



## **PAGNATOKARP ONE FEE PROGRAM**

*SPONSORED BY*

### **PAGNATOKARP PARTNERS, LLC**

*a Registered Investment Adviser*

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This wrap fee program brochure provides information about the qualifications and business practices of PagnatoKarp Partners, LLC (hereinafter “PagnatoKarp” or the “Firm”). If you have any questions about the contents of this brochure, please contact Paul Pagnato, Chief Compliance Officer, at the telephone number listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm is a registered investment adviser. Registration does not imply a certain level of skill or training.

## Item 2. Material Changes

Since PagnatoKarp's registration with the SEC on March 1, 2016, the Firm has made changes to the fee structure and administrative process to facilitate payment to the third party independent managers recommended through the PagnatoKarp One Fee Program. Please see updates to Item 4 Advisory Business and Item 5 Fees and Compensation for current program information.

PagnatoKarp has also added updated disclosures to Item 5 Fees and Compensation, providing additional information addressing the third party manager fees associated with investments in privately placed securities and the frequency of the valuations received by PagnatoKarp for these assets utilized to calculate the PagnatoKarp's advisory fees.

In addition, effective June 2016, the Firm has engaged Rocaton Investment Advisors to provide PagnatoKarp with an approved manager list covering fixed income, variable assets, non-directional assets and private investments recommended by PagnatoKarp as further disclosed in Item 8 Methods of Analysis, Investment Strategies and Risk of Loss. In addition, the Firm has updated the True Fiduciary™ Principles adopted by PagnatoKarp in Item 4, which guides the Firm's approach to each client relationship.

The Firm has also made updates to Item 10 Other Financial Industry Activities and Affiliations, Item 12 Brokerage Practices, Item 14 Client Referrals and Other Compensation, and other clarifying updates throughout the brochure.

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### Item 4. Advisory Business

PagnatoKarp is a Fee Only advisory business. PagnatoKarp offers a variety of wealth management and other services, which includes custom financial planning, consulting, investment management, family governance and education, philanthropic strategy and planning, wealth transfer planning and strategy, tax services, lifestyle services and concierge services.

PagnatoKarp places your best interests first, always. PagnatoKarp and its supervised persons (together, “we”) are proud to commit to using its best efforts to abide by the following ten principles, which it calls “True Fiduciary”™ Principles of Client Protection.

1. We are **Fiduciaries** and Embrace our Legal Obligations.
2. We are Legally Required to Place the Interests of **Clients First**.
3. We Provide Holistic **Financial Planning**.
4. We are a **Fee-Only** Advisory Business and Do Not Accept Commissions.
5. We Only Receive **One** Source of Revenue: Client Fees.
6. We Provide **Transparency** on Portfolios and Investments.
7. We are **Independent** from any Bank, Broker Dealer, or Custodian.
8. We **Measure** Client Performance Returns using Independent Third Parties.
9. We **Do Not Create** Products to Sell or Price Any Public Securities.
10. We **Do Not Hold** Any Client Assets, Securities, or Money.

In addition to abiding by the ten principles outlined above, PagnatoKarp has voluntarily subscribed to the “Best Practices for Financial Advisors” published by The Institute for the Fiduciary Standard. The Best Practices offer a simple code of conduct and outline a commitment to clients of subscribing financial advisors. They seek to clearly articulate what a client can expect to receive from a subscribing financial advisor. These Best Practices do not replace our regulatory compliance obligations or duties to clients under relevant laws, rules, or regulations. The Institute for the Fiduciary Standard’s role is limited to publishing the Best Practices as well as maintaining a corresponding register of subscribing financial advisors. You can find a complete list of the Best Practices on our website or at <http://www.thefiduciaryinstitute.org/wp-content/uploads/2016/09/BestPracticesSpecificRequirementsSeptember132016.pdf> and verify our subscription status at [www.thefiduciaryinstitute.org](http://www.thefiduciaryinstitute.org).

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

PagnatoKarp directs all investment management services as the sponsor and manager of the PagnatoKarp One Fee Program (the “Program”). Clients pay PagnatoKarp a combined fee directly to the Firm for asset management services provided by PagnatoKarp whereby the Firm may recommend the purchase and sale of mutual funds, exchange traded funds, and structured notes. In addition, PagnatoKarp may recommend that clients allocate a portion of their assets to independent investment managers (“Independent Managers”).

The fee paid to PagnatoKarp as a result of the Program includes the Firm’s advisory fees (independent of fees charged by Independent Managers) brokerage costs for executing investment transactions (including those executed by Independent Managers), custody, and reporting. (See “Fees and Compensation” below for more details.) This brochure is only provided to clients participating in the PagnatoKarp One Fee Program.

Paul A. Pagnato, Jr. & David W. Karp are the principal owners of PagnatoKarp. As of December 31, 2016, PagnatoKarp had approximately \$3.4 Billion in total assets, which includes approximately \$1.6 Billion in Assets Under Management (“AUM”) and approximately \$1.8 Billion in Assets Under Advisement (“AUA”). AUM is defined as assets in all accounts listed on the PagnatoKarp Client Engagement Agreement forms where PagnatoKarp provides ongoing management services. AUA is defined as all assets held away that PagnatoKarp advises on, including, but not limited to 401k’s, real estate, business holdings and other private investments. PagnatoKarp relationship managers advise on these assets at each portfolio review and they are listed on either Tamarac Advisor View or Addepar (PagnatoKarp’s Reporting Tools).

### **Description of the Program**

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Under the Program, PagnatoKarp provides clients with asset management services, brokerage execution, custody, and reporting for a single fee. Separate fees will be paid directly to any Independent Managers recommended by PagnatoKarp as part of the Program. (See Item 5. “Fees and Compensation,” below, for more details.) The Program is considered a “wrap fee program” by the Securities and Exchange

Commission, because it includes investment advisory and brokerage execution services for a single "wrapped" fee that is not based on the transactions in a client's account.

PagnatoKarp will generally utilize the custody, brokerage and clearing services of any firm that a client chooses. The Firm will, however, typically recommend the use of Fidelity Institutional Wealth Services ("Fidelity") or Charles Schwab ("Schwab") for investment management accounts. (See Item 12. "Brokerage Practices," below, for more details). In order to manage client assets, clients will open an account at Fidelity, Schwab, or another broker-dealer that PagnatoKarp approves under the Program (collectively "Financial Institutions").

## Financial Planning

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PagnatoKarp manages client assets according to the individual needs of its clients. PagnatoKarp's proprietary fee-only financial planning process – the Roadmap process – is the initial starting point for identifying and assessing prospective clients' needs. The Custom Plan presented during the Roadmap Process identifies a prospective client's goals and objectives, and outlines a plan to pursue them. Goals are revisited periodically during portfolio review meetings, and the Plan is updated as necessary.

There are four parts to PagnatoKarp's Roadmap Process:

1. **Profiling Session** – The profiling session is the first planning meeting with a prospective client. At this meeting, the Firm and the prospective client(s) discuss key information such as background, goals, values, concerns, expectations, investment experience, risk tolerance, cash flow needs, assets and liabilities, and any planning done to date.
2. **Presenting Custom Plan** – The Custom Plan uses information gathered during the Profiling Session to lay out a roadmap for addressing particular areas of focus, which may include cash flow planning, estate planning, pre-sale planning, wealth transfer planning, tax planning, college planning, charitable planning, asset allocation modeling, insurance planning, liability management, family governance, and concierge and security services.
3. **Portfolio Construction** – The portfolio construction phase consists of deeper analysis into a prospective client's expectations and preferences for portfolio management, including investment philosophy, risk tolerance, tax considerations, liquidity constraints, and market analysis. This feedback assists PagnatoKarp with creating a customized Investment Policy Statement ("IPS") and portfolio recommendation.
4. **Portfolio Implementation** – During the implementation phase, PagnatoKarp reviews the Investment Policy Statement ("IPS"), selected managers, and process of implementation with the prospective client.

## **Investment Policy Statements**

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

## **Asset Management Services**

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PagnatoKarp has engaged Rocaton Investment Advisors ("Rocaton") to assist in the initial and on-going research and due diligence process for the mutual funds, ETFs, Independent Managers and private placement investment vehicles recommended by PagnatoKarp across the Firm's asset class categories, which generally consist of Fixed Income and Cash Flow, Variable Assets, and Non-Directional. Rocaton will effectively approve managers utilized by PagnatoKarp for implementing client investment recommendations within Rocaton's model portfolios, effectively serving as the Firm's outsourced Chief Investment Officer ("CIO").

PagnatoKarp will receive detailed views of Rocaton's processes for deriving capital market assumptions, asset allocation forecasting and planning, manager due diligence as well as access to model customized portfolios ad hoc. A member of Rocaton's staff will serve as the primary consultant to PagnatoKarp and serve as a member of PagnatoKarp's Investment Committee ("IC"). Rocaton's primary consultant serving PagnatoKarp will generally be available for ad hoc calls on portfolio construction, market insights, investment themes, opportunities and manager performance as needed. In addition, PagnatoKarp investment personnel will participate alongside of Rocaton in periodic calls with selected managers on an ongoing basis.

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

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

PagnatoKarp primarily allocates client assets, using pre-approved allocation models as a guide, among various mutual funds, exchange-traded funds ("ETFs"), and independent investment managers

(“Independent Managers”) in accordance with their stated investment objectives. In addition, PagnatoKarp sometimes recommends clients invest in privately placed securities, which may include debt, equity, and/or interests in pooled investment vehicles (e.g., hedge funds).

Where appropriate, the Firm also may provide advice about any type of legacy position or other investments held in client portfolios. To the extent that PagnatoKarp does not perform on-going due diligence over such investments, PagnatoKarp will segregate such assets into a “non-managed” account for which the Client is not charged an advisory fee. Clients may engage PagnatoKarp to manage and/or advise on certain investments that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (*i.e.*, 529 plans). In these situations, PagnatoKarp directs or recommends the allocation of client assets among the various options available with the investment. These assets are generally maintained at the underwriting insurance company or the custodian designated by the investment’s provider.

Additionally, from time-to-time the Firm or its supervised persons may introduce clients to investment opportunities (typically private placements in small enterprises) that may be of interest to clients. In circumstance where the Firm is not doing due diligence on such opportunities, the introduction is not done as investment adviser to the client, but as a convenience, and is clearly disclosed as such. Any such investment by a client will not be deemed to be a recommendation of the Firm, nor will the Firm charge any fees for such introduction. The Firm will inform clients when an introduction is outside of the Firm’s management at the time of the introduction. Other than supervised persons of the Firm possibly having an individual ownership interest in shares of the same investment, the Firm does not anticipate any conflicts of interest, such as supervised persons being control persons of the enterprise or otherwise benefiting from a client’s investment.

## **Use of Independent Managers**

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As mentioned above, PagnatoKarp may select certain Independent Managers to actively manage a portion of its clients’ assets. The specific terms and conditions under which a client engages an Independent Manager may be set forth in a separate written agreement with the designated Independent Manager that includes an additional investment advisory fee payable directly to the Independent Manager. In addition to this brochure, clients may also receive the written disclosure documents of the respective Independent Managers engaged to manage their assets. Effective September 7, 2016, the Program fee does not cover the asset management fees of any Independent Manager to whom client assets are allocated under the Program. Clients who entered the program prior to this date were given the choice between (1) being grandfathered and having PagnatoKarp pay Independent Manager fees on their behalf, or (2) migrating to the modified program, through which the client would pay their own Independent Manager fees.

PagnatoKarp evaluates a variety of information about Independent Managers, which may include the Independent Managers’ public disclosure documents, materials supplied by the Independent Managers



themselves and other third-party analyses it believes are reputable. To the extent possible, the Firm seeks to assess the Independent Managers' investment strategies, past performance and risk results in relation to its clients' individual portfolio allocations and risk exposure. PagnatoKarp also takes into consideration each Independent Manager's management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other factors.

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

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

### **Family Office Services**

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In addition to the One Fee Program, PagnatoKarp may offer the family office services described below on a complimentary basis, subject to availability and charges that may be imposed by third parties. PagnatoKarp reserves the right to change or discontinue offering these services at any time.

*Financial Planning Services:* Fee-only holistic financial planning services, such as: cash flow analysis, tax planning and preparation, asset allocation modeling, financial independence modeling, portfolio volatility testing, insurance protection analysis, liability management, concentrated stock and option planning, business succession and pre-sale planning.

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

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

*Concierge Services:* Custom travel, entertainment and lifestyle assistance services, such as: family trip planning (commercial/private aviation, lodging reservations, exclusive tour coordination); concert/sporting event hospitality and ticket booking; and luxury item procurement.

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

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

Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising PagnatoKarp's recommendations and/or services.

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

As noted above, PagnatoKarp offers fee-only asset management services, brokerage execution, custody, and reporting for a combined fee at annual rates that are negotiable.

Generally, fees received by PagnatoKarp do not exceed 1.75% (175 basis points). Each PagnatoKarp advisor negotiates fees directly with the client, with such fees dependent upon, among other things, the account/household size, pending liquidity events and the extent to which Family Office services are utilized. Clients should refer to their agreement with PagnatoKarp for their specific fee rates. The fee is charged quarterly, in arrears, based upon the average daily ending market values of the assets managed by PagnatoKarp during the quarter of services rendered. PagnatoKarp relies on third party valuations for all client assets to calculate advisory fees. For private placement investments recommended by PagnatoKarp that invest in private equity opportunities or other privately held assets, updated valuations may only be provided at the close of each quarter when a Net Asset Value ("NAV") is established for each investor's capital account associated with their interest in the private placement. Therefore, the most recent quarter end valuation may be calculated into the average daily market end values for these assets for the Firm's fee billing purposes until an updated NAV is provided to PagnatoKarp. The fee is prorated for periods of less than a quarter, such as the initial period of engagement or the final billing period if terminated.

If assets are deposited into or withdrawn from a client's account after the inception of a billing period, the fee payable with respect to such assets is adjusted to reflect the period for which those assets were managed by the Firm.

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

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

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While the Program fee will include asset management fees paid to PagnatoKarp, brokerage execution, custody, and reporting, clients may bear additional fees charged by third parties. These fees may include, for example, fees paid to Independent Managers, margin interest, costs associated with exchanging foreign currencies, transfer taxes, exchange fees, foreign clearing fees, or taxes required by law. For investments in privately placed securities, the third party managers managing these assets typically charge management and performance fees independent of the fees paid to PagnatoKarp. Clients should closely read the disclosure documents and offering materials to gain a full understanding of all fees associated with such private placement investments.

In addition, the Program fee does not cover “mark-ups” and “mark-downs” that broker-dealers may receive or “dealer spreads” that the custodian or other broker-dealers may receive when acting as principal in certain transactions. It also does not cover management, custodial, and other fees and expenses incurred by pooled investment vehicles such as mutual funds, ETFs, and private equity funds. The Firm’s brokerage practices are described further in Item 12, below.

## **Direct Fee Debit**

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

## **Use of Margin**

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

## **Account Additions and Withdrawals**

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

Clients may withdraw account assets on notice to PagnatoKarp, subject to the usual and customary securities settlement procedures. However, depending on a client's investment time horizon, the withdrawal of assets may impair the achievement of a client's investment objectives. PagnatoKarp may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees (for assets that are not yet subject to the Program fee), short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

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

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

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

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

### **Minimum Account Value**

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

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

### **Investment Process**

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PagnatoKarp begins every relationship with a thorough proprietary Roadmap process and uses the information obtained to build a customized holistic financial plan. During the roadmap process, PagnatoKarp initially and continuously will make an effort to better understand each client through a technique commonly referred to as 'Dangers, Opportunities, and Strengths' ("D.O.S."), which helps the Firm understand the clients greatest fears, opportunities and strengths, allowing PagnatoKarp to begin to formulate a client's investment strategy, liquidity, cash flow needs, estate planning goals, philanthropic

interests, and educational funding interests, and assess possible financial strategies. Each of these considerations is an important part of creating an investment strategy. The Firm's experience has shown every person has a different and unique risk tolerance. This stems from different life experiences, cash flow needs, age, responsibilities and their interpretation of "Risk" itself. A primary component of every portfolio is to meet the client's lifestyle and cash flow needs, through all markets, economic and interest rate cycles. This is why every portfolio is custom designed for every client. Once PagnatoKarp has determined a client's D.O.S. and is comfortable with their understanding and tolerance to risk, the Firm begins the process of creating a tailored asset allocation model using Rocatón's recommendations.

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

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

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

PagnatoKarp generally utilizes four broad asset categories:

1. Cash – Cash or cash equivalents typically have low-risk, low-reward characteristics. Cash equivalents typically include T-bills, short-term bank CD's, commercial paper, and other money market instruments.
2. Fixed Income and Cash Flow – Generating income is the primary goal of the fixed income allocations. Emphasis will be placed on credit quality, diversity of asset classes, and interest rate sensitivity (duration). We may utilize managers that invest in municipal bonds, mortgage backed securities, agency paper, corporate bonds, treasury bonds, or other debt securities.
3. Variable Assets – Utilize a variety of strategies with an objective of providing an equity rate of return over time with the opportunity to manage volatility and risk where appropriate. In addition, structured notes, and hybrid managers – managers that have the ability to move across asset classes to manage exposures, primarily for risk management, at various parts of an economic or market cycle – may be utilized to emphasize downside protection while capturing upside growth.
4. Non-Directional – These positions help to expand a portfolio beyond the traditional directional asset classes of equity, fixed income, and cash. Their goal is to provide returns that perform independently of the traditional asset classes over time. Examples of non-directional strategies include private equity, venture capital, hedge funds, private real estate, and long/short equity. The investment time horizon can be longer and have less market liquidity than traditional asset classes.

PagnatoKarp may segment portfolios into three categories: Lifetime Capital Needs, Wealth Surplus and Aspirational Wealth.

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

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

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

## Investment Strategies

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

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

PagnatoKarp tailors its advisory services to the individual needs of clients. PagnatoKarp consults with clients initially and on an ongoing basis to develop an investment policy statement, which determines risk tolerance, time horizon and other factors that may impact the clients’ investment needs. PagnatoKarp ensures that clients’ investments are suitable for their investment needs, goals, objectives and risk tolerance.

## Investment Philosophy

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PagnatoKarp’s investment philosophy incorporates the following primary objectives:

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

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

- Returns
  - PagnatoKarp generally meets with clients quarterly and in some cases semi-annually, and/or at client request to review portfolio returns. The review summarizes broad market



returns, noteworthy events over the past quarter/semi-annual period, individual positions – both returns and size within the portfolio – and an asset class summary. PagnatoKarp provides an overview of holdings, cash flows, contributors, detractors, and material changes. PagnatoKarp summarizes the performance of ETF's, third party managers, mutual funds, and private investments. Lastly, PagnatoKarp offers recommendations and revisits investment policy/objectives. All returns are calculated by an independent, third party provider to ensure transparency.

- Taxes
  - Employ unique strategies including, tax-deferred indexes, offshore investment vehicles, depreciating real estate, tax-exempt municipal bonds, and efficient tax-loss harvesting.

## **Risk of Loss**

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### *Market Risks*

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

### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

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

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and potentially more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata



NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more) which may restrict the timing of a Client's redemption. Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Use of Independent Managers*

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

### *Use of Private Collective Investment Vehicles*

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

### *Use of Margin*

From time to time PagnatoKarp recommends the use of margin in the management of the clients' investment portfolios. While the use of margin borrowing can substantially improve returns, it may also increase overall portfolio risk. Margin transactions are generally effected using capital borrowed from a Financial Institution, which is secured by a client's holdings. Under certain circumstances, a lending Financial Institution may demand an increase in the underlying collateral. If the client is unable to provide the additional collateral, the Financial Institution may liquidate account assets to satisfy the client's outstanding obligations, which could have extremely adverse consequences. In addition, fluctuations in the amount of a client's borrowings and the corresponding interest rates may have a significant effect on the profitability and stability of a client's portfolio.

## *Interest Rate Risk*

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

## *Inflation Risk*

The impact of inflation will erode purchasing power over time.

## *Exchange Rate Risk*

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

## *Reinvestment Risk*

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

## *Diversification Risk*

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

## *Equity Risk*

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

## *Fixed Income Risk*

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

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

### *Illiquidity Risk*

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

### *Economic Risk*

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

## **Item 9. Disciplinary Information**

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

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

PagnatoKarp has a related affiliate named PagnatoKarp Tax Services, LLC, which is owned by PagnatoKarp Partners, LLC. PagnatoKarp Tax Services, LLC provides tax services to some clients in the PagnatoKarp One Fee Program. Compensation to PagnatoKarp Tax Services, LLC for these tax services is paid by PagnatoKarp Partners, LLC on behalf of the client.

## **Item 11. Code of Ethics**

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

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

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

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

Clients and prospective clients may contact PagnatoKarp at (703) 268-2700 to request a copy of its Code of Ethics.

## **Item 12. Brokerage Practices**

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

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PagnatoKarp will generally utilize the custody, brokerage and clearing services of any firm that a client chooses. The Firm will, however, typically recommend the use of Fidelity and Schwab for investment management accounts.

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

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

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

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PagnatoKarp only accepts benefits from Fidelity and Schwab that it feels helps clients get the best services possible and within the Firm's fiduciary duty to act in the client's best interest. PagnatoKarp may receive without cost from Fidelity and Schwab computer software and related systems support, that allow PagnatoKarp to better monitor client accounts maintained at Fidelity and Schwab. PagnatoKarp may receive the software and related support without cost because the Firm renders investment management services to clients that maintain assets at Fidelity and Schwab. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars") and there is no financial impact on clients. The software and related systems support may benefit PagnatoKarp, but not its clients directly. In fulfilling its duties to its clients, PagnatoKarp endeavors at all times to put the interests of its clients first as well as meet its duty of best execution. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, considering the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Although PagnatoKarp will seek competitive rates, it may not obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and besides, PagnatoKarp's investment management fee. Clients should be aware, however, that PagnatoKarp's receipt of non-monetary benefits from a broker/dealer creates a conflict of interest since these benefits may influence the Firm's choice of broker/dealer over another that does not furnish similar software, systems support or services. To be abundantly clear, however, none of these benefits are why the Firm recommends Fidelity and Schwab. The reasons are stated above.

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

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

PagnatoKarp's clients do not pay more for investment transactions effected and/or assets maintained at Fidelity and Charles Schwab because of this arrangement. There is no corresponding commitment made by PagnatoKarp to Fidelity, Charles Schwab or any other entity to invest any amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement. As of the date of this brochure, other broker-dealers currently utilized by the Firm include Raymond James Financials Services, Inc. ("Raymond James") and TD Ameritrade Institutional ("TDA"). PagnatoKarp may be eligible to receive similar institutional level benefits from Raymond James and TDA similar to those disclosed above.

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

### **Brokerage for Client Referrals**

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

### **Directed Brokerage**

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As discussed above, while the Firm may recommend Fidelity and Schwab to clients, the client may direct PagnatoKarp to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution and the Firm will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial Institutions with orders for other accounts managed by PagnatoKarp (as described above). Subject to its duty of best execution, PagnatoKarp may decline a client's request to direct brokerage if, in the Firm's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

### **Trade Aggregation**

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Transactions for each client generally will be effected independently, unless PagnatoKarp decides to purchase or sell the same securities for several clients at approximately the same time. PagnatoKarp may (but is not obligated to) combine or "batch" such orders to obtain best execution and/or to negotiate more favorable commission rates. If the Firm batches trades, it will seek to allocate equitably among the Firm's

clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among PagnatoKarp's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Firm determines to aggregate client orders for the purchase or sale of securities, including securities in which PagnatoKarp's Supervised Persons may invest, the Firm generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. PagnatoKarp does not receive any additional compensation or remuneration as a result of the aggregation.

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

## Item 13. Review of Accounts

### Account Reviews

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

## **Account Statements and Reports**

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

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

PagnatoKarp may contract with other unrelated third parties (“solicitors”) to use its best efforts on behalf of PagnatoKarp to solicit and refer as clients those individuals or entities which it believes are suitable and appropriate for the advisory services provided by PagnatoKarp. These agreements typically provide for a percentage of the fees collected by PagnatoKarp to be paid to the solicitors from those advisory clients who became clients because of the solicitor’s efforts. Subject to existing federal and state securities laws and regulations, solicitors receive such fees for the duration of the time period identified in the solicitor’s disclosure statement provided to clients or as long as the client retains PagnatoKarp for advisory services during that period. Additionally, a portion of an employee’s compensation may result from acquiring new clients for PagnatoKarp.

## **Item 15. Custody**

PagnatoKarp does not have physical custody of any client assets, which are all maintained with an independent third-party qualified custodian. The Advisory Agreement and/or the separate agreement with any Financial Institution generally authorize PagnatoKarp and/or the Independent Managers to debit client accounts for payment of the Firm’s fees and to directly remit that those funds to the Firm in accordance with applicable custody rules. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions and cash flows, including any amounts paid to PagnatoKarp.

In addition, as discussed in Item 13, PagnatoKarp may also send periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from PagnatoKarp.



### **Item 16. Investment Discretion**

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

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

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

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

### **Item 18. Financial Information**

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

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;

- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.