

**Item 1: Cover Page**

**Appendix 1 of Part 2A**  
**Pactolus Wrap Fee Program Brochure**

December 31, 2012

**Pactolus Private Wealth Management, LLC**

SEC File No. 801-71915

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This wrap fee program brochure provides information about the qualifications and business practices of Pactolus Private Wealth Management, LLC. If you have any questions about the contents of this brochure, please contact us at [aharter@pactoluspwm.com](mailto:aharter@pactoluspwm.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. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

Additional information about Pactolus Private Wealth Management, LLC, is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2: Material Changes

This Firm Brochure is our disclosure document prepared according to new regulatory requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

Effective July 31, 2012, Pactolus Private Wealth Management, LLC, moved its offices from 6862 Elm Street, **Suite 340**, McLean, VA 22101 to 6862 Elm Street, **Suite 620**, McLean, VA 22101.

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## Item 4: Services, Fees, and Compensation

### A. Description of Your Advisory Firm

Pactolus Private Wealth Management, LLC ("Pactolus" and/or the "firm"), is organized as a Delaware limited liability company and is principally owned by Pactolus Holdings, LLC ("PH"). Alan Harter is the Managing Member of Pactolus, which is an investment adviser offering fee-based personalized family office advisory services to a select group of families and individuals, high-net-worth individuals, related trusts, charitable entities, pension and profit sharing plans, corporations, and other business entities. Pactolus has been providing services since January 2011.

#### A.1. Description of Advisory Services Offered

Pactolus' advisory services may include financial planning, investment strategy, portfolio management, estate planning, financial administration, and project consulting.

Pactolus has four primary service offerings, which include:

- Financial Planning & Administration
- Investment Advisory
- Investment-Related Tax Planning
- Concierge

##### A.1.a. Financial Planning & Administration Services

The client will receive a written or oral report (depending on the client's preference) that provides a detailed financial plan designed to help achieve the client's stated financial goals and objectives. Based on the client's needs, financial planning services may include (but are not limited to) the following:

- Preparation of a consolidated assessment of financial condition, which may include:
  - annual budgeting
  - cash flow monitoring
  - account reconciliations
  - personal financial statement preparation
  - debt management
- Establishment of objectives over relevant time frames, which may include:
  - retirement objectives
  - philanthropy
  - estate planning
  - wealth transition
  - other related issues

- Preparation of a recommended asset allocation that serves to diversify the client's portfolio among different categories of investments, such as:
  - small, medium, and large capitalization securities
  - corporate and government fixed income (short-, intermediate-, and long-term maturities)
  - developed international and emerging market securities (i.e., foreign issuers)
  - such other asset categories that are suitable in light of the client's investment goals, objectives, and risk tolerance
- Preparation of a retirement plan that serves to identify whether the client is saving enough and investing in a way that meets retirement objectives in light of the client's financial circumstances and risk tolerance.
- Risk analysis and preparation of an insurance plan to meet the needs of the client, taking into account family, business, and other financial objectives of the client.
- Liability management, which entails creating a portfolio of assets that can be appropriately matched as to liquidity, timing, and safety to retire liabilities at applicable due dates.
- In coordination with the client's team of specialized advisors (estate attorneys, CPAs, etc.), Pactolus will prepare an estate plan to ensure wealth transition, tax, and related issues are met in accordance with the client's wishes. In many instances, Pactolus may need to refer clients to outside counsel if they do not have a relationship with the requisite expert (accountant, attorney, etc.) needed to create a plan and draft documents pertaining to one or more of the following planning services as well as others that may be needed:
  - Estate planning
  - Estate administration
  - Charitable/philanthropic planning
  - Advice on wills and trust agreements
  - Business succession planning
  - Retirement and distribution planning

Pactolus gathers required information through in-depth personal interviews and questionnaires. Information gathered includes the client's current financial status, investment objectives, future goals, and attitudes toward risk. Related documents supplied by the client are carefully reviewed, and a report may be prepared covering one or more of the above-mentioned topics as directed by the client.

#### **A.1.b. Investment Advisory Services**

Pactolus provides clients with multi-family office advisory services, which includes holistic balance sheet management when applicable. The investment advisory service provided by Pactolus may include an allocation to traditional investments such as stocks, bonds, mutual funds, separately managed accounts, etc., and may include an allocation to alternative

investments such as private equity, hard money lending, hedge funds, precious metals, etc. Should Pactolus encounter a client need that is outside the scope of our expertise, we may engage the assistance of outside counsel. For example, if we are reviewing private equity opportunities in commercial real estate, Pactolus may seek additional guidance from experts with experience specific to the market opportunity being reviewed.

Resulting from our due diligence review, we may identify situations where our client would benefit from an introduction to other Pactolus clients or outside advisors, which we may facilitate upon receiving permission from the respective parties. Further, Pactolus may encounter situations where specific clients may be interested in participating in "Club Deals." Pactolus will assist clients in the due diligence process of reviewing and executing specific opportunities that may arise.

#### **A.1.c. Tax Planning Services**

Pactolus will provide assistance and work with clients' tax specialists in helping structure investment strategies that are designed to maximize after-tax returns and to otherwise ensure optimal tax efficiency. These services may include the following:

- Annual tax planning (with tax advisor)
- Harvesting investment gains or losses for tax efficiency
- Estate and fiduciary tax planning
- Tax planning for client's charitable foundation

#### **A.1.d. Concierge Services**

Pactolus may provide one or more of the following concierge services as mutually agreed upon with the client. Pactolus provides assistance to the client and coordinates the activities enumerated below with the client and any third parties, specialists, or contractors hired by the client. Pactolus may engage a third-party service provider to provide certain services requested by the client, such as bill payment and related services. In no event does Pactolus act as the client's agent or take custody of any assets. The following services will be provided by Pactolus:

- Multiple household management
  - Occupancy preparation
- Management of household inventories & appraisal of valuables
- Coordination of property & casualty insurance
- Project management
- General contractor oversight
- Assistance with personal property acquisition/disposition
- Other concierge services as mutually agreed upon with the client

## A.2. Fees and Compensation

### A.2.a. Fee Schedule

Pactolus will generally provide clients with a full range of services in exchange for an asset-based fee computed on the value of managed assets as mutually agreed upon with the client and Pactolus. Pactolus' fee schedule is itemized below and is computed on the basis of the value of managed assets, payable in advance, and computed on the last business day of the preceding quarter.

The quarterly fee is charged at one-fourth the specified annual rate. The initial quarterly fee is payable on the date the account is considered accepted (all client assets are in and the client and Pactolus mutually agree on the date of acceptance) and is computed on the value of managed assets on the date of such account acceptance. A pro rata refund will be made for clients who terminate services otherwise than at quarter end. The client may terminate an individually managed account by giving 30 days' written notice. As noted in the schedule below, the fee charged on assets in excess of \$25 million will be negotiated with the specific client. In addition, Pactolus may negotiate a modified fee schedule based upon certain criteria (e.g., level of service required, anticipated future assets, associated accounts, portfolio composition, etc.).

#### Accounts Managed By Third-Party Advisors (SMAs)

- |   |         |
|---|---------|
| 1. Equity Accounts Less Than \$2,000,000:   | 0.555 % |
| 2. Equity Accounts \$2,000,000 or Greater:  | 0.405 % |
| 3. Fixed Income Accounts Less Than \$2,000,000:   | 0.305 % |
| 4. Fixed Income Accounts \$2,000,000 or Greater:  | 0.255 % |
| 5. Specialized Accounts: (for example, options accounts that are billed on the notional value of the option contracts) will incur a customized fee pursuant to the pricing agreement between Pactolus and the specialized third party advisor |         |

#### Pactolus Advised Accounts

- |  |         |
|--|---------|
| 1. Pactolus Advisory Accounts Less Than \$10,000,000:  | 0.805 % |
| 2. Pactolus Advisory Accounts \$10,000,000 or Greater: | 0.555 % |

Please be advised that the fees for third-party separately managed accounts when added to the fees charged by Pactolus may be greater than those accounts managed by Pactolus. As such, it may be more economically advantageous for clients to select Pactolus as opposed to third party managers even though the third party managers may provide superior investment services relative to those provided by Pactolus.

The trading fees are estimated at 10 to 12 percent of the overall client advisory fees.

## B. Disclosure of Cost Difference if Services Purchased Separately

Depending on a number of factors, such as the number, size, and nature of the securities transactions in an advisory account, the overall fees and charges borne by the client over time could be more or less than what these fees and charges would be if the same services were

provided on a separate basis, either as asset-based fees or transaction-based fees. Bundled fees (where the adviser assumes the cost of processing the trade) generally provide an economic incentive for the advisory firm to select investments and strategies that minimize trading costs. Frequent trading in an account where transactions fees are included as part of the overall advisory fee to the client drive trading costs higher and reduce the overall fee revenue to the advisor. As a result, higher trading costs in a bundled fee account have a negative impact on the advisory firm's profitability.

## **C. Additional Client Fees and Terms of Payment**

### **C.1. Client Payment of Fees**

Pactolus will not take custody or possession of client funds or securities at any time except to the extent that Pactolus may deduct fees directly from the client's account. Pactolus will deduct fees directly from the client's account provided that (i) the client provides written authorization, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

In certain instances subject to approval by Pactolus, clients may elect to be billed for services rendered. In such cases the fees will be billed quarterly. In the event of termination any unearned, prepaid fees will be immediately due and payable and any earned, unpaid fees will be immediately due and payable.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **C.2. Prepayment of Client Fees**

Pactolus requires the prepayment of its asset-based investment advisory fees on a quarterly basis. If the client terminates during the quarter, Pactolus will promptly refund any prepaid, unearned fees. Pactolus' fees will either be paid directly by the client or disbursed to Pactolus by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The qualified custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

Pactolus or the client may terminate the agreement for services within five days of the date of acceptance without penalty to the client. After the five-day period, either party, upon 30 days' written notice to the other, may terminate the agreement. In the event of termination, Pactolus' fees will be prorated for the quarter in which the cancellation notice was given, and any prepaid, unearned fees will be refunded to the client.

### **C.3. Additional Fees**

The fees charged by Pactolus do not include fees charged by any mutual fund or separate account manager selected by the client or in any privately pooled investment vehicle. The management fees for investment managers are generally disclosed in each investment

manager's disclosure brochure and brochure supplement or, in the case of a mutual fund, the fund's prospectus, or in the case of the privately pooled investment vehicle, the confidential private placement memorandum and applicable subscription documents. Clients are advised to read these materials carefully before investing.

If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

To the extent applicable, the client's custodian charges a "trade away" fee for securities transactions effected at broker-dealers ("executing brokers") other than the client's current custodian. Such custodian will accept delivery or deliver the applicable security from/to the executing broker. The trade away fee is charged against the client account for each trade away occurrence. Other custodians have their own policies concerning prime broker accounts and trade away fees. Clients are directed to consult their current custodian for their policies and fees.

#### **D. Compensation for Recommending the Pactolus Supervised Account**

Pactolus' suite of services is a proprietary service offering offered to affiliated and unaffiliated investment adviser firms. As such, there are no conflicts of interest in that there are no commissions or referral fees paid to anyone for selling or recommending Pactolus or any of its services. The firm earns its advisory fees and neither shares in third-party investment manager fees nor shares in any custody fees charged by its clients' custodians.

#### **E. External Compensation for the Sale of Securities to Clients**

Pactolus' financial advisors are compensated solely through a salary and bonus structure. However, Pactolus reserves the right to receive transaction-based compensation when appropriate and with full disclosure to and approval from the client.

#### **F. Client Assets Under Management**

As of June 30, 2012, Pactolus has \$345,240,459 of discretionary assets under management.

## **Item 5: Account Requirements and Types of Clients**

Pactolus offers personalized family office and advisory services to a select group of families and individuals, high-net-worth individuals, and related trusts, charitable entities, pension and profit sharing plans, corporations, and other business entities. There are no minimum criteria imposed by Pactolus.

Pactolus recommends Fidelity Institutional Wealth Services ("Fidelity"), a FINRA-registered broker dealer, member SIPC as custodian of its wrap fee client assets. Pactolus is independently owned and operated and not affiliated with Fidelity.

## Item 6: Portfolio Manager Selection and Evaluation

### A. Portfolio Manager Selection and Review

Pactolus is the sponsor for its wrap fee program. Pactolus utilizes managers approved for inclusion in the SMA and Envestnet UMA Programs as well as dual contract arrangements with other third-party advisors. Such managers are selected based upon qualitative and quantitative criteria which have favorable risk return metrics as compared to other similarly situated managers available in the Envestnet UMA Program, which include:

- the performance history of a manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager, a mutual fund or manager's consistency of investment style, and employee turnover and efficiency and capacity. Pactolus will discuss relevant quantitative and qualitative factors pertaining to its recommendations with clients prior to a client's determination to retain a mutual fund or manager.

Quantitative and qualitative criteria related to managers are reviewed by Pactolus on a quarterly basis or such other interval as mutually agreed upon by the client and Pactolus. In addition, managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the manager identified by Pactolus (both of which are negative factors in implementing an asset allocation structure). Based on its review, Pactolus will make recommendations to clients regarding the retention or discharge of a manager.

Pactolus may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. Pactolus will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment.

Pactolus will regularly review the activities of managers selected by the client. Clients that engage managers should first review and understand the disclosure documents of those managers, which contain information relevant to such retention or investment, including

information on the methodology used to analyze securities, investment strategies, fees, and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

Clients will receive a copy of the Part 2A & Part 2B Brochure and Brochure Supplement for any manager selected in this program. Pactolus also functions as a manager in its wrap fee program, but is only compensated as a manager and not as a sponsor. Please be advised that the fees for third-party separately managed accounts when added to the fees charged by Pactolus are greater than those accounts managed by Pactolus. As such, it is more economically advantageous for clients to select Pactolus as opposed to third-party managers, even though the third-party managers may provide superior investment services relative to those provided by Pactolus.

## **B. Participation in Wrap Fee Programs**

In addition to sponsoring a wrap fee program, Pactolus participates in the Envestnet wrap fee programs. Please be advised that the fees for third-party separately managed accounts when added to the fees charged by Pactolus are greater than those accounts managed by Pactolus. As such, it is more economically advantageous for clients to select Pactolus as opposed to third-party managers, even though the third-party managers may provide superior investment services relative to those provided by Pactolus.

## **C. Pactolus Acts as Both a Wrap Fee Sponsor and Portfolio Manager**

Pactolus' advisory services are offered exclusively through Pactolus. Other than offering its proprietary suite of services, Pactolus does not participate or otherwise manage assets in third-party wrap fee programs.

### **C.1. Pactolus Supervised Assets**

Pactolus provides clients with investment recommendations that are customized pursuant to each client's specific needs, tolerance for risk, and overall situation. Pactolus' recommendation may consist of individual equity and fixed income securities, options, mutual funds, exchange-traded funds ("ETFs"), portfolios managed by separate account managers engaged by the client, and, in appropriate cases involving qualified clients, investments in private placements. Some client portfolios may utilize tactical asset allocation strategies designed to take advantage of market anomalies where the portfolio manager believes that certain asset classes may have a higher probability of outperforming other asset classes. In this regard there may be an over-weighting of one or more asset classes versus another based on current market and economic factors that, in the portfolio manager's view, have a higher probability of creating additional value. For example, a portfolio manager's view may be that large cap value may have a better opportunity for increasing portfolio value than small cap growth. As a result there may be over-weighting of that asset class in the client portfolio.

In preparing the asset allocation, Pactolus will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance. Pactolus may engage third-party service providers to assist with the implementation of the investment plan as well as the coordination of how the investment plan is administered within the context of the client's overall tax and estate plan. In addition, Pactolus may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio.

Pactolus may prepare an Investment Policy Statement based on the client's investment objectives, goals, and tolerance for risk and such other factors unique to the client and provide appropriate recommendations. On a quarterly basis, Pactolus, in connection with a third-party service provider, will provide such clients with reports regarding the performance of their portfolios. In addition, Pactolus will monitor those portfolios and make additional recommendations from time to time to rebalance and/or reallocate each client's investments in accordance with such client's investment policy statement and/or risk tolerance as necessary.

Pactolus' customized investment advisory services take into account a client's personal financial circumstances, investment objectives, and tolerance for risk (e.g., cash-flow, tax, and estate). Pactolus' engagement with a client will include, as appropriate, the following:

- Providing assistance in reviewing the client's current investment portfolio against the client's personal and financial circumstances as disclosed to Pactolus in response to a questionnaire and/or in discussions with the client and reviewed in meetings with Pactolus.
- Analyzing the client's financial circumstances, investment holdings and strategy, and goals.
- Analyzing and managing concentrated and restricted securities holdings, including recommendations on how to hedge or monetize concentrated or restricted holdings.
- Providing assistance in identifying a targeted asset allocation and portfolio design.
- Recommending individual equity and fixed income securities, options, mutual funds, ETFs, portfolios managed by separate account managers and, in appropriate cases, private placements, each matched to the asset categories in the client's targeted asset allocation for consideration by the client.
- Reporting to the client, on a quarterly basis or at some other interval agreed to with the client, information on contributions and withdrawals in the client's investment portfolio and the performance of the client's portfolio measured against appropriate benchmarks (including benchmarks selected by the client).
- Proposing changes in the client's investment policy statement and/or targeted asset allocation in consideration of changes in the client's personal circumstances, investment objectives and tolerance for risk, the performance record of any of the client's investments, and/or the performance of any fund or manager retained by the client.

- If the client's portfolio and personal circumstances, investment objectives, and tolerance for risk make such advice appropriate, providing recommendations to hedge a client's portfolio through the use of derivative strategies, to generate additional income through the use of covered call option writing strategies involving exchange-listed or OTC options, and/or to monetize or hedge concentrated stock positions.

In addition to providing Pactolus with information regarding their personal financial circumstances, investment objectives, and tolerance for risk, clients are required to provide Pactolus with any reasonable investment restrictions that should be imposed on the management of their portfolio and to promptly notify Pactolus of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals, and tolerance for risk. On a quarterly basis, Pactolus' reports to clients will remind clients of their obligation to inform Pactolus of any such changes or any restrictions that should be imposed on the management of the client's account. Pactolus will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives, and tolerance for risk.

When appropriate to the needs of and suitability for a client, Pactolus will assist the client in developing a strategy for monetizing/hedging a portfolio or a concentrated stock position held by the client. Monetizing a concentrated stock position allows a client to receive funds to diversify its portfolio and limit its downside exposure while allowing for the continued potential to participate, to a lesser extent, in any increase in the price of the concentrated stock. Hedging a concentrated stock position allows a client to protect against losses below a certain stock price while allowing for the potential to participate in increases in the price of the stock.

Pactolus does not take custody of funds. All client assets are held by a qualified custodian.

## **C.2. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

## **C.3. Management of Wrap Fee Program**

Pactolus' suite of advisory services are offered exclusively through this wrap fee program. Stand-alone financial planning services may be offered outside of the wrap fee program. Please refer to the firm's Part 2A Brochure.

## **C.4. Performance-Based Fees and Side-by-Side Management**

Pactolus does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in clients' best interests.

### **C.5. Methods of Analysis, Investment Strategies and Risk of Loss**

Pactolus is responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. Pactolus may employ independent third parties to work in conjunction with its executive management team to provide input and guidance for the investment direction communicated by the firm. Such third-party providers will function as a de facto investment committee. In addition, Pactolus may utilize third-party software to assist in formulating investment recommendations to clients.

### **C.6. Investment Strategy, Method of Analysis, and Material Risks**

#### **C.6.a. Leverage**

Although Pactolus, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in limited circumstances, Pactolus will utilize leverage. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

#### **C.6.b. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase

the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

Pactolus as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

#### ***C.6.b.1. Covered Call Writing***

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### ***C.6.b.2. Long Call Option Purchases***

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### ***C.6.b.3. Long Put Option Purchases***

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### ***C.6.b.4. Option Spreading***

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics

of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### ***C.6.b.5. Short Call Option Strategy***

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### ***C.6.b.6. Short Put Option Strategy***

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### ***C.6.b.7. Equity Collar***

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified “cap rate.” A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified “floor rate.” A collar involving stock is called an “equity collar.”

#### ***C.6.b.8. Long Straddle***

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date, and strike price. This is a speculative trade that may be profitable when

volatility is high and will result in a loss when prices of the underlying security are relatively stable.

#### **C.6.c. Concentration Risk**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

#### **C.7. Material Risks of Investment Instruments**

Pactolus will frequently purchase shares of open-end mutual funds and ETFs. Many of these investments can be purchased directly by clients without utilizing the services of an advisor. Registered investment companies charge their own management fees and expenses. These fees and expenses are detailed in each respective mutual fund's prospectus and are in addition to any fees charged by Pactolus.

In addition to purchasing shares of mutual funds and ETFs, Pactolus may effect transactions in the following types of securities:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Pooled investment vehicles
- Structured products
- Option contracts on securities
- Option contracts on commodities
- Forward currency contracts

##### **C.7.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create

shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **C.7.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends, and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **C.7.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds can be tax inefficient in certain circumstances, which may result in clients paying capital gains taxes on fund investments while not having yet sold the fund.

#### **C.7.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral, and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional

volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **C.7.e. Fixed Income Securities, Corporate Debt, Commercial Paper, and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank, and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **C.7.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **C.7.g. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **C.7.h. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

**C.7.i. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth, and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, Pactolus may be unable to monitor or verify the accuracy of such performance information.

**C.7.j. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates, or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit, and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high investment grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

**C.7.k. Options Contracts on Securities**

Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

#### **C.7.l. Options Contracts on Commodities**

Commodities are hard assets such as crops, minerals, or metals that are generally extracted from the ground. Investing in commodities carries significant risks that are predominantly out of anyone's control (e.g., acts of nature, geopolitical risk). Investing in commodities requires the use of margin leverage. In addition, commodities are subject to extreme price volatility, which can result in the investor losing more than the amount invested.

#### **C.7.m. Futures Contracts**

Futures are investment contracts that investors use to speculate on the future value of an underlying commodity or monetary instrument. Futures are highly speculative, involve the use of margin leverage, and like commodities can be subject to extreme price volatility.

#### **C.8. Voting Client Securities**

Pactolus will not take any action with respect to voting of proxies solicited by, or with respect to, the issuers of securities in which a client's assets may be invested. On occasion, Pactolus may provide advice to clients on the voting proxies; however, the ultimate responsibility for such voting rests with the client. All proxy-related materials received directly by Pactolus will be forwarded to the client for direct action.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. Pactolus has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. Pactolus also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, Pactolus has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where Pactolus receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 7: Client Information Provided to Portfolio Managers**

Pactolus collects the following information in order to formulate its investment recommendations to clients and may provide such information to managers selected to manage assets on behalf of the client:

- Income
- Employment and residential information
- Social security number
- Cash balance
- Security balances
- Transaction detail history
- Investment objectives, goals, and risk tolerance
- Sources of wealth and/or deposits
- Risk assessment
- Investment time horizon
- Income and liquidity needs
- Asset allocation
- Restrictions on management of accounts
- Client questionnaire(s) and interview(s)
- Review of client's current portfolio
- Analysis of historical risk/return characteristics of various asset classes
- Analysis of the long-term outlook for global financial markets
- Analysis of the long-term global economic and political environments

## **Item 8: Client Contact with Portfolio Managers**

Pactolus encourages communication with its clients and does not limit or condition the amount of time clients can spend with Pactolus advisory professionals or any third-party managers offered by Pactolus.

## Item 9: Additional Information

### A. Disciplinary and Other Financial Activities and Affiliations

#### A.1. Disciplinary

There are no current or pending disclosure items to report on behalf of Pactolus advisors.

##### A.1.a. Criminal or Civil Actions

There is nothing to report on this item.

##### A.1.b. Administrative Enforcement Proceedings

There is nothing to report on this item.

##### A.1.c. Self-Regulatory Organization Enforcement Proceedings

There is nothing to report on this item.

#### A.2. Other Financial Activities and Affiliations

##### A.2.a. Broker-Dealer or Representative Registration

Neither Pactolus nor its affiliates are registered broker-dealers and do not have an application to register pending.

##### A.2.b. Futures or Commodity Registration

Neither Pactolus nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

##### A.2.c. Material Relationships Maintained by this Advisory Business and Conflicts of Interest

###### A.2.c.1. *Pactolus Series Fund, LLC*

The Pactolus Series Fund, LLC (the "Company"), is a private investment company that has authority to invest in a variety of investments, including one or more unaffiliated private funds ("Master Funds"). Pactolus Private Wealth Management, LLC ("Adviser"), and its affiliates sponsor, manage, and control the operations of the Company, and the Adviser receives fees from the Company for providing it with investment advisory services. These advisory fees currently are in the form of an allocation to the Adviser of a percentage of the Company's net profits, which may create an incentive for the investment adviser to cause the Company to make investments that are riskier or more speculative than would be in the best interest of investors in the Company. The Adviser manages this potential conflict primarily by observing significant

limitations on the identity of the assets in which the Company will invest and providing investors with disclosure concerning any changes in such limitations.

The Adviser may recommend that eligible clients invest in either the Company or directly in a Master Fund. The Adviser does not believe that either arrangement (including the amount of advisory fees that the Adviser would receive) is necessarily more beneficial to clients or to the Adviser. Accordingly, the Adviser manages any potential conflict of interest primarily by consulting with each affected client to determine whether investment in the Company or (if the client is eligible) investment directly in a Master Fund would be more consistent with the client's best interest and preferences.

#### ***A.2.c.2. Pactolus Fund Management, LLC***

Pactolus Fund Management, LLC, is the "Managing Member" of the Company and is an affiliate of the Adviser. The Managing Member has the power to take actions that could directly or indirectly provide advantages to the Managing Member, potentially to the disadvantage of investors in the Company. This includes certain authority of the Managing Member to modify, interpret, or limit the terms of the documents that define the rights and obligations of investors, the Managing Member, and the Adviser in connection with the Company. The Managing Member addresses such potential conflicts of interest primarily by disclosing them to investors, as well as seeking to avoid exercising such authority in a way that would unfairly disadvantage any investors.

#### ***A.2.c.3. Envestnet***

Pactolus has formed a strategic relationship with Envestnet Asset Management ("EAM") whereby EAM will function as the Platform Manager in its Separately Managed Account and Unified Managed Account Program. EAM will make available through this platform various third-party managers to manage Pactolus advisory clients' portfolio assets. Envestnet acts as Platform Manager with Pactolus as advisor and various third-party managers acting as sub-advisers. The third-party sub-advisers and EAM receive a portion of the advisory fee. Pactolus has investment discretion to select the appropriate sub-adviser for the client.

#### ***A.2.c.4. Insurance Affiliations***

Certain managers, members, and registered employees of Pactolus are agents for certain insurance carriers. With respect to the provision of financial planning services, Pactolus professionals may recommend insurance products offered by such carriers for whom they function as agents and receive a commission for doing so. Please be advised there is a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Also be advised that Pactolus professionals strive to put their clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire.

## **B. Code of Ethics, Brokerage Trading Practices, Account Reviews, and Financial and Related Matters**

### **B.1. Code of Ethics Description**

In accordance with the Advisers Act, Pactolus has adopted policies and procedures designed to detect and prevent insider trading. In addition, Pactolus has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of Pactolus' advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of Pactolus. Pactolus will send clients a copy of its Code of Ethics upon written request.

Pactolus has policies and procedures in place to ensure that the interests of its clients are given preference over those of Pactolus, its affiliates, and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

#### **B.1.a. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

Pactolus does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory, or buying stocks from advisory clients into a firm's inventory). In addition, Pactolus does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

#### **B.1.b. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

Pactolus, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which Pactolus specifically prohibits. Pactolus has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest,
- prohibit front-running, and
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow Pactolus' procedures when purchasing or selling the same securities purchased or sold for the client.

**B.1.c. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

Pactolus, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other Pactolus clients. Pactolus will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee, or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of Pactolus to place the client's interests above those of Pactolus and its employees.

**B.2. Factors Used to Select Broker-Dealers for Client Transactions**

**B.2.a. Custodian Recommendations**

**Fidelity** Pactolus may recommend that clients establish brokerage accounts with Fidelity Institutional Wealth Services, a FINRA-registered broker dealer, member SIPC (hereinafter referred to as "Fidelity"), to maintain custody of clients' assets and to effect trades for their accounts. Pactolus gains access to Fidelity as well as other custodians through Dynasty Financial Partners (Dynasty). Pactolus has a negotiated agreement with Dynasty to gain preferred pricing for custodial services through Fidelity and/or other custody service providers. Pactolus pays Dynasty for various services in addition to access to Fidelity's custody services. Pactolus charges clients a bundled fee for all of the services provided by Dynasty and Fidelity. As such, any accounts held at Fidelity and incurring a bundled fee by the client shall constitute participation in the Pactolus Wrap Fee Program. Please refer to this Pactolus Wrap Fee Program Brochure for detailed disclosure on participation in this program.

**Schwab** Pactolus may recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Schwab does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through or that settle into Schwab accounts.

Although Pactolus may recommend that clients establish accounts at Fidelity or Schwab ("custodian"), it is the client's decision to custody assets with a particular custodian. Pactolus is independently owned and operated and not affiliated with the custodian. Clients may elect any custodian of their choice and there can be no assurance that the rates paid by clients will either be more or less than would apply through the Pactolus Wrap Fee Program. Factors that a client should consider in choosing a recommended custodian versus other custodians are the size of client's portfolio, minimum custodian fees, level and amount of transaction-based fees, excessive trading fees, third-party manager portfolio turnover, number of portfolio securities, and Pactolus' ability to service non-custodian accounts.

In certain instances and subject to approval by Pactolus, Pactolus will recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by Pactolus will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

***B.2.a.1. Soft Dollar Arrangements***

Pactolus does not utilize soft dollar arrangements. Pactolus does not direct brokerage transactions to executing brokers for research and brokerage services.

***B.2.a.2. Schwab Institutional Trading and Custody Services***

Schwab provides Pactolus with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at Schwab. These services are not contingent upon Pactolus committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's 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 that would require a significantly higher minimum initial investment.

***B.2.a.3. Other Products and Services***

The custodian also makes available to Pactolus other products and services that benefit Pactolus but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of Pactolus's accounts, including accounts not maintained at the custodian. The custodian also makes available to Pactolus its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing, and other market data
- facilitate payment of Pactolus's fees from its clients' accounts
- assist with back-office functions, recordkeeping, and client reporting

The custodian also offers other services intended to help Pactolus manage and further develop its business enterprise. These services may include

- compliance, legal, and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants, and insurance providers

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to Pactolus. The custodian may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to Pactolus. The custodian may also provide other benefits, such as educational events or occasional business entertainment of Pactolus personnel. In evaluating whether to recommend that clients custody their assets at the custodian, Pactolus may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely on the nature, cost, or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

#### ***B.2.a.4. Independent Third Parties***

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to Pactolus. The custodian may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to Pactolus.

#### ***B.2.a.5. Additional Compensation Received from Custodians***

Pactolus participates in institutional customer programs sponsored by broker-dealers or custodians. Pactolus may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between Pactolus' participation in such programs and the investment advice it gives to its clients, although Pactolus receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving Pactolus participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers

- Discounts on compliance, marketing, research, technology, and practice management products or services provided to Pactolus by third-party vendors

The custodian may also pay for business consulting and professional services received by Pactolus' related persons, and may pay or reimburse expenses (including travel, lodging, meals, and entertainment expenses for Pactolus' personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit Pactolus but may not benefit its client accounts. These products or services may assist Pactolus in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help Pactolus manage and further develop its business enterprise. The benefits received by Pactolus or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

Pactolus also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require Pactolus to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, Pactolus will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by Pactolus' related persons, and reimbursement of expenses (including travel, lodging, meals, and entertainment expenses for Pactolus' personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, Pactolus endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Pactolus or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Pactolus' recommendation of broker-dealers such as Fidelity for custody and brokerage services.

#### **B.2.b. Brokerage for Client Referrals**

Pactolus does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

#### **B.2.c. Directed Brokerage**

##### ***B.2.c.1. Pactolus Recommendations***

With respect to participation in the Pactolus Wrap Fee Program, Pactolus recommends Fidelity or Schwab as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf. Although managers offered through the program generally execute customer trades through Fidelity or Schwab, they are not required to do so. Contracts governing third-party managers are between Envestnet (the SMA and UMA Platform Manager) and each third-party money manager (the sub-adviser). Certain agreements between the Platform Manager and a third-party manager may allow the third-party manager to trade away from Fidelity or Schwab, which may incur a transaction cost. Pactolus will monitor these third-party trade away fees and credit them back to the client when incurred.

**B.2.c.2. Client-Directed Brokerage**

Occasionally, clients may direct Pactolus to use a particular broker-dealer to execute portfolio transactions for their accounts or request that certain types of securities not be purchased for their accounts. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage Pactolus derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. Pactolus loses the ability to aggregate trades with other Pactolus advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions. In addition, the client will be responsible for additional costs associated with trading away. For example, in addition to the Fidelity asset-based custody fee, the client will be responsible for any commission or transaction costs associated with using an executing broker other than Fidelity. Such additional costs may negatively impact performance on the account.

**B.3. Aggregating Securities Transactions for Client Accounts****B.3.a. Best Execution**

Pactolus, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker, and the commission rates to be paid to effect such transactions. Pactolus recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. Pactolus will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation, and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance, and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, Pactolus seeks to ensure that clients receive best execution with respect to the client's transactions by blocking client trades to ensure

consistent execution across multiple client accounts when applicable. To the best of Pactolus' knowledge, these custodians provide high-quality execution, and Pactolus' clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer and are borne by Pactolus in this wrap fee program. Based upon its own knowledge of the securities industry, Pactolus believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

#### **B.3.b. Security Allocation**

Since Pactolus may be managing accounts with similar investment objectives, Pactolus may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by Pactolus in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

Pactolus' allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. Pactolus will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

Pactolus' advice to certain clients and entities and the action of Pactolus for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines, and circumstances. Thus, any action of Pactolus with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of the firm to or on behalf of other clients.

#### **B.3.c. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if Pactolus believes that a larger size block trade would lead to best overall price for the security being transacted.

**B.3.d. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs, and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

Pactolus acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interest of its clients.

**B.4. Review of Accounts****B.4.a. Schedule for Periodic Review of Client Accounts and Advisory Persons Involved**

The review of accounts of ultra high-net-worth and affluent clients, including corporations, partnerships, and trusts, are conducted in the first instance by the Pactolus investment advisor representative servicing the client relationship. Such professionals are subject to the general authority of Pactolus' Manager ("Manager"). The Manager must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The Manager is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client. All such reviews are performed at least quarterly.

**B.4.b. Review of Client Accounts on Non-Periodic Basis**

Pactolus' Manager may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how Pactolus formulates investment advice.

**B.4.c. Content of Client-Provided Reports and Frequency**

In addition to monthly statements (no less frequently than quarterly) provided by the client's custodian, which detail transaction activity, holdings, and portfolio value, Pactolus engages a third party to produce quarterly client performance reports. Such performance reports detail account performance and risk metrics including standard deviation, investment-style drift metrics, comparison of account performance against appropriate benchmarks, and other such measures designed to identify the risk and performance of the client's investment portfolio.

The client's independent custodian also provides regular account statements directly to the client. The custodian's statement is the official record of the client's account and supersedes any statements or reports created on behalf of the client by Pactolus.

**B.5. Client Referrals and Other Compensation****B.5.a. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

Pactolus does not receive economic benefits for referring clients to third-party service providers.

**B.5.b. Advisory Firm Payments for Client Referrals**

Pactolus does not make payment for client referrals.

**B.6. Financial Information****B.6.a. Balance Sheet**

Pactolus does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

**B.6.b. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

Pactolus does not have any financial issues that would impair its ability to provide services to clients.

**B.6.c. Bankruptcy Petitions during the Past Ten Years**

There is nothing to report for this item.

**B.7. Custody**

Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in the client's account. Pactolus urges that clients compare the account balance(s) shown on their Pactolus Quarterly Portfolio Review to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

**B.8. Investment Discretion**

Clients may grant a limited power of attorney to Pactolus with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, Pactolus will exercise full discretion as to the nature and type of securities to be purchased and sold, the amount of securities for such transactions, the amount of commissions to be paid, and the executing broker to be used. Investment limitations may be designated by the client as outlined in the investment advisory agreement.