

Item 1 – Cover Page

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Date of Disclosure Brochure: June 2019

This disclosure brochure provides information about the qualifications and business practices of Palos Management Inc (also referred to as we, us and Palos Management throughout this disclosure brochure). If you have any questions about the contents of this disclosure brochure, please contact Francine Duchesne at 514-307-0459 or fduchesne@palos.ca. The information in this disclosure brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

This disclosure brochure is used for our clients who are residents of the United States of America ("*clients*", "*U.S. clients*"). Unless indicated otherwise, our disclosures in this Brochure are generally based upon our practices and policies for U.S. clients which may differ from our practices and policies for our clients who are not residents of United States of America ("*non-U.S. clients*"). The provisions of the U.S. Investment Advisers Act of 1940 as amended and SEC rules thereunder ("*Advisers Act*") and this Brochure and the protections of the Advisers Act do not apply to our non-U.S. clients.

Additional information about Palos Management is also available on the Internet at www.adviserinfo.sec.gov. You can view our firm's information on this website by searching for Palos Management Inc or our firm's CRD number 304309.

*Registration as an investment adviser does not imply a certain level of skill or training.

Item 2 – Material Changes

Palos Management is a newly registered investment adviser, and this disclosure brochure dated June 2019 is the first disclosure brochure prepared by our firm. In the future, this item will discuss only specific material changes that are made to the disclosure brochure and provide readers with a summary of such changes. We will also reference the date of the last annual update of this disclosure brochure.

We will ensure that you receive a summary of any material changes to this and subsequent disclosure brochures within 120 days after our firm's fiscal year ends. Our firm's fiscal year ends on December 31, so you will receive the summary of material changes no later than April 30 each year. At that time, we will also offer or provide a copy of the most current disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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Item 4 – Advisory Business

Palos Management is an investment adviser registered with the United States Securities and Exchange Commission (“SEC”) and is a corporation formed under the laws of Quebec, Canada.

- Palos Management Inc is wholly owned by a parent holding company named Palos Capital Corporation. Charles Marleau and Philippe Marleau are the only beneficial owners of Palos Capital Corporation with ownership interest of 25% or more. Their ownership interest in Palos Capital Corporation is held through The Marleau Capital Corporation Inc, a holding company.
- Palos Management filed its initial application to become registered as an investment adviser in June 2019.

Introduction

The investment advisory services of Palos Management are provided to you through an investment adviser representative of Palos Management (referred to as your investment adviser representative throughout this brochure).

Description of Advisory Services

The following are descriptions of the primary advisory services of Palos Management. Palos Management also provides services to several Canadian investment funds as part of its business conducted through its registration as an Investment Fund Manager with Canadian securities regulators. This Item only discusses services which are offered to our U.S. clients. For more information about our services provided to Canadian investment funds please see *Item 10 – Other Financial Industry Activities and Affiliations*.

Please understand that a written agreement, which details the exact terms of the service, must be signed by you and Palos Management before we can provide you the services described below.

Asset Management Services – Palos Management offers asset management services, which involves Palos Management providing you with continuous and ongoing supervision over your specified accounts.

You must appoint our firm as your investment adviser of record on specified accounts (collectively, the “Account”). The Account consists only of separate account(s) held by qualified custodian(s) under your name. The qualified custodians maintain physical custody of all funds and securities of the Account, and you retain all rights of ownership (e.g., right to withdraw securities or cash, exercise or delegate proxy voting and receive transaction confirmations) of the Account.

The Account is managed by us based on your financial situation, investment objectives and risk tolerance. We actively monitor the Account and provide advice regarding buying, selling, reinvesting or holding securities, cash or other investments of the Account.

We will need to obtain certain information from you to determine your financial situation and investment objectives. You will be responsible for notifying us of any updates regarding your financial situation, risk tolerance or investment objective and whether you wish to impose or modify existing investment restrictions; however we will contact you at least annually to discuss any changes or updates regarding

your financial situation, risk tolerance or investment objectives. We are always reasonably available to consult with you relative to the status of your Account. You have the ability to impose reasonable restrictions on the management of your accounts, including the ability to instruct us not to purchase certain securities.

It is important that you understand that we manage investments for other clients and may give them advice or take actions for them or for our personal accounts that is different from the advice we provide to you or actions taken for you. We are not obligated to buy, sell or recommend to you any security or other investment that we may buy, sell or recommend for any other clients or for our own accounts.

Conflicts may arise in the allocation of investment opportunities among accounts that we manage. We strive to allocate investment opportunities believed to be appropriate for your account(s) and other accounts advised by our firm among such accounts equitably and consistent with the best interests of all accounts involved. However, there can be no assurance that a particular investment opportunity that comes to our attention will be allocated in any particular manner. If we obtain material, non-public information about a security or its issuer that we may not lawfully use or disclose, we have absolutely no obligation to disclose the information to any client or use it for any client's benefit.

Limits Advice to Certain Types of Investments

Palos Management provides investment advice on the following types of investments:

- Mutual Funds
- Exchange Traded Funds (ETFs)
- Exchange-listed Securities
- Securities Traded Over-the-Counter
- Foreign Issues
- Warrants
- Corporate Debt Securities
- Commercial Paper
- Certificates of Deposit
- Municipal Securities
- US Government Securities
- Securities Properly Exempted from Registration

Although we generally provide advice only on the products previously listed, we reserve the right to offer advice on any investment product that may be suitable for each client's specific circumstances, needs, goals and objectives.

It is not our typical investment strategy to attempt to time the market, but we may increase cash holdings modestly as deemed appropriate based on your risk tolerance and our expectations of market behavior. We may modify our investment strategy to accommodate special situations such as low basis stock, stock options, legacy holdings, inheritances, closely held businesses, collectibles, or special tax situations.

(Please refer to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for more information.)

Tailor Advisory Services to Individual Needs of Clients

Palos Management's advisory services are always provided based on your individual needs. This means, for example, that when we provide asset management services, you are given the ability to impose restrictions on the accounts we manage for you, including specific investment selections and sectors. We work with you on a one-on-one basis through interviews and questionnaires to determine your investment objectives and suitability information.

We will not enter into an investment adviser relationship with a prospective client whose investment objectives may be considered incompatible with our investment philosophy or strategies or where the prospective client seeks to impose unduly restrictive investment guidelines.

Client Assets Managed by Palos Management

As a newly registered investment adviser, Palos Management has no assets under management to report as of the date of this Brochure.

Item 5 – Fees and Compensation

In addition to the information provided in *Item 4 – Advisory Business*, this section provides additional details regarding our firm's services along with descriptions of each service's fees and compensation arrangements. It should be noted that lower fees for comparable service may be available from other sources. The exact fees and other terms will be outlined in the agreement between you and Palos Management.

Asset Management Services

Fees charged for our asset management services are charged based on a percentage of assets under management, billed in advance (at the start of the billing period) on a quarterly calendar basis and calculated based on the fair market value of your account as of the last business day of the previous billing period. Fees are prorated (based on the number of days service is provided during the initial billing period) for your account opened at any time other than the beginning of the billing period. If asset management services are commenced in the middle of a billing period, the prorated fee for the initial billing period is billed in arrears at the same time as the next full billing period's fee is billed.

The asset management services continue in effect until terminated by either party (i.e., Palos Management or you) by providing written notice of termination to the other party. Any prepaid, unearned fees will be promptly refunded by Palos Management to you. Fee refunds will be determined on a pro rata basis using the number of days services are actually provided during the final period.

The annual fee for asset management services will typically be between 0.75% and 1.25%, determined by Palos Management and based on certain factors stated below.

Fees charged for our asset management services are negotiable based on certain factors which include the investment adviser representative providing the services, the type of client, the complexity of the client's situation, the composition of the client's account (i.e., equities versus mutual funds), the potential for additional account deposits, the relationship of the client with the investment adviser representative and the total amount of assets under management for the client.

Palos Management believes that its annual fee is reasonable in relation to: (1) services provided and (2) the fees charged by other investment advisers offering similar services/programs. However, our annual investment advisory fee may be higher than that charged by other investment advisers offering similar

services/programs. In addition to our compensation, you may also incur charges imposed at the mutual fund level (e.g., advisory fees and other fund expenses).

The investment advisory fees will be deducted from your account and paid directly to our firm by the qualified custodian(s) of your account. You will authorize the qualified custodian(s) of your account to deduct fees from your account and pay such fees directly to our firm.

You should review your account statements received from the qualified custodian(s) and verify that appropriate investment advisory fees are being deducted. The qualified custodian(s) will not verify the accuracy of the investment advisory fees deducted.

Brokerage commissions and/or transaction ticket fees charged by the qualified custodian are billed directly to you by the qualified custodian. Palos Management does not receive any portion of such commissions or fees from you or the qualified custodian. In addition, you may incur certain charges imposed by third parties other than Palos Management in connection with investments made through your account including, but not limited to, mutual fund sales loads, 12(b)-1 fees and surrender charges, variable annuity fees and surrender charges, IRA and qualified retirement plan fees, and charges imposed by the qualified custodian(s) of your account. Management fees charged by Palos Management are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to you. A description of these fees and expenses are available in each investment company security's prospectus.

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

Performance-based fees are defined as fees based on a share of capital gains on or capital appreciation of the assets held in a client's account. *Item 6* is not applicable to this Disclosure Brochure because we do not charge or accept performance-based fees to U.S. advisory clients.

Item 7 – Types of Clients

Palos Management generally provides investment advice to the following types of clients:

- Individuals
- High net worth individuals
- Investment companies
- Other pooled investment companies (e.g. hedge funds)
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

You are required to execute a written agreement with Palos Management specifying the particular advisory services in order to establish a client arrangement with Palos Management.

Minimum Investment Amounts Required

There are no minimum investment amounts or conditions required for establishing an account managed by Palos Management. However, all clients are required to execute an agreement for services in order to establish a client arrangement with Palos Management and/or the third-party money manager or the sponsor of third-party money manager platforms.

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

Methods of Analysis

Palos Management uses the following methods of analysis in formulating investment advice:

Fundamental – This is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of a company). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). Fundamental analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

The risk associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong and could therefore lead to an unfavorable investment decision.

Technical – This is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

Technical analysis is even more subjective than fundamental analysis in that it relies on proper interpretation of a given security's price and trading volume data. A decision might be made based on a historical move in a certain direction that was accompanied by heavy volume; however, that heavy volume may only be heavy relative to past volume for the security in question, but not compared to the future trading volume. Therefore, there is the risk of a trading decision being made incorrectly, since future trading volume is an unknown. Technical analysis is also done through observation of various market sentiment readings, many of which are quantitative. Market sentiment gauges the relative degree of bullishness and bearishness in a given security, and a contrarian investor utilizes such sentiment advantageously. When most traders are bullish, then there are very few traders left in a position to buy the security in question, so it becomes advantageous to sell it ahead of the crowd. When most traders are bearish, then there are very few traders left in a position to sell the security in question, so it becomes advantageous to buy it ahead of the crowd. The risk in utilization of such sentiment technical measures is that a very bullish reading can always become more bullish, resulting in lost opportunity if the money manager chooses to act upon the bullish signal by selling out of a position. The reverse is also true in that a bearish reading of sentiment can always become more bearish, which may result in a premature purchase of a security.

There are risks involved in using any analysis method.

To conduct analysis, Palos Management gathers information from financial newspapers and magazines, inspection of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses and filings with the SEC, and company press releases.

Investment Strategies

Palos Management uses the following investment strategies when managing client assets and/or providing investment advice:

Long term purchases. Investments held at least a year.

Short term purchases. Investments sold within a year.

Frequent trading. This strategy refers to the practice of selling investments within 30 days of purchase.

Short sales. A short sale is generally the sale of a stock not owned by the investor. Investors who sell short believe the price of the stock will fall. If the price drops, the investor can buy the stock at the lower price and make a profit. If the price of the stock rises and the investor buys it back later at the higher price, the investor will incur a loss. Short sales require a margin account.

We primarily follow a value-investing strategy that attempts to acquire at reasonable valuations publicly traded businesses that can deliver sustainable excess returns. We focus on a long-only strategy. Long term strategies are designed to identify and select investments to be held for multiple years. We will also invest in value oriented special situations with shorter expected holding periods.

Value Investing can be described as a strategy of selecting stocks that trade for less than their intrinsic values. Value investors typically seek stocks of companies that they believe the market has undervalued. They believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond with the company's long-term fundamentals. The result is an opportunity for value investors to profit by buying when the price is deflated. Often, value investors select stocks with lower-than-average price-to-book or price-to-earnings ratios and/or high dividend yields. The risks associated with value-investing include incorrectly analyzing and overestimating the intrinsic value of a business, concentration risk, under performance relative to major benchmarks, macro-economic risks, investing in value traps i.e. businesses that remain perpetually undervalued, and lost purchasing power on cash holdings in the case of inflation.

Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest of the purchase price from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock from Palos Management.

Option writing including cover options, uncovered options or spreading strategies. Options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time.

Tactical asset allocation. Allows for a range of percentages in each asset class (such as Stocks = 40-50%). The ranges establish minimum and maximum acceptable percentages that permit the investor to take advantage of market conditions within these parameters. Thus, a minor form of market timing is possible, since the investor can move to the higher end of the range when stocks are expected to do better and to the lower end when the economic outlook is bleak.

Strategic asset allocation. Calls for setting target allocations and then periodically rebalancing the portfolio back to those targets as investment returns skew the original asset allocation percentages. The concept is akin to a “buy and hold” strategy, rather than an active trading approach. Of course, the strategic asset allocation targets may change over time as the client’s goals and needs change and as the time horizon for major events such as retirement and college funding grow shorter.

Primarily Recommend One Type of Security

We do not primarily recommend one type of security to clients. Instead, we recommend any product that may be suitable for each client relative to that client’s specific circumstances and needs.

Risk of Loss

Past performance is not indicative of future results. Therefore, you should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds, etc.) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. You should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, our firm is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated with investing in securities through our investment management program, as described below:

- Market Risk – Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Equity (stock) market risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk. When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company’s employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.

- Fixed Income Risk. When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Options Risk. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- ETF and Mutual Fund Risk – When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. You will also incur brokerage costs when purchasing ETFs.
- Management Risk – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.
- Margin Risk - When you purchase securities, you may pay for the securities in full or borrow part of the purchase price from your account custodian or clearing firm. If you intended to borrow funds in connection with your Account, you will be required to open a margin account, which will be carried by the clearing firm. The securities purchased in such an account are the clearing firm's collateral for its loan to you.

If those securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and as a result, the brokerage firm is required to take action in order to maintain the necessary level of equity in your account. The brokerage firm may issue a margin call and/or sell other assets in your account.

It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any margin account that may be established as part of the Asset Management Agreement established between you and Palos Management and held by the account custodian or clearing firm.

These risks include the following:

- You can lose more funds than you deposit in your margin account.
- The account custodian or clearing firm can force the sale of securities or other assets in your account.
- The account custodian or clearing firm can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your margin account may be liquidated or sold to meet a margin call.
- The account custodian or clearing firm may move securities held in your cash account to your margin account and pledge the transferred securities.

- The account custodian or clearing firm can increase its “house” maintenance margin requirements at any time and they are not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.

Item 9 – Disciplinary Information

Palos Management received a judgement from L’Autorité des marchés financier (AMF) on November 23, 2011, after an inspection of the firm was conducted in the fall of 2010. In 2009 and 2010, Palos Management failed to deliver to the Quebec regulator the required Annual financial statements and Interim financial information. Palos Management was ordered to pay a fine of \$26,500, which was paid in full on November 25, 2011.

Item 10 – Other Financial Industry Activities and Affiliations

Palos Management is **not** and does **not** have a related person that is a broker/dealer, municipal securities dealer, government securities dealer or broker, a futures commission merchant, commodity pool operator, or commodity trading advisor, a banking or thrift institution, an accountant or accounting firm, a lawyer or law firm, an insurance company or agency, a pension consultant, and a real estate broker or dealer.

We are an independent registered investment registered adviser. We are not engaged in any other business activities and offer no other services except those described in this Disclosure Brochure.

Palos Funds

In addition to the asset management services described in *Item 4*, Palos Management also provides management services to several affiliated investment funds. A list of the funds can be found below:

- Palos Equity Income Fund – Mutual fund, only sold to Canadian residents.
- Palos Income Fund L.P. – Private investment fund, only sold to accredited Canadian investors.
- Palos WP Growth Fund – Open-ended trust, only sold to accredited Canadian investors.
- Palos-Mitchell Alpha Fund – Open-ended trust, only sold to accredited Canadian investors.
- Palos Merchant Fund – Mutual fund, only sold to accredited Canadian investors. No new shares available.

These affiliated investment funds are operated and managed under Palos Management’s registration as a Portfolio Manager with Canadian securities regulators. U.S. advisory clients are not solicited or allowed to invest in any of these affiliated investment funds. These funds charge performance fees which creates a conflict of interest. The potential for receipt of performance fees gives us an incentive to spend more time managing the funds rather than individual client accounts because of the chance that we will receive increased compensation from the funds if they perform well. We attempt to mitigate this conflict by acting in all of our client’s best interest and avoiding favoring certain clients or investments over others.

Palos Wealth Management

Palos Wealth Management is a Canadian Portfolio Manager that is under common ownership and control with Palos Management Inc. Palos Wealth Management provides asset management and financial

planning services to individual Canadian residents. Palos Management and Palos Wealth Management share some supervised persons who will serve clients of both organizations.

Palos Corporate Services Inc

Palos Corporate Services Inc is an entity under common ownership and control with Palos Management Inc. Palos Corporate Services Inc serves as the General Partner to the Palos Merchant Fund, a Canadian Investment Fund.

Palos MB Inc

Palos MB Inc. is an entity under common ownership and control with Palos Management Inc. Palos MB Inc serves as the General Partner to the Palos Capital Partners Limited Partnership.

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

Code of Ethics Summary

According to the *Investment Advisers Act of 1940*, an investment adviser is considered a fiduciary and has a fiduciary duty to all clients. Palos Management has established a Code of Ethics to comply with the requirements of Section 204(A)-1 of the *Investment Advisers Act of 1940* that reflects its fiduciary obligations and those of its supervised persons. The Code of Ethics also requires compliance with federal securities laws. The Code of Ethics covers all individuals that are classified as “supervised persons”. All employees, officers, directors and investment adviser representatives are classified as supervised persons. Palos Management requires its supervised persons to consistently act in your best interest in all advisory activities. Palos Management imposes certain requirements on its affiliates and supervised persons to ensure that they meet the firm’s fiduciary responsibilities to you. The standard of conduct required is higher than ordinarily required and encountered in commercial business.

This section is intended to provide a summary description of the Code of Ethics of Palos Management. If you wish to review the Code of Ethics in its entirety, you should send us a written request and upon receipt of your request, we will promptly provide a copy of the Code of Ethics to you.

Affiliate and Employee Personal Securities Transactions Disclosure

Associated persons of the firm that have been deemed as “Access” persons buy and sell for their personal accounts, investment products identical to those recommended to clients. This creates a conflict of interest. It is the express policy of Palos Management that all Access Persons of our firm must place clients’ interests ahead of their own when implementing personal investments. As is required by our internal procedures manual, Palos Management and its Access Persons will not buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of employment or association with our firm unless the information is also available to the investing public upon reasonable inquiry.

We are now and will continue to be in compliance with applicable state and federal rules and regulations. To mitigate conflicts of interest that can occur when supervised persons manage their personal accounts at the same time Palos Management manages client accounts, we have developed written supervisory procedures that include personal investment and trading policies for our representatives, employees and their immediate family members (collectively, Access persons):

- Access persons cannot prefer their own interests to that of the client.
- Access persons cannot purchase or sell any security for their personal accounts prior to

implementing transactions for client accounts.

- Access persons cannot buy or sell securities for their personal accounts when those decisions are based on information obtained as a result of their employment, unless that information is also available to the investing public upon reasonable inquiry.
- Access persons are prohibited from purchasing or selling securities of companies in which any client is deemed an “insider”.
- Access persons are discouraged from conducting frequent personal trading.
- Access persons are generally prohibited from serving as board members of publicly traded companies unless an exception has been granted to the Chief Compliance Officer of Palos Management.

Any associated person not observing our policies is subject to sanctions up to and including termination.

Item 12 – Brokerage Practices

We exercise reasonable due diligence to make certain that best execution is obtained for all clients when implementing any transaction by considering the back-office services, technology and pricing of services offered. Best execution does not necessarily mean that clients receive the lowest possible commission costs but that the qualitative execution is best. In other words, all conditions considered, the transaction execution is in your best interest. When considering best execution, we look at a number of factors besides prices and rates including, but not limited to:

- Execution capabilities (e.g., market expertise, ease/reliability/timeliness of execution, responsiveness, integration with our existing systems, ease of monitoring investments)
- Products and services offered (e.g., investment programs, back office services, technology, regulatory compliance assistance, research and analytic services)
- Financial strength, stability and responsibility
- Reputation and integrity
- Ability to maintain confidentiality

Brokerage Recommendations

When engaging us for services we typically recommend that you either use Interactive Brokers or National Bank Independent Network (NBIN) as the broker/dealer for your account. Palos Management is independently owned and operated and not affiliated with either NBIN or Interactive Brokers.

Both Interactive Brokers and NBIN provide Palos Management with access to their institutional trading and custody services, which are typically not available to retail investors. The services include brokerage services, custody, research tools, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

NBIN and Interactive Brokers also make available to Palos Management other products and services that we benefit from but may not benefit your Account. Some of these other products and services assist us in managing and administering our clients' accounts.

They can include, but are not necessarily limited to: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk; access to block trading which provides the ability to aggregate securities transactions and allocate the appropriate shares to client accounts; the ability to

have investment advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; and access to mutual funds that generally require significantly higher minimum initial investments or are generally only available to institutional investors.

Interactive Brokers and NBIN also make available to us other products and services that benefit our firm but may not benefit clients' accounts. Some of these other products and services assist us in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmation and account statements); provide research, pricing information and other market data; facilitate payment of the firm's fees from its clients' accounts; and assist with back-office functions; record keeping and client reporting. Many of these services generally may be used to service all or a substantial number of our accounts, including accounts not maintained at a recommended custodian.

These arrangements create a conflict of interest to the extent that we would have to pay for some or all of the research and/or services we receive with "hard dollars" if we were unable to obtain the research and services in exchange for commissions in connection with client transactions. This creates an incentive for us to recommend that you utilize Interactive Brokers and NBIN.

You are under no obligation to act on our recommendations. You may select a broker/dealer or account custodian other than Interactive Brokers or NBIN.

Directed Brokerage

Clients are allowed to select the broker-dealer that will be used for their accounts. Clients directing the use of a particular broker/dealer or other custodian must understand that we may not be able to obtain the best prices and execution for the transaction. Under a client-directed brokerage arrangement, clients may receive less favorable prices than would otherwise be the case if the client had not designated a particular broker/dealer or custodian. Directed brokerage account trades are generally placed by Palos Management after effecting trades for other clients of Palos Management. In the event that a client directs Palos Management to use a particular broker or dealer, Palos Management may not be authorized to negotiate commissions and may be unable to obtain volume discounts or best execution. In addition, under these circumstances a disparity in commission charges may exist between the commissions charged to clients who direct Palos Management to use a particular broker or dealer versus clients who do not direct the use of a particular broker or dealer.

Block Trading Policy

We may elect to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used by our firm when Palos Management believes such action may prove advantageous to clients. If and when we aggregate client orders, allocating securities among client accounts is done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently.

Palos Management uses the average price allocation method for transaction allocation.

Under this procedure Palos Management will calculate the average price and transaction charges for each transaction included in a block order and assign the average price and transaction charge to each allocated transaction executed for the client's account.

If and when we determine to aggregate client orders for the purchase or sale of securities, including securities in which Palos Management or our associated persons may invest, we will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* Neither we nor our associated persons receive any additional compensation as a result of block trades.

Agency Cross Transactions

Our associated persons are prohibited from engaging in agency cross transactions, meaning we cannot act as brokers for both the sale and purchase of a single security between two different clients and cannot receive compensation in the form of an agency cross commission or principal mark-up for the trades.

Item 13 – Review of Accounts

Account Reviews and Reviewers

Managed accounts are reviewed at least quarterly. While the calendar is the main triggering factor, reviews can also be conducted at your request. Account reviews will include investment strategy and objectives review and making a change if strategy and objectives have changed. Reviews are conducted by your investment advisor representative and the compliance team, with reviews performed in accordance with your investment goals and objectives.

Statements and Reports

For our asset management services, you are provided with transaction confirmation notices and regular quarterly account statements in writing directly from the qualified custodian. Additionally, Palos Management may provide performance reports to you quarterly and upon request.

You are encouraged to always compare any reports or statements provided by us against the account statements delivered from the qualified custodian. When you have questions about your account statement, you should contact our firm and the qualified custodian preparing the statement.

Item 14 – Client Referrals and Other Compensation

Palos Management does not directly or indirectly compensate any person for client referrals.

The only compensation received from advisory services is the fees charged for providing investment advisory services as described in *Item 5* of this Disclosure Brochure. Palos Management receives no other forms of compensation in connection with providing investment advice.

Please see Item 5, Fees and Compensation, Item 10, Other Financial Industry Activities and Affiliations and Item 12, Brokerage Practices, for additional discussion concerning other compensation.

Item 15 – Custody

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment adviser has the ability to access or control client funds or securities, the investment adviser is deemed to have custody and must ensure proper procedures are implemented.

Palos Management is deemed to have custody of client funds and securities whenever Palos Management is given the authority to have fees deducted directly from client accounts. However, this is the only form of custody Palos Management will ever maintain over U.S. advisory clients' funds and securities. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

Palos Management and its affiliates have custody over Canadian clients' funds and securities when providing management services to its affiliated Canadian investment funds. U.S. advisory clients are not solicited or allowed to invest in any of these affiliated investment funds.

For U.S. client accounts in which Palos Management is deemed to have custody, we have established procedures to ensure all client funds and securities are held at a qualified custodian in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from Palos Management. When clients have questions about their account statements, they should contact Palos Management or the qualified custodian preparing the statement.

Item 16 – Investment Discretion

When providing asset management services, Palos Management maintains trading authorization over your Account and can provide management services on a **discretionary** basis. When discretionary authority is granted, we will have the authority to determine the type of securities and the amount of securities that can be bought or sold for your portfolio without obtaining your consent for each transaction. However, it is the policy of Palos Management to consult with you prior to making significant changes in the account even when discretionary trading authority is granted.

If you decide to grant trading authorization on a **non-discretionary** basis, we will be required to contact you prior to implementing changes in your account. Therefore, you will be contacted and required to accept or reject our investment recommendations including:

- The security being recommended
- The number of shares or units
- Whether to buy or sell

Once the above factors are agreed upon, we will be responsible for making decisions regarding the timing of buying or selling an investment and the price at which the investment is bought or sold. If your accounts are managed on a non-discretionary basis, you need to know that if we are not able to reach you or you are slow to respond to our request, it can have an adverse impact on the timing of trade implementations and we may not achieve the optimal trading price.

You will have the ability to place reasonable restrictions on the types of investments that may be purchased in your Account. You may also place reasonable limitations on the discretionary power granted to Palos Management so long as the limitations are specifically set forth or included as an attachment to the client agreement.

Item 17 – Voting Client Securities

Palos Management does not vote proxies on behalf of Clients. We have determined that taking on the responsibilities for voting client securities does not add enough value to the services provided to you to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is your responsibility to vote all proxies for securities held in Account.

You will receive proxies directly from the qualified custodian or transfer agent; we will not provide you with the proxies. You are encouraged to read through the information provided with the proxy-voting documents and make a determination based on the information provided. Although we do not vote client proxies, if you have a question about a particular proxy feel free to contact us. However, you will have the ultimate responsibility for making all proxy-voting decisions.

Item 18 – Financial Information

This *Item 18* is not applicable to this brochure. Palos Management does not require or solicit prepayment of more than \$1200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for the most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, Palos Management has not been the subject of a bankruptcy petition at any time.

Customer Privacy Policy Notice

Commitment to Your Private Information: Palos Management has developed a policy of protecting the confidentiality and security of the information we collect about our clients. We do not, and will not, share nonpublic personal information about you (“Information”) with outside third parties without your consent, except for the specific purposes described below. This notice has been provided to you to describe the Information we may gather and the situations under which we may need to share it.

Why We Collect and How We Use Information. We limit the collection and use of Information within our firm to only those individuals associated or employed with us that must have Information to provide financial services to you. Such services include maintaining your accounts, processing transaction requests, providing financial advisory services, and other services described in our Form ADV.

How We Gather Information. We get most Information directly from you when you provide us with information from any of the following sources:

- Applications or forms (for example: name, address, social security number, birth date, assets, income, financial history)
- Transactional activity in your account (for example: trading history and account balances)
- Information services and consumer reporting sources (for example: to verify your identity or to assess your credit history)
- Other sources with your consent (for example: your insurance professional, attorney, or accountant)

How We Protect Information. Our employees and affiliated persons are required to protect the confidentiality of Information and to comply with our stated policies. They may access Information only when there is an acceptable reason to do so, such as to service your account or provide you with financial advisory services. Employees who violate our Privacy Policy are subject to disciplinary action, up to and including termination from employment with us. We also maintain physical, electronic, and procedural safeguards to protect information, which comply with applicable SEC, state, and federal laws.

Sharing Information with Other Companies Permitted Under Law. We do not disclose Information obtained in the course of our practice except as required or permitted under law. Permitted disclosures include, for instance, providing information to unrelated third parties who need to know such Information in order to assist us with providing financial advisory services to you. Unrelated third parties may include broker/dealers, mutual fund companies, insurance companies, and the custodian with whom your assets are held. In such situations, we stress the confidential nature of information being shared.

Former Customers. Even if we cease to provide you with financial advisory services, our Privacy Policy will continue to apply to you and we will continue to treat your nonpublic information with strict confidentiality.