with this unaffiliated private investment management company if the investment was within the client's stated investment strategy and risk tolerance. These investments and additional investments may present a conflict of interest to the extent that PFO has a landlord/tenant business relationship with customary lease negotiations with this unaffiliated private investment management company. PFO is not compensated in any way for any client investments placed with this unaffiliated private investment management company, nor receives any direct benefits to the terms and conditions of its lease if clients are invested with the private investment management company.

#### **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

Pursuant to SEC rule 204A-1, PFO has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at PFO must comply with and acknowledge the terms of the Code of Ethics annually, or as amended.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of PFO will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of PFO's clients. In addition, the Code of Ethics requires pre-clearance of certain transactions and discusses the maintenance of a Restricted List of securities employees are prohibited from investing in. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics and is designed to reasonably prevent conflicts of interest between PFO and its clients.

PFO's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Matthew Sher, Chief Compliance Officer via email at [info@pathstone.com](mailto:info@pathstone.com).

PFO may recommend that certain clients invest in private placement securities. For those clients, PFO may provide consulting services involving (i) the identification of suitable private placement securities investments based on clients' investment objectives, (ii) due diligence research of the

issuer and the business and management of the issuer of the private placement securities. PFO and persons associated with PFO ("Supervised Persons") are permitted to buy or sell securities, including private placements, which it also recommends to clients consistent with PFO's policies and procedures.

PFO anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which PFO has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which PFO and/or clients, directly or indirectly, have a position of interest. PFO's employees and persons associated with PFO are required to follow PFO's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of PFO may trade for their own accounts in securities which are recommended to and/or purchased for PFO's clients.

In limited circumstance, certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with PFO's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. PFO will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be identified and explained on the order.

## **Item 12 – Brokerage Practices**

PFO shall generally recommend that clients utilize the brokerage and clearing services of Pershing Investment Manager Services ("Pershing"), Fidelity Brokerage Services, LLC ("Fidelity") or with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab") for investment management accounts. Pershing, Fidelity and Schwab are all members of SIPC and are unaffiliated registered broker dealers and FINRA member broker dealers. Although PFO may recommend that clients establish accounts at these brokers, it is the client's decision where to custody their assets.

The brokerage commissions and/or transaction fees charged by Pershing, Fidelity and Schwab or any other designated broker-dealer are exclusive of and in addition to PFO's fee. PFO regularly reviews these programs to ensure that its recommendation is consistent with its fiduciary duty. Factors which PFO considers in recommending Pershing, Fidelity or Schwab or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research, and service. The commissions and/or transaction fees charged by Pershing, Fidelity or Schwab may be higher or lower than those charged by other broker-dealers.

The commissions paid by PFO's clients shall comply with the PFO's duty to obtain "best execution." However, a client may pay a commission that is higher than what another qualified broker-dealer might charge to effect the same transaction when PFO determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealers' services, including among others, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while PFO will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions for each client generally will be effected independently. If the client requests PFO to arrange for the execution of securities brokerage transactions for the client's account, PFO shall direct such transactions through broker-dealers that PFO reasonably believes will provide best execution. In limited circumstances, transactions may be cleared through other broker-dealers with whom PFO has entered into agreements for prime brokerage clearing services. PFO shall periodically and systematically review its policies and procedures regarding recommending broker-dealers to its client in light of its duty to obtain best execution.

Certain clients have directed PFO in writing to use a particular broker-dealer to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and PFO will not seek better execution services or prices from other broker-dealers or be able to "batch" client transactions for execution through other broker-dealers with orders for other accounts managed by PFO. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, PFO may decline a client's request to direct brokerage if, in PFO's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

PFO receives from Pershing, Fidelity and Schwab, without cost to PFO, computer software and related systems support, which allow PFO to better monitor client accounts maintained at that broker-dealer. PFO may receive the software and related support without cost because PFO renders investment management services to clients that maintain assets at that financial institution. The software and related systems support may benefit PFO, but not its clients directly. In fulfilling its duties to its clients, PFO endeavors at all times to put the interests of its clients first. Clients should be aware, however, that PFO's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence PFO's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

In addition, Pershing, Fidelity and Schwab provide PFO with access to its institutional trading and custody services, which are typically not available to retail investors. These brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Additionally, PFO may receive the following benefits from the above stated brokers: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its participants; access to block trading which provides the ability to aggregate securities transactions and then allocates the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information. Additionally, brokers may provide client referrals to PFO for certain family office clients. These referrals do not result in any financial compensation; however PFO may use the brokerage and custodian services of that broker to service these clients.

It is PFO's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. PFO will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in

relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. PFO is not dually registered, nor has any affiliated broker-dealer entities.

In limited circumstances, and upon client request, PFO will utilize the custody, banking and brokerage services of State Street Investors Bank & Trust ("State Street"). State Street will be used when a client desires a bank custodian rather than a Broker-Dealer.

Consistent with a client's investment objectives, a portion of clients' assets may be invested in the Access Overlay™ Account Program sponsored by Fortigent, LLC (herein "Fortigent"). As with other retained Independent Managers, the client will pay Fortigent fees separate and in addition to the fees paid to PFO, as described further in Item 5. As a result of client's participation in this program, PFO benefits overall from reduced fees on reporting services provided by Fortigent. However, PFO does not view this as a conflict of interest as clients will generally benefit as a result of lower fees for the Access Overlay Program than had they invested in the independent managers directly.

## **Item 13 – Review of Accounts**

### **Reviews**

For those clients to whom PFO provides investment management services, PFO monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. The review process includes assessing client goals and objectives, monitoring the portfolios and addressing the need to rebalance. Individual securities held in client accounts will be periodically monitored by PFO, while the firm will monitor any selected third-party managers on a quarterly basis. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, market conditions, or the political or economic environment.

For those clients to whom PFO provides financial planning and/or consulting services, reviews are conducted on an "as needed" basis. Such reviews are conducted by either an investment adviser representatives or a client service director. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with PFO and to keep PFO informed of any changes thereto. PFO shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Additional reviews that PFO may periodically perform on behalf of family office clients include tax-planning, cash-flow needs, as well as charitable giving, insurance, and estate planning.

All investment advisory clients are encouraged to discuss their needs, goals, and objectives with PFO and to keep PFO informed of any changes thereto. PFO shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### **Reports**

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom PFO provides investment advisory services will also receive a written report from PFO that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis.

Those clients to whom PFO provides financial planning and/or consulting services will receive reports from PFO summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by PFO.

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

*Client Referrals:* PFO may from time to time compensate, either directly or indirectly, any person (defined as a natural person or a company) for client referrals. PFO is aware of the special considerations promulgated under Section 206(4)-3 of the Investment Advisers Act of 1940 and similar state regulations. As such, appropriate disclosure shall be made, all written instruments will be maintained by PFO and all applicable Federal and/or State laws will be observed. Clients should understand that third party solicitors have an economic incentive to recommend the advisory services of PFO.

*Other Compensation:* PFO has negotiated various strategic partnerships with non-financial business entities to provide additional family office concierge services to its clients. On occasion, employees of PFO may participate or utilize these services at the comparable fee level as PFO's clients.

As disclosed in Item 10 above, Pathstone Risk Management, LLC and associated persons of PFO may, from time to time, earn compensation for the recommendation or introduction of insurance products. While the firm and its associated persons endeavor at all times to put the interest of the clients' first, clients should be aware that the receipt of additional compensation itself creates a conflict of interest.

In addition, as further discussed in Item 10 above, PFO has entered into a revenue sharing agreement with respect to clients who contract with Pathstone Trust Services. As such, on a case by case basis, and based on the existing client relationships, PFO may receive a referral fee for PFO clients that utilize the Pathstone Trust Services.

#### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. *PFO urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you.* Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

PFO's Agreement and/or the separate agreement with a Financial Institution(s) may authorize PFO through the Financial Institution(s) to debit the client's account for the amount of PFO's fee and to



directly remit that management fee to PFO in accordance with applicable custody rules. The Financial Institution(s) recommended by PFO have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to PFO.

#### **Item 16 – Investment Discretion**

For “discretionary” Investment Management clients, PFO requests that it be provided with written authority to determine the securities and the amount of securities that are bought and sold and the authority to determine which money managers to select and the ability to change those investment managers.

Investment guidelines and restrictions should be provided to PFO in writing prior to any initial investments. PFO may recommend that clients authorize the active discretionary management of a portion of their assets by and/or among certain Independent Manager(s), based upon the stated investment objectives of the client. PFO shall continue to render services to the client relative to the discretionary selection of Independent Manager(s) as well as the monitoring and review of account performance and client investment objectives. When selecting securities and money managers, PFO observes the investment policies, limitations and restrictions of the clients for which it advises.

#### **Item 17 – Voting Client Securities**

Proxy Voting: As a matter of firm policy and practice, PFO does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. PFO may provide advice to clients regarding the clients’ voting of proxies.

Class Actions, Bankruptcies and Other Legal Proceedings: PFO will work with third-party service providers to assist clients in legal proceedings involving companies whose securities are held or previously were held in the client’s accounts, including, but not limited to, the filing of “Proof of Claim” in class action settlements. PFO’s role will be in the facilitation of information necessary to perform filings.

#### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about PFO’s financial condition. PFO 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.