

**Item 1 Cover Page**

Registered as PAX Financial Group, LLC | CRD No. 284164  
Doing Business As: PAX Financial Group



270 North Loop 1604 East – Suite 200 | San Antonio, TX 78232

Phone: (210) 881-5700 | Fax: (210) 881-5698

<http://paxfinancialgroup.com/>

**March 1, 2019**

**ADV – 2A**

This brochure provides information about the qualifications and business practices of PAX Financial Group. If you have any questions about the contents of this brochure, please contact us at (210) 881-5697 or [Alex@paxfg.com](mailto:Alex@paxfg.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Registration does not imply a certain level of skill or training.

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

## **Item 2 – Material Changes**

This Brochure dated March 1, 2019 reflects PAX Financial Group's annual updates to Form ADV Part 2A since its last interim update dated October 1, 2018. The following summarizes the updates and clarifications to the Brochure since its October 1, 2018 update:

PAX Financial Group is expanding its selection of investment strategies offered through its Wrap Fee Program. We are pleased to announce a new line of service offerings with the use of Third-Party Asset Managers. We expect this relationship to allow us to deliver new capabilities across our firm and service offerings. The implementation of this new service offering will continue over the course of 2018 and 2019. Additional information has been provided within Item 4, 5, 7 and 16 respectively.

Material changes made previously include:

Effective July of 2017, PAX Financial Group is no longer associated or offering services through LPL Financial.

TD Ameritrade, Inc. will provide custody services.

We have streamlined and clarified the descriptions of our business practices throughout this Brochure.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year, if any do arise in the future. We may further provide other ongoing disclosure information about material changes as necessary. You may request a new brochure at any time and at no cost.

You can request a free brochure by calling us at 210-881-5700. You can also find out more about us and receive our current brochure from the SEC's website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The site can also give you information about people who are registered, or about to be registered, as Investment Adviser Representatives of our Firm.

### **Item 3 – Table of Contents**

Item 1 Cover Page.....	1
Item 2 – Material Changes.....	2
Item 3 – Table of Contents.....	3
Item 4 – PAX Business .....	4
Item 5 – Fees and Compensation .....	8
Item 6 – Performance-Based Fees and Side-by-Side Management.....	10
Item 7 – Types of Client .....	10
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	11
Item 9 – Disciplinary Information .....	15
Item 10 – Other Financial Industry Activities and Affiliations .....	15
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	16
Item 12 – Brokerage Practices .....	17
Item 13 – Review of Accounts.....	19
Item 14 – Client Referrals and Other Compensation.....	19
Item 15 – Custody .....	20
Item 16 - Investment Discretion .....	21
Item 17 – Voting Client Securities.....	22
Item 18 – Financial Information .....	22

## **Item 4 – PAX Business**

### **Firm Description**

PAX Financial Group, LLC (“PAX”) is a registered investment adviser with the U.S. Securities and Exchange Commission (“SEC”) offering portfolio management services and retirement plan consulting services for individuals and high net worth individuals (together with their trusts and estates) and small businesses, corporations and their pension and profit sharing plans (each referred to as a “Client”). PAX has been in business since 2007 and was originally founded by Darryl Lyons, Joseph Schuetze and Andres Gutierrez.

PAX is organized as a Limited Liability Company (“LLC”) Partnership with principal owners Darryl Lyons and Joseph Schuetze owning more than 76% of the partnership interests. The remaining owners primarily include current investment adviser representatives, agents and employees of PAX. Alejandro (Alex) Ireta serves as Chief Compliance Officer of the firm.

PAX is also an insurance agency licensed with the Texas Department of Insurance. Our insurance group operates under the name PAX Financial Group Insurance Services, a registered DBA. Our investment adviser representatives (or IARs) may also be registered as insurance agents.

### **Advisory Services**

The advisory services offered by PAX, listed below, are tailored to the individual needs of each Client. Each Client’s investment objective, suitability and other financial data will be taken into consideration. Accounts are reviewed on a regular basis and rebalanced as necessary according to each Client’s investment profile. Client may impose restrictions when investing in certain securities or groups of securities by indicating such restrictions within the written asset management agreement<sup>1</sup>. PAX may, at his/her sole discretion, decline to assist the Client with the implementation of investment strategies or purchasing of securities that have not been recommended or those securities PAX deems not to be in the Client’s best interest.

When providing a consolidated financial summary of accounts to Clients, data included may contain information about accounts for which PAX does not manage or advise the Client. As such, no inference should be drawn that PAX serves as the adviser on all securities listed on these consolidated financial summaries. For Client assets that PAX is not granted discretionary authority to manage, it will not actively supervise those assets.

- **Wrap Fee Program**
- **Investment Management**
- **Third-Party Investment Management**
- **Retirement and Financial Planning**
- **Financial Wellness Coaching**

---

<sup>1</sup> A Client may request that securities or types of securities not be purchased, or that such securities be sold if held in the account. However, Client requests to purchase particular securities must be approved by the IAR. Note: PAX cannot change the mix of securities held by any mutual fund or ETF included in a Client’s account. We reserve the right, at our sole discretion, to reject any account should the Client request unreasonable or overly restrictive conditions. PAX may hold legacy account which include non-wrap fee program accounts (non-discretionary), however, future non-wrap fee program accounts may be accepted on a limited basis. Reference the distinction between both plans herein.

### ***Wrap Fee Program***

In the PAX Wrap Fee Program, IARs provide ongoing investment advice and management on assets in the Client's discretionary or non-discretionary account. IARs provide advice on the purchase and sale of various types of investments as mentioned herein.

PAX provides discretionary (with written authorization) and non-discretionary fee-based investment services for compensation. Any securities transactions executed by IARs of PAX shall be directed to the approved custodian(s) for execution.

IARs programs include Wrap and Non-Wrap Accounts. The accounts offer the same investment choices however the fee structure is different. Within a wrap fee program trading and execution costs are included in the wrap fee and they are not included within a non-wrap fee account. Most Clients participate in the Wrap Fee Program, however if approved<sup>1</sup>, Client may engage PAX on a non-wrap basis. The PAX fee for Wrap Fee accounts may be equivalent or higher than Non-Wrap accounts to take into consideration the transaction fees and frequency of trading anticipated. PAX receives a portion of the wrap fee for our services.

### ***Investment Management***

PAX through its IARs provides ongoing investment advice and management on assets in the Client's account(s) held at approved custodians such as TD Ameritrade. IARs may provide advice on the purchase and sale of various types of investments such as, however not limited to mutual funds, exchange-traded funds ("ETFs"), variable and fixed annuity subaccounts, real estate investment trusts ("REITs"), equities, fixed income securities, among others.

### ***Third-Party Investment Management***

PAX may recommend that all or a portion of Client assets in an account be managed by a third-party money manager(s). If that is the case, the Advisor will ask for authorization to use discretion in selecting or changing a strategy within an outside money manager relationship, or changing the outside money manager entirely, without prior notice. In most cases, the Client pays the third-party manager an investment management fee out of plan assets directly which is separate from the Advisor fee. Fees range from 0% - 1% and are collected quarterly and billed in advance calculated on the last day of each calendar quarter. When assets are contributed or removed during a quarter, Client incurs a pro-rated fee calculated in arrears, billed quarterly and/or monthly, based on the number of days the new assets were placed or removed in the account during a quarter. Reference Third-Party Money Manager ADV for more information.

#### **Sub-Adviser Limited Discretion**

For certain client assets, PAX makes available the investment management services of United Capital Financial Advisers, LLC (United Capital), an investment adviser not affiliated with PAX, who serves as sub-adviser (Sub-Manager). United Capital is granted limited discretionary investment authority over assets that PAX assigns to United Capital. For the assets directed to Sub-Manager for services, its responsibilities include the authority to:

- Exercise discretion to determine the types of securities bought and sold, along with the percentage allocation
- Apply its discretion as to when to buy and sell

- Apply its discretion as to the timing of transactions
- Select the broker-dealer for execution of securities transactions, if appropriate, and
- Take other portfolio management actions PAX delegates or deems appropriate

Any authority of United Capital only applies to the specific assets, within the Client's custodial account, for which United Capital has been appointed as the discretionary manager. United Capital shall not provide investment advice, or have any advisory responsibility to the Client, beyond the assets for which it is appointed as Sub-Manager. The terms of services provided by United Capital are directed in accordance with a separate written agreement entered into between PAX and United Capital. United Capital also provides separate non-fiduciary services to PAX under its division FinLife Partners, as described below in the FinLife Partners Service Offering section.

PAX has a financial incentive to refer Client to United Capital rather than manage the assets on its own or refer them to another adviser, creating a conflict of interest. When PAX refers Client to United Capital for Sub-Manager services it receives various incentives which benefit PAX but not all PAX Client, including:

- Certain technology implementation fees incurred by PAX in connection with PAX's use of FinLife Partner's technology solutions will be waived if a predetermined number of PAX Client subscribe to PAX's guidance services that utilize such technology solutions and United Capital's Sub-Manager services.
- Program fees incurred by PAX to offer a Wrap Fee program will be incurred by Sub-Manager as part of their Sub-Manager services. The fees typically paid for by PAX include trade costs, portfolio management fee and third-party provider fees, these fees are paid for by Sub-Manager under the Third-Party Investment Management program.
- If PAX does not utilize predetermined threshold volume of Sub-Manager services or technology solutions offered by United Capital or FinLife Partners, as applicable, then the relationship with FinLife Partners may be terminated due to insufficient revenue generation.

To address this conflict, if the Client does not want to invest their assets with United Capital as the Sub-Manager or receive PAX financial guidance services that require access to the FinLife platform, the Client may discuss alternative options with PAX.

### **Outsourcing of Certain Investment Operations**

PAX works with various third-party providers, including, among others, Orion Advisor Services, to help support the operational needs of managing and servicing Client accounts. Authority provided to the outsourced service providers may include, but is not limited to, placing transactions with broker-dealers at the discretion of PAX, opening accounts with Client account custodian, and facilitating operational requests on the Client's behalf based on instructions provided by associated persons of PAX. When providing these services, the third-party service provider is acting as an agent of PAX.

### **FinLife Partners Service Offering**

In an effort to enhance the quality and breadth of services that PAX provides to its Clients, PAX utilizes a suite of digitally powered technology solutions offered by FinLife Partners, a division of United Capital Financial Advisors, LLC ("FinLife Partners"). FinLife Partners provide

access to its technology platform to PAX which includes use of certain technology platform, training relating to use of such technology platform, and if elected by PAX certain clerical document and data compilation services. FinLife Partners is not in any way involved in, or responsible for, the individual investment management or guidance provided to Clients. PAX pays FinLife Partners a flat fee for its technology implementation services and fees calculated per percentage-basis formula in accordance with the volume of clients for whom PAX utilizes such services and/or products. As such, for certain services offered, Clients indirectly contribute to the payment of cost of services paid to FinLife Partners. Relating to the cost for services, PAX is financially incentivized to refer Clients to United Capital, creating a conflict of interest. Financial incentives are described in the Sub-Manager Limited Discretion section described above.

### ***Retirement and Financial Planning***

PAX offers retirement and financial planning services to Clients as a complimentary service to its asset management services. IARs will conduct an evaluation of their specific circumstances to determine the items necessary to improve their retirement and/or financial outlook. IARs may use third party software to gather Client data to evaluate their probability of retiring within their desired goal.

### ***Financial Wellness Coaching***

PAX offers Financial Wellness Coaching (FWC) services to Plan Sponsors of 401(k)s, profit sharing and retirement plans ("Plans"), those subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, and other employee retirement plans that are not subject to ERISA such as, Simple IRA's. These Plans are participant-directed and trustee-directed Plans and are governed by a separate Investment Fiduciary & Retirement Plan Consulting Agreement. Our coaches offer the following educational services to plan sponsors and their employees:

- Plan Sponsor Training/Education
- Participant Enrollment/Education Assistance

The actual services to be provided shall be agreed upon by the Coach and Plan Sponsor prior to engagement and documented in the Investment Fiduciary & Retirement Plan Consulting Agreement.

Generally, an initial meeting with the Plan Sponsor (or other Plan Fiduciary and/or Agent) is held to explain the services available through the FWC, disclose applicable fees and charges, and to collect detailed financial data about the Plan. Underlining analysis is placed on identifying the Plan's investment objectives and determining the financial situation of the Plan. If the Plan Sponsor determines that the FWC is appropriate for the Plan, then the Plan Sponsor may establish an account on behalf of the Plan with the assistance of Consultant and Third-Party Service Providers.

PAX provides non-fiduciary services to a limited number of previously managed Participant Directed Plan Sponsor relationships. Services provided are individually negotiated with each plan sponsor or trustee and may vary significantly. All services and related costs are described in an agreement executed with each plan and PAX. Costs are determined by a number of factors, including the amount of assets of the plan, the services PAX will provide, the location of the Client, the number of participants in the plan and other factors. Costs may be assessed as a flat fee, or as a percentage of the

plan assets.

We strive to disclose our material conflicts of interest herein. We mitigate our conflicts of interest by disclosing them to our Client, by conducting our operations in accordance with our fiduciary duty, by following our firm's code of ethics and through ongoing monitoring conducted by our chief compliance officer.

As of March 1st, 2019, the firm has \$282,000,000.00 of discretionary assets and \$0.00 non-discretionary assets under management.

### **Item 5 – Fees and Compensation**

The services to be provided and fees charged to a Client are negotiated and are based upon a variety of factors which include but are not limited to: the particular circumstances of the Client, specific investment strategies requested by the Client, retirement planning needed, overall client relationship including longstanding members, household account sizes and/or otherwise agreed upon with the Client. As a result, IARs may offer certain Client lower fees than other Client.

The schedule below reflects the maximum fees charged to PAX advised Client. The specific annualized fee charged is set forth by the Client and Adviser respectively.

Amount	Fee
\$0 - \$199,000	1.60%
\$200,000 - \$499,000	1.35%
\$500,000 - \$999,999	1.10%
\$1,000,000 - \$1,999,999	0.90%
\$2,000,000 - \$2,999,999	0.80%
\$3,000,000 – \$3,999,999	0.70%
\$4,000,000 +	0.60%
\$5,000,000 +	0.50%

Fees are billed in advance calculated on the last day of each calendar quarter. When assets are placed under management during a quarter, Client incurs a pro-rated fee calculated in arrears based on the number of days the new assets were placed in the account during the quarter.

Client authorizes the custodian to deduct the firm's fee from the Client account(s). Each calendar quarter PAX submits an invoice to the custodian for our fee. The custodian is authorized to pay PAX upon submission of such invoice. Client acknowledge that the custodian will not verify fee calculations. Client should review the fee calculated by PAX and deducted by the custodian to ensure that the fees were calculated accurately. Generally, fees are deducted from the Client account no later than the fifteenth (15<sup>th</sup>) day after the end of each calendar quarter.

Payment of fees may result in the liquidation of Client positions if there are insufficient funds in the account. Fees are assessed on all assets in the account(s), including securities, cash or money market balances unless agreed upon by the Client and Advisor collectively. Margin debits do not reduce the value of the assets in the account for billing purposes.



Client may terminate the Asset Management Agreement without penalty for a full refund of the fees within five business days of signing the asset management agreement. Thereafter, Client may terminate the Asset Management Agreement with 30 days' written notice. If the Asset Management Agreement is terminated before the end of the quarterly period, Client is entitled to a pro-rata refund of any unearned pre-paid quarterly fee based on the number of days remaining in the quarter after the termination date, which will be determined by the custodian. PAX will begin the process of terminating the agreement upon notification; however, a reasonable amount of time will be needed to liquidate and/or transfer assets, including time for required recordkeeping, and processing such request per rules and conditions imposed by mutual fund companies, stock exchanges, or securities issuers. Any refunds due will be processed within 30 days following the termination date.

### **Third-Party Investment Management**

As referenced above if Client participates in Third-Party Money Management services, the Client pays the third-party manager an investment management fee out of plan assets directly which is separate from the Advisor fee. Fees range from 0% - 1% and are collected quarterly and billed in advance calculated on the last day of each calendar quarter. When assets are contributed or removed during a quarter, Client incurs a pro-rated fee calculated in arrears, billed quarterly and/or monthly, based on the number of days the new assets were placed or removed in the account during a quarter. Reference Third-Party Money Manager ADV for more information.

The schedule below reflects the maximum fees charged to PAX advised Client when utilizing the services of Third-Party Investment Managers. The specific annualized fee charged is set forth by the Client and Adviser respectively. Fee calculations and authorizations remain the same as mentioned herein.

Amount	Fee
\$0 - \$199,000	1.50%
\$200,000 - \$499,000	1.25%
\$500,000 - \$999,999	1.00%
\$1,000,000 - \$1,999,999	0.90%
\$2,000,000 - \$2,999,999	0.80%
\$3,000,000 – \$3,999,999	0.70%
\$4,000,000 +	0.60%
\$5,000,000 +	0.50%

As mentioned previously, PAX has expanded its selection of investment strategies offered through its Wrap Fee Program. This new line of service offering with the use of Third-Party Asset Managers allows us to deliver new capabilities across our firm and with our Clients. Due to this new service offering PAX is transitioning Clients into this lower fee schedule for all existing and new Clients moving forward. Based on this transition, this may mean that some Clients may be paying higher or lower rates than PAX's previous Fee Schedule referenced herein. Some Clients receive reimbursement or credit for transferring or moving accounts into this new service offering. In some circumstances, PAX may, where appropriate, absorb the costs, waive advisory costs or pay certain expenses related to the transfer of Client accounts. In certain circumstances, account transfer costs

may also be paid for by the new service provider(s) (reference disclosures herein for more information). Payments for such expenses must be approved by an authorized officer or agent of PAX.

### **Brokerage, Custodial and Other Expenses**

Client may also incur certain charges imposed by third-parties in connection with investments made in the account(s), including, but not necessarily limited to, the following types of charges: third-party investment manager fees, mutual fund management and administrative servicing fees, mutual fund 12b-1 fees, certain deferred sales charges on previously purchased mutual funds, clearing, custody, postage and handling, SEC transaction fees, other transaction charges and service fees (i.e. account transfer fees, wire transfer fees, termination fees, etc.) interest on debit balances, IRA Qualified Retirement Plan fees, and other costs or charges with securities transactions mandated by law. Within a wrap fee program trading and execution costs are included in the wrap fee and they are not included within a non-wrap fee account. Further information regarding charges and fees assessed by a mutual fund or other securities sponsors is available in the appropriate prospectus, custodial agreement, Wrap Fee Program description<sup>1</sup> and/or referenced in Item 12: Brokerage Practices.

Advisers may be compensated as agents of PAX Financial Group Insurance Services for recommending products utilized to develop a Client financial plan. This presents a conflict of interest; however, such conflicts of interests are evaluated to not impede on the advisers' fiduciary duty to act in the best interest of each Client.

Clients are under no obligation to act upon or purchase services offered by PAX or through any affiliate(s). Higher or lower fees for comparable services may be available from other unaffiliated sources.

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

Not applicable. PAX does not charge performance-based fees or engage in side-by-side management.

### **Item 7 – Types of Client**

PAX generally provides advice to individuals and high net worth individuals (together with their trusts and estates) and small businesses, corporations and their pension and profit sharing plans. However, the services offered by PAX Financial Group are also available to, among others, banks, thrift institutions, charitable organizations, state and municipal government entities as such opportunities may arise.

There is no minimum account value required to open an account managed by PAX.

If Client participates in the Third-Party Investment Management program, sub-managers may maintain certain account minimums depending on the investment strategy selected. If the account minimums are not maintained, sub-managers may terminate its management of Client assets delegated to it for management. Accounts below the account minimum will remain uninvested (held in cash or cash equivalents) until the account minimum threshold has been satisfied by the Client.

## **Item 8 – Methods of Analysis and Investment Strategy**

### **Investment Strategy**

PAX's investment philosophy is based on traditional scholastic research, such as Efficient Market Hypothesis (EMH), Modern Portfolio Theory (MPT) and habitual discoveries in behavioral finance. EMH suggests it is impossible to "beat the market", because stock market efficiency causes existing share prices to always incorporate and reflect all relevant information. MPT is a theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. MPT suggests that an investment's risk and return characteristics should not be viewed alone but should be evaluated by how the investment affects the overall portfolio's risk and return. By investing in more than one asset class, an investor may be able to reap the benefits of diversification. PAX constructs highly diversified portfolios that incorporate a range of asset classes and market sectors utilizing market based and manager-based investments. PAX implements this philosophy by holding investments for long periods of time as deemed appropriate, periodically reallocating investments as conditions warrant and methodically rebalancing as needed.

### **Investment Selection**

PAX employs a team approach to manage Client assets. We have an Investment Committee ("IC") with members who have varying investment backgrounds, experiences, and skill sets. The IC constructs multiple models to satisfy multiple investment objectives leveraging tools such as third-party investment analytics tools, IC research and public resources. Investments are selected from a funds list provided by the third-party analytics tool and further evaluated by the IC based on applicable fees, fund track records and past performance (as applicable) in addition to a variety of statistical data which include beta, standard deviation, R-squared and Sharpe Ratio. Our IC systematically and methodically invests new assets regularly and will determine the rebalancing schedule.

If Client participates in a Third-Party Investment Management relationship, third-party money managers will define the Investment Selection criteria and strategies. PAX will review and monitor the activities of the third-party money manager at minimum annually to keep PAX Client interests above all. See third-party investment manager firm brochure for more information.

A Client's portfolio may include, but not be limited to, equities (stocks) – domestic and foreign, exchange traded funds (ETFs), mutual funds, and fixed income (bonds –government or corporate/domestic or foreign).

Each market may function and change in different ways depending on supply and demand, current events and investor behaviors. These changes may also affect a Client's tax situation and filings. While our goal is to help increase a Client's net worth, investing in securities involves risk of loss that Client should be prepared to bear.

The most commonly purchased securities are typically managed at the discretion of the IC, positions may be exchanged during the year to properly align an account with its asset allocation model. Holding commonly recommended securities for less than a year can result in contingent deferred sales charges and short-term gains / losses which may affect a Client's tax situation within non-qualified accounts and in some cases within qualified accounts. It is highly recommended to seek professional

assistance from a qualified CPA or tax professional to discuss your specific tax circumstances. Employees of PAX do not provide tax or legal advice.

Analysis and strategies are generally based on:

- Publicly Available Data
- A Client's Net Worth
- Risk Tolerance
- Client Objectives
- Commentary and Information Obtained from Third Party Analyst Firms

The Client's individual investment strategy is tailored to their specific needs and may include some or all of the previously mentioned securities. Once a portfolio has been selected, we regularly review the portfolio and when appropriate, rebalance the portfolio.

Accounts are rebalanced, or assets reallocated based on market conditions, investment committee recommendations, or other conditions as warranted. Securities we buy or sell for accounts are subject to our limited discretionary authority. Any changes in the asset allocation models, which includes adding, removing or replacing securities (i.e. mutual funds, ETFs, or variable annuities) are made at the recommendation of the Investment Committee. Those changes are based on a variety of factors, which include but are not limited to changes in the economic, financial or political climate; changes in the tax code; changes in the management of the securities used by the asset allocation models or changes in the degree of desired diversification/concentration in certain sectors or investment themes. Changes may also be made based on the Client's personal circumstances, including changes to marital status, funding needs or investment objectives.

There are different types of investments that involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy will be profitable or equal any specific performance level(s). Past performance is not indicative of future results.

The firms' methods of analysis and investment strategies do not represent any significant or unusual risks however all strategies have inherent risks and performance limitations. Risks may include, however not limited to:

#### **Risk of Loss Due To:**

- **Market Risk** – the risk that the value of securities may go up or down, sometimes rapidly or unpredictably, due to factors affecting securities markets generally or particular industries.
- **Interest Rate Risk** – the risk that fixed income securities will decline in value because of an increase in interest rates; a bond or a fixed income fund with a longer duration will be more sensitive to changes in interest rates than a bond or bond fund with a shorter duration.
- **Credit Risk** – the risk that an investor could lose money if the issuer or guarantor of a fixed income security is unable or unwilling to meet its financial obligations.
- **Business Risk** – the measure of risk associated with a particular security. It is also known as unsystematic risk and refers to the risk associated with a specific issuer of a security. Generally

speaking, all businesses in the same industry have similar types of business risk. More specifically, business risk refers to the possibility that the issuer of a particular company stock or a bond may go bankrupt or be unable to pay the interest or principal in the case of bonds.

- **Taxability Risk** – the risk that a security that was issued with tax-exempt status could potentially lose that status prior to maturity. Since municipal bonds carry a lower interest rate than fully taxable bonds, the bond holders would end up with a lower after-tax yield than originally planned.
- **Call Risk** – the risk specific to bond issues and refers to the possibility that a debt security will be called prior to maturity. Call risk usually goes hand in hand with reinvestment risk because the bondholder must find an investment that provides the same level of income for equal risk. Call risk is most prevalent when interest rates are falling, as companies trying to save money will usually redeem bond issues with higher coupons and replace them on the bond market with issues with lower interest rates.
- **Inflationary Risk** – the risk that future inflation will cause the purchasing power of cash flow from an investment to decline.
- **Liquidity Risk** – the possibility that an investor may not be able to buy or sell an investment as and when desired or in sufficient quantities because opportunities are limited.
- **Market Risk** – the risk that will affect all securities in the same manner caused by some factor that cannot be controlled by diversification.
- **Reinvestment Risk** – the risk that falling interest rates will lead to a decline in cash flow from an investment when its principal and interest payments are reinvested at lower rates.
- **Social/Political** – the possibility of nationalization, unfavorable government action or social changes resulting in a loss of value.
- **Legislative Risk** – the risk of a legislative ruling resulting in adverse consequences.
- **Currency/Exchange Rate Risk** – the risk of a change in the price of one currency against another.

### Types of Investments (Examples, not limitations)

- **Mutual Funds** – a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets.
  - **Open-End Mutual Funds** – a type of mutual fund that does not have restrictions on the amount of shares the fund will issue and will buy back shares when investors wish to sell. Investing in mutual funds carries the risk of capital loss and thus you may lose money investing in mutual funds. All mutual funds have costs that lower investment returns. The funds can be of bond “fixed income” nature (lower risk) or stock “equity” nature
  - **Closed-End Mutual Funds** – a type of mutual fund that raises a fixed amount of capital through an initial public offering (IPO). The fund is then structured, listed and traded like a stock on a stock exchange. Client should be aware that closed-end funds available within

the program are not readily marketable. In an effort to provide investor liquidity, the funds may offer to repurchase a certain percentage of shares at net asset value on a periodic basis. Thus, Client may be unable to liquidate all or a portion of their shares in these types of funds.

- **Alternative Strategy Mutual Funds** – Certain mutual funds available in the program invest primarily in alternative investments and/or strategies. Investing in alternative investments and/or strategies may not be suitable for all investors and involves special risks, such as risks associated with commodities, real estate, leverage, selling securities short, the use of derivatives, potential adverse market forces, regulatory changes and potential illiquidity. There are special risks associated with mutual funds that invest principally in real estate securities, such as sensitivity to changes in real estate values and interest rates and price volatility because of the fund's concentration in the real estate industry.
- **Equity** – investment generally refers to buying shares of stocks in return for receiving a future payment of dividends and/or capital gains if the value of the stock increases. The value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environment.
- **Exchange Traded Funds (ETFs)** – an ETF is an investment fund traded on stock exchanges, similar to stocks. Investing in ETFs carries the risk of capital loss (sometimes up to a 100% loss in the case of a stock holding bankruptcy). Areas of concern include the lack of transparency in products and increasing complexity, conflicts of interest and the possibility of inadequate regulatory compliance. Precious Metal ETFs (e.g., Gold, Silver, or Palladium Bullion backed “electronic shares” not physical metal) specifically may be negatively impacted by several unique factors, among them (1) large sales by the official sector which own a significant portion of aggregate world holdings in gold and other precious metals, (2) a significant increase in hedging activities by producers of gold or other precious metals, (3) a significant change in the attitude of speculators and investors.
- **Fixed Income** – investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities, although individual bonds may be the best-known type of fixed income security. In general, the fixed income market is volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation linked bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal. Risks of investing in foreign fixed income securities also include the general risk of non-U.S. investing described below.
- **Annuities** – are a retirement product for those who may have the ability to pay a premium now and want to guarantee they receive certain monthly payments or a return on investment later in the future. Annuities are contracts issued by a life insurance company designed to meet requirement or other long-term goals. An annuity is not a life insurance policy. Variable annuities are designed to be long-term investments, to meet retirement and other long-range



goals. Variable annuities are not suitable for meeting short-term goals because substantial taxes and insurance company charges may apply if you withdraw your money early. Variable annuities also involve investment risks, just as mutual funds do.

- **Variable Annuities** – If Client purchases a variable annuity that is part of the program, Client will receive a prospectus and should rely solely on the disclosure contained in the prospectus with respect to the terms and conditions of the variable annuity. Client should also be aware that certain riders purchased with a variable annuity may limit the investment options and the ability to manage the subaccounts.
- **Non-U.S. Securities** – present certain risks such as currency fluctuation, political and economic change, social unrest, changes in government regulation, differences in accounting and the lesser degree of accurate public information available.
- **Margin Accounts** – Client should be aware that margin borrowing involves additional risks. Margin borrowing will result in increased gain if the value of the securities in the account go up but will result in increased losses if the value of the securities in the account goes down. The custodian, acting as the Client's creditor, will have the authority to liquidate all or part of the account to repay any portion of the margin loan, even if the timing would be disadvantageous to the Client. For performance illustration purposes, the margin interest charge will be treated as a withdrawal and will, therefore, not negatively impact the performance figures reflected on the quarterly PAX reports.
- **Long-Term Purchases** – are securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- **Short-Term Purchases** – are securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

Other investment types may be included as appropriate for a Client and their respective trading objectives. It is important to note that no methodology or investment strategy is guaranteed to be successful or profitable. Investing in securities involves the risk of loss that Client should be prepared to bear.

#### **Item 9 – Disciplinary Information**

Registered Investment Advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of an investment firm or the integrity of a firm's management.

There are no legal or material disciplinary events to disclose.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

Neither the firm nor any investment representatives are registered or have an application pending to register, as a broker-dealer, futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative or associated person of the foregoing entities.

PAX is an insurance agency licensed with the Texas Department of Insurance. Our insurance group operates under the name PAX Financial Group Insurance Services, a registered DBA. Our investment adviser representatives (or IARs) may also be registered as insurance agents. Please see your IARs Form ADV Part 2B – Brochure Supplement for additional information.

PAX agents make available services from Crump Life Insurance Services (“Crump”) to assist Clients who wish to buy insurance products, such as life, long-term disability, fixed annuities, and long-term care insurance, the unaffiliated independent Field Marketing Organization (“FMO”) specializes in insurance brokerage. PAX agents receive compensation when they refer PAX Clients to Crump and the Client purchases a product. The compensation received by PAX and its agents is a percentage of the compensation paid to Crump.

In addition, as Agents of PAX Insurance Services, IAR’s also make available services and products to Client, on a commission or fee basis, from Insurance and Annuity Companies more specifically Annuities as deemed appropriate.

PAX’s agents have a conflict of interest because there is an economic incentive to sell insurance products that result in commissions or sales revenue. Client are advised that they are under no obligation to purchase any insurance products through PAX or the Crump Agency, products may be less expensive elsewhere. These insurance and/or investment vendors may provide sales support in various forms including but not limited to funding corporate events and/or client education events hosted by PAX. Educational events are conducted to bring awareness to consumers regarding market trends and product education.

PAX makes available books published by third-parties and sold by the Chief Executive Officer (CEO) of PAX. Books are available for sale through booksellers, with pricing averaging between \$0 - \$18. As an IA of PAX, books may be provided to organizations, individual Client or prospective Client at a discount or at no cost. PAX receives 0% of any book royalties or other revenue from the sale of any books written by the CEO.

The CEO also makes available an online retirement readiness course titled “Pivot Your Retirement” which enables consumers to obtain valuable education only material to kick start and/or prepare for retirement for a fee. Material contains budgeting tools, personal balance sheet construction and much more. PAX receives a portion of the fees collected for its services. The fees paid are separate and in addition to any advisory services offered through PAX.

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

PAX maintains a Code of Ethics, which serves to establish a standard of business conduct for all employees that are based upon fundamental principles of openness, integrity, honesty and trust. The Code of Ethics includes guidelines regarding personal securities transactions of its employees, IARs and related persons (“supervised persons”).

PAX is a fiduciary. As a fiduciary, it is our responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each Client. Our fiduciary duty is the core principle for our Code of Ethics which also includes provisions related to insider trading. We require our supervised persons to conduct business with the highest level of ethical standards and to comply



with all federal and state securities laws at all times. Upon employment or affiliation, all supervised persons will sign an acknowledgement that they have read, understood, and agree to comply with our Code of Ethics, any future amendments will require subsequent acknowledgement.

This disclosure is provided to give all Client a summary of our Code of Ethics. However, if a Client or a potential Client wishes to review our Code of Ethics in its entirety, a copy will be provided upon request.

**Material Financial Interest.** Neither PAX nor its employees recommends to Client or buys or sells for Client accounts, securities in which they have a material financial interest.

**Same Securities/Same Time.** The code of ethics permits employees to invest for their own personal accounts in the same or related securities that may be purchased for Client. This presents a conflict of interest because trading by an employee in a personal account in the same security on or about the same time as trading by a Client could potentially disadvantage the Client. PAX addresses this conflict of interest by requiring in its code of ethics that employees report certain personal securities transactions and holdings to the Chief Compliance Officer for review.

**ERISA/IRC.** As part of our investment advisory services, PAX may make recommendations regarding the rollover of participant retirement plan assets. When a PAX Advisor recommends a retirement plan rollover into an IRA at PAX, we will charge a fee on the assets in the IRA as described in Item 5. This presents a conflict of interest as PAX Advisors have an economic incentive to recommend that a Client transfer retirement plan assets into an IRA at PAX. Plan participants are under no obligation to rollover their retirement assets to an IRA with PAX and should carefully consider all relevant factors.

## **Item 12 – Brokerage Practices**

### **Selection of Custodian(s)/Broker-Dealers**

PAX Clients maintain their accounts with a qualified custodian/broker-dealer. PAX will recommend the use of approved custodian(s) who will provide custody and brokerage services. Currently, TD Ameritrade Institutional (TDA) is our primary custodian/broker-dealer. TDA, member of FINRA and SIPC, is not affiliated with PAX. In the future, PAX may establish relationships with other custodian/broker-dealers. PAX receives benefits from TD Ameritrade (Please see Item 14 – Client Referrals and Other Compensation below.)

PAX places all transactions for execution with TD Ameritrade . In selecting a custodian/broker-dealer and in seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a custodian/broker-dealer's services, including the value of research provided, execution capability, commission rates, responsiveness, integration with PAX systems, systems for monitoring Client investments, regulatory compliance, financial strength, reputation, and stability.

Accordingly, although we will seek competitive rates, to the benefit of all Client, we may not necessarily obtain the lowest possible commission rates for specific Client account transactions. We have attempted to negotiate favorable rates for transactions and believe that TD Ameritrade offers competitive rates. However, Client may pay a commission that is higher than another qualified broker dealer might charge to execute the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. The firm does not have any formal soft dollar arrangements, however, we do receive benefits from our

custodian/broker-dealer, TD Ameritrade, as more fully described below.

We will periodically compare services and prices against other custodian/broker-dealers qualified to provide comparable services.

Client participating in the Wrap Fee Program do not pay for transaction charges as all trade fees and platform charges are inclusive in the advisory fee paid.

### **TD Ameritrade, Inc.**

PAX participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC. TD Ameritrade is an independent SEC-registered broker-dealer. TD Ameritrade and PAX are separate and unaffiliated. Investment adviser representatives participate in TD Ameritrade's institutional customer program and adviser may recommend TD Ameritrade to Client for custody and brokerage services. There is no direct link between adviser's participation in the program and the investment advice provided to Client, although adviser receives economic benefits through participation in the program that are typically not available to TD Ameritrade retail investors. TD Ameritrade offers services to independently registered investment advisers which include custody of securities, trade execution, and clearance and settlement of transactions. The Firm receives some benefits from TD Ameritrade through its participation in the TD Ameritrade Institutional program. These benefits include, among others, the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving adviser participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have PAX fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to adviser by third party vendors.

TD Ameritrade may also have paid for business consulting and professional services received by adviser's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit adviser without a direct benefit to Client accounts. These products or services may assist adviser in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help adviser manage and further develop its business enterprise. The benefits received by adviser or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

The Firm, through its participation in the program, may receive discounts on compliance, marketing, technology, and practice management products or services provided to the Firm by third party vendors. Such services represent a potential conflict of interest disclosure. The Firm's receipt of general platform services does not diminish the Firm's duty to act in the best interests of its Client, including seeking best execution of trades for Client accounts. As part of its fiduciary duties to Client, PAX is obligated at all times to put the interests of their Client first. Client should be aware, however, that the receipt of economic benefits by adviser or its related persons in and of itself creates a conflict of interest and may indirectly influence the adviser's choice of TD Ameritrade for custody and brokerage services.

PAX examined the conflicts of interest when we chose to enter the relationship with TD Ameritrade and determined that the relationship is in the Client's best interest and satisfies our fiduciary obligations, including our duty to seek best execution.

Our firm does not receive Client brokerage commissions (or markups or markdowns) and does not receive Client referrals from TD Ameritrade.

**Aggregating Trades.** PAX may aggregate transactions for a Client with other Client to improve the quality of execution. When transactions are so aggregated, the actual prices applicable to the aggregated transactions will be averaged, and the Client account will be deemed to have purchased or sold its proportionate share of the securities involved at the average price obtained. Client may receive a better or worse price than had the account been traded individually.

PAX may decide not to aggregate transactions, for example, based on the size of the trades, number of Client accounts, the timing of trades, the liquidity of the securities and the discretionary or non-discretionary nature of the trades. If PAX does not aggregate orders, some Client purchasing securities around the same time may receive a better or worse price than other Client.

### **Item 13 – Review of Accounts**

Account surveillance is conducted on an ongoing basis by PAX IARs in conjunction with the Investment Committee. IARs monitor account suitability, investment objectives and risk tolerance per Client and the Investment Committee continually monitors model allocations per investment strategy. All Client are advised that it remains their responsibility to advise PAX of any changes in their investment objectives and/or financial situation. All Client (in person, video conference, via email or via telephone) are encouraged to review all financial planning recommendations (to the extent applicable), investment objectives and account performance with their PAX IARs on an annual basis. If the Client and IAR do not meet for a considerable period of time, greater than a year, after reasonable effort is made by the IAR to do so, the Client's account will be managed based on previously discussed expectations.

Client review periods are generally annually unless a triggering event occurs materially impacting a financial engagement such as, however not limited to, changes to marital status, funding needs or investment objectives. Occasionally a review may result in a "no change" recommendation. If a Client has a change in their financial situation, after notifying PAX, we will perform a review of the Client's financial position to help ensure the recommendations remain appropriate for the Client and satisfies their needs. Client are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the approved custodian(s) and/or program sponsor of accounts.

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

PAX does not currently have any solicitor agreements in place. PAX does not currently directly or indirectly compensate any person who is not a supervised person for Client referrals.

As disclosed under Item 12, above, PAX participates in TD Ameritrade's institutional customer program

and PAX may recommend TD Ameritrade to Client for custody and brokerage services. As part of its fiduciary duties to Client, PAX endeavors at all times to put the interests of its Client first. Client should be aware, however, that the receipt of economic benefits by PAX or its related persons in and of itself creates a potential conflict of interest and may indirectly influence PAX's choice of TD Ameritrade for custody and brokerage services.

PAX also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment IARs participating in the program. Specifically, the Additional Services include Salesforce. TD Ameritrade provides the additional services to PAX in its sole discretion and at its own expense, the IARs do not pay fees to TD Ameritrade for the Additional Services. PAX and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

PAX's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to PAX, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, PAX's Client accounts maintain at TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with PAX, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, PAX may have an incentive to recommend to its Client that the assets under management by PAX be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. PAX's receipt of Additional Services does not diminish its duty to act in the best interests of its Client, including to seek best execution of trades for Client accounts.

PAX and its employees may receive additional compensation from product sponsors. However, such compensation is not being tied to the sales of any products. Compensation may include such items as gifts valued at less than \$100 annually, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings with investment IARs, Client workshops or events, marketing events or advertising initiatives, including services for identifying prospective Client. Product sponsors may also pay for, or reimburse PAX for the costs associated with, education or training events that may be attended by PAX employees and IARs and for PAX sponsored conferences and events.

PAX and its supervised person's receipt of additional compensation and/or services represents a conflict of interest because we have an incentive to offer products from product sponsors that provide these benefits. We mitigate this conflict of interest by disclosing it to our Client, by conducting our operations in accordance with our fiduciary duty, by following our firm's code of ethics and through ongoing monitoring conducted by our chief compliance officer.

### **Item 15 – Custody**

TD Ameritrade will serve as the qualified custodian/broker-dealer of Client assets on behalf of the PAX. We established the relationship with this non-affiliated third-party custodian/broker-dealer who is responsible for taking custody of and maintaining all Client funds and securities, as discussed in Item 12. PAX does not maintain custody of Client funds. However, we are deemed to have custody because we are authorized to instruct the custodian/broker-dealer to deduct our fees from our Client's accounts.

TD Ameritrade is responsible for deducting PAX fees as authorized by the Client in the asset management agreement and TD Ameritrade's account opening documents. The custodian sends statements at least quarterly to Client reflecting all activity in accounts including the amount of the PAX fees paid to PAX and the assets upon which PAX's fee was based. PAX urges you to carefully review the statements provided by the qualified custodian to ensure the accuracy of the fee calculation because the custodian will not verify the fee.

### **Item 16 - Investment Discretion**

The Client can engage PAX to provide investment services on a discretionary and if approved on a non-discretionary basis<sup>1</sup>. Prior to PAX assuming discretionary authority over a Client's account, the Client shall be required to grant permission by executing an asset management agreement, naming PAX as the Client's attorney and agent-in-fact. Such an agreement, grants PAX full authority to buy and/or sell the type and amount of securities and the ability to hire and fire Sub-Managers on behalf of a Client.

Client who engage PAX on a discretionary basis may, at any time, impose reasonable restrictions, in writing, on the discretionary authority (i.e. limit the types/amounts of securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the use of margin, etc.). Client may also elect to have a non-discretionary account where, if accepted, PAX will secure the Client's permission prior to effecting any securities transactions in the Client's account. Reference Item 8 for additional information.

### **Third-Party Investment Management**

Discretion is provided by the Client to the Advisor to:

- Hire and Fire Sub-Managers
- Determine the portion of Client's account that shall be managed by each Sub-Manager and to change the allocation to assets
- Act as agent and attorney-in-fact to review the privacy policy, Form ADV and other disclosure documents related to the Sub-Manager
- Delegate discretionary investment authority over designated assets to Sub-Manager, which will authorize the Sub-Manager to buy, hold, or sell securities for the Client's assets delegated to the Sub-Manager
- Select the broker-dealers whom transactions for sub-manager will be affected, and
- Grant authorization for approved Sub-Managers to deduct their management fees, ranging from 0%-1% of plan assets depending on its strategy, directly from Client assets held at the custodian.

As mentioned above if Client participates in Third-Party Investment Management program, the Client pays the third-party manager an investment management fee out of plan assets directly which is separate from the Advisor fee. Fees range from 0% - 1% and are collected quarterly and billed in advance based on the value of assets on the last business day of each calendar quarter. When assets are contributed or removed during a quarter. Client incurs a pro-rated fee calculated in arrears, billed quarterly and/or monthly, based on the number of days the new assets were placed or removed in the account during a quarter. Reference Third-Party Money Manager ADV for more information.

PAX does not assume market risk on behalf of the Client. PAX does not guarantee the performance of the Client account or any specific level of performance. Past performance is not indicative of a guaranteed future result. Most values of the securities within the account will fluctuate with market conditions. When the account is liquidated, it may be worth more or less than the original amount invested.

PAX will accept and follow all liquidation instructions given by Client and will seek to execute Client's orders in a timely manner on a best-efforts basis. Occasionally, due to market conditions, liquidity and time constraints imposed by custodians or their respective asset, trades may be executed the following business day, with most liquidations occurring within 10 business days. In handling liquidation requests and purchases, we will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers, or other corporate or financial events. The liquidations and reinvestment process will likely result in tax consequences, Clients are advised to consult with their tax professional before depositing and liquidating cash and/or securities.

Contributed cash or cash equivalents in Client accounts may remain un-invested in securities for a period of time. PAX invests liquid assets methodically and believes it is to each Client's benefit to invest in an aggregated fashion rather than intermittently. For this reason, a period of time may elapse between the deposit of cash, or liquid assets, to the account and the account reaching a fully invested position.

#### **Item 17 – Voting Client Securities**

PAX does not accept voting responsibilities for Client proxies. Client will otherwise receive their proxies or other solicitations directly from their custodian. Client may contact PAX to discuss any questions that may arise with a particular solicitation. To request assistance on a proxy voting issue please contact the offering company.

#### **Item 18 – Financial Information**

Registered investment advisers are required to provide Client with financial information or disclosures about their financial condition under certain circumstances. PAX does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance or otherwise have actual or constructive custody of Client funds aside from the ability to deduct advisory fee from Client accounts directly. There are no financial conditions that are reasonably likely to impair the firm's ability to meet contractual commitments to Client. At no time has PAX been the subject of a bankruptcy petition.

\*\*\* Remainder of this page was intentionally left blank \*\*\*