



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

***March 25, 2024***

**Patten and Patten, Inc.  
555 Walnut Street  
Suite 280  
Chattanooga, TN 37402  
(423) 756-3480  
[www.patteninc.com](http://www.patteninc.com)**

**Raymond V. Ryan, CFA  
Chairman/Chief Executive Officer/President/Portfolio Manager**

This brochure provides information about the qualifications and business practices of Patten and Patten, Inc. (herein referred to as “P&P” or “the Firm”). If you have any questions about the contents of this brochure, please contact the Firm at (423) 756-3480 or [rryan@patteninc.com](mailto:rryan@patteninc.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.

Additional information about the Firm is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). P&P’s CRD number is **105414**.

*Occasionally the Firm may refer to itself as a Registered Investment Adviser; however, registration does not imply a certain level of skill or training.*

## Table of Contents

	<u>Page</u>
<b>Material Changes</b>	3
<b>Description of Advisory Business</b>	3
<i>History, Principal Owners and Staff</i>	3
<i>Compliance Program</i>	3
<i>Investment Management and Advisory Services</i>	4
<i>Types of Accounts and Approach to Investment Management</i>	5
<i>Account Administration</i>	6
<i>Assets Under Management</i>	7
<b>Fees and Compensation</b>	7
<i>Standard Management Fee Schedule</i>	8
<i>Aggregation of Multiple Accounts</i>	8
<i>Other Fee Schedules</i>	8
<i>Negotiated Fee Schedules</i>	8
<i>Fees for Other Services</i>	8
<i>Pre-payment of Fees and Refund of Fees</i>	9
<b>Performance Based Fees and Side-by-Side Management</b>	9
<b>Types of Clients</b>	9
<b>Methods of Analysis, Risk of Loss, and Additional Investment Strategies</b>	9
<i>Methods of Analysis</i>	9
<i>Risk of Loss</i>	10
<i>Additional Investment Strategies</i>	11
<b>Disciplinary Information</b>	11
<b>Code of Ethics, Personal Trading Policy, and Potential Conflicts of Interest in</b>	11
<b>Trading by the Firm's Employees and Related Persons</b>	
<i>Code of Ethics</i>	11
<i>Personal Trading Policy</i>	12
<i>Potential Conflicts of Interest in Trading by Firm's Employees and Related Persons</i>	12
<b>Brokerage Practices</b>	13
<i>Selecting Brokers for Client Transactions</i>	13
<i>Client Selected Brokers ("Directed Brokerage")</i>	13
<i>Brokerage for Client Referrals</i>	13
<i>Other Brokerage Arrangements</i>	13
<i>Best Execution</i>	14
<i>Research</i>	15
<b>Review of Accounts</b>	15
<b>Client Referrals and Other Compensation</b>	16
<i>Schwab Advisor Network</i>	16
<i>Other Referrals</i>	17
<b>Custody</b>	18
<b>Investment Discretion</b>	18
<b>Voting Client Securities</b>	18
<i>Identification and Resolution of Conflicts of Interest</i>	19
<b>Financial Information</b>	20

## Material Changes

Since the Firm's last annual update on March 9, 2023, the following material changes have occurred on Form ADV Part 2A, referred to also as "the Brochure".

- Effective January 2024, the firm hired Philip U. Payne as Vice President and Portfolio Manager.

If you wish to see the Firm's complete ADV Part 1, ADV Part 2A, ADV Part 2B, and ADV Part 3: Form CRS, please go to: [www.patteninc.com](http://www.patteninc.com)

## Description of Advisory Business

### *History, Principal Owners and Staff*

Patten and Patten, Inc. was established in 1976 by brothers Z. Cartter Patten, III and W.A. Bryan Patten. The Firm is an independent investment adviser, registered with the Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940. As of December 31, 2023, Patten and Patten, Inc. had approximately \$1.934 billion in Regulatory Assets Under Management ("RAUM").

W. A. Bryan Patten, a founder of the firm, retired effective December 31, 2022 and is no longer majority shareholder. Raymond V. Ryan is now majority shareholder of the firm.

The Firm is owned by four principals -- Raymond V. Ryan, CFA; Mark C. Fleck, CFA; William F.A. Decosimo, CFA; and Stephanie P. Graham, CPA. The Firm has one additional portfolio manager who is not a principal. The Firm's four portfolio managers have each earned the Chartered Financial Analyst (CFA) designation. Additionally, one portfolio manager has earned the Chartered Alternative Investment Analyst (CAIA) designation.

The portfolio managers are supported by a staff that includes a Chief Compliance Officer, a Chief Financial Officer, Portfolio Administrators, and Administrative Assistants.

### *Compliance Program*

On February 5, 2004, the SEC adopted Rule 206(4)-7 ("Compliance Program"), that required registered Investment Advisers to: 1) adopt and implement written policies and procedures to prevent violations by the Firm (or any Covered Associate) of the Act and/or the Rules adopted under the Act; 2) conduct an annual review of these policies and procedures; and 3) designate a Chief Compliance Officer ("CCO") to administer the policies and procedures. Compliance with Rule 206(4)-7 of the Investment Advisers Act of 1940 was required on or before October 5, 2004.

During 2003, the Firm adopted and implemented a compliance manual comprised of a number of written policies and procedures designed to prevent violations of the Act, as well as addressing the Firm's fiduciary and regulatory obligations including, but not limited to, the following: 1) portfolio management process; 2) trading practices and best execution; 3) accurate and timely disclosures; 4) trading in personal accounts; 5) continuous safeguarding of clients' assets; 6) implementation and enforcement of a privacy policy (Regulation S-P); 7) consistent processes related to the valuation of client assets and the generation of fees; and 8) creation and implementation of business continuity and disaster recovery plans. A full and

proper review of the Firm's policies and procedures (compliance manual) occurs on a continuous basis and is documented in the Annual Compliance Review.

Additionally, the Principals of the Firm, as required by Rule 206(4)-7, expanded the role of the Compliance Officer by creating the Chief Compliance Officer ("CCO") position. The CCO has full responsibility and authority to enforce the appropriate policies and procedures which ensure the Firm's compliance with the rules and regulations that govern registered investment advisers.

#### *Investment Management and Advisory Services*

Patten and Patten, Inc. provides investment advisory and management services on a discretionary basis to individuals, families, individual retirement plans, trusts, family partnerships, endowments, foundations, pension and profit-sharing plans, 401(k)s and other qualified institutional retirement vehicles, and other institutional investment accounts.

In certain instances, the Firm has engaged clients on a non-discretionary basis. Under a non-discretionary arrangement, P&P is required to obtain approval from the client prior to executing any transaction. Clients may also impose restrictions on investing in certain securities or types of securities. The Firm advises clients to establish restrictions in writing after consultation with the Portfolio Manager. It is possible, therefore, that "non-discretionary" assets or securities could be included in a portfolio or client relationship for which Patten and Patten has discretionary authority.

For the majority of P&P's clients, the Firm's investment management process begins with making an assessment as to the proper strategic asset allocation for a given portfolio, accounting for the client's objectives and risk tolerances, and the expected returns for various asset classes. This is accomplished through an in-depth interview and information gathering process that is customized for each client, designed to assess objectives, risk tolerance, suitability, and restrictions. Risk tolerance is assessed in two ways: the ability to assume risk (quantitative) and the willingness to assume risk (qualitative). Information is gathered, assimilated, and analyzed with the goal of developing specific investment recommendations. Ultimately, an initial set of recommendations is proposed to each client for approval and implementation.

Portfolio Managers are expected to review a client's Investment Policy Statement on a quarterly basis. As part of the annual review process with each client, Portfolio Managers are expected to confirm that the parameters of the Investment Policy Statement continue to reflect the objectives and risk tolerance of the client.

The Firm does not possess expertise with respect to tax or estate planning. Further, the Firm generally does not provide tax or estate planning services. However, knowledge of such topics is integral to the investment management process, particularly for individuals. Each of the Firm's Portfolio Managers has demonstrated general proficiency in this regard, but P&P's practice is to refer clients to professionals (e.g., attorneys; CPAs) that specialize in such areas.

To the extent requested by clients, the Firm provides limited consultation services for non-investment related matters that are generally ancillary to the investment management process. Such services are typically rendered on an unsolicited basis, for which the Firm usually does not receive any separate or additional fee.

*Please Note: The Firm does not provide legal, tax, or accounting advice or services. Also, clients should appreciate that Patten and Patten is neither a trust nor banking institution; that securities or other investments for which the Firm provides advisory or investment management services are typically not deposits or obligations of any bank; are generally not guaranteed by any bank or financial institution; are not usually insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency.*

#### *Types of Accounts and Approach to Investment Management*

An investment manager adds value through asset allocation decisions as well as by superior selection of securities. Patten and Patten, for the most part, engages in active management strategies and tactics. Occasionally, there could be a compelling need to diversify into sectors or asset classes that complement the Firm's general style. The Firm primarily utilizes individual common stocks, individual bonds (e.g., US Treasury Notes and Bonds, Federal Agency Notes, High Grade Corporate bonds), and the ADRs (American Depositary Receipts) of certain foreign issuers. Patten and Patten's expertise lies in managing large capitalization equity portfolios oriented toward "core" stocks purchased at reasonable valuations; accounts with a balanced/blended objective; and actively managed fixed-income portfolios that generally do not assume credit risk.

The Firm is a "Top Down/Bottom Up" manager in that extensive review and monitoring of broad economic/market indicators is first performed to identify asset classes and industry groups to overweight and underweight. The Firm studies demographic trends, business model dynamics, and sector forces to assist in long-term planning.

The Firm defines "core" as a combination of both growth and value stocks. A "core" style implies that investment decisions remain disciplined with regard to fundamentals and valuation. Portfolios managed in this style are designed to provide for long-term growth, *emphasizing low relative turnover and volatility* below that of the benchmark. Lower turnover should result in lower relative expenses associated with an active management strategy. Over time, the Firm believes this approach enhances the net returns to investors. In the Firm's view, the "core" style will maintain its importance as market dynamics continue to change and should, over time, generate superior risk-adjusted returns.

The Firm's approach to research is independent and thorough. For an allocation to large and mid cap stocks, the Firm's standard practice would be to invest in 30 – 40 distinct equity positions, and the Firm would avoid over concentration in any one sector, unless otherwise dictated specifically in parameters established under an investment policy. The Firm generally does not invest in a company until one of the Firm's professionals has completed due diligence and demonstrated a complete understanding of the company's fundamentals. The Firm obtains information from numerous independent sources including SEC filings, industry reports, and consultants. The Firm seeks to visit companies whenever possible and makes efforts to meet with management teams. The Firm then performs detailed fundamental financial analysis to assess the relative value of certain securities.

The Firm actively manages bond portfolios and the bond allocation of a balanced portfolio. Most of the Firm's clients seek to minimize credit risk, and generally bonds in which the Firm invests are rated A or better. Patten and Patten sets duration depending on the outlook for interest rates, the objectives of the client, and the relative level of risk.

For sectors that complement the Firm's general style, Patten and Patten would also include certain open-end mutual funds, "liquid alternatives" mutual funds registered under the Investment Company Act of 1940, and Exchange Traded Funds ("ETFs").

"Liquid alternatives" mutual funds are permitted to implement various non-traditional strategies, including the use of short sales, while still complying with the daily liquidity and Net Asset Value (NAV) reporting requirements of the 40 Act. At present, the Firm would consider the limited use (5-10% of a portfolio's allocation) of "liquid alt" funds for purposes of establishing a defensive allocation to the stock and bond markets.

ETFs are exchange-listed index funds that are cost effective and trade like common stocks. ETFs offer instant diversification and a passive means of investing in sectors for which the use of individual securities might prove inefficient or inappropriate.

The Firm categorizes all asset classes that exhibit low correlations with the stock and bond markets, such as real estate, commodities, and precious metals, as "alternatives."

Patten and Patten generally seeks to hold positions long-term, minimize costs and limit turnover. Relying on proprietary research criteria, the Firm practices discipline with respect to buy and sell target prices for securities as well as position sizes. However, if the Firm feels that deteriorating fundamentals or excessive valuation considerations warrant reducing risk exposure to a particular stock, industry, sector, or asset class, the Firm will act accordingly.

#### *Account Administration*

The Firm has established institutional relationships with several large, national, qualified custodians ("Custodian"), as defined under Securities and Exchange Commission Rule 206(4)-2. Examples of Custodians include Charles Schwab & Co. and Pershing Advisory Solutions, a division of BNY Mellon. With each of these custodians, P&P has negotiated institutional rates for clearing transactions and other account related charges.

Custodial firms produce monthly statements, and they generate trade confirmations. Most custodial firms offer clients the option to receive this information in either written or electronic format. Patten and Patten generates detailed quarterly statements that include performance calculation; account appraisal; purchases & sales; income & expenses; year-to-date realized gains & losses.

At the end of each month, Patten and Patten's information for each client portfolio is reconciled with information provided by the account's custodial firm. The Firm can, therefore, generate account information within one business day following the end of each reporting period. However, the custodial firms sometimes do not provide monthly closing information for a few business days. In that event, Patten and Patten is willing to generate "preliminary" reports to clients with the understanding that fully reconciled and balanced account information is generally not available until the fifth business day of the following month.

In terms of internal control procedures, only portfolio managers can approve trades for client accounts. Portfolio managers submit trades by written instructions or through Moxy, one of the modules within the Firm's *Advent* suite of portfolio management software. Those trades are then entered by Portfolio Administrators. Trade executions are cleared via the custodial firm through the DTC reporting system. All

transactions are reconciled by the Portfolio Administrator and reviewed by the Portfolio Manager on the business day following trade date. The Portfolio Administrator verifies there is sufficient cash in the account to settle the transaction. Once that confirmation and reconciliation process is complete, the trade is recorded in the Firm's proprietary data base of client information (using *Advent* software).

Patten and Patten undertook a transition from Advent (i.e. APX & Moxy) to Orion at the beginning of 2023. Orion's trading module is called Eclipse. During the transition phase, employees have processed information in both systems and reconciled account information periodically. The transition in portfolio management systems is expected to be complete in the second quarter of 2024.

### *Assets Under Management*

The Firm had **\$1,933,601,275** in Regulatory Assets Under Management ("**RAUM**"), as of December 31, 2023. Of this total, **\$1,831,395,677** was managed on a discretionary basis and **\$102,205,598** on a non-discretionary basis. RAUM excludes any account (portfolio) in which 50% or more of the assets are not securities -- e.g., closely held securities, real estate, etc. -- and excludes margin balances.

The Firm occasionally enters into WRAP Fee Arrangements for discretionary equity balanced accounts with brokers registered with the Financial Industry Regulatory Authority ("FINRA"). These accounts are usually managed with similar strategies as other client equity or balanced accounts. Compensation for these accounts conforms to the same guidelines as other non-wrap accounts.

Clients reserve the right to use a custodial or brokerage firm with which Patten and Patten lacks an institutional relationship. In these instances, certain features that have been negotiated by the Firm for its other clients, such as extremely low commission rates, may not be available.

*Note: In performing its investment management services, the Firm is not required to independently verify any information received from the client or from the client's other professionals. It is the client's responsibility to promptly notify the Firm if there are any changes in financial situation or investment objectives for the purpose of reviewing, evaluating, and/or revising the Firm's previous recommendations and/or services. Each client is encouraged to schedule a meeting with their Portfolio Manager, at least quarterly, to review accounts and to update their Portfolio Manager of their needs.*

### **Fees and Compensation**

Patten and Patten's investment management and advisory services are provided on a "fee only" basis, based on the value of assets under management. Patten and Patten's fees are not performance-based, and the Firm does not charge or collect commissions or other transaction-based fees. Management fees are collected on a quarterly basis, in arrears, determined by the average value of the assets in the account during the previous calendar quarter. Management fees are debited directly from client accounts unless other acceptable arrangements are requested. Portfolio Managers may negotiate with the client an alternate fee schedule.

It is incumbent upon Patten and Patten to seek for its clients, among other items, the best possible execution prices, including all fees and commissions, in transactions for which the Firm has discretionary authority over the assets. Currently, commission rates for equity trades range from as low as \$0.00 to a "flat" \$8.95 per trade. Occasionally, a client may direct Patten and Patten to utilize the services of a specific brokerage firm. It is the obligation of the Firm to inform the client, in these instances, that the

best possible execution prices and/or lowest commission rates may not be obtained. At any time, however, the client may further direct Patten and Patten to seek alternatives by providing written notice to the Firm.

The management fee is established in the "Investment Advisory Agreement" with Patten and Patten. Management fees are usually deducted automatically from client portfolios, on a quarterly basis, in arrears, by applying the Schedule of Fees specified in the Investment Advisory Agreement to the average balance of the account during the previous calendar quarter. In the event that the contract is entered into or terminated prior to the end of any calendar quarter, such fees can be prorated accordingly. Each client reserves the right to request direct billing.

#### ***Standard Management Fee Schedule***

Assets Under Management	Annual Fee as a Percent of Assets
First \$2,000,000	0.750%
Next \$3,000,000	0.500%
Above \$5,000,000	0.375%

The Firm does not accept commission or other compensation for the use of securities or other investment products, such as 12(b)-1 charges on certain mutual funds.

#### ***Aggregation of Multiple Accounts***

The Firm often aggregates the accounts of clients with multiple or related portfolios for purposes of computing fees.

#### ***Other Fee Schedules***

Under certain circumstances, some accounts may be charged a flat quarterly or annual fee for investment management or advisory services, if mutually agreed upon by the client and the Portfolio Manager.

#### ***Negotiated Fee Schedules***

Portfolio Managers may negotiate with the client an alternate fee schedule depending on a client's particular situation.

#### ***Fees for Other Services***

From time to time, a Portfolio Manager at the Firm may enter into consulting arrangements for matters that do not involve ongoing investment advice. These consulting arrangements are usually of limited duration, and an hourly fee is negotiated in writing with the client. The revenues associated with this business are generally de-minimis in nature.

*Please Note: Clients may incur fees charged by their custodian such as custodial fees, mutual fund fees, and other transaction costs. The fees that clients pay P&P do not include brokerage commissions or charges associated with securities transactions, mark-ups or mark-downs in principal transactions, deferred sales charges, odd-lot differentials, stock exchange fees, wire transfer or related processing fees,*



*transfer taxes or other charges mandated by law or regulation. The Firm does not receive any portion of any of the aforementioned expenses or fees.*

#### *Pre-payment of Fees and Refund of Fees*

A client may pre-pay management fees. A client may obtain a refund of a pre-paid fee or overpayment by contacting the Portfolio Manager or Portfolio Administrator, who will request a check be issued to the client for an appropriate refund. If an advisory contract is terminated, quarterly fees will be pro-rated for the number of days in the quarter for which management services were provided.

Clients should be aware that similar or comparable services may be available from other firms, including other investment management firms, at a cost higher or lower than that offered by P&P.

Employees of the Firm (i.e., Principals, Portfolio Managers, staff members), as well as qualified Related Persons, are expected to maintain all personal accounts at the Firm. The Firm does not charge a management fee on these accounts. However, numerous restrictions are placed on these accounts in an effort to avoid conflicts of interests and to ensure compliance with applicable regulations. Reports are generated daily, quarterly, and annually to monitor all employee account transactions and other activities. Please refer to *the Firm's Code of Ethics, Participation or Interest in Client Transactions and Personal Trading* (p.11) for additional information.

#### **Performance Based Fees and Side-By-Side Management**

The Firm does not charge performance based fees.

#### **Types of Clients**

Patten and Patten, Inc. provides investment advisory and management services on a discretionary basis to individuals, families, individual retirement plans, trusts, family partnerships, endowments, foundations, pension and profit sharing plans, 401(k)s and other qualified institutional retirement vehicles, and other institutional investment accounts.

The Firm has a minimum of \$500,000 to establish an individual client account. Pension and profit sharing plans with a high rate of funding (i.e., continuous investment of new funds) require a minimum of \$300,000. However, the Principals of the Firm may, at their discretion, waive the minimum account size.

#### **Methods of Analysis, Risk of Loss, and Additional Investment Strategies**

##### *Methods of Analysis*

The Firm's approach to research is independent and thorough. The Firm practices Modern Portfolio Theory, which emphasizes diversification and accounting for expected risk as well as expected return. The primary valuation methodology is discounted cash flow. The Firm obtains information on companies from numerous independent sources including SEC filings, industry reports, and consultants. The Firm seeks to visit publicly-held companies whenever possible, and makes efforts to see numerous management teams at investor conferences. The Firm generally does not invest in a company until one of the Firm's professionals has completed due diligence and demonstrated a comprehensive understanding of the

company's fundamentals. Identification of "macro" or secular trends involves the study of demographic trends, business model dynamics, and sector forces that could have an impact on a particular company's fundamentals. Moreover, secular trends have significant influence over asset allocation decisions.

The initial focus of an investment management relationship should be to determine the required return. This return incorporates the risk tolerance of the client and attempts to account for both current and future financial needs (i.e., any annual distributable income thresholds). Risk tolerance is a function of the time horizon of the account, annual liquidity needs or constraints, the ability of the client to experience market volatility, and the willingness of the client to assume risk.

The Firm then seeks to make decisions to achieve a target return that exceeds the required return by a comfortable margin. In this manner, the needs/objectives of the client are satisfied without the assumption of undue risk. Moreover, if there is a current income requirement, the principal of the portfolio(s) could be preserved and permitted to grow long term.

Generally, the Firm recommends that client accounts be managed from a total return perspective, particularly in low interest rate environments. This method fulfills any current or future required distributions from a combination of realized gains and interest income. Further, the Firm recommends a dynamic, balanced approach with regard to asset allocation. If interest rates are sufficiently high, the strategy would involve allocating sufficiently to fixed income securities to satisfy the required return. The balance would then be invested in the stock market in an effort to grow the principal. Allocation decisions will be made in the context of a forecast for both markets.

Over short time frames, market conditions often create volatility associated with the expected returns for certain asset classes. In such instances, a dynamic approach should help to preserve the principal of a portfolio and take advantage of short-term opportunities. These adjustments should occur in the overall context of maintaining an orientation that should provide for the long-term return goals. Essentially, proper investment management requires constant balancing between the funding of current and future needs from a pool of assets.

The Firm is a long-term investor that actively searches for a mix of securities within each asset class that should outperform its peers, given the overall market/economic outlook. The Firm does not attempt to time markets, nor does the Firm attempt to "ride" short-term waves of momentum. The Firm does not engage in trading strategies that emphasize excessive turnover of client portfolios or frequent transactions, which could result in extended periods of inactivity.

#### *Risk of Loss*

The Firm advises all clients with respect to the potential for both return and risk with all capital investments. The Firm believes that its approach to investment management does not entail any unusual risks or risks beyond the normal scope of investment in capital markets. The Firm acknowledges that return and risk are generally and inextricably linked. Return and risk tend to exhibit high positive correlations – i.e., higher return assets tend to possess higher risk profiles.

*Please Note: Investing in securities, such as those used by the Firm, involves the potential risk of loss of principal as well as accumulated unrealized capital gains.*

### *Additional Investment Strategies*

The Portfolio Managers of the Firm have the expertise to engage in option trading on behalf of its clients. In order to engage in option trading, the client's account must be approved by the custodial/brokerage firm. Patten and Patten generally utilizes options strategies strictly to hedge risk and on a non-discretionary basis. The Firm does not engage in speculative or "naked" options positions.

It is quite common for clients to inquire about certain securities or investment opportunities. The Firm exercises great diligence in responding to such client requests. The Firm will typically conduct independent research in an effort to make an informed recommendation. Generally, these recommendations would constitute "non-discretionary" securities or investments in an account for which Patten and Patten otherwise has discretionary authority.

On occasion, the Firm may have limited access to Initial Public Offering ("IPO") shares. Except with respect to the exceptions that follow, the Firm generally does not purchase and/or recommend for purchase IPO's for its clients. The exceptions are:

(1) for initial public offerings of large recognized company securities (e.g., UPS, Google, etc.), and only to the extent that:

(a) the Firm first determines such IPO is suitable for its clients; and,

(b) the IPO is available through its existing clearing/custodial firm relationships; or

(2) for those clients of the Firm who, on an unsolicited basis, contact the Firm to request that the Firm purchase a specific IPO for their account. In the event of unsolicited request(s), the Firm, after first determining that the IPO is suitable for the client, may purchase such IPO on a pro-rata basis with other unsolicited client requests.

To the extent possible, the Firm will use reasonable efforts to allocate available IPO shares on a fair and equitable basis in accordance with the terms and conditions of the aforementioned policy.

### **Disciplinary Information**

Neither the Firm nor any of its Covered Associates has been subject to any legal or disciplinary action related to investment business in the past ten (10) years.

### **Code of Ethics, Personal Trading Policy, and Potential Conflicts of Interest in Trading by the Firm's Employees and Related Persons**

#### *Code of Ethics*

On February 1, 2005, the SEC required all Registered Investment Advisers to comply with the newly adopted Rule 204A-1 (Code of Ethics Rule). The Firm developed, implemented, and enforces the Firm's Code of Ethics, including but not limited to the following:

- 1) the standard of conduct required by the Firm and compliance with all Federal laws by all employees;
- 2) the CFA Institute's Code of Ethics and Standards of Professional Conduct;
- 3) personal securities transactions;
- 4) reporting of compliance violations and the proper recording of each;
- 5) distribution and acknowledgment of the Code of Ethics to all employees;
- 6) protection of, and prohibition of trading based on, material non-public information; and
- 7) proper disclosure of the Code of Ethics.

A copy of The Firm's Code of Ethics is available upon written request.

*Note: An employee is defined as ALL persons working full-time, part-time or on a temporary basis (including interns). An employee could also be referred to as an Access Person or Covered Associates, primarily based on the size of the Firm and close proximity in which ALL employees work.*

#### *Personal Trading Policy*

The Firm has adopted a Policy for personal securities transactions. This Policy serves to establish a standard of business conduct for all of the Firm's employees.

No employee may purchase or sell any covered security without first obtaining prior clearance from the CCO, or designee. The CCO, or designee may reject any proposed trade by an employee that:

- (a) involves a security that is being purchased or sold by the Firm on behalf of any advisory client;
- (b) is otherwise prohibited under any internal policies of the Firm;
- (c) breaches the employee's fiduciary duty to any advisory client;
- (d) is otherwise inconsistent with applicable law, including the Advisers Act and the Employee Retirement Income Security Act of 1974; or
- (e) creates a conflict of interest or an appearance thereof.

#### *Potential Conflicts of Interest in Trading by the Firm's Employees and Related Persons*

The Firm's employees and any related persons are permitted to invest in the same securities, warrants, options, or futures that the Firm recommends to its clients. The Firm's employees and related persons are not permitted to receive better execution prices of securities purchased on the same day as any of the Firm's clients. In order to avoid any potential conflict of interest between the Firm and its clients, securities transactions for the accounts of employees and related persons should be entered only after completion of all reasonably anticipated trading in that security for clients on any given day. Typically,

personal transactions will occur in the final hour of trading. However, if after completion of all anticipated trading for client accounts, a trade is executed for an employee or a related person's personal account at a price better than that received by a client that same day, the employee or trader must notify the CCO and prepare a memorandum detailing the circumstances of the transaction. If after reviewing the transaction, the CCO determines that a potential conflict of interest existed, the CCO has the authority to make any necessary adjustments, including canceling and re-billing the transaction. Pursuant to the Firm's personal trading policy, all applicable memoranda and documentation will be maintained in the Firm's compliance files.

In order to achieve best execution, the Firm seeks to "block" or aggregate all orders prior to submission for execution. Generally, personal securities transactions for equities are excluded from these blocks and entered separately. For fixed income transactions, orders for personal or related accounts can be aggregated with client orders for purposes of liquidity. When orders are entered as a block, all accounts should receive the same execution price.

## **Brokerage Practices**

### *Selecting Brokers for Client Transactions*

It is incumbent upon Patten and Patten to seek for its clients, among other items, the best possible execution prices, including all fees and commissions, in transactions for which the Firm has discretionary authority over the assets. Currently commission rates for equity trades range from as low as \$0.00 to a "flat" \$8.95 per trade.

### *Client Selected Brokers ("Directed Brokerage")*

Occasionally, a client may direct Patten and Patten to utilize the services of a specific brokerage firm. It is the obligation of P&P to inform the client, in these instances, that the best possible execution prices and/or lowest commission rates may not be obtained. At any time, however, the client may further direct Patten and Patten to seek alternatives by providing written notice to the Firm.

Further, the client may select a custodian that also acts as the broker for the account. Under those arrangements, it is the client's responsibility to negotiate terms and conditions for their account(s). The client's account(s) will, consequently, be excluded from other "blocked" or "aggregated" orders as the Firm seeks to achieve best execution. Consequently, the client acknowledges that such "directed broker" arrangements may cause the account(s) to incur higher commissions or transaction costs than would otherwise be the case for the custodial platforms offered by the Firm and utilized by a majority of its clients.

### *Brokerage for Client Referrals*

The Firm does not direct any client transactions to any specific broker based on referrals.

### *Other Brokerage Arrangements*

In limited situations, Patten and Patten has been engaged by a brokerage firm in an advisory capacity for some of their clients. Typically, the account is required to remain in custody with the brokerage firm that

makes the referral. Further, transactions under those arrangements are required to be effected through the broker that refers the clients to the Firm.

In the event that the Firm is engaged to provide investment management services as part of an unaffiliated wrap-fee program, the Firm will be unable to negotiate commissions and/or transaction costs. Under a wrap program, the wrap program sponsor arranges for the investor participant to receive investment advisory services from a third party investment advisor. The sponsor further arranges the execution of securities transactions, custody, and reporting services for a single "wrap" fee. Participation in a wrap program may cost the participant more or less than purchasing such services separately. If the program is offered on a non-wrap basis, the program sponsor will determine the broker through which transactions must be directed, and the amount of transaction fees and/or commissions to be charged to the participant investor account(s).

### *Best Execution*

The Firm has a fiduciary obligation to negotiate the most favorable commission rates available for its clients. Brokers may have different execution capabilities with respect to different types of orders and securities. The use of a particular broker is normally determined by whether they are a registered market-maker in a particular stock or security.

Brokerage firms also have varying capabilities when it comes to illiquid stocks. For stocks and other securities, liquidity is generally measured by the Bid-Ask spread. A wider Bid-Ask Spread is an indication of a less liquid stock or security. Traders also discuss "market depth" which measures the degree to which above average volume can be absorbed by the market in a short period of time. Typically, the Firm trades electronically when liquidity is not a concern. When liquidity is a concern, the Firm will instruct the brokerage firm to "work the order". "Working the order" is a trader's expression that describes soliciting interest in a block of shares prior to execution. In other words, instead of attempting to execute an entire block of shares electronically, the brokerage firm would first solicit levels of interest and negotiate on P&P's behalf to get the block executed at the best price, if possible.

For best execution, P&P attempts to direct trades for smaller cap and other illiquid stocks to the broker or registered market maker with the highest reported trading volume for the respective security, provided the Firm maintains a relationship with them.

The Portfolio Managers at the Firm tend to block or aggregate orders for their clients to obtain lower overall commission rates and/or better execution prices. The practice of blocking or aggregating orders has been used by advisers for many years. Blocking, if used properly, can benefit both the client and the adviser. The SEC has taken the position that an adviser can block orders for clients, whether they be individual, institutional or investment company, so long as all accounts participating are "treated fairly." The term "treated fairly" is subjective, but for purposes of P&P's Best Execution Policy, it means the clients receive the best execution under the circumstances and that no client is intentionally favored over another.

Clients may request, in writing, that his/her trades not be included in a blocked order. This most commonly occurs when the client directs the Firm to use a particular registered representative or broker ("directed broker").

The procedures described below are designed to ensure that purchase and/or sell orders which have been aggregated are allocated fairly among clients so that, over time, all clients are treated equitably.

Portfolio Managers should make a preliminary allocation before execution. An order filled through a series of executions through the same broker on the same term (e.g., market or limit order) on the same day should generally be allocated using an average price. Once an order is filled, subsequent orders for the same security on the same day will not be averaged with the filled order for allocation purposes. As a general policy, the allocation should be finalized no later than the close of business on trade date.

When an aggregated order is filled in its entirety, the order will be allocated to participating accounts in accordance with the preliminary allocation schedule. Deviations from the preliminary allocation and the justification for such should be documented, in writing, by the respective Portfolio Manager. An order is deemed "filled in its entirety" even if more than one trade date is required to complete the entire transaction. In such cases, the portion of the order completed each day ordinarily will be allocated in accordance with the preliminary allocation schedule.

When an aggregated order is only partially filled (and there is an expectation that the entire transaction will not be completed in a reasonable period), the order will, generally, be allocated among the participating clients on a pro rata basis, if possible. Depending on possible restrictions specific to each account and the relative size of the aggregated order, a pro rata allocation might not be feasible or practical. Allocations generally reflect the judgment of the portfolio managers.

### *Research*

An investment adviser must execute securities transactions for its clients in such a manner that the client's total cost in a given transaction is the most favorable under the circumstances, i.e., the size and type of transaction, the character of the market for a given security. In determining how best to meet its obligations to its clients to ensure "best execution" of securities transactions, the adviser does not necessarily have to utilize the broker offering the lowest possible commission cost; rather, the adviser should seek the best qualitative execution of the trade. Factors which the adviser should consider include the full range of a broker's services including the value of research provided by the broker as well as its execution capability, commission rate and responsiveness.

The Firm generally selects investments based on proprietary research generated by its Portfolio Managers and Research Analyst(s). The Firm also receives access to institutional research material (i.e., written reports, access to analysts, attendance at investment-related conferences, etc.), investment information, and various quantitative, analytical software or software that provides analysis of securities.

### **Review of Accounts**

Investment management and supervision of all matters related to each client relationship are the responsibilities of a Portfolio Manager. The Portfolio Managers at Patten and Patten each hold the Chartered Financial Analyst designation and have a minimum of five (5) years experience in investment management. Currently there are four (4) Portfolio Managers. The Firm's Investment Committee may determine that a Portfolio Manager has reached his or her capacity with respect to managing client accounts.

Portfolio Managers review each of their client's accounts at least quarterly. The frequency of reviews can be affected by: 1) the amount of discretion granted by the client; 2) monthly review cycles; and 3) the availability of the client. Factors triggering reviews include, but are not limited to: 1) liquidity events such as bond maturities or liquidity needs such as periodic distributions; 2) significant change in the value of individual holdings or market levels; 3) economic developments; 4) fundamental developments in holdings; 5) contact from clients; and 6) development of new investment ideas and/or strategies.

Accounts are also reviewed in preparation for: 1) client meetings, at least annually; 2) at the request of the client; or 3) under circumstances where a particular asset or class of assets may warrant a review of all accounts which hold the asset. Typically, a client review meeting (or phone call) will consist of an evaluation of the account's performance against established performance benchmarks; evaluation of the portfolio as compared to the applicable Investment Policy Statement; and consideration of adjustments to investment strategy. Reports provided for the meeting would include: 1) investment results of the latest quarter, as well as year to date and since inception; 2) administrative issues or topics; 3) economic developments; 4) company fundamentals; and 5) recommendations.

Client reports are generated by Advent's APX (a portfolio management and accounting software), prepared quarterly, and mailed/emailed to all clients. Reports can be generated more frequently, if desired. Typically, both the quarter-end and client meeting reports contain the following: *Portfolio Summary; Portfolio Appraisal; Contribution and Withdrawals; Purchase and Sales; Realized Gains and Losses; Income & Expense Summary; and Portfolio Performance*. Additional reports for client meetings may be generated at the discretion of the individual Portfolio Manager. Patten and Patten undertook a transition from Advent (i.e. APX & Moxy) to Orion at the beginning of 2023. The transition in portfolio management systems is expected to be complete in the second quarter of 2024 at which time reports will be generated by Orion.

Custodial firms produce monthly statements, and they generate trade confirmations. Most custodial firms offer clients the option to receive this information in either written or electronic format. At the end of each month, Patten and Patten's information for each client portfolio is reconciled with information provided by the account's custodial firm. The Firm can, therefore, generate account information within one business day following the end of each reporting period. However, the custodial firms sometimes do not provide monthly closing information for a few business days. In that event, Patten and Patten is willing to generate "preliminary" reports to clients with the understanding that fully reconciled and balanced account information is generally not available until the fifth business day of the following month.

*Please Note: Clients are advised that it remains their responsibility to advise the Firm of any changes in their personal information, their financial situation or investment objectives or if they wish to impose, add, or modify any restrictions to the Firm's investment management services.*

## **Client Referrals and Other Compensation**

### *Schwab Advisor Network*

Patten and Patten receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through its participation in the Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with Patten and Patten. Schwab does not supervise the Firm and has no responsibility for the Firm's management of clients' portfolios or the Firm's other advice or services. The Firm pays Schwab fees to



receive client referrals through the Service. The Firm's participation in the Service may raise potential conflicts of interest described below.

The Firm pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by the Firm is a percentage of the fees the client owes to the Firm or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. The Firm pays Schwab the Participation Fee for as long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to the Firm quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by the Firm and not by the client. **The Firm has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs the Firm charges clients with similar portfolios who were not referred through the Service.**

The Firm generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from, Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees the Firm generally would pay in a single year. Thus, the Firm will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of the Firm's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, the Firm will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit the Firm's fees directly from the accounts.

For accounts of the Firm's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from the Firm's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, the Firm may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. The Firm nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for the Firm's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

#### *Other Referrals*

If the client is introduced to the Firm by either an unaffiliated or an affiliated solicitor, the Firm may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from the Firm's investment management fee and shall not result in any additional charge to the client. Currently, the Firm does not provide economic benefit or compensation to any non-employee for client referrals.

Currently, the Firm does provide a portion of client's management fees to employees for client referrals. Any additional compensation, or referral fee, is paid solely from the Firm's investment management fee, and does not result in any additional charge to the client.

### **Custody**

The Firm elects to use independent, third-party, qualified custodians and does not custody any client's funds or securities.

The Firm's custodians typically generate monthly account statements (but no less than quarterly) while the Firm generates client statements no less than quarterly. The Firm encourages all of its clients to carefully review and compare both statements for transaction and balance accuracy.

*Please note: Clients should appreciate that the account statements received from their custodian are the official record of their account(s) and assets for tax purposes.*

### **Investment Discretion**

Clients may choose to give the Firm discretionary authority to manage their account(s). The Firm assumes this authority typically through the execution of the Investment Advisory Agreement ("IAA") signed by both the client and the Portfolio Manager, or a representative of the Firm.

Clients may impose restrictions on investing in certain securities, types of securities, or with regard to investment strategies. A client should set forth these restrictions, in writing, after discussing with their Portfolio Manager.

Clients may also decline to grant the Firm discretionary authority through the IAA, under which any changes to the account must be pre-approved by the client. The client should be aware that withholding discretionary authority from the Firm may result in delayed execution of trades, as prior approval must first be obtained by the Firm.

Please refer to an earlier section, *Description of Advisory Business* (p.3), for additional explanation.

### **Voting Client Securities**

The Firm generally does not vote client proxies and encourages all clients to vote their own proxies. However, at client request, the Firm may consider voting proxies on the client's behalf.

The Firm will continue to vote proxies for those clients who had previously authorized the voting of proxies. The Firm retains discretion for (1) determining the manner in which proxies shall be voted, and (2) making all elections relative to any mergers, acquisitions, and tender offers.

Patten and Patten furnishes each client, for whom it votes proxies, the appropriate forms for each custodian to direct that copies of all proxies and shareholder communications (except for legal proceedings) be forwarded to the Firm.

P&P engages an independent, third-party proxy research firm, Glass Lewis, to make recommendations on voting proxies. The Firm generally follows the recommendation of this service when voting proxies on behalf of its clients. However, the Firm retains discretion for (1) determining the manner in which proxies shall be voted, and (2) making all elections relative to any mergers, acquisitions, and tender offers.

The Firm uses the Glass Lewis Standard Proxy Policy for voting proxies. The policy focus is to facilitate shareholder voting in favor of governance structures that will drive performance and create shareholder value. Glass Lewis evaluates each vote on a case by case basis.

P&P also engages a third-party proxy service called ProxyEdge, which provides administrative services related to the processing of proxy votes.

The Firm, in conjunction with the proxy voting due diligence provided by the third-party, shall monitor corporate actions of individual issuers and investment companies consistent with the Firm's fiduciary duties. With respect to individual issuers, the Firm may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), the Firm may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. The Firm shall maintain records pertaining to proxy voting as required under Rule 204-2 (c)(2) under the Advisers Act. Copies of Rules 206(4)-6 and 204-2(c)(2) are available upon written request.

#### *Identification and Resolution of Conflicts of Interest*

The Firm must determine whether it has a relationship with any company whose stock is held in a client portfolio that could constitute an actual or perceived conflict of interest. A conflict of interest may arise if the Firm provides services to the company, such as advising the company's retirement or other benefit plans or if it provides investment advisory services to senior executives or directors of the company. A conflict of interest may arise if any of the Firm's employees have a family or other personal relationship with any of said company's key management or Principals.

When the Firm has identified that an actual or perceived conflict of interest exists relative to its voting of proxies, the Firm shall do one or more of the following:

- (a) Notify the affected clients of the conflict of interest to obtain their written consent before voting.
- (b) Establish with the client predetermined voting policies.
- (c) Follow the recommendation of an independent third party or proxy service provider.
- (d) Follow the directions of the client.

To the extent a client, who previously instructed the Firm to vote proxies on their behalf, chooses to direct a proxy vote in a particular situation, they must inform the Firm, in writing, as soon as practical.

*Please note: The client shall retain responsibility for all legal proceedings or other related situations pertaining to any asset in an account(s)/portfolio(s).*

### **Financial Information**

There are no existing financial conditions that affect the Firm's ability to meet any current contractual commitment.