

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

Paradigm Capital Management, Inc.

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This brochure provides information about the qualifications and business practices of **Paradigm Capital Management, Inc.** ["Paradigm" or the "Adviser"]. If you have any questions regarding the contents of this Brochure, please contact us at (518) 431-3500 and/or via electronic mail at jgulick@paradigmcapital.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Paradigm is registered as an investment adviser with the SEC. Registration of an investment adviser does not imply any certain level of skill or training.

Additional information about Paradigm is available on the SEC's website at www.adviserinfo.sec.gov. You can search for advisers on this site by using a unique identification number, known as a CRD number. Paradigm's CRD number is 107982.

Item 2 – Material Changes

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

There have been no material changes to the Adviser's previously published December 18, 2014 brochure. Each item below was disclosed in the December 18, 2014 brochure. Our last annual updating amendment was dated March 27, 2014. The following is a summary of material changes since that annual updating amendment.

Item 9 was revised to include disciplinary information regarding a June 16, 2014 Order. See Item 9 for more information.

Item 8 was revised to describe Conflicts of Interest as a risk factor and further references clients to additional information in Items 6 and 10-12 about specific conflicts of interests discussed in those Items. Item 10 was amended to further explicitly describe the relationships between and among the owners/executive officers of Paradigm and Paradigm's affiliated businesses. Item 11 was revised to include additional disclosure about consent for principal transactions.

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

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Item 4 – Advisory Business

Paradigm has been in business since 1994 and offers the services described below primarily to corporations, pension and profit sharing plans, foundations, individuals, investment funds, wrap fee programs, trusts and individuals (including high net worth individuals), other separate accounts, and pooled investment vehicles such as private investment limited partnerships to which the Adviser acts as the investment manager. Paradigm provides investment management services, defined as making investments for a client based on specific investment objectives and strategies.

In general, Paradigm has developed and continues to develop certain investment strategies based largely on the needs identified by its clients. Please see Item 8 for more information on the types of strategies and investments that are primarily offered to clients. To the extent the Adviser believes it appropriate, Paradigm may then make these investment strategies available for other clients or potential clients. Clients generally select the strategy which is most appropriate for their overall investment needs. Paradigm permits its clients to make certain modifications to the strategy selected (e.g. restricting certain identified securities or groups of securities) and such changes would be evidenced in the agreement governing the relationship, typically an investment management agreement. Such modifications would typically be made to accommodate the unique risk or contractual or regulatory conditions to which the investor is subject and would generally not materially impact the overall integrity of the strategy. However, any change to the model strategy made at the request of an investor will likely cause the performance of the investor's portfolio to differ from that of the relevant model portfolio. Each pooled investment vehicle managed or otherwise advised by Paradigm is managed in accordance with its investment guidelines and restrictions and is not tailored to the individualized needs of any particular fund investor, and an investment in such a vehicle does not, in and of itself, create an advisory relationship between the investor and the Adviser.

Paradigm does not sponsor any "wrap fee" programs. However, Paradigm does act as a portfolio manager in "wrap fee" programs sponsored by a third party investment adviser, broker-dealer or other financial services firm (the "Sponsor"). The Sponsor is responsible for establishing the financial circumstances, investment objectives and investment restrictions applicable to each client, often through a client profile (the "Profile") and discussions between the client and the Sponsor's personnel. Each client typically completes a Profile in addition to executing a program contract with the Sponsor. The client's program agreement with the Sponsor generally sets forth the services to be provided to the client by or on behalf of the Sponsor, which may include, among other things: (i) manager selection; (ii) trade execution, often without a transaction-specific commission or charge; (iii) custodial services; (iv) periodic monitoring of investment managers; and (v) performance reporting. Clients generally are charged by the Sponsor quarterly, in advance, a comprehensive or "wrap fee" based upon a percentage of the value of the assets under management to cover such services. The wrap fee typically includes the advisory fees charged by Paradigm (or other participating managers) through the program. Where the services provided by Paradigm are included in the wrap fee, the Sponsor generally collects the wrap fee from the client and remits the advisory fee to Paradigm (or other participating manager).

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

As of December 31, 2014, Paradigm managed discretionary client assets valued at \$937,146,000. Paradigm does not manage assets on a non-discretionary basis.

Portfolio Management Services

Item 5 – Fees and Compensation

Fees charged to clients for investment advisory services are fully set forth in the investment advisory agreement executed by the client at the commencement of the advisory relationship. Paradigm generally charges advisory fees based on a percentage of assets under management. The Adviser's standard annual fee schedule for retail and institutional accounts is 1.0%. Nothing precludes the Adviser from charging a higher or lower fee based upon negotiations with the client. Fees and account minimums for all services are negotiable 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, negotiations with client, competitive considerations, etc.). Discounts, not generally available to Paradigm's advisory clients, may be offered to employees and family members of the Adviser and its affiliates. Paradigm may also enter into performance or incentive fee arrangements with "qualified clients" as described below in Item 6.

Unless the investment advisory agreement provides otherwise, advisory fees shall be calculated through the last day of the quarter and paid in arrears within 30 days after the last business day of such quarter, based upon the average month-end value of the managed assets for such quarter, as calculated by the Adviser based on values generally obtained from third-party pricing sources. In the absence of such information, the fair value will be reasonably determined by the Adviser on the payable date of each such stated period.

Fees will be debited directly from the account, unless other arrangements are made for payment of fees. The client shall be provided with quarterly statements detailing the activity of the managed assets.

The Adviser and any client may discontinue the advisory relationship and terminate the investment advisory agreement upon written notice to the other party. If the advisory relationship is terminated prior to the end of the quarterly period, the quarterly fee shall be pro-rated and paid through the termination date.

The Adviser provides investment advisory services to various institutional and endowment funds or to individuals with substantial account balances. Fee arrangements with such accounts will be negotiated and established individually, based on the particular investment needs, characteristics and size of such accounts. Such fee arrangements may be performance based, whereby the Adviser would be paid a base fee plus a performance fee based on the total return of the account. Please see Item 6 below for more information on performance based fees.

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

The Adviser also renders investment advice to investment partnerships to which affiliates, or related persons, of the Adviser act as general partner. In these arrangements, the general partner will participate in a pro-rata share of the profits of the partnership. The Adviser's advisory fee and performance-based compensation may be waived, in whole or in part, under certain circumstances, including for investors in the investment partnerships who are employees or directors of the Adviser and its affiliates and members of their immediate families. Investors in private funds will be indirectly responsible for all costs and expenses which are identified in the relevant fund's governing documents. Generally, such costs and expenses would include but may not be limited to custodian charges, research/brokerage and related charges and expenses, audits, trustee fees, filing fees and legal fees and would be paid from the fund. A separate disclosure document for each partnership is furnished to investors.

In addition to our advisory fees, clients are also responsible for brokerage and other transaction costs imposed by broker dealers which effect transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

Shareholders of investment companies managed by Paradigm Funds Advisor LLC, an affiliate of the Adviser, are indirectly charged an annualized advisory fee. This fee is accrued daily by the fund's custodian based on the average daily net assets of the respective investment company and paid monthly.

In addition to the management fees described above, a client for which Paradigm provides separate account services will have responsibility for payment of their custodian's fees. Such fees would be the subject of agreement between the client and their chosen custodian.

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

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

The Adviser as a whole will not restrict a security from being used by another manager or group. Accordingly, it is possible for two or more managers or portfolio series to own the same security.

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

The following factors, among others, may additionally be taken into account by the Adviser in allocating securities among clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. In no case may allocations of trades be based upon account performance, the amount of management fees charged or whether the account is public or private. Finally, the Adviser's procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair and equitable allocation among accounts. These areas are monitored by the Adviser's Chief Compliance Officer.

Item 7 – Types of Clients

Paradigm offers investment supervisory services to:

- A. pension and profit sharing plans;
- B. foundations and endowment organizations;
- C. investment funds;
- D. wrap fee programs;
- E. trusts and individuals (including high net worth and other individuals);
- F. corporations or other businesses not listed above;
- G. other separate accounts; and
- H. private funds to which the Adviser acts as the investment manager.

With respect to any client that is a private fund, any initial and additional subscription minimums are disclosed in the offering memorandum for the pooled investment vehicle. In all cases, Paradigm retains the discretion to accept a lesser amount than the applicable specified minimum amount. Although there is no minimum size investment for non-private funds, Paradigm retains the discretion to reject any particular investment. Acceptance of any new client/account is determined by the Advisor on a case-by-case basis.

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

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

Paradigm believes the equity markets are inefficient with investor psychology and sentiment having a significant impact on short-term pricing. It is Paradigm's opinion that extensive academic research supports the Adviser's assessment that these phenomena are especially prevalent in the smaller end of the market capitalization spectrum. Investor expectations are volatile, and investors often overreact to news, both positively and negatively. Thus, Paradigm believes that disciplined fundamental research can identify mispriced small-capitalization equities whose short-term pricing does not accurately reflect the true earning potential of the company. The Adviser looks for what it believes to be high-quality companies trading at discounts to Paradigm's assessment of intrinsic value. However, fundamental research does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock. Therefore, unforeseen market conditions and/or company developments may result in significant price fluctuations that can lead to investor losses.

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

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

Micro-Cap: Under normal circumstances, the Micro-Cap strategy is focused on identifying undervalued domestic micro-cap companies with what management believes to be strong catalysts for accelerated

earnings. The Adviser generally considers a company to be a micro-cap company if, at the time of purchase, its market capitalization is within the range of capitalizations of companies in the Russell Microcap® Index. These market capitalization measures will fluctuate over time. The strategy may be overweight in certain sectors at various times. Stocks are sold when they have realized the value anticipated by the Adviser or if new investment opportunities with higher expected returns are acquired. Portfolio managers maintain ongoing dialogues with senior management of portfolio holding companies to enhance information flow and provide competitive industry insight.

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

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

Value: The investable universe of this strategy consists of domestic small cap companies with market capitalizations typically ranging from \$50 million to \$2 billion. This universe is screened to focus on profitable, positive cash flow-generating companies, which are then ranked according to proprietary valuation criteria. The bulk of the investment process is concentrated on conducting company research. The portfolio managers develop a watch list. Companies on the watch list go through extensive financial analysis and review of public information. Companies that meet our financial criteria are then subject to management interviews and competitive analysis. The portfolio managers develop their own models and financial projections based on this analysis.

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

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

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

Material Risks

In all cases, investment in securities involves risk of loss that clients should be prepared to bear. In addition, each of Paradigm's strategies has certain risks that are largely a function of the overall asset

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

Securities Market Risk is the risk that the value of securities may go up or down, sometimes rapidly or unpredictably, due to factors affecting particular companies or the securities markets generally. A general downturn in the securities market may cause multiple asset classes to decline in value simultaneously, although equity securities generally have greater price volatility than fixed income securities. In addition, clients could experience a loss when selling securities in order to meet unusually large or frequent redemption requests in times of overall market turmoil or declining prices for the securities sold.

Diversification Risk is the risk that a single name (or sector) may have a more pronounced impact on the performance of the strategy. Although each strategy should typically be diversified, certain strategies may invest in securities of a limited number of issuers or may target a more narrow investment universe in an effort to achieve a potentially greater investment return than a strategy that invests in a larger number of issuers or achieve a specific investment objective. As a result, price movements of a single issuer's securities (or the target sector) will have a greater impact on the strategy's value and may also cause greater volatility in the strategy's performance than may be experienced from a more widely diversified strategy.

Redemption Risk is the risk that a client could experience a loss when selling securities to meet redemption requests if the redemption requests are unusually large or frequent, occur in times of overall market turmoil or declining prices for the securities sold, or when the securities to be liquidated are illiquid.

Allocation Risk is the risk that Paradigm may not allocate assets of the strategy among investment management styles in an optimal manner, if, among other reasons, it does not correctly assess the attractiveness of an investment style and in which case performance may be impacted.

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

Value Investing. Value investing attempts to identify companies selling at a discount to their intrinsic value. Value investing is subject to the risk that a company's intrinsic value may never be fully realized by the market or that a company judged by the Adviser to be undervalued may actually be appropriately priced. Paradigm's value-oriented equity strategies may underperform when growth investing is in favor.

Growth Investing. Growth Investing is the risk of investing in growth stocks that may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing company's growth potential. Paradigm's growth-oriented equity strategies may underperform when value investing is in favor.

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

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

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

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

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

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

Exchange Traded Funds. Paradigm may also invest in exchange traded funds (ETFs). Investment in an ETF carries security specific risk and the market risk. Also, if the area of the market representing the underlying index or benchmark does not perform as expected for any reason, the value of the investment

in the ETF may decline. In addition, due to transactions via market prices rather than at net asset value, the performance of an ETF may not completely replicate the performance of the underlying index.

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

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

Fixed Income Securities Risk

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

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

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

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

High Yield Securities Risk. High Yield Securities Risk is the risk that high yield securities or unrated securities of similar credit quality (commonly known as "junk bonds") are more likely to default than higher rated securities. The market value of these securities is more sensitive to corporate developments and economic conditions and can be volatile. Market conditions can diminish liquidity and make accurate valuations difficult to obtain.

Finally, Paradigm may also use other investment strategies not listed above, as may be agreed to with a client, and in which case, Paradigm would provide appropriate risk disclosures in the applicable governing documents.

Conflicts of Interest

As further described elsewhere in this Brochure, certain conflicts exist that provide Paradigm with incentives not to act in clients' best interest at times. Paradigm seeks to identify and address each material conflict of interest. This Brochure describes in Item 6 the conflicts of interest associated with performance based fee accounts. In Items 10-12, this Brochure describes affiliated entities and conflicts of interest that exist as a result of these affiliated entities. These conflicts of interest include the increased compensation received by arranging securities transactions through a broker dealer affiliated with Paradigm, the incentive to allocate certain investment opportunities to personal accounts of Paradigm's employees and accounts affiliated with Paradigm, the additional incentive to engage in certain principal or agency cross transactions in client accounts, and the receipt of soft dollar benefits and other services from broker dealers.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to evaluating the Adviser or the integrity of its management.

Without admitting or denying the SEC's allegations, Paradigm consented to the entry of an Order finding that it violated Section 206(3) and 207 of the Advisers Act and Section 21F(h) of the Exchange Act. Paradigm established a conflicts committee to comply with Section 206(3)'s disclosure and consent requirements for principal transactions between a Paradigm-managed hedge fund and an affiliated broker-dealer, but the SEC found that committee deficient because one of its members was also an employee of the broker-dealer. So, without suggesting that Paradigm ever acted other than in the best interests of its investors, the SEC nonetheless found the principal trades were made without effective disclosure to, or consent from, the fund. Paradigm agreed to certain undertakings as part of the settlement, including engaging an outside compliance consultant and disgorgement in the form of a distribution to eligible investors in the fund. The SEC further alleged that Paradigm retaliated against an employee, resulting in his resignation. Paradigm's majority owner, Candace King Weir, without admitting or denying the allegations, consented to the entry of an Order finding that she caused Paradigm's violation of Section 206(3).

See additional disclosure about current practices related to principal transactions in Item 11 below.

Item 10 – Other Financial Industry Activities and Affiliations

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

C.L. King engages in a general securities business including equity and debt trading and execution, option execution and underwriting. Paradigm recommends C.L. King as a broker/dealer and as a custodian for its retail clients. Institutional clients may also use C.L. King as a broker/dealer and/or custodian. Paradigm utilizes C.L. King to effect securities transactions for the accounts of clients who consent to use C.L. King as its broker or agent for such transactions. Paradigm and its personnel have an incentive to utilize C.L. King for brokerage transactions in client accounts because of their financial interest in C.L. King. Paradigm seeks best execution for client securities transactions and will only execute securities transactions through C.L. King to the extent that its responsible personnel believe such transactions will provide at least equal execution to other available broker dealers. While the best price may not be achieved on every transaction, Paradigm will not arrange transactions through C.L. King if it does not believe such transactions to be in clients' best interests. See Item 12 for more information about the selection of brokers for securities transactions.

Paradigm Funds Advisor LLC, an affiliate of the Adviser which is owned primarily by Candace King Weir, is the adviser to the Paradigm Funds, a series of registered investment companies. Paradigm Funds Advisor LLC is registered separately from Paradigm as an investment adviser and shares common ownership, personnel and office space with Paradigm. Under the terms of the management agreement, Paradigm Funds Advisor LLC manages the investment portfolio of the Paradigm Funds subject to policies adopted by the Paradigm Funds' Board of Trustees. Paradigm Funds Advisor LLC 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. In addition, Paradigm has agreed to act as Paradigm Funds Advisor LLC's guarantor in the event that Paradigm Funds Advisor LLC is unable to meet any obligation to the Paradigm Funds or its shareholders. Under the management agreement, Paradigm Funds Advisor LLC, at its own expense and without reimbursement from the Paradigm Funds, furnishes office space and all necessary office facilities, equipment and executive personnel necessary for managing the assets of the Paradigm Funds. Paradigm Funds Advisor LLC also pays the salaries and fees of all of its officers and employees that serve as officers and trustees of the Paradigm Funds. Paradigm Funds Advisor LLC pays all operating expenses of Paradigm Funds Advisor LLC, with the exception of taxes, borrowing expenses (such as (a) interest and (b) dividend expenses on securities sold short), brokerage commissions and extraordinary expenses. Although Paradigm may recommend that certain clients invest their assets directly into the Paradigm Funds, i.e. when an investment is deemed to be in the best interest of the clients or for accounts with asset sizes too small to manage separately, Paradigm and its principals do not receive direct compensation for such recommendation.

As previously referenced, among Paradigm's clients are four private funds (PCM Partners L.P. I, PCM Partners L.P. II, PCM Partners III LLC and PCM Partners International Ltd.) wherein limited partnership units and shares respectively are available to qualified investors. PCM Partners L.P. I is an investor in PCM Partners L.P. II. PCM Partners L.P. II, PCM Partners III LLC and PCM Partners International Ltd. principally take positions in the same equities on both the long and short side. Additionally, PCM Partners L.P. II, PCM Partners III LLC and PCM Partners International Ltd. may from time to time borrow on margin to purchase securities if conditions warrant.

Paradigm may solicit its clients, who are qualified investors, to invest in PCM Partners L.P. I, PCM Partners L.P. II or PCM Partners III LLC. Clients of Paradigm therefore may also be limited partners in PCM Partners L.P. I, PCM Partners, L.P. II, PCM Partners III LLC and /or PCM Partners International Ltd.

Candace Weir and other controlling persons of Paradigm are also controlling persons of the four affiliated private funds. Depending on a client's fee arrangement with Paradigm, a client could be subject to greater fees that provide Paradigm or its affiliates with more compensation by investing in the four affiliated funds, or the Paradigm Funds, rather than through a separate account. Paradigm will only recommend investments that are consistent with its fiduciary duty to the client(s). Clients should review the fees of any private investment partnerships in which they are solicited by Paradigm and Paradigm personnel to invest, and compare those fees to Paradigm's other available services such as the separate account services.

Item 11 – Code of Ethics

Paradigm maintains a Code of Ethics (the "Code"), which is designed to alert our supervised persons and certain other individuals to the ethical and legal obligations that result from their association with the Adviser and which must be fulfilled in order to maintain the confidence and trust of our clients and to protect the assets entrusted to us. The Code requires that all supervised persons comply fully with applicable federal securities laws, including the laws prohibiting insider trading.

The principal objectives of the Code are (a) to provide guidelines and procedures consistent with applicable laws and regulation, including Section 204A of the Investment Advisers Act of 1940 and Rule

17j-1 under the Investment Company Act of 1940; and (b) to ensure that employee's personal trading activities are conducted in a manner consistent with applicable laws and regulations and the general principles set forth in the Code. The Code is designed to avoid even the appearance of impropriety.

In general, the Code requires supervised persons to obtain approval prior to opening a brokerage account outside of C.L. King. When holding accounts with unaffiliated brokers, Paradigm supervised persons are typically required to request that duplicate confirmations and periodic statements be sent to Paradigm's Compliance Department. Such outside accounts may not invest in any Paradigm or Paradigm Funds Advisor LLC (collectively the "Company") name or name on the Company's restricted/watch list unless the trade is cleared by the Compliance Department. For those employee accounts at C.L. King, supervised persons can generally trade in a Company name if the employee trade is bunched with a trade for a Company client or if the trade is cleared by the Compliance Department. In cases of partial fills, client and Company (including employee and proprietary) accounts may receive an allocation when the allocation is performed on a pro-rata basis. If blocking or bunching of trades is not possible, the Compliance Department is required to review the facts and circumstances of the trade to avoid a possible conflict of interest. Supervised persons are also precluded from investing in initial public offerings or unregistered securities without prior written approval from the Chief Compliance Officer. The Code requires supervised persons to certify their holdings, including those in investment companies advised by the Company, on an annual basis. All Paradigm supervised persons acknowledge their receipt and understanding of the Code and affirm their commitment to comply with the Code on an annual basis.

In addition, there may be times that one of Paradigm's officers, directors or supervised persons may wish to personally invest in the same securities we are purchasing or selling on behalf of a client. This practice causes a conflict of interest where the person making a trade may be inclined to place his or her interests above that of Paradigm client's and in any case, the implementation of any personal trade could adversely impact the price paid or received by Paradigm managed client accounts. The Adviser has addressed this conflict of interest by adopting the Code which incorporates various procedures designed to guard against impropriety. The processes which relate to personal trading by all Paradigm supervised persons are described in more detail above.

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

Principal and Agency Cross Transactions

Paradigm has engaged in principal and agency cross transactions with client accounts, and may do so in the future subject to client consent. Paradigm will only engage in principal transactions or agency cross transactions when it is determined that such transactions are in the best interests of clients.

A principal transaction is a transaction in which an adviser acts as principal for its own or related account, and purchases or sells a security from or to a client account for its own or its related account. Paradigm has an incentive to engage in principal transactions involving its account or related accounts; including personal accounts of Paradigm's principal owners or controlling persons, and the corporate accounts of Paradigm and its affiliated entities including those of C.L. King and the affiliated private investment partnerships managed by Paradigm. When engaging in such transactions, prices could be established by Paradigm that do not adequately reflect current market prices and that could unfairly compensate Paradigm or any of its affiliated persons or companies. Such pricing could be to the detriment of a client's best interests. Paradigm has developed internal controls to address these conflicts of interest.

Pursuant to Rule 206(3) of the Advisers Act, Paradigm will only complete a principal transaction involving a client account after receiving informed client consent. When requesting consent, Paradigm will provide a client with comparable, relevant market information for each transaction. If a principal transaction is conducted involving an affiliated private investment partnership, Paradigm will provide the information to and obtain consent from an independent Authorized Representative designated to provide consent on

behalf of the partnership involved. Any separate account client also may appoint an Authorized Representative to provide such consent. No client or Authorized Representative is under any obligation to provide such consent, and may deny consent for the transaction, in which case the principal transaction will not be completed. C.L. King will not charge commissions and Paradigm will not charge a mark-up on the principal transactions.

An agency cross transaction is a transaction in which an adviser trades a security between an advisory account and a brokerage account in which the adviser or an affiliated company of the adviser receives brokerage compensation. Paradigm has an incentive to engage in agency cross transactions between client accounts to allocate investments with potentially more profit to accounts with higher fees including incentive fees. See Item 6 above. When engaging in agency cross transaction, Paradigm's affiliate C.L. King also receives compensation as the broker through commissions or mark-ups/mark-downs. Rule 206(3)-2 under the Advisers Act permits an adviser to act as broker for both its advisory client and the party on the other side of the brokerage transaction ("agency cross transaction") without obtaining the client's prior consent to each transaction, provided that the adviser obtains a prior consent for these types of transactions from the client, and complies with other, enumerated conditions. Paradigm receives this consent in standard investment advisory agreements with clients.

Clients are under no obligation to consent to principal or agency cross transactions. Paradigm does not engage in principal or agency cross transactions on behalf of registered investment company clients or clients that are covered plans under Title 1 of the Employee Retirement Income Securities Act.

Item 12 – Brokerage Practices

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

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

Paradigm recommends C.L. King as a broker/dealer and as a custodian for its retail clients. Institutional clients may also use C.L. King as a broker/dealer and/or custodian. Paradigm and C.L. King are both principally owned by Candace King Weir and managed by officers who have roles in both companies. The use of C.L. King for brokerage transactions in advisory accounts provides additional compensation to C.L. King and therefore to Candace King and the other affiliated persons, which is also specified in Item 10 above. Paradigm may also arrange principal and agency cross transactions for advisory clients through C.L. King. See Item 11 above for a further description of these transactions, Paradigm's conflicts of interest, and Paradigm's procedures for handling such transactions fairly and in clients' best interests.

Clients who select C.L. King as a broker/dealer generally will be charged the same commission rates charged to C.L. King brokerage customers who are not Paradigm advisory clients. However, there may be exceptions to the standard rates charged based on the size of the investment advisory relationship and the frequency of transactions, and prior or on-going relationships. Brokerage commission rates are negotiated between C.L. King and individual clients. C.L. King may negotiate different rates with different clients. This may result in different clients, whose orders are aggregated, paying different commission rates to C.L. King in the same transaction. C.L. King, when executing trades in over the counter securities on behalf of an advisory client of Paradigm, may acquire such over the counter securities from broker/dealers who are market makers. As such, a client may pay commission charges to C.L. King based on the price at which C.L. King is able to acquire the security from the other broker/dealer.

Soft Dollars

Paradigm also selects non-affiliated broker/dealers to execute orders on behalf of accounts based on the ability of such broker/dealer to provide the best possible execution, the broker/dealer's commission rates, and the value of products and services made available to Paradigm. Paradigm receives research or brokerage execution services from broker-dealers and/or third parties in connection with client securities transactions. This is known as a "soft dollar" relationship. Thus, Paradigm will receive a benefit because Paradigm does not have to produce or pay for the research, products, or services. Paradigm will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations. In return for these products and services, clients may pay higher commissions than those obtainable from other broker/dealers. Paradigm has an incentive to select or recommend a broker-dealer based on Paradigm's interest in receiving the research or other products or services, rather than on the client's interest in receiving the most favorable execution.

Paradigm is authorized to pay to a broker or dealer who provides such brokerage and research services a commission for executing a portfolio transaction which is in excess of the amount of commission another broker or dealer would have charged for effecting that transaction. Paradigm will determine in good faith that such commission was reasonable in relation to the value of the brokerage and research services provided. There is no policy that the research obtained will be used in selecting investments for the account that generated commissions used to acquire the research. Accounts that do not pay for the soft dollars will benefit. Paradigm does not limit the soft dollar benefits to only those accounts that paid for the benefits. Research obtained from the broker/dealer in exchange for orders is generally used by Paradigm in selecting investments for other clients of Paradigm and related accounts.

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

Aggregation of Client Transactions

Orders for the same security entered on behalf of more than one client will generally be aggregated subject to the aggregation being in the best interests of all participating clients. Clients participating in an aggregated order shall receive the same average price, and subject to minimum ticket charges or previously negotiated client commission rates, pay a pro rata portion of commissions. Instances in which client orders will not be aggregated include, but are not limited to, the following: (a) Clients directing Paradigm to use certain broker/dealers, in which case such orders shall be separately effected; (b) Traders and/or portfolio managers determine that aggregation is not appropriate because of market conditions; and (c) Portfolio managers must effect the transactions at different prices, making aggregation unfeasible. Proprietary and non-client employee accounts may also be aggregated with client transactions when a particular security is bought or sold. Paradigm will not aggregate client transactions unless it believes such aggregation is consistent with the obligation to seek best execution for each client and is consistent with terms of the investment advisory agreement between the client and Paradigm. No advisory account will be favored over any other advisory account in connection with the aggregation of client transactions, and each account will participate in the aggregated order at the average price of the security on a given business day for all transactions in connection with the aggregated order. Such average price could be higher or lower than would have been received by a client had the transaction been executed for such client individually. When placing client transactions through multiple broker/dealers, Paradigm will have no specific order in which brokers are contacted. The order in which brokers are contacted shall be at the discretion of the Trader. Market conditions and volume limitations will be considered when placing orders. To ensure fair and equitable treatment, Traders may also implement trade rotations based on client needs.

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

Client Directed Brokerage

Clients are permitted to direct Paradigm to execute transactions through a specified broker-dealer, without subjecting such arrangements to the most favorable execution of client transactions. Any client who so directs Paradigm to use a specific broker (including C.L. King) or type of broker may pay higher commission rates or receive less favorable execution on same transactions than non-directing clients, at least in part because the directed broker may maintain a higher commission schedule or provide less favorable service, or because such transactions may be excluded from combined or block orders and any corresponding economies of scale. In such instances where the client directs Paradigm to use a specific broker, the commission rate may be negotiated by the client or by Paradigm depending on the arrangement, or client instructions. Paradigm may also aggregate client transactions, and then "step-out" transactions to satisfy directed brokerage requests or pay research brokers. Step-out trading is the practice of brokerage firms executing an order, but giving other brokerage firms credit and the commission for the trade.

Item 13 – Review of Accounts

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

Portfolio Managers or Client Relation Managers periodically review client accounts with advisory clients. Paradigm may conduct client meetings and provide written reports to clients regarding their account. The nature and timing of client meetings is specific to the relationship and will depend upon a number of factors including the investment strategy, type of account, and the client's monitoring capabilities. Clients may also receive ad hoc market driven commentary via email, mail or conference call. In addition to the monthly/quarterly statements and confirmations of transactions that clients receive from their broker dealer and/or custodian(s), Paradigm may also provide written reports setting forth the activity in the client's account and investment performance monthly, quarterly or as otherwise agreed with clients. The Adviser offers standardized client reports. The Adviser may also create customized reports at the clients' request. At a minimum, clients typically receive annual portfolio appraisal reports which specify the total asset value at the end of the period, and list portfolio assets specifying their cost, market value and aggregate market value. Clients may, and often do, request monthly portfolio updates and comprehensive quarterly reporting describing the value and performance of an account. In certain instances, the Chief Compliance Officer prepares monthly, quarterly, and annual reports confirming compliance with stated account limitations and restrictions. In addition, those clients who choose C.L. King as their broker-dealer will receive trade confirmations and monthly account statements as clients of C.L. King.

Paradigm holds internal reviews/meetings to discuss strategies and general investment issues on a periodic basis which varies depending on the relevant market events and other factors. Members of such meetings will typically include the Portfolio Managers and Analysts.

Investors in the private pooled investment vehicles managed by the Adviser receive (1) unaudited performance information at least quarterly; (2) annual audited financial statements relating to the applicable Fund, no later than 120 days after the end of each fiscal year; and (3) annual information necessary for completion of federal income tax returns. Clients who invest in the registered investment companies (i.e. mutual funds) managed by Paradigm Funds Advisor LLC receive monthly or quarterly reports setting forth the activity in their accounts and annual and semi-annual reports in compliance with the Securities and Exchange Commission rules and regulations thereunder. Reports covering a wide range of information relating to the management and operation of the registered investment companies are provided to the governing board of each such company on a regular basis consistent with the schedule of reporting established by such board.

Item 14 – Client Referrals and Other Compensation

Certain supervised persons of the Adviser are also employees of C.L. King. These supervised persons and Candace King Weir, as owner of C.L. King, may receive economic benefit from C.L. King as a result of the commissions paid by investment advisory clients from security trades done in their accounts. This is in addition to any compensation received by portfolio managers from the Adviser. See Items 10 and 12 above for a further description of the potential conflicts of interest.

The Adviser may compensate third-party marketers in compliance with Rule 206(4)-3 under the Investment Advisers Act of 1940. Such compensation is paid pursuant to a written agreement and generally represents a percentage of the fees earned by the Adviser from the accounts solicited. Paradigm does not currently retain the services of a third-party marketer.

From time to time, supervised persons of the Adviser may receive business related meals or entertainment, or be invited to attend a conference, the expenses of which would be paid for by a broker utilized by Paradigm to effect execution of client trades or other service provider. It is expected that all supervised persons must exercise good judgment in considering the value, frequency, and intent of gifts and entertainment. Supervised persons may not accept any gift or entertainment that might influence his or her investment decision or that might make the supervised person feel beholden to any person or firm. No supervised person of the Adviser may accept cash, stocks, bonds, notes, loans, or any other evidence of ownership or obligation from a third-party brokerage firm. In addition, supervised persons must not accept entertainment, gifts or other gratuities from individuals seeking to conduct business with the Adviser, or on behalf of an advisory client, unless in compliance with the Gift & Entertainment policy adopted by Paradigm.

Item 15 – Custody

Paradigm has custody over certain client funds and securities. Paradigm complies with the Custody Rule 206(4)-2, as outlined below in summary.

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

Paradigm may directly debit advisory fees from clients' custodial accounts. These clients receive monthly or quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the clients' investment assets. Paradigm urges clients to carefully review such statements and compare such official custodial records to the reports and statements that the Adviser provides to clients. Paradigm's reports to clients may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Clients should to notify Paradigm and/or their custodian as soon as possible if they notice any material discrepancies.

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

C.L. King & Associates, Inc., an affiliate of Paradigm in that both firms are principally owned by Candace King Weir, acts as a broker/dealer and as a custodian for certain of Paradigm's retail and institutional clients. An independent accounting firm registered with and subject to regular inspection by the Public Company Accounting Oversight Board conducts an annual independent verification and prepares an internal control report with respect to the client funds and securities for which C.L. King acts as custodian as required by the Advisers Act Custody Rule.

Item 16 – Investment Discretion

At the start of a client relationship, the client grants Paradigm the discretionary authority to manage a client's account. Paradigm requests that such authority be granted in writing, typically in the executed advisory agreement and/or relevant Fund organizational documents.. Investment discretion is typically limited by a written statement of investment policy, which includes investment objectives. The discretionary authority granted to the Adviser typically includes the power and authority to determine the:

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

Except with respect to the commingled pools to which the Company provides services and which would generally not accommodate any client investment restriction, clients may place reasonable limitations on Paradigm's discretion. Typically, such restrictions would be set forth in written investment guidelines and may require the Adviser to meet certain specified investment criteria or restrict otherwise permissible investments. Additionally, although Paradigm has discretionary authority over all client accounts, some clients may limit Paradigm's overall discretion so that portfolio managers are either prohibited from selling certain holdings under certain specified conditions or must first consult with the client before transacting. Clients may change/amend these limitations as desired. Such amendments must be submitted to Paradigm by the client in writing.

Item 17 – Voting Client Securities

Except with respect to the Company's commingled funds, clients have the ability to retain proxy voting authority or grant Paradigm with such authority. The person (i.e., client or the Adviser) who has such authority should be identified in the governing agreement along with any limits or restrictions regarding such authority. To the extent Paradigm is allocated proxy voting responsibility, the Adviser will exercise its fiduciary responsibilities by carefully reviewing, voting and documenting proxies for all voting securities for which it has voting responsibility. Paradigm acts solely in the best interest of its clients. Each proxy is reviewed, managed in accordance with Paradigm's Proxy Voting Policy and voted consistent with the Proxy Voting Procedures adopted by the Adviser. Thus, in voting such stock, the Adviser will exercise the care, skill, prudence, and diligence under the circumstances that a prudent person would use considering the aims, objectives, and guidance provided by the client.

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

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

Portfolio managers determine how proxies are to be voted. When the Portfolio Managers do not provide voting instructions for the proposals which are evaluated on a case-by-case basis, the Proxy Service Provider will automatically vote those proposals consistent with the provider's recommendation. Operations through the Proxy Service Provider will maintain a record of proxy voting determinations,

together with all proxy proposals, including shareholder proposals and proposals included in dissident proxy materials. Except where required by the client, social interests shall not be among the criteria employed by the Portfolio Managers. However, Paradigm does accept clients who require the Adviser to vote their proxies consistent with an alternative policy offered by the Proxy Service Provider. Such clients would not be subject to Paradigm's Proxy Voting Policy or Procedures. With respect to the mutual funds managed by Paradigm Funds Advisor LLC, the funds' Board of Trustees has delegated the responsibility for voting proxies to the Company.

Notwithstanding the foregoing, absent any express and specific language contained in the applicable agreement, Paradigm does not assume any obligation or responsibility with respect to any class action for which a client may be a class member or claimant as a result of a security held in the account managed by the Adviser for such client.

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

Item 18 – Financial Information

Paradigm does not require or solicit payment of fees in excess of \$1200, per client, six months or more in advance of services rendered; Paradigm does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and Paradigm has not been the subject of a bankruptcy proceeding.