

**Item 1: Cover Page**

**PARADIGM ASSET MANAGEMENT COMPANY, L.L.C.**

**445 Hamilton Avenue  
11<sup>th</sup> Floor, Room 1102  
White Plains, NY 10601  
212-771-6100**

**March 30, 2017**

This brochure provides information about the qualifications and business practices of Paradigm Asset Management Company, L.L.C. (“Paradigm”). If you have any questions about the contents of this brochure, please contact us at 212-771-6100 or email at [info@paradigmasset.com](mailto:info@paradigmasset.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. SEC registration does not imply a certain level of skill or training.

Additional information about Paradigm also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2:       Material Changes**

This brochure, dated March 30, 2017, includes changes relating to the amount of our assets under management and other non-material changes to our last brochure, dated January 6, 2016.

**Item 3: Table of Contents**

<b>Form ADV Item No.</b>	<b>Description</b>	<b>Page</b>
1.	Cover Page.....	1
2.	Material Changes.....	2
3.	Table of Contents.....	3
4.	Advisory Business.....	4
5.	Fees and Compensation.....	4
6.	Performance-Based Fees and Side-By-Side Management.....	6
7.	Types of Clients.....	7
8.	Methods of Analysis, Investment Strategies and Risk of Loss.....	7
9.	Disciplinary Information.....	11
10.	Other Financial Industry Activities and Affiliations.....	11
11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
12.	Brokerage Practices.....	12
13.	Review of Accounts.....	17
14.	Client Referrals and Other Compensation.....	17
15.	Custody.....	17
16.	Investment Discretion.....	18
17.	Voting Client Securities.....	18
18.	Financial Information.....	19

**Item 4: Advisory Business**

Paradigm Asset Management Company, L.L.C. (“Paradigm”) began providing advisory services in 1988 and was registered under the Investment Advisers Act of 1940 in 1989. The principal owners of Paradigm are James Francis and Gregory Pai.

As of December 31, 2016, we managed \$528,350,623 of client assets on a discretionary basis. No assets are managed on a non-discretionary basis.

We provide discretionary investment advisory services to a variety of institutional clients through separate accounts. Separate account clients select a custodian for their account and we charge a quarterly fee for management of assets. We offer our clients the following domestic and international equity products:

Large Capitalization Value  
Small Capitalization Growth  
All Capitalization  
International Equity  
Global Equity

Our equity products are all based on our belief that valuable information exists in market data primarily derived from the public disclosures of institutional investors’ holdings. We capture and process this information in a proprietary database and use its powerful screening and portfolio construction tools to build portfolios for our clients.

We endeavor to create diversified portfolios comprised of highly liquid securities and designed to offer investors favorable reward to risk characteristics. We follow certain self-imposed limitations to minimize concentration in any one security or industry which are designed to reduce risk through diversification.

*Customized Portfolio Management Services:* In most cases, we are capable of offering our clients customized portfolio management services in the following forms: (i) customized portfolios based on our existing products and/or technology; and (ii) existing portfolio products that are modified to comply with the client’s social responsibility guidelines (*e.g.*, tobacco company excluded portfolios) or other investment restrictions.

We do not participate in any wrap fee programs.

**Item 5: Fees and Compensation.**

We receive fees for our services based on a percentage of the value of the assets in the client’s account. These are referred to as “asset-based fees”. We also offer clients the ability to establish performance-based fees, as more fully described under “Performance-Based Fees.” None of our clients currently have performance-based fees.

*Fee Schedule:* Our current schedule of asset-based fees, including the minimum amount for opening an account and minimum annual fee, is as follows.

**Large Capitalization Products: *Large Capitalization Value***

Minimum amount for opening an account *\$10 million*

Minimum Annual Fee *\$75,000*

0.55% annually on the first \$50 million of assets

0.40% annually on the next \$50 million of assets

0.25% annually on any portion of assets over \$100 million

**Small Capitalization Product: *Small Capitalization Growth***

Minimum amount for opening an account *\$10 million*

Minimum Annual Fee *\$100,000*

0.75% annually on the first \$50 million of assets

0.60% annually on the next \$50 million of assets

0.50% annually on the next \$50 million of assets

0.40% annually on any portion of assets over \$150 million

**All Capitalization Products: *All Capitalization***

Minimum amount for opening an account *\$10 million*

Minimum Annual Fee *\$100,000*

0.75% annually on the first \$50 million of assets

0.60% annually on the next \$50 million of assets

0.50% annually on the next \$50 million of assets

0.40% annually on any portion of assets over \$150 million

**International Products: *International (World ex-US) Equity and Global Equity (World)***

Minimum amount for opening an account *\$5 million*

Minimum Annual Fee *\$50,000*

1.00% annually on the first \$25 million of assets

0.85% annually on the next \$75 million of assets

0.70% annually on any portion of assets over \$100 million

These fees and minimums may be negotiable in individual cases upon specific client request. Any reduction of any fee or minimum is determined solely in our discretion. We reserve the right to change our fee schedule at any time, to negotiate a performance-based fee, or to adjust our fee and/or minimums with respect to any client as we deem appropriate in light of the overall facts and circumstances. Asset-based fees are charged on a client's total investment in all products (assets are combined for fee calculation purposes). Paradigm's advisory fees are exclusive of brokerage commissions, transaction fees and other similar trading costs and expenses which shall be incurred by the client. Please see "Item 12 – Brokerage Practices" for further discussion of our brokerage practices.

*Payment of Fees:* Asset-based fees are payable quarterly in arrears within 30 days of the end of the calendar quarter on the average assets under management on the last day of each month during the quarter. The assets under management on the last day of the month shall not include amounts contributed to the account during the last three business days of the month but shall include assets withdrawn from the account by the client during the last three days of the month.

*Termination:* Our clients have the right to terminate their investment advisory agreement at any time without penalty. Generally, if the agreement is terminated on any day other than the last day of a month, the fee for the last quarter shall be based upon the average of the assets under management (i) on the last day of each full month during such quarter the agreement was in effect and (ii) on the agreement's termination date (pro-rated for the partial month).

*General Information on Asset-Based Fees:* Clients who have engaged Paradigm over time may have investment advisory agreements with us where similar services are provided for lesser fees than the current asset-based fee schedule discussed above.

*Performance-Based Fees:* We may offer performance-based fee arrangements to clients who request such arrangements. Any performance-based fee arrangement is determined solely in our discretion. None of our clients currently have performance-based fees. Performance-based fees may be calculated as a percentage of returns, or as a percentage of the increase in net asset value, and may be tied to a client-directed benchmark. Please see "Performance-Based Fees and Side-by-Side Management."

*Assets Under Management By Cash-Only Advisers:* Assets managed by client selected cash money managers for residual cash either not invested by Paradigm or not allocated to Paradigm also incur separate advisory fees up to the point the assets are then invested and supervised by Paradigm. Paradigm will not participate in the fees that are charged separately.

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

We may offer performance-based fee arrangements to clients who request such arrangements. None of our clients currently have performance-based fees. We may face conflicts of interest in managing accounts that have a performance-based fee at the same time that we manage accounts that only have an asset-based fee, including having an incentive to favor those accounts for which we receive a performance-based fee because we will receive a higher fee if their performance exceeds the applicable benchmark.

It is our policy not to favor the interest of one client over another. We address the conflicts of interest created by "side-by-management" by having a trade allocation policy designed so that trades are allocated among client accounts in a fair and equitable manner over time.

Regardless of their fee arrangements, when we manage accounts according to the same investment strategy, we anticipate that those accounts will generally have the same investment opportunities and be invested in the same or similar securities with the same or similar weighting. However, there are often differences in the nature or amount of securities that we buy or sell for client accounts, because of a variety of factors, including, among others:

- Specific client investment objectives
- Cash available in the account for investment
- Client-imposed investment restrictions
- Investment restrictions imposed by laws or regulations
- Actual and anticipated cash inflows and outflows in client accounts
- Size of client account
- Deal size
- Current industry or issuer exposure in the client account
- Rounding to whole lots (for example, 100 shares)
- Other practical limitations

We allocate securities among client accounts based on the above factors and typically will make preliminary allocation determinations before placing a block order. We will allocate all other block trades among client accounts by the opening of trading on the next business day of the market on which the securities at issue primarily trade. More detailed information about our allocation and aggregation practice is found under “Brokerage Practices.”

**Item 7: Types of Clients.**

We provide investment advisory services primarily to institutions such as trusts, estates, or other charitable organizations, pension and profit sharing plans, State or municipal government entities, and corporations or business entities other than those previously listed.

This description of our clients is not exhaustive and we may at times provide advisory services to other types of clients.

**Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.**

Our equity products are all based on our belief that valuable information exists in market data primarily derived from the public disclosures of institutional investors’ holdings. We use this information in addition to financial newspapers, magazines, research materials and regulatory filings obtained in our normal course of business. We then capture and process this information in a proprietary database and use its powerful screening and portfolio construction tools to build portfolios for our clients.

We endeavor to create diversified portfolios comprised of highly liquid securities and designed to offer investors favorable reward to risk characteristics. We follow certain self-imposed limitations to minimize concentration in any one security or industry which are designed to reduce risk through diversification.

Our investment process employs multiple levels of risk control throughout the process, from research to portfolio construction and trading. Technology is a key component of these efforts which include, but are not limited to: (i) screening a universe that comprises a high degree of benchmark names; (ii) utilizing a quantitatively driven model that focuses on risk-adjusted performance; and (iii) building a high diversified portfolio. Each portfolio is measured using various metrics, and we impose various constraints to prevent the portfolio from accumulating

undesired over or underexposure to any one sector or security. We use various portfolio analytics to confirm portfolio exposures from both a style and risk standpoint. We employ automated processes to ensure client guidelines are adhered to throughout the investment process.

The significant investment strategies, methods of analysis, and related material risks of each of our equity products are set forth below. Investments are not guaranteed; investing in securities involves risk of loss that clients should be prepared to bear.

*Significant Strategies and Methods of Analysis.* We use both active and quantitative strategies. Our objective is to achieve enhanced returns over time through timely stock and sector selection while controlling relative risk and costs. Our investment strategy dynamically identifies and captures the drivers of performance of each product each month into a diversified and risk-controlled portfolio. Our process dynamically adapts to the subtle changes driving performance of each product and re-positions the portfolio.

Our process uses several screens to identify relevant market data based upon institutional ownership. From this information, a specific universe of securities is identified and ranked based on a proprietary ranking algorithm. A mean-variance optimization routine is utilized to build an efficient portfolio designed to maximize expected return and minimize volatility relative to the product's benchmark index. Each portfolio is rebalanced monthly to capture new market information.

The portfolio construction process, including buy and sell decisions, is systematically implemented utilizing portfolio optimization technology. The resulting portfolio features broad diversification across a wide variety of sectors and industries. Furthermore, any given security exceeds its weight in the benchmark index by no more than a specified percentage at the time of purchase in an effort to minimize the risk associated with any individual security.

*Material Risks.* The material risks of investing in our equity products are as follows:

- *Market risk* – the risk that the prices of the securities held will fluctuate sometimes rapidly and unexpectedly. These fluctuations may cause the price of a security to decline for short- or long-term periods and cause the security to be worth less than it was worth when purchased. Investments are subject to risk from changes in the economic climate, including, for example, interest rates, inflation rates, industry conditions, competition, technological developments, political and diplomatic events and trends, tax laws, the competency of management, and innumerable other factors, in a similar way to other industrial or commercial companies. None of these conditions are within the control of Paradigm. For these and other reasons, there can be no guarantee that companies in which Paradigm invest will develop as anticipated or that the consistent, absolute returns sought will actually be achieved.
- *Investment style risk* – the risk that stocks of a specific investment style, like value stocks, may not perform as well as stocks of a different investment style, like growth



stocks, or as well as the stock market in general. A particular product's focus on a specific investment style increases the potential volatility of its return.

- *Security selection risk* – the risk that securities selected for a product may perform differently than expected.

*In addition, for the Small Capitalization and All Capitalization Products:*

- *Capitalization risk* – the risk that investments in the stocks of small- and mid-capitalization companies may be more volatile and less liquid than the stocks of larger companies. Small- and mid-capitalization stocks may also underperform other types of stocks or be difficult to sell when the economy is not robust, during market downturns or when small- or mid-capitalization stocks are out of favor.

*In addition, for the International Equity and Global Equity Products:*

- *Foreign Investment risk* – investments in securities of foreign issuers involve greater risk than investments in securities of U.S. issuers. Foreign countries may have markets that are less liquid, less regulated and more volatile than U.S. markets, may suffer from political or economic instability and may experience negative government actions, such as currency controls or seizures of private businesses or property. In some foreign countries, less information is available about issuers and markets because of less rigorous accounting and regulatory standards than in the United States. The effect of recent, worldwide economic instability on specific foreign markets or issuers may be difficult to predict or evaluate, and some national economies continue to show profound instability, which may in turn affect their international trading partners.
- *Currency risk* – the value of investments in securities denominated in foreign currencies increases or decreases as the rates of exchange between those currencies and the U.S. dollar change. Currency exchange rates can be volatile, and are affected by factors such as general economic conditions, the actions of the U.S. and foreign governments or central banks, the imposition of currency controls and speculation.
- *Geo-Political risk* – the risk that an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers, or military control. Geo-Political risk becomes more of a factor as the time horizon of an investment gets longer.

Product specific details follow:

### **Large Capitalization Value**

Security Universe – *approximately 1,000 large capitalization value securities*

Securities in Typical Portfolio – *100 to 150 securities*

Benchmark Index – *Russell 1000 Value Index*

Securities generally will not exceed Benchmark weight by more than – 1.0% at cost

### **Small Capitalization Growth**

Security Universe – *approximately 1,000 to 2,000 small capitalization growth securities*

Securities in Typical Portfolio – *approximately 100 to 200 securities*

Benchmark Index – *Russell 2000 Growth Index*

Securities generally will not exceed Benchmark weight by more than – 1.0% at cost

### **All Capitalization**

Security Universe – *approximately 3,000 all capitalization securities*

Securities in Typical Portfolio – *approximately 100 to 200 securities*

Benchmark Index – *Russell 3000 Index*

Securities generally will not exceed Benchmark weight by more than – 1.0% at cost

### **International Equity (World ex-US)**

Security Universe – *approximately 500 to 1,000 international securities*

Securities in Typical Portfolio – *approximately 100 to 200 securities*

Benchmark Index – *MSCI All Country World ex-US Index and/or MSCI EAFE Index*

Securities generally will not exceed Benchmark weight by more than – 1.0% at cost

### **Global Equity (World)**

Security Universe – *approximately 500 to 1,000 global securities*

Securities in Typical Portfolio – *approximately 100 to 200 securities*

Benchmark Index – *MSCI All Country World Index*

Securities generally will not exceed Benchmark weight by more than – 1.0% at cost

*Material Risks.* The material risks of investing in our fixed income product are as follows:

Investments in debt obligations are subject to numerous risks, which may differ from risks associated with investing in equity products. Risks associated with investments in debt obligations include changes in interest rates, inflation rates, industry conditions, competition, technological developments, political and diplomatic events and trends, tax laws, the competency of issuer management and innumerable other factors, any of which may adversely affect an issuer's inability to meet principal and interest payments on the obligations (credit risk), and therefore adversely affect the price of an obligation. High yield and other lower rating categories of debt obligations are subject to greater risk of loss of principal and interest than higher-rated obligations, and are generally considered to be predominately speculative with respect to the issuer's capacity to pay interest and repay principal. The market for such obligations is thinner and less active than that for higher-rated obligations, which can adversely affect the prices at which these obligations can be sold. None of these conditions are within our control. For these and other reasons, there can be no guarantee that the obligations in which we invest will develop as anticipated or that the returns sought will actually be achieved.

**Item 9: Disciplinary Information.**

Not applicable.

**Item 10: Other Financial Industry Activities and Affiliations.**

Neither Paradigm nor any of our management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (“FCM”), commodity pool operator (“CPO”) or commodity trading advisor (“CTA”). In addition, neither Paradigm nor any of our management persons is an associated person of an FCM or a CPO or CTA.

Neither Paradigm nor any of our management persons has a relationship with any third party that creates a material conflict of interest with Paradigm. Paradigm does not have any arrangement in which we are compensated for recommending or selecting other investment advisers for our clients, nor do we have any other business relationship with an investment adviser that would create a material conflict of interest with respect to our management of assets for our clients.

**Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.**

We have adopted a Code of Ethics (“Code”), in order to mitigate and manage conflicts of interest that may exist or arise in connection with personal securities transactions and the receipt or solicitation of gifts by our employees. Below is a brief summary of the Code.

The Code contains restrictions applicable to all of our employees and requires every employee to understand and adhere to the following general principles:

- comply with applicable laws;
- at all times, place the interest of clients before personal interests;
- execute personal securities transactions consistent with the Code, so as to avoid any actual, potential or perceived conflict of interest, or any abuse of an individual’s position of trust and responsibility;
- not take inappropriate advantage of his or her position with or on behalf of any client; and
- not receive or give gifts if intended to improperly influence, or would have the appearance of improperly influencing, any broker, dealer, adviser, financial institution, current or former client, supplier of goods or services to Paradigm or any client, or issuer of securities.

Our Code also contains the following additional restrictions:

- Access Persons must obtain pre-clearance from the CCO before participating in any private placement, IPO or limited offering;

- Access Persons may not utilize nonpublic material information in the course of rendering investment advice or making investment decisions;
- Employees may not sell to or purchase from any client, securities or other property of which the employee has or will acquire beneficial ownership, except securities of which such client is the issuer;
- Members of Paradigm's Investment Committee must receive pre-clearance from the CCO before serving on the board of any publicly traded company.

Potential conflicts of interest may exist between Paradigm and its clients. To the extent an activity causes a potential conflict, Paradigm will disclose the nature of the activity giving rise to the conflict. Prior to engaging in any potentially conflicting business activity, employees must obtain approval from the CCO. Employees are required to report any conflict of interest or perceived conflict of interest to the CCO. In addition, employees must report personal conflicts or perceived personal conflicts that may exist between the employee and Paradigm or our clients.

We will provide a copy of our Code of Ethics to any client or prospective client upon request.

#### **Item 12: Brokerage Practices.**

*Selection and Compensation of Broker-Dealers.* Generally, we receive full discretion from our clients to choose broker-dealers through whom transactions may be executed. When selecting a broker-dealer to execute a client trade, it is our policy, consistent with investment considerations, to seek the most favorable net results under the circumstances based on the information available at the time. Such considerations take into account factors such as price, size of order (including the broker-dealer's ability to effect the transaction where a large block is involved)/market impact and commission. We will also take into account a broker-dealer's ability to discover and access markets that will yield the best price and execution. Paradigm will also consider, among others, factors such as the broker-dealer's trading and execution, clearing and settlement capabilities, past history of prompt and reliable execution of client trades, financial stability, reputation, operational efficiency, maintenance of client confidentiality, depth of services (including research and coverage), access to markets and access to capital to accommodate trades.

Negotiated commissions take into account the difficulty involved in execution, the time taken to conclude the transaction, the extent of the broker-dealer's commitment, if any, of its own capital and the amount involved in the transaction. As more fully described below, negotiated commissions may also take into account whether or not soft dollars are generated or research services are provided by a broker-dealer.

In the selection of broker-dealers, we do not adhere to any rigid formulas but weigh a combination of the factors described above based on the information available at the time of the trade under the current circumstances. The overriding objective in the selection of broker-dealers is their ability to secure the best possible execution of orders taking into account all of the foregoing factors. "Best execution" is not synonymous with the lowest brokerage commission. Consequently, in a particular transaction a client may pay a brokerage commission

in excess of that which another broker-dealer might have charged for executing the same transaction. While we generally seek reasonably competitive commission rates, we do not necessarily pay the lowest spread or commission available. When selecting broker-dealers to execute transactions, we are not required to solicit competitive bids and do not have an obligation to seek the lowest available commission cost, but rather best overall execution.

*Client Directed Brokerage:* In certain relationships, a client may wish to retain discretion over the broker-dealer selection and perhaps the commission rate for purposes of executing either a portion of the transactions or all of the transactions to be effected for such client account(s). When a client instructs us to direct a portion of the securities transactions for its account to a designated broker-dealer, the client has made a decision to retain some control over broker-dealer selection and services. In particular, we treat the direction as a decision by the client to retain, to the extent of the direction, the discretion that we otherwise would be given by the client to select broker-dealers to effect transactions and the other terms of the trade for the client's account. A client that is considering a directed brokerage arrangement should consider carefully whether the designated broker-dealer's commissions, execution, clearance and settlement capabilities, and whether any fees or service or other benefits to be paid or provided by the broker-dealer to the client, will be comparable to the terms that we or the client could obtain without directed brokerage.

We believe that directed brokerage arrangements may result in additional costs to the client and may adversely affect the performance of the client's account. We believe that the potential benefits derived from any directed brokerage, expense reimbursement or commission recapture program may be offset by, including but not limited to: (i) the impediments to achieving best execution; (ii) our potential inability to negotiate the same favorable commission rates as those obtained for clients which do not impose such restrictions; (iii) clients being unable to participate in certain block purchases or sales of securities; and (iv) the broker-dealer's unwillingness to commit capital. The directing client may pay higher commissions or receive less favorable execution on some transactions because the designated broker-dealer may maintain a higher commission schedule or provide less favorable service (e.g., trading through non-institutional trading desks).

There are two different types of directed brokerage: client fully directed brokerage and client suggested brokerage.

*Client Fully Directed Brokerage:* For clients that provide instructions whereby the client fully retains trading authority that we would otherwise have to select broker-dealers and negotiate commissions with such broker-dealers on such client's behalf, we will follow the client's direction to use the designated broker-dealer even when we might be able to obtain a more favorable price and execution from another broker-dealer for a transaction on behalf of such client's account. Orders for clients that direct brokerage may be placed separately from and after the completion of orders for non-directed accounts. To the extent that orders for such client accounts are placed after the orders for other clients, the price of the securities purchased or sold for such client accounts may be adversely affected. As a result of the foregoing, a client that directs brokerage may not receive best execution on transactions effected through the designated

broker-dealer. As a result of these considerations, directed brokerage accounts may not generate returns equal to those of non-directed accounts.

*Client Suggested Brokerage:* For clients that provide us with “suggested” brokerage instructions (subject to our obligation to seek best execution), we will treat the client’s direction to use the designated broker-dealer for their account’s securities transactions as a suggestion for the selection of the broker-dealers that we would otherwise have the discretion to select and with which we would normally negotiate commissions pursuant to the discretionary authority granted to us under the investment management agreement with the client. If a client suggests we direct a portion of its securities transactions to a designated broker-dealer in return for the broker-dealer providing services directly to the client, we will make every effort to accommodate directed brokerage requests while simultaneously seeking to protect trade execution quality for the directing client as well as other clients in situations where: (i) no specific brokerage allocation targets are set by the client; or (ii) the client designates a specific target.

In situations where we believe that the designated broker-dealer can provide best execution on a particular securities transaction, we will use our best efforts to meet the client’s brokerage selection criteria. The ability to do so is affected by various factors, including but not limited to cash flow in the account. We, however, may not be able to meet the client direction target percentage in all cases. If the broker-dealer is an entity with whom we typically execute large volumes of securities transactions for our clients, there is an increased likelihood that the client’s target may be met. In addition, we typically monitor our satisfaction of client directed brokerage requests on a calendar basis. Therefore, any other measurement by the client (*e.g.*, rolling year) of our satisfaction of the client’s request may produce different results.

*Soft Dollar Arrangements:* We may use a broker-dealer who provides useful research and securities transaction services even though a lower commission may be charged by a broker-dealer who offers no research services and minimal securities transaction assistance. Research services may be useful in servicing all of our clients, and not all of such research may be useful for the account for which the particular transaction was effected. Certain services may require more or less brokerage transactions with a particular broker-dealer than may be the overall industry norm for obtaining these services. In negotiating the amount of brokerage transactions required to obtain a particular service, we consider, among other things, the availability of the particular service from other broker-dealers. We will not receive cash compensation from any broker-dealer wishing to provide us research services.

We have soft dollar arrangements with brokerage firms to receive research and other products in exchange for brokerage commissions from client transactions. Our use of commissions or soft dollars to pay for research products or services falls within the safe harbor for soft dollars created by Section 28(e) of the Securities and Exchange Act of 1934. We may cause an account to pay a broker-dealer a commission higher than that which another broker-dealer might have charged for effecting the same transaction in recognition of the value of products and research services provided by the broker-dealer; provided, that we have determined, in good faith, that the amount of such commission is reasonable in relation to the value of the brokerage and research services provided. The brokerage and research services obtained by us may include a broad variety of financial and related information and services that we believe assist our advisory function.

Where a product or service obtained with soft dollars provides administrative, as well as execution and research, assistance to us, we make a reasonable allocation of the cost that may be paid for with soft dollars. There is a potential conflict of interest in soft dollar arrangements because we may have an incentive to trade or direct trades in order to pay for brokerage, research products and/or services.

*Principal Bids:* In the execution of any trade, the originator of the trade wishes to achieve the best possible execution while simultaneously minimizing the uncertainty associated with market fluctuations. In a principal bid, the originator agrees with the executor to execute the entire trade for a set price relative to an agreed upon benchmark such as the previous night's closing price for the securities being traded. In a normal agency trade, the broker-dealer charges a commission for trading, and the client bears all the risk of the execution. In a principal bid, the price of every single transaction is known ahead of time and the broker-dealer shoulders all the risk of market fluctuations. The cost of the trade may be thought of as a combination of a commission and an expected cost of trading the position. The benefit of this to the originator is that it allows the trade to be executed in one day without any impact from market fluctuations or lack of liquidity, thereby achieving a substantial decrease in the total cost (commission + market impact) of executing a trade, particularly for small cap stocks.

We do not currently engage in principal bid transactions but may do so in the future. However, if we do engage in principal bids, we will instruct broker-dealers to complete the trade confirmations in accordance with our Principal Bid Policy. We will ask broker-dealers to cancel and re-bill all principal trades that are not done in accordance with our Principal Bid Policy.

Our Principal Bid Policy provides that all trade confirmations reflect the entire cost of a principal bid as a mark-up/mark-down and any broker-dealer used for a trade on a principal bid basis is instructed to record its capacity as principal. Additionally, our Principal Bid Policy provides that, in the event we engage in any principal bid transaction, each advisory client will be provided with a letter explaining our procedures for executing client orders on a principal bid basis.

*Trade Allocation Procedures:* We may consider many factors when determining whether an investment is appropriate for allocation to a particular client's investment portfolio, including, but not limited to, some or all of the following factors: (1) the investment objectives of the client; (2) the potential investment needs of the client; (3) the existing diversification of the portfolio; (4) existing levels of portfolio ownership in the investment and in similar types of companies; and (5) liquidity factors, including the availability of cash to fund the investment.

We typically will make preliminary allocation determinations before placing a block order. We will allocate all other block trades among client accounts by the opening of trading on the next business day of the market on which the securities at issue primarily trade.

*Pre-Allocated Block Transactions:* If a complete execution of a pre-allocated block transaction occurs on a trade date, the purchased or sold securities will be allocated among the applicable accounts in accordance with the pre-determined allocation at a single average execution price, before taking into consideration the commission, mark-up or mark-down. We may execute transactions in the same securities on behalf of a number of accounts, including accounts in

which we and our officers or employees may have a financial interest. Accounts in which we or any of our officers, members or employees has a beneficial interest may participate in a complete execution of a pre-allocated block trade with unaffiliated client accounts if these accounts participate at the same average execution price as the client accounts, before taking into consideration the commission, mark-up or mark-down.

If an order is partially filled, we typically will allocate the securities among the participating client accounts in the pre-allocation on a *pro rata* basis. However, if client accounts participating in the order include accounts of clients subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), then certain accounts in which we or any of our officers, members or employees has a beneficial interest, to the extent prohibited under ERISA, may not participate in partial executions of a pre-allocated security transaction until after all non-affiliated, participating client accounts have been filled.

*Other Block Transactions:* In some instances, we may not make preliminary allocations prior to placing a trade order. Prior to the opening of trading on the next business day on the market on which the securities at issue primarily trade, we will allocate those securities among suitable client accounts, taking into account such factors as it deems appropriate, including some or all of the factors enumerated above for allocating trades generally. If, during the evaluation of client portfolios that can participate in an executed order, we determine that the order execution is a “partial fill” of client portfolio needs, we will allocate the order among client portfolios on a *pro rata* basis. However, if client accounts participating in the order include ERISA accounts, then certain accounts in which we or any of our officers, members or employees has a beneficial interest, to the extent prohibited under ERISA, may not participate in partial executions of a pre-allocated security transaction until after all non-affiliated, participating client accounts have been filled.

In certain circumstances, we may deviate from its general trade allocation process. These include if an allocation would result in an insignificant number of shares being allocated to a particular portfolio relative to the size of that account. In such a circumstance, we will determine an allocation that is fair and reasonable among all of the accounts involved in the order. We may allocate pre-allocated orders on a basis different from the pre-allocation statement if the reason for the different allocation is approved by the compliance officer or its designee by the end of the trading day on which the final allocation takes place. Once trades have been allocated, we may reallocate the trades only in unusual circumstances due to recognition of specific account restrictions. Any reallocation must be approved by the Chief Compliance Officer or its designee by the end of the trading day on which the final allocation takes place.

*Aggregation:* On occasions where a number of accounts are attempting to purchase the same securities, we may, but are not obligated to, aggregate orders to purchase or sell securities with our private accounts. We will review, as applicable, each account’s investment objectives, investment restrictions, cash position, need for liquidity, sector concentration and other objective criteria so as to ensure a fair and equitable aggregation of client orders.



**Item 13: Review of Accounts.**

Our Investment Committee reviews each “model” portfolio prior to the commencement of transactions. Each client account is built from the model portfolios. On an on-going basis, all accounts receive periodic reviews by a member of the Investment Committee regarding performance, compliance with investment policy statements, and appropriate allocations or other specific criteria. We employ automated processes to ensure client guidelines are adhered to throughout the investment process. The Chief Compliance Officer or its designee also reviews client accounts on a periodic basis using automated procedures to monitor compliance with client investment guidelines. More frequent or special reviews may be conducted due to changes in client investment policy, additions or withdrawals to accounts, or due to world, economic or market events, or at a client’s specific request.

We provide all clients a periodic report on a monthly basis. These reports indicate performance of the account for the period, current account balances, fundamental portfolio characteristics and all buy and sell transactions which have taken place during the preceding period. These reports are in addition to and separate from confirmations on transactions provided by broker-dealers executing client transactions and statements provided to clients by the client’s independent custodian.

We also provide clients with certain weekly, monthly, quarterly and/or ad hoc reports as requested and/or specified in the individual client’s investment management agreement.

**Item 14: Client Referrals and Other Compensation.**

Currently, we do not have any third party referral arrangements. However, we may pay fees to persons for client referrals, as permitted by Rule 206(4)-3 under the Advisers Act. In general, payments to a solicitor may include a fixed fee, a percentage of amounts invested and/or a percentage of the advisory fees earned by us on the accounts of clients referred by the solicitor. Payments will generally be made for a limited period of time unless otherwise negotiated.

**Item 15: Custody.**

We do not have custody of client assets. Clients select their own qualified custodians, such as banks or broker-dealers to maintain client funds or securities. Clients receive account statements directly from their custodians. In addition, clients receive account statements from Paradigm. When clients receive an account statement from us, clients are encouraged to compare it to the account statement they received from their custodian, and to report any questions, concerns or discrepancies to both Paradigm and the qualified custodian promptly. The two statements should be consistent. However, there may be differences in market values due to Paradigm and a client’s custodian using different pricing sources to value securities held in clients’ portfolios. Other differences can be attributed to account statements being generated by clients’ custodians on a trade date or settlement date basis.

**Item 16: Investment Discretion.**

Paradigm has discretionary investment authority for most client accounts, *i.e.*, the authority to select the securities and the amount of such securities to purchase or sell for the client's account without obtaining specific client consent for the transaction. Clients provide such written authority to us through the advisory contract entered into between Paradigm and the client. Our discretionary investment authority allows us to manage each client's portfolio subject to the client's investment objective and reasonable investment restrictions, if any.

A client may place reasonable restrictions on this discretionary authority. Such restrictions shall be in writing and must be agreed to by us. While a client may modify any restriction, such modification shall take effect when received in writing and accepted by us in writing.

The following provides a sampling of the types of investment restrictions clients may request:

- no investment in Macbride securities
- no investment in Sudan or Iran securities
- no investment in Tobacco securities
- percentage limitation for investments in ADRs
- capitalization limitation for investment

The above list is not exhaustive. We will discuss any client restrictions and determine how they will be applied on a case by case basis. As discussed above, we employ automated processes to ensure client guidelines are adhered to throughout the investment process.

**Item 17: Voting Client Securities.**

When a client retains us as investment adviser, the client's investment management agreement will state whether or not the client has authorized us to vote the securities in their account. We have adopted policies and procedures for when a client has given us this voting authority.

When we have been delegated the authority and responsibility to vote the proxies of clients, we are required to vote proxies in the best interests of those clients. We have engaged Broadridge Investor Communications Solutions, Inc. ("Broadridge") (or such other unaffiliated third party proxy service provider) to administer our proxy voting policy and to assist us in voting client securities. Proxies will be voted in accordance with the voting recommendations contained in the Broadridge Proxy Voting Manual ("Proxy Voting Guidelines"). In the event that the Proxy Voting Guidelines do not address how a proxy should be voted, the proxy will be voted in accordance with Broadridge recommendations. In the event that we determine that there is a material conflict of interest between Paradigm and a client: (i) Broadridge shall vote such proxy in accordance with the Proxy Voting Guidelines or Broadridge recommendations; (ii) we shall disclose such conflict to the client and obtain written direction from the client; (iii) we shall suggest that the client engage another party to determine how to vote the proxy; or (iv) we shall engage another third party to determine how to vote the proxy.

Clients who wish to obtain either a copy of our Proxy Voting Policy or information as to how proxies for their accounts were voted during the most recent 5-year period ended June 30 should make a request of our Chief Compliance Officer: (1) by phone at 212-771-6100; (2) by fax to

212-771-6156; (3) by email to [grp@paradigmasset.com](mailto:grp@paradigmasset.com); or (4) by mail to Paradigm Asset Management Company, LLC, 445 Hamilton Avenue, 11<sup>th</sup> Floor, Room 1102, White Plains, New York 10601, Attention: Chief Compliance Officer.

**Item 18: Financial Information.**

Not applicable. We do not require or solicit prepayment of any advisory fees in advance. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients, and we have not been the subject of a bankruptcy petition in the past.