



## **PAGNATOKARP PARTNERS, LLC**

*a Registered Investment Adviser*

### **Part 2A of Form ADV: Firm Brochure**

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March 27, 2019

This brochure provides information about the qualifications and business practices of PagnatoKarp Partners, LLC (hereinafter “PagnatoKarp” or the “Firm”). If you have any questions about the contents of this brochure, please contact Robin Sines, Chief Compliance Officer, at the telephone number listed above. 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. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm is a federally registered investment adviser. Registration does not imply a certain level of skill or training.

## **Item 2. Material Changes**

Since PagnatoKarp's most recent annual amendment to this form made in March 2018, PagnatoKarp has enhanced the disclosures addressing multiple items in this form. Please see updates to the following sections of this brochure for information for the One Fee Program Clients and PagnatoKarp Clients:

Item 5 – Fees and Compensation – Fee Rates and Tax Services Fees

Item 10 – Other Financial Industry Activities and Affiliations – RSM US, LLP and Zell Law, PLLC

Effective July 31, 2018, PagnatoKarp has appointed Robin D. Sines as Chief Compliance Officer.

Effective September 20, 2018, PagnatoKarp has appointed Wayne M. Zell as Chief Legal Officer.

Effective February 15, 2019, Robert Ciullo is no longer an employee of PagnatoKarp or a member of its Executive Committee.

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## Item 4. Advisory Business

PagnatoKarp Partners, LLC (“PagnatoKarp” or the “Firm”) was established and approved as a Registered Investment Adviser in 2015. PagnatoKarp, LLC owns approximately 96% of PagnatoKarp and is owned by Paul A. Pagnato, Jr. and David W. Karp. The remaining membership interests are indirectly owned by PagnatoKarp employees through PagnatoKarp Equity, LLC and Reston Advisory, LLC.

PagnatoKarp offers Clients (individuals, corporations and other business entities, trusts, estates, and charitable organizations) (“Client”) a variety of wealth management and other services, including investment management, custom financial planning, wealth transfer and estate planning, business planning, business consulting, investment management, family governance and education, philanthropic strategy and planning, income tax preparation and planning, and lifestyle and concierge services. PagnatoKarp provides services to two segments of Clients; Family Office and PagnatoKarp (standard) Client. Generally, Family Office segment provides services to Ultra High Net Worth Clients primarily through the PagnatoKarp One Fee Program, and to High Net Worth Clients through our standard PagnatoKarp service offering. Family governance and education, income tax preparation and planning, and lifestyle and concierge services are only provided to Family Office Clients, unless a Client chooses to pay PagnatoKarp a separate fee for such services.

PagnatoKarp places the Client’s interests first. PagnatoKarp and its supervised persons (together, “we”) are proud to commit to using best efforts to abide by the following ten principles, referred to as our True Fiduciary® Standards.

1. Embrace the legal fiduciary obligation to place Clients’ interests first.
2. Deliver comprehensive financial planning.
3. Provide fee-only advice.
4. Do not accept commissions.
5. Receive only one source of revenue: Client fees.
6. Provide transparency on portfolios and investments.
7. Remain independent from any bank, broker dealer, insurance or custodian.
8. Measure Client performance returns using independent third parties.
9. Do not create products to sell or price any public securities.
10. Do not hold any Client assets, securities, or money.

In addition to abiding by the ten principles outlined above, PagnatoKarp has voluntarily subscribed to the “Real Fiduciary™ Practices – Professional Conduct Guidance for Advisors (“Real Fiduciary Practices”)” published by The Institute for the Fiduciary Standard. The Real Fiduciary Practices offer a simple code of conduct and outline a commitment to Clients of subscribing financial advisors. They seek to clearly articulate what a Client can expect to receive from a subscribing financial advisor. These Real Fiduciary Practices do not replace our regulatory compliance obligations or duties to Clients under relevant laws,

rules, or regulations. The Institute for the Fiduciary Standard's role is limited to publishing the Real Fiduciary Practices as well as maintaining a corresponding register of subscribing financial advisors. A complete list of the Real Fiduciary Practices can be found on our website or at <https://thefiduciaryinstitute.org/wp-content/uploads/2019/03/Real-Fiduciary-Practices-2019-02-22.pdf>. Our subscription status can be verified at <https://thefiduciaryinstitute.org/real-fiduciary-advisors/>. Paul Pagnato (Founder, majority owner, and Chief Executive Officer of PagnatoKarp) is a member of the Board of Directors for The Institute for the Fiduciary Standard.

The term “fiduciary” throughout this brochure refers to the legal obligation that the Firm has as an investment adviser under the Investment Advisers Act of 1940. That standard requires, in part, that the Firm act in Clients' best interests and to place the interests of Clients before that of the Firm and its Supervised Persons. Neither PagnatoKarp nor any of its Supervised Persons receive any commissions, employ any “soft dollar” arrangements, or receive financial incentives for investment selections or recommendations. The Firm is compensated by its Clients only for the advice and services provided.

Paul A. Pagnato, Jr. & David W. Karp are the principal owners of PagnatoKarp. As of December 31, 2018, PagnatoKarp had approximately \$3.75 Billion in total assets, which includes approximately \$1.8 Billion in Assets Under Management (“AUM”) and approximately \$1.95 Billion in Assets Under Advisement (“AUA”). AUM is defined as assets in all accounts listed on the PagnatoKarp Client Engagement Agreement forms where PagnatoKarp provides ongoing management services. AUA is defined as all assets held away that PagnatoKarp advises on, including, but not limited to 401k's, real estate, business holdings and other private investments. PagnatoKarp relationship managers advise on these assets at each portfolio review and the assets are listed in PagnatoKarp's reporting tools and reports.

## **Financial Planning**

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We manage Client assets according to their individual needs. Our proprietary personalized Roadmap Process provides the foundation for the client's PagnatoKarp engagement. The custom plan presented during the Roadmap Process identifies a prospective Client's goals and objectives, and outlines a plan to pursue them. Goals are revisited periodically during portfolio review meetings, and the plan is updated as necessary.

There are five steps to PagnatoKarp's Roadmap Process:

1. Discovery Session – PagnatoKarp immerses ourselves in a prospective Client's financial, tax, legal, (plus travel for Family Office clients), and family matters through in-person meetings and document reviews, mining for information that reveals dangers, opportunities, and strengths and identified goals and preferences; constructing a balance sheet; discussing cash flow needs; reviewing the estate plan; and determining risk tolerance.
2. Success Session– Discovery session results are outlined and reviewed in a Success Session to minimize a prospective Client's dangers, maximize opportunities ahead, and take advantage of strengths. Working collaboratively to define what spells success for the prospective Client, we develop a custom financial plan to guide the client on a clear path forward. Particular areas of focus include cash flow planning, estate planning, pre-transaction planning, wealth transfer planning, tax planning, college planning, charitable planning, asset allocation modeling, insurance planning, liability management, and for Family Office clients, family governance, and lifestyle and concierge services, as needed.

3. Quick Start – We deliver planning results in 60 days in the Quick Start Session. This establishes positive momentum from the Discovery and Success Sessions and lays the groundwork for a proactive, results-oriented relationship. Result examples include one or more of the following: tax exposure minimization strategies, quantifying financial independence, proposing and implementing a recommended portfolio strategy, illustrating cash flow, and offering succession and estate planning solutions.
4. Breakthrough Solutions – We tap into our planning, tax, legal, financial, and lifestyle expertise to recommend and/or provide customized solutions for our Client families. Breakthrough ideas might include hedging equity exposure, creating a Grantor Retained Annuity Trust, gifting an appreciated asset, tax-loss harvesting, or an off-site family meeting.
5. Reporting – We provide comprehensive yet simple reporting on our Client families’ assets, connecting their financial goals and objectives with real world actionable insights. Our Clients will gain access to Return on Investment (ROI) for their investments, public or private.

We provide financial planning services to Clients independent of our advisory or other family office services. See Item 5 for information on fees for Clients engaging PagnatoKarp exclusively for financial planning services.

### **Investment Policy Statements**

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PagnatoKarp works with each Client to develop guidelines set forth in the Client’s Investment Policy Statement (“IPS”). The IPS addresses matters such as a Client’s investment objectives, risk tolerance, cash flow needs, tax situation, liquidity requirements, and any other considerations that the Client and PagnatoKarp agree are relevant to the management of the Client’s assets. In managing Client assets, PagnatoKarp consults with Clients on an initial and ongoing basis. Clients are advised to promptly notify PagnatoKarp if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolio(s). Clients can impose reasonable restrictions or mandates on the management of their account(s) if PagnatoKarp determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm’s asset management efforts.

### **Asset Management Services**

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PagnatoKarp has engaged Rocatton Investment Advisors, a Goldman Sachs Asset Management affiliate, (“Rocatton”) to assist in the initial and on-going research and due diligence process for the mutual funds, ETFs, Independent Managers and private placement investment vehicles recommended by PagnatoKarp across the Firm’s asset class categories, which generally consist of Fixed Income and Cash Flow, Variable Assets, and Non-Directional. Rocatton will effectively approve managers utilized by PagnatoKarp for implementing Client investment recommendations within Rocatton’s model portfolios. If the investment strategy is not recommended by Rocatton, PagnatoKarp will direct Rocatton to conduct due diligence on the operations of the managing firm and PagnatoKarp will perform the initial, as well as ongoing, due diligence of the underlying investment strategy.

PagnatoKarp will receive detailed views of Rocatton’s processes for deriving capital market assumptions, asset allocation forecasting and planning, manager due diligence as well as access to model customized portfolios ad hoc. A member of Rocatton’s staff will serve as the primary consultant to PagnatoKarp and

serve as a member of PagnatoKarp's Investment Committee ("IC"). Rocaton's primary consultant serving PagnatoKarp will generally be available for ad hoc calls on portfolio construction, market insights, investment themes, opportunities and manager performance as needed. In addition, PagnatoKarp investment personnel will participate alongside of Rocaton in periodic calls with selected managers on an ongoing basis.

The Relationship Manager assigned to each Client account will review and evaluate Rocaton's list of approved managers as provided by Rocaton and apply the applicable allocation framework Rocaton provides in the portfolios on a Client-by-Client basis based upon the specific investment guidelines, mandates documented in the Client's IPS, as well as consideration for the Client's legacy positions.

PagnatoKarp generally provides fee-only asset management services to Clients on a discretionary basis, unless the Client directs otherwise. (*See* Item 16 "Investment Discretion," below, for more details).

PagnatoKarp primarily allocates Client assets, using pre-approved allocation models as a guide, among various mutual funds, exchange-traded funds ("ETFs"), and independent investment managers ("Independent Managers") in accordance with their stated investment objectives. In addition, PagnatoKarp sometimes recommend Clients invest in privately placed securities, which generally include debt, equity, and/or interests in pooled investment vehicles (e.g., hedge funds).

Where appropriate, the Firm also provides advice about most legacy positions or other investments held in Client portfolio(s). For legacy positions where PagnatoKarp will have no discretion or management responsibilities, PagnatoKarp will segregate such assets into a separate non-managed account for which the Client is not charged an advisory fee. Clients can engage PagnatoKarp to manage and/or advise on certain investments that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (*i.e.*, 529 plans). In these situations, PagnatoKarp directs or recommends the allocation of Client assets among the various options available with the investment. These assets are generally maintained at the underwriting insurance company or the custodian designated by the investment's provider.

Additionally, from time-to-time the Firm or its supervised persons will introduce Family Office Clients to investment opportunities (typically private placements in small enterprises) in which the Clients have expressed interest. In circumstance where the Firm is not performing due diligence on such opportunities, the introduction is given not as investment adviser to the Client, but as a convenience, and is clearly disclosed as such. Any such investment by a Client will not be deemed to be a recommendation of the Firm, the Firm will not be responsible for any on-going oversight or due diligence related to any investments made at the discretion of the Client, nor will the Firm charge any fees for such introduction. The Firm will inform Clients when an introduction is outside of the Firm's management at the time of the introduction.

Some of these opportunities are limited offerings, and in some cases all Clients expressing interest in such introductions are not be able to participate. PagnatoKarp will monitor the introduction of these direct investment opportunities to Clients expressing interest and administer a rotation in which the Firm seeks to grant introductions in a fair and equitable manner taking into account a Client's cash availability, previous participation in similar deals and other factors that present themselves on a case-by-case basis depending on the investment opportunity.

To avoid any conflicts of interest, none of our supervised persons will be allowed to invest in these investment opportunities.

## **Use of Independent Managers**

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As mentioned above, PagnatoKarp selects certain Independent Managers to actively manage a portion of its Clients' assets when it deems appropriate. The specific terms and conditions under which a Client engages an Independent Manager will be set forth in a separate written agreement with the designated Independent Manager that includes an additional investment advisory fee payable directly to the Independent Manager. In addition to this brochure, Clients will also receive the written disclosure documents of the respective Independent Managers engaged to manage their assets.

PagnatoKarp evaluates a variety of information about Independent Managers, which includes the Independent Managers' public disclosure documents, materials supplied by the Independent Managers themselves and other third-party analyses it believes to be reputable. To the extent possible, the Firm seeks to assess the Independent Managers' investment strategies, past performance and risk results in relation to its Clients' individual portfolio allocations and risk exposure. PagnatoKarp also takes into consideration each Independent Manager's management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other factors.

PagnatoKarp continues to provide services relative to the discretionary selection of the Independent Managers. On an ongoing basis, the Firm monitors the performance of those accounts being managed by Independent Managers. PagnatoKarp conducts ongoing due diligence as it seeks to ensure the Independent Managers' strategies and target allocations remain aligned with its Clients' investment objectives and overall best interests. The Independent Managers are not required to abide by all of the True Fiduciary® Standards.

In cases of Independent Managers recommended by PagnatoKarp prior to engaging Rocaton that are not covered by the Rocaton platform, the Firm will be responsible for conducting on-going due diligence of these managers. The Firm's ongoing due diligence process will follow and be aligned with Rocaton's processes incorporating the guidance of Rocaton's research team.

## **Family Office Services**

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In addition to the services described above, we offer the Family Office services described below on a complimentary basis to Family Office Clients, subject to availability and charges that are imposed by third parties. We reserve the right to change or discontinue offering these services at any time. Family Office services generally are offered to Clients that pay annual fees in excess of \$90,000, certain other individuals that are expected to experience a significant liquidity event or receive additional compensation in the near future, or friends and family of PagnatoKarp in PagnatoKarp's sole discretion.

*Trust & Estate Services:* Services generally include review of existing legal trust and estate documents, recommended estate plan, estate and gift tax planning, wealth transfer and legacy planning, asset protection planning, philanthropic planning, multi-generational estate planning, ownership and beneficiary review and family governance assistance.

*Legal Services:* Custom legal services, including counseling and document preparation such as: wills, revocable trusts, powers of attorney for healthcare and property, living wills, irrevocable life insurance trusts, dynasty trusts, grantor retained annuity trusts, charitable remainder trusts, documentation of assignments to trust, interfamily loan documentation, and organizing and obtaining tax-exempt status for



private foundations. Each participating Client must sign a separate engagement letter with an independent law firm, which is under contract with PagnatoKarp Partners, LLC, to provide specific legal services to Family Office Clients.

*Lifestyle Services:* Custom lifestyle assistance such as: personal life goals planning; sourcing services to meet daily needs; booking services (airfare, hotels, restaurants, entertainment); bespoke travel itineraries and coordination with travel specialists; coordination of private car, jet and yacht services; guidance for luxury purchases, special asset acquisition, life occasions.

*Family Governance Services:* Access to an independent consultant paid by PagnatoKarp to provide consulting, education and coaching for Family Office clients and their families to address the impact of wealth on family life, happiness and planning.

*Personal Banking Services:* Assisting Clients with the preparation and submission of cash and asset transfer requests, checking and card services, and customized cash flow reporting.

*Information Security Services:* Assistance in protecting personal data, such as identity protection, email encryption, and a True Fiduciary® Vault for document sharing and storage.

Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising PagnatoKarp's recommendations and/or services. Family Office Clients are not required to use Family Office services, however, the fees charged to Family Office Clients generally are not adjusted if Family Office services are not utilized.

## **Item 5. Fees and Compensation**

PagnatoKarp offers asset management and reporting for a quarterly fee at annual rates that are negotiable for all Clients.

Generally, fees received by PagnatoKarp range from 0.58% for Clients with AUM in excess of \$100 million to 1.47% for Clients with AUM under \$500,000. In some cases, there are AUM-based rates in place for legacy Client relationships that fall below 0.58% and above 1.47%. These legacy AUM-based rates are as low as .25% and as high as 1.75%. Each PagnatoKarp advisor negotiates fees directly with the Client, with such fees dependent upon, among other things, the account/household size, family and relationship aggregation, pending liquidity events, the use of multiple custodians, competition, the extent to which Family Office services are utilized, liquidity of investments, and other extenuating circumstances. In some cases, at PagnatoKarp's discretion, friends and family of PagnatoKarp are provided services for no fee or a reduced fee.

For short-term cash management strategies, fees do not exceed .30% (30 basis points). For portions of cash balances segregated for daily liquidity purposes in a Client's portfolio, there are no fees charged on those assets.

Family Office Clients generally are charged based upon AUM or a fixed fee, as noted below, regardless of whether or the extent to which they utilize Family Office services.

Legacy Non-Family Office fees generally adhere to the following fee schedule:

- 1.00% on assets up to \$3M

- 0.75% on assets above \$3M
- Minimum annual fee of \$7,500

**Annual Flat Fee** - In lieu of a quarterly fee assessed based on a Client's assets under management, Clients are permitted to negotiate a flat annual fee charged pro-rata on a quarterly basis at the discretion of PagnatoKarp. The negotiated fee will be agreed to on a Client-by-Client basis depending on the complexity of the Client's financial situation and implementation of the Client's financial plan and investment strategy. In certain cases, the negotiated fee agreed upon can exceed the current standard AUM based fee of 1.47%.

**Grandfathering of Minimum Account Requirements And Collection of Advisory Fees:** Pre-existing advisory Clients are subject to PagnatoKarp's minimum account requirements and advisory fee arrangements in effect at the time the Client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among Clients.

Clients should refer to their advisory agreement with PagnatoKarp for their specific fee rates.

The fee is prorated for periods of less than a quarter, such as the initial period of engagement or the final billing period if terminated. For Clients billed in arrears, if assets are deposited into or withdrawn from a Client's account after the inception of a billing period, the fee payable with respect to such assets is adjusted to reflect the period for which those assets were managed by the Firm. For Clients billed in advance, if there are significant (defined as \$100,000 or more on any given day within the billing period) assets deposited into or withdrawn from Client's account after the inception of a billing period, the fee payable with respect to such assets will be adjusted to reflect the period for which those assets were managed by PagnatoKarp.

PagnatoKarp relies on third party valuations for all Client assets to calculate advisory fees. For private placement investments recommended by PagnatoKarp that invest in private equity opportunities or other privately held assets, updated valuations are generally only be provided at the close of each quarter when a Net Asset Value ("NAV") is established for each investor's capital account associated with their interest in the private placement. Therefore, the most recent quarter end valuation is used for these assets for the Firm's fee billing purposes until an updated NAV is provided to PagnatoKarp.

Advisory fees for Independent Managers that are recommended by PagnatoKarp are independent of the fees paid to PagnatoKarp. The amount of these fees varies and are determined by the particular Independent Manager. (Currently these fees range from 0.12% to 0.93% depending on the asset class.) Clients should review these fees as disclosed in the investment advisory agreements with the Independent Managers and as described in their Form ADV Part 2 brochure. Fees will be paid directly to Independent Managers via direct debit subject to authorization granted to the Independent Managers by each Client.

### **Financial Planning Fees**

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Clients engaging us exclusively for financial planning services will generally pay a flat fee from \$5,000 up to \$150,000 based on the complexity of the Client's financial situation and anticipated hours to complete the plan.

## **Tax Services Fees**

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Certain Clients have engaged PagnatoKarp Tax Services exclusively to provide tax return preparation, filing and compliance services for a specified fee depending upon the complexity of the tax returns being prepared and filed. PagnatoKarp Clients who are not Family Office Clients are also able to receive these services for a specified fee depending upon the complexity of the tax returns being prepared and filed. The minimum fee for this service is \$3,000.

## **Additional Third-Party Fees and Expenses**

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In addition to the advisory fees paid to PagnatoKarp, Clients will likely bear additional fees charged by third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively “Financial Institutions”). PagnatoKarp does not receive any of, or directly benefit from, these charges/fees. These additional charges can include securities brokerage expenses, transaction fees, custodial fees, margin costs, costs associated with exchanging foreign currencies, transfer taxes, exchange fees, foreign clearing fees, or taxes required by law. For investments in privately placed securities, the third-party managers managing these assets typically charge management and performance fees independent of the fees paid to PagnatoKarp. Clients should closely read the disclosure documents and offering materials to gain a full understanding of all fees associated with such private placement investments.

In addition, Clients will bear the costs associated with investing in mutual funds, ETFs, and private investment vehicles as disclosed in the offering documents for such investments (*e.g.*, fund management fees and other fund expenses). The Firm’s brokerage practices are described at length in Item 12, below.

## **Direct Fee Debit**

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Clients generally provide PagnatoKarp and/or certain Independent Managers with the authority to directly debit their accounts for payment of the investment advisory fees. The Financial Institutions that act as the qualified custodian for Client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to Clients not less than quarterly detailing all account transactions, including any amounts paid to PagnatoKarp. Alternatively, some legacy Clients elected to have PagnatoKarp send a separate invoice for direct payment.

## **Use of Margin**

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From time to time, PagnatoKarp recommends the use of margin in the management of the Client’s investment portfolios. Where a Client requests the use of margin, the fee payable will be assessed gross of margin such that the market value of the Client’s account and corresponding fee payable by the Client to PagnatoKarp will be increased. Independent Managers can also use margin in Client accounts, which will be disclosed in that manager’s Form ADV.

## **Account Additions and Withdrawals**

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Clients can make additions to and withdrawals from their account at any time, subject to PagnatoKarp’s right to terminate an account. Additions can be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or to decline to accept particular securities into a Client’s

account. Clients can withdraw account assets on notice to PagnatoKarp, subject to the usual and customary securities settlement procedures. However, depending on a Client's investment time horizon, the withdrawal of assets can sometimes impair the achievement of a Client's investment objectives. PagnatoKarp will consult with its Clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they can be subject to transaction fees, short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

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

PagnatoKarp does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a Client's assets).

## **Item 7. Types of Clients**

PagnatoKarp offers services to individuals, trusts, estates, charitable organizations, corporations and business entities.

### **Minimum Account Value**

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As a condition for starting and maintaining an investment management relationship, PagnatoKarp generally imposes a minimum portfolio value of \$10,000,000. PagnatoKarp will sometimes, in its sole discretion, accept Clients with smaller portfolios based upon certain criteria, including anticipated future earning capacity, anticipated future additional assets through a liquidity event, and related accounts. PagnatoKarp only accepts Clients with less than the minimum portfolio size if the Firm determines the smaller portfolio size will not cause a substantial increase of investment risk beyond the Client's identified risk tolerance.

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

### **Investment Process**

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PagnatoKarp begins the Client relationship with a thorough proprietary Roadmap Process (described in Item 4 above) and uses the information obtained to build a customized holistic financial plan. During the Roadmap Process, PagnatoKarp initially and continuously will make an effort to better understand each Client through a technique commonly referred to as 'Dangers, Opportunities, and Strengths' ("D.O.S."), which helps the Firm understand the Clients greatest fears, opportunities and strengths, allowing PagnatoKarp to begin to formulate a Client's investment strategy, liquidity, cash flow needs, estate planning goals, philanthropic interests, and educational funding interests, and assess possible financial strategies. Each of these considerations is an important part of creating an investment strategy. The Firm's experience has shown every person has a different and unique risk tolerance. This stems from different life experiences, cash flow needs, age, responsibilities and their interpretation of "Risk" itself. A primary component of every portfolio is to meet the Client's lifestyle and cash flow needs, through all markets, economic and interest rate cycles. This is why every portfolio is custom designed for every Client. Once PagnatoKarp has determined a Client's D.O.S. and is comfortable with their

understanding and tolerance to risk, the Firm begins the process of creating a tailored asset allocation model using Rocaton's recommendations.

PagnatoKarp outsources the construction of model portfolios, including asset allocation modeling to Rocaton. Rocaton will use multiple criteria sets of objectives when taking into consideration the varying risk profiles across the Firm's Client base. Additionally, PagnatoKarp will incorporate Rocaton's strategic and tactical asset allocation framework into the construction of model portfolios, including ongoing adjustments made ad hoc that can result from a change in Rocaton's capital market assumptions, near-term general market outlook, or recommendations for a particular investment strategy. For each investment strategy Rocaton recommends to PagnatoKarp, Rocaton will have conducted a full-scope due diligence on the underlying investment strategy and on the operations of the managing firm.

PagnatoKarp will use Rocaton's guidance and insight for the underlying methods in which investment strategies are analyzed, both initially and on an ongoing basis. Formal discussions on manager due diligence, quarterly capital market assumptions updates, as well as strategic and tactical asset allocation decisions will take place at PagnatoKarp's IC meetings. Rocaton's primary consultant servicing PagnatoKarp will be an official member of the Firm's IC and be required to attend all Investment Committee meetings.

Using Rocaton's guidance, PagnatoKarp employs a combination of fundamental, technical, cyclical and behavioral finance methods of analysis while employing an asset allocation strategy based on a derivative of Modern Portfolio Theory ("MPT"). MPT is a mathematical based investment discipline that seeks to quantify expected portfolio returns in relation to corresponding portfolio risk. The basic premise of MPT is that the risk of a particular holding is to be assessed by comparing its price variations against those of the market portfolio. However, MPT disregards certain investment considerations and is based on a series of assumptions that are not necessarily reflective of actual market conditions. As such, the factors for which MPT does not account (e.g., tax implications, regulatory constraints and brokerage costs) can negate the upside or add to the actual risk of a particular allocation. Nevertheless, PagnatoKarp's investment process is structured in such a way to integrate those assumptions and real-life considerations for which MPT analytics do not account.

PagnatoKarp generally utilizes four broad asset categories:

1. Cash – Cash or cash equivalents typically have low-risk, low-reward characteristics. Cash equivalents typically include T-bills, short-term bank CD's, commercial paper, and other money market instruments.
2. Fixed Income and Cash Flow – Generating income is the primary goal of the fixed income and cash flow allocations. Emphasis will be placed on credit quality, diversity of asset classes, and interest rate sensitivity (duration). We utilize managers that invest in municipal bonds, mortgage backed securities, agency paper, corporate bonds, treasury bonds, or other debt securities including private cash flow investments.
3. Variable Assets – Utilize a variety of strategies with an objective of providing an equity rate of return over time with the opportunity to manage volatility and risk where appropriate. In addition, structured notes, and hybrid managers – managers that have the ability to move across asset classes

to manage exposures, primarily for risk management, at various parts of an economic or market cycle – are sometimes utilized to emphasize downside protection while capturing upside growth.

4. Non-Directional – These positions help to expand a portfolio beyond the traditional directional asset classes of equity, fixed income, and cash. Their goal is to provide returns that perform independently of the traditional asset classes over time. Examples of non-directional strategies include private equity, venture capital, hedge funds, private real estate, and long/short equity. The investment time horizon can be longer and have less market liquidity than traditional asset classes.

PagnatoKarp typically segments portfolios into three categories: Lifetime Capital Needs, Wealth Surplus and Aspirational Wealth.

The Lifetime Capital Needs Portfolio seeks to ensure financial independence. The goal of this portfolio is to make going back to work a choice, not an obligation. The goal is for a Client's Lifestyle and Cash Flow Needs to be delivered from this portfolio, regardless of the market, economic or interest rate cycle.

The Wealth Surplus Portfolio is designed for lifestyle enhancement, dynastic planning, philanthropic needs and future luxury purchases. This portfolio has its own investment policy statement and is long term in nature.

The Aspirational Wealth Portfolio is created for the next business venture, bridge loans, concentrated tactical investments and unique private investments. This portfolio requires more active participation with Clients.

## **Investment Strategies**

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PagnatoKarp has a primary focus on serving founders of privately held businesses, with an emphasis on pre-transaction planning. With its principals providing independent and transparent investment advice for more than 20 years, PagnatoKarp emphasizes controlling costs, taxes and market entry points for its Clients. The Firm receives no commissions and no sales charges, and strives to continually develop innovative solutions such as unique direct private investment opportunities and custom structured products.

PagnatoKarp generally manages Client assets on a discretionary basis. (See Item 16. Investment Discretion, below, for more details.) PagnatoKarp primarily allocates Client assets among various mutual funds, exchange-traded funds ("ETFs"), and Independent Managers in accordance with their investment objectives on the Investment Policy Statement, using the Firm's pre-approved listing of managers and asset allocation portfolios as a guide. Asset allocation portfolios are not a turnkey solution and allocations can differ significantly from Client-to-Client due to a variety of Client-specific factors such as risk profile, investment objectives, tax status, as well as personal needs and desires.

PagnatoKarp tailors its advisory services to the individual needs of Clients. PagnatoKarp consults with Clients initially and on an ongoing basis to develop an investment policy statement, which determines risk tolerance, time horizon and other factors that could impact the Clients' investment needs. PagnatoKarp strives to provide investment portfolios that are in the best interest of Clients based on their investment needs, goals, objectives and risk tolerance.



## Investment Philosophy

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PagnatoKarp's investment philosophy incorporates the following primary objectives:

- Preservation of Capital
  - Protect the assets that took a lifetime to build
- Cash Flow
  - Provide the income to live the desired lifestyle
- Growth of Capital
  - Provide growth of capital for planning, legacy, or other needs
- Unique Investment Opportunities
  - Source and provide unique opportunistic investment solutions
- Provide Custom Solutions for Unique Client Needs

While achieving these investment objectives, the Firm looks to provide transparency on:

- Returns
  - PagnatoKarp generally meets with Clients quarterly and in some cases semi-annually, and/or at Client request to review portfolio returns. PagnatoKarp meets with Clients on at least an annual basis. The review summarizes broad market returns, noteworthy events over the past quarter/semi-annual period, individual positions – both returns and size within the portfolio – and an asset class summary. PagnatoKarp provides an overview of holdings, cash flows, contributors, detractors, and material changes. PagnatoKarp summarizes the performance of ETF's, third party managers, mutual funds, and private investments using reports and valuations provided by Client-selected custodians. Lastly, PagnatoKarp offers recommendations and revisits each Client's investment policy/objectives. All returns are calculated by an independent, third-party provider for the purposes of transparency.
- Taxes
  - Employ unique strategies including, tax-deferred indexes, offshore investment vehicles, depreciating real estate, tax-exempt municipal bonds, and efficient tax-loss harvesting.

## Risk of Loss

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### *Market Risks*

Investing involves risk, including the potential loss of principal, and all investors should be guided accordingly. The profitability of a significant portion of PagnatoKarp's recommendations and/or investment decisions depends to a great extent upon correctly assessing the future course of price movements of stocks, bonds and other asset classes. There can be no assurance that PagnatoKarp will be able to predict those price movements accurately or capitalize on any such assumptions.

### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital

gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of open-end mutual funds are distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf at the net asset value per share (“NAV”) next computed after receipt of the subscription or redemption request deemed “in good order.” The actual trading price at which a share is transacted is equal to a fund’s NAV, plus any applicable sales loads, transaction fees, or redemption fees. The NAV of an open-end mutual fund upon which subscriptions and redemptions are processed is currently most commonly calculated at the end of each business day, usually 4:00 p.m. ET, although some mutual funds have more than one pricing time during the day

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and potentially more frequently for actively managed ETFs. However, certain inefficiencies can cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more) which can restrict the timing of a Client’s redemption. Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder can be left with no way to dispose of such shares.

#### *Use of Independent Managers*

As stated above, PagnatoKarp selects certain Independent Managers to manage a portion of certain Clients’ assets. In these situations, PagnatoKarp continues to conduct ongoing due diligence of such managers, but such recommendations rely to a great extent on the Independent Managers’ ability to successfully implement their investment strategies. In addition, PagnatoKarp generally has no supervisory oversight of the Independent Managers on a day-to-day basis. There is a chance that such investment advice will not be successful or will not meet expectation and that subjective decisions made in good faith by PagnatoKarp could cause a Client to experience losses and/or miss profit opportunities.

#### *Use of Private Collective Investment Vehicles*

PagnatoKarp recommends that certain Clients invest in privately placed collective investment vehicles (e.g., hedge funds, private equity funds, etc.). The managers of these vehicles have broad discretion in selecting the investments. There are generally few limitations on the types of securities or other financial instruments which can be traded and often no requirement to diversify. Hedge funds have the ability to trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. Clients should consult each fund’s private placement memorandum and/or other documents explaining such risks prior to investing.

#### *Use of Margin*

From time to time PagnatoKarp recommends the use of margin in the management of the Clients’ investment portfolios. While the use of margin borrowing can substantially improve returns, it can also increase overall portfolio risk. Margin transactions are generally effected using capital borrowed from a Financial Institution, which is secured by a Client’s holdings. Under certain circumstances, a lending



Financial Institution can demand an increase in the underlying collateral. If the Client is unable to provide the additional collateral, the Financial Institution will liquidate account assets to satisfy the Client's outstanding obligations, which could have extremely adverse consequences. In addition, fluctuations in the amount of a Client's borrowings and the corresponding interest rates can have a significant effect on the profitability and stability of a Client's portfolio.

#### *Interest Rate Risk*

Changes in interest rates can cause asset prices to fluctuate. For example, a rising interest rate environment can cause bonds to become less attractive as bond prices fall, causing the market value of an investment to fall.

#### *Inflation Risk*

The impact of inflation will erode purchasing power over time.

#### *Exchange Rate Risk*

Investment in non-U.S. dollar denominations will be subject to the fluctuation in the value of the dollar against foreign currencies, which is commonly referred to as currency risk.

#### *Reinvestment Risk*

This risk is presented when capital is re-invested at lower rates of return, which commonly occurs with fixed income securities, or bonds, purchased when capital market assumptions are lower.

#### *Diversification Risk*

Concentrated investments in one or few specific segments in a particular sector, industry, or company within a specific industry present risk in excess of diversified investments, which includes the potential for higher levels of volatility.

#### *Equity Risk*

Equity securities generally entail a higher degree of risk. Price volatility and market fluctuations are difficult to predict. Movement in equity prices can result from factors affecting individual companies or industries. Price changes can be temporary or last for extended periods of time. In addition to, or because of, the aggregate impact on market movements, the value of investments can decline if particular investments within the portfolio do not perform well. Investment prices can fall or fail to increase regardless of market fluctuations.

#### *Fixed Income Risk*

Fixed income securities represent multiple risks such as credit, interest rate, reinvestment, prepayment risk, and default risk. Each risk factor influences the price, or value of a fixed income security, and impose the potential for a large amount of price volatility. Generally, securities with longer maturities come with greater sensitivity to price changes, which often results from changes in interest rates. Additionally, the prices of higher yielding fixed income securities fluctuate more than high quality debt issuances, including sudden price movements that are more closely correlated to factors contributed to movements in equity markets. Furthermore, developments in credit markets can have a substantial impact on the

companies our Clients have investments in and will affect the success of investments as such. In the adverse event of default, the investment can suffer a partial or full loss of investment principal.

#### *Illiquidity Risk*

Private offerings, or alternative investments, including private equity, venture capital, and hedge funds involve restrictions on liquidity, and can impose limitations on the ability to receive full or partial liquidity, sometimes for periods in excess of 10 years. Illiquidity risk increases incrementally with the addition of private investments in a portfolio. Illiquidity risk can restrict the access of capital or prevent the Client from satisfying liquidity needs in the event a portfolio's liquidity profile needs change, or increase suddenly.

#### *Economic Risk*

The success of investments will be affected by the general economic health and activity both on a domestic and global scale. Examples of factors that can result in the decline of an investments value include items such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in regulation, trades barriers, currency controls, as well as political circumstances and policy intervention.

#### *Cybersecurity Risk*

Investment advisers, including PagnatoKarp, must rely in part on digital and network technologies ("cyber networks") to maintain substantial computerized data about activities for Client accounts and otherwise conduct their businesses. Such cyber networks might in some circumstances be subject to a variety of possible cybersecurity incidents or similar events that could potentially result in the inadvertent disclosure of confidential computerized data or Client data to unintended parties, or the intentional misappropriation or destruction of data by malicious hackers seeking to compromise sensitive information, corrupt data, or cause operational disruption. Cyber-attacks might potentially be carried out by persons using techniques that could range from efforts to electronically circumvent network security or overwhelm websites to intelligence gathering and social engineering functions aimed at obtaining information necessary to gain access. PagnatoKarp maintains policies and procedures on information technology security, has implemented certain technical and physical safeguards intended to protect the confidentiality of its internal data, and takes other reasonable precautions to limit the potential for cybersecurity incidents and to protect data from inadvertent disclosure or wrongful misappropriation or destruction. Nevertheless, despite reasonable precautions, the risk remains that cybersecurity incidents could potentially occur, and such incidents, in some circumstances, might result in unauthorized access to sensitive information about PagnatoKarp or its Clients or their investors, and/or cause damage to Client accounts or PagnatoKarp's activities for Clients or their investors. PagnatoKarp will seek to notify affected Clients and investors of any known cybersecurity incident that could pose a substantial risk of exposing confidential personal data about such Clients or investors to unintended parties.

## **Item 9. Disciplinary Information**

PagnatoKarp has not been involved in any legal or disciplinary events that are material to a Client's evaluation of its advisory business or the integrity of its management.

## Item 10. Other Financial Industry Activities and Affiliations

PagnatoKarp has a related affiliate named PagnatoKarp Tax Services, LLC, which is wholly-owned by PagnatoKarp Partners, LLC. PagnatoKarp Tax Services, LLC provides tax services to certain Clients. In addition, PagnatoKarp has entered into an engagement agreement with RSM US, LLP, a limited liability partnership that provides income tax preparation and compliance services to certain Family Office Clients that do not receive such services from PagnatoKarp Tax Services, LLC. Compensation to PagnatoKarp Tax Services, LLC and RSM US, LLP for these tax services is paid by PagnatoKarp Partners, LLC on behalf of the Client. (See Item 5. “Fees and Compensation” above for details regarding fees paid by Clients who engage PagnatoKarp Tax Services, LLC directly for those services.)

PagnatoKarp has entered into a contract with New York Private Bank & Trust, FSB, a Delaware chartered trust company d/b/a PagnatoKarp Private Trust (“PKPT”), to provide administrative trust services to our Clients. PKPT will offer administrative trust services, while delegating the investment advisory services for the trust to PagnatoKarp. Independent third-party trustees must be used to handle distribution decisions with respect to trust beneficiaries and other custodial responsibilities, such as paying trust expenses.

PagnatoKarp has entered into a retainer agreement with Zell Law, PLLC, a limited liability company that is wholly-owned by Wayne M. Zell, the Firm’s Chief Legal Officer. The purpose of this arrangement is to allow Clients to receive specified legal services (including estate planning and preparation of estate planning documents) as part of the Firm’s One Fee Program, without charging the Client directly for such services. Compensation to Zell Law, PLLC for such legal services is paid by PagnatoKarp on behalf of the Client. Each Client that desires to receive legal services enters into a separate engagement letter with Zell Law, PLLC, and the relationships and potential conflicts of interest between the Client, Mr. Zell, Zell Law, PLLC and PagnatoKarp are fully disclosed and consented to by the Client. Clients are free to use their own legal counsel for any matter.

## Item 11. Code of Ethics

PagnatoKarp has adopted a code of ethics in compliance with applicable securities laws (“Code of Ethics”) that sets forth the standards of conduct expected of its Supervised Persons. PagnatoKarp’s Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of Clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of PagnatoKarp’s personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (*e.g.*, initial public offerings, limited offerings). However, the Firm’s Supervised Persons are permitted to buy or sell securities that it also recommends to Clients if done in a fair and equitable manner that is consistent with the Firm’s policies and procedures.

When the Firm is engaging in or considering a transaction in any security on behalf of a Client, no Supervised Person with access to this information can knowingly effect for themselves or for their immediate family (*i.e.*, spouse, minor children and adults living in the same household) a transaction in that security unless: i) the transaction has been completed; ii) the transaction for the Supervised Person is completed as part of a batch trade with Clients; or iii) a decision has been made not to engage in the transaction for the Client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds or (v) transactions in 529 college savings plans

Clients and prospective Clients can contact Robin D. Sines, PagnatoKarp's Chief Compliance Officer, at (703) 468-2700 to request a copy of its Code of Ethics.

## **Item 12. Brokerage Practices**

### **Recommendation of Broker/Dealers for Client Transactions**

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PagnatoKarp will generally utilize the custody, brokerage and clearing services of any firm that a Client chooses. The Firm typically recommends the use of Fidelity and Charles Schwab ("Schwab") for such services.

Factors that PagnatoKarp considers in recommending Fidelity, Schwab or any other broker-dealer to Clients include their respective independence, financial strength, reputation, execution, pricing and service. Fidelity and Schwab can enable the Firm to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. After doing substantial due diligence, the Firm also recommends Fidelity and Schwab because they enable the Firm to custody private investments for Clients, because of its technology platform that allows Clients access to real time information about their accounts, and because Fidelity and Schwab are not unsecured lenders and have been financially stable even during a downturn in the market.

PagnatoKarp periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

### **Software and Support Provided by Financial Institutions**

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PagnatoKarp only accepts benefits from Fidelity and Schwab that it feels helps Clients get the best services possible and within the Firm's fiduciary duty to act in the Client's best interest. PagnatoKarp receives without cost or at a very low cost from Fidelity and Schwab computer software and related systems support, that allow PagnatoKarp to better monitor Client accounts maintained at Fidelity and Schwab. PagnatoKarp receives such software and related support without cost because the Firm renders investment management services to Clients that maintain assets at Fidelity and Schwab. The software and support are not provided in connection with securities transactions of Clients (i.e., not "soft dollars") and there is no financial impact on Clients. The software and related systems support can benefit PagnatoKarp, but not its Clients directly. In fulfilling its duties to its Clients, PagnatoKarp endeavors at all times to put the interests of its Clients first as well as meet its duty of best execution. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, considering the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Although PagnatoKarp will seek competitive rates, it does not guarantee that it can obtain the lowest possible commission rates for Client account transactions. The

brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and besides, PagnatoKarp's investment management fee. Clients should be aware, however, that PagnatoKarp's receipt of non-monetary benefits from a broker/dealer creates a conflict of interest since these benefits could influence the Firm's choice of broker/dealer over another that does not furnish similar software, systems support or services. To be abundantly clear, however, none of these benefits are why the Firm recommends Fidelity and Schwab. The reasons are stated above.

Specifically, PagnatoKarp receives the following benefits from Fidelity and Schwab that are used to best service Clients:

- Dedicated service network;
- Receipt of duplicate Client confirmations and bundled duplicate statements;
- Access to a trading desk that exclusively services its institutional traders;
- Access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to Client accounts; and
- Access to an electronic communication network for Client order entry and account information.
- Competitive lending rates for Clients

PagnatoKarp's Clients do not pay more for investment transactions effected and/or assets maintained at Fidelity and Charles Schwab because of these arrangements. There is no corresponding commitment made by PagnatoKarp to Fidelity, Charles Schwab or any other entity to invest any amount or percentage of Client assets in any specific mutual funds, securities or other investment products as result of the above arrangement. As of the date of this brochure, the other broker-dealer currently utilized by the Firm is TD Ameritrade Institutional ("TDA"). PagnatoKarp does not receive all of the institutional level benefits disclosed above from TDA.

For Clients maintaining assets at Charles Schwab, any trade errors identified will be corrected to make each Client whole as if the error did not occur. If a loss occurs greater than \$100, Charles Schwab will not cover the loss, while Schwab will cover the loss if it is less than \$100. Transactions executed to correct an error resulting in a gain greater than \$100 will remain in the affected Client account unless the same error involved other Client accounts that should receive the gain or it is not permissible for a Client to retain the gain. Gains less than \$100 will be kept by Schwab. If a Client cannot retain the gain they must sign and send a form to Schwab stating such and Schwab will donate any amount over \$100 to charity and keep any portion less than that amount to minimize and offset administrative expenses related to correcting the error. If a gain is not permissible for the Client, Schwab requires a specific Client authorization including the reason the gain is being rejected. If the gain does not remain in the Client's account, Schwab will donate gains \$100 or more to charity. Gains less than \$100 will be retained by Schwab to offset administrative expenses related to correcting the error.

### **Brokerage for Client Referrals**

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PagnatoKarp does not consider, in selecting or recommending broker/dealers, whether the Firm receives Client referrals from the Financial Institutions or other third party.

## **Directed Brokerage**

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As discussed above, while the Firm typically recommends Fidelity and Schwab to Clients, the Client can direct PagnatoKarp to use a particular Financial Institution to execute some or all transactions for the Client. In that case, the Client will negotiate terms and arrangements for the account with that Financial Institution and the Firm will not seek better execution services or prices from other Financial Institutions or be able to “batch” Client transactions for execution through other Financial Institutions with orders for other accounts managed by PagnatoKarp (as described above). PagnatoKarp will place trades on behalf of accounts subject to directed brokerage arrangements after trading on behalf of other accounts. Subject to its duty of best execution, PagnatoKarp will decline a Client’s request to direct brokerage if, in the Firm’s sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

## **Trade Aggregation**

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Transactions for each Client generally will be affected independently, unless PagnatoKarp decides to purchase or sell the same securities for several Clients at approximately the same time. PagnatoKarp can (but is not obligated to) combine or “batch” such orders to obtain best execution and/or to negotiate more favorable commission rates. If the Firm batches trades, it will seek to allocate equitably among the Firm’s Clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among PagnatoKarp’s Clients pro rata to the purchase and sale orders placed for each Client on any given day. To the extent that the Firm determines to aggregate Client orders for the purchase or sale of securities, including securities in which PagnatoKarp’s Supervised Persons can invest, the Firm generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. PagnatoKarp does not receive any additional compensation or remuneration as a result of the aggregation.

In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which can include: (i) when only a small percentage of the order is executed, shares can be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations can be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares can be reallocated to other accounts (this can be due to unforeseen changes in an account’s assets after an order is placed); (iv) with respect to sale allocations, allocations can be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, the Firm can exclude the account(s) from the allocation; the transactions can be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares can be allocated to one or more accounts on a random basis.

After PagnatoKarp has determined which Client accounts are able to participate in an aggregated transaction, typically the trading sequence follows an alphabetical rotational system that alternates between Schwab and Fidelity so that Clients of each brokerage firm will have their opportunity to participate in a transaction first. This rotational trading mechanism aims to provide for fair treatment for each Client



account. Clients directing brokerage will have their transactions executed after the blocks executed with Fidelity and Schwab.

## **Item 13. Review of Accounts**

### **Account Reviews**

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As a fiduciary, PagnatoKarp monitors Client portfolios on an ongoing basis while regular account reviews are conducted generally on a quarterly or semi-annual basis, but at least on an annual basis. Such reviews are conducted by the Firm's investment adviser representatives. All investment advisory Clients are encouraged to discuss their needs, goals and objectives with PagnatoKarp and to keep the Firm informed of any changes thereto. The Firm contacts ongoing investment advisory Clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the Client's financial situation and/or investment objectives.

### **Account Statements and Reports**

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. From time-to-time or as otherwise requested, Clients will also receive written or electronic reports from PagnatoKarp and/or an independent third party, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with any documents or reports they receive from PagnatoKarp or an independent third party.

Clients are strongly encouraged to review their reports with their Financial Advisor. Clients should notify PagnatoKarp if their needs and/or objectives have changed, or if they would like to place reasonable restrictions on the management of their portfolio.

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

PagnatoKarp is under contract with an unrelated third party ("solicitor") who continues to be compensated for referring Clients to an entity from which PagnatoKarp transitioned those Clients. This agreement provides for a percentage of the Clients' average billable assets to be paid to the solicitor for those advisory Clients who became Clients because of the solicitor's efforts and a subsequent transition from another entity. Subject to existing federal and state securities laws and regulations, the solicitor receives such fees for the duration of the time period identified in the solicitor's disclosure statement provided to Clients or as long as the Client retains PagnatoKarp for advisory services during that period. This solicitor contract is in place solely for the purpose of compensating the solicitor for past referrals, and has not been used to solicit or refer Clients directly to PagnatoKarp. PagnatoKarp currently has no agreement with solicitors to solicit or refer business to the Firm. Additionally, PagnatoKarp compensates eligible employees for referring new Clients to PagnatoKarp.

## Item 15. Custody

PagnatoKarp does not physically hold Client assets. We technically are deemed to have custody of Client assets because we generally debit our advisory fees directly from our Clients' accounts held at different custodians recommended by PagnatoKarp and selected by the Client. The authorization for directly debiting our advisory fees from Clients' accounts is provided by our Clients in a written custody agreement between the Client and the custodian.

### **Standing Letters of Authorization**

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PagnatoKarp has entered into third-party standing letters of authorization ("SLOA") for the wiring of money from Clients' custodial accounts based on instructions provided by the Clients. Based upon SEC guidance, this arrangement causes us to have limited access (or "custody") to our Clients' accounts for the limited purpose of initiating wire transfers from the accounts, based on Clients' written direction. PagnatoKarp is not subject to an independent surprise audit of its Clients' custodial accounts by an independent accounting firm that is registered with and frequently reviewed by the Public Company Accounting Oversight Board ("PCAOB"), as would customarily be required under SEC custody rules for advisers who maintain SLOAs, because the conditions set forth in the no-action letter dated February 21, 2017, addressed to the Investment Adviser Association, have been met. Our Clients' custodian(s) (Financial Institutions), who are solely responsible for the safekeeping of client assets, has represented to PagnatoKarp that they have achieved compliance with all applicable conditions (6 out of 7) of the SEC's no-action letter. In satisfying the remaining 7th condition in the SEC no-action letter, PagnatoKarp is not affiliated with nor are we located at the same address of our clients' selected qualified custodians, as evidenced by this filing. Further, the custodian must verify these instructions when executing each transaction and confirm these instructions at least annually with the Client. PagnatoKarp has no ability change any aspect of an SLOA or routing information regarding such disbursements and the Client can terminate such instruction at any time.

## Item 16. Investment Discretion

PagnatoKarp is typically given the authority to exercise investment/trading discretion on behalf of Clients. PagnatoKarp does not accept full power of attorney over Client accounts. PagnatoKarp is considered to exercise investment discretion over a Client's account if it can effect and/or direct transactions in Client accounts without obtaining the Client's consent. PagnatoKarp is given this authority in the agreement between PagnatoKarp and the Client. Clients can request a limitation on this authority (such as certain securities not to be bought or sold). PagnatoKarp takes discretion over the following activities:

- the securities to be purchased or sold;
- the amount of securities to be purchased or sold;
- the timing of transactions; and
- the hiring or firing of Independent Managers.



## **Item 17. Voting Client Securities**

PagnatoKarp has retained the services of a third-party proxy voting service, Broadridge Investor Communication Solutions, Inc, to facilitate PagnatoKarp's voting of proxies with respect to public securities held in Clients' Accounts that are not voted directly by underlying Independent Manager. However, if PagnatoKarp receives a proxy notice for any private security held in a Client's Account, PagnatoKarp will vote such proxies on behalf of the Client Account in a manner deemed to be in the best interests of its Client, which will generally be in a manner consistent with the voting guidelines Broadridge uses to generate their voting recommendations for public securities, although PagnatoKarp reserves the right to vote each proxy issue on a case-by-case basis. Clients can request a copy of the proxy votes executed on their behalf, as well as Broadridge's proxy voting policy, by contacting Robin Sines, Chief Compliance Officer, at (703) 468-2700.

## **Item 18. Financial Information**

PagnatoKarp is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to Clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.