

**PAGNATO KARP**  
PREMIER FAMILY OFFICE

**PAGNATO KARP PARTNERS, LLC**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Pagnato Karp Partners, LLC (hereinafter “Pagnato Karp” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at this 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 any level of skill or training.

## **Item 2. Material Changes**

In this Item, Pagnato Karp is required to discuss any material changes that have been made to the brochure since the last annual amendment. Item 14 of this brochure has been materially updated since the date of the last brochure. Pagnato Karp began accepting clients on March 1, 2016.

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## Item 4. Advisory Business

Pagnato Karp 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, lifestyle services and concierge services.

Pagnato Karp believes in placing your best interests first, always. Pagnato Karp 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.

1. We embrace our legal obligation to place our clients’ interests first and are working to make it an industry standard.
2. We use an independent third party to measure your performance returns.
3. We provide complete transparency on the advisory fees you pay to us, which represent our only source of revenue for the advisory services we provide.
4. We do not receive a commission from the purchase or sale of securities, nor do we receive financial benefits from any financial institution that serves our clients.
5. We do not create products to sell to clients.
6. We do not accept or receive commissions on any securities or other investments we recommend.
7. We do not price any public securities. We will only utilize prices furnished by third-party independent providers.
8. We do not hold any money, securities or assets on behalf of our clients.
9. We provide portfolio transparency so clients can view the assets we manage for them at any time online.
10. We are independent from any bank, broker dealer or custodian.

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. Neither Pagnato Karp 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 for the advice provided.

Paul A. Pagnato, Jr. & David W. Karp are the principal owners of Pagnato Karp. As of the date of this filing, Pagnato Karp has approximately \$1.2 Billion in assets under management.

### Asset Management Services

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Pagnato Karp manages client assets according to the individual needs of its clients. Pagnato Karp works with each client to develop guidelines set out in the client’s Investment Policy Statement (“IPS”). The IPS

addresses matters such as a client's investment objectives, risk tolerance, cash flow needs, tax situation, liquidity requirements, and any other considerations that the client and Pagnato Karp agree are relevant to the management of the client's assets. In managing client assets, Pagnato Karp consults with clients on an initial and ongoing basis. Clients are advised to promptly notify Pagnato Karp 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 Pagnato Karp 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.

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

Pagnato Karp primarily allocates client assets among various mutual funds, exchange-traded funds ("ETFs"), and independent investment managers ("Independent Managers") in accordance with their stated investment objectives. In addition, Pagnato Karp 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 investment held in client portfolios. Clients may engage Pagnato Karp 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, Pagnato Karp 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. 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 endeavor to inform clients when an introduction is outside of the Firm's management. 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, Pagnato Karp 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. In addition to this brochure, clients also may receive the written disclosure documents of the respective Independent Managers engaged to manage their assets.

Pagnato Karp 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. Pagnato Karp also takes into consideration each Independent Manager's management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other factors.

Pagnato Karp 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. Pagnato Karp seeks to ensure the Independent Managers' strategies and target allocations remain aligned with its clients' investment objectives and overall best interests. The Independent Managers are not required to abide by all of the True Fiduciary™ Principles.

## **Family Office Services**

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

*Financial Planning Services:* Custom financial planning services, such as: cash flow analysis, tax planning, 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:* Coordinating cash and asset transfers, 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.

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 Pagnato Karp's recommendations and/or services.

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

Pagnato Karp offers asset management and reporting services for a quarterly fee at annual rates that are negotiable.

The current annual fee rate, based upon the average daily value assets under management, is the greater of 0.23% or \$100,000. The fee is charged quarterly, in arrears, based upon the average daily ending market values of the assets managed by Pagnato Karp during the quarter of services rendered. 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.

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

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In addition to the advisory fees paid to Pagnato Karp, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively "Financial Institutions"). Pagnato Karp does not receive any of, or directly benefit from, these charges/fees. These additional charges may include securities brokerage expenses, transaction fees, custodial fees, margin costs, costs associated with exchanging foreign currencies, transfer taxes, exchange fees, foreign clearing fees, or taxes required by law. In addition, clients will bear the costs associated with investing in mutual funds, ETFs, and private investment vehicles as disclosed in the offering documents for such investments (*e.g.*, fund management fees and other fund expenses). The Firm's brokerage practices are described at length in Item 12, below.

## **Direct Fee Debit**

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Clients generally provide Pagnato Karp 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 Pagnato Karp. Alternatively, clients may elect to have Pagnato Karp send a separate invoice for direct payment.

## **Use of Margin**

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From time to time Pagnato Karp recommends the use of margin in the management of the client's investment portfolios. Where a client requests the use of margin, the fee payable will be assessed gross of margin such that the market value of the client's account and corresponding fee payable by the client to Pagnato Karp 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 Pagnato Karp'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 Pagnato Karp, 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. Pagnato Karp 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, 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**

Pagnato Karp 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

Pagnato Karp offers services to individuals, pension and profit sharing plans, 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, Pagnato Karp generally imposes a minimum portfolio value of \$10,000,000. Pagnato Karp 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. Pagnato Karp 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

### Methods of Analysis

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Pagnato Karp utilizes 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, Pagnato Karp's investment process is structured in such a way to integrate those assumptions and real life considerations for which MPT analytics do not account.

Fundamental analysis involves an evaluation of the fundamental financial condition and competitive position of a particular fund or issuer. For Pagnato Karp, this process typically involves an analysis of an issuer's management team, investment strategies, style drift, past performance, reputation and financial strength in relation to the asset class concentrations and risk exposures of the Firm's model asset allocations. A substantial risk in relying upon fundamental analysis is that while the overall health and position of a company may be good, evolving market conditions may negatively impact the security.

Technical analysis involves the examination of past market data rather than specific issuer information in determining the recommendations made to clients. Technical analysis may involve the use of mathematical

based indicators and charts, such as moving averages and price correlations, to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. A substantial risk in relying upon technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Pagnato Karp will be able to accurately predict such a reoccurrence.

Cyclical analysis is similar to technical analysis in that it involves the assessment of market conditions at a macro (entire market or economy) or micro (company specific) level, rather than focusing on the overall fundamental analysis of the health of the particular company that Pagnato Karp is recommending. The risks with cyclical analysis are similar to those of technical analysis.

Behavioral finance analysis involves an examination of conventional economics as well as behavioral and cognitive psychological factors. Behavioral finance methodology seeks to combine a qualitative and quantitative approach to provide explanations for why individuals may, at times, make irrational financial decisions. Where conventional financial theories have failed to explain certain patterns, the behavioral finance methodology investigates the underlying reasons and biases that cause some people to behave against their best interests. The risks relating to behavior finance analysis are that it relies on spotting trends in human behavior that may not predict future trends.

## **Investment Strategies**

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Pagnato Karp 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, Pagnato Karp 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. Our goal is to change the financial industry for people to receive pure, transparent and objective advice.

Pagnato Karp generally manages client assets on a discretionary basis. (See Item 16. Investment Discretion, below, for more details.) Pagnato Karp primarily allocates client assets among various mutual funds, exchange-traded funds (“ETFs”), and Independent Managers in accordance with their stated investment objectives.

Pagnato Karp tailors its advisory services to the individual needs of clients. Pagnato Karp 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. Pagnato Karp ensures that clients’ investments are suitable for their investment needs, goals, objectives and risk tolerance.

### *Investment Philosophy*

Pagnato Karp has the following primary investment 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 and opportunistic investment opportunities
- Provide Custom Solutions for Unique Client Needs

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

- Returns
  - Pagnato Karp meets with clients quarterly and in some cases semi-annually, to review portfolio returns. The review summarizes broad market returns, noteworthy events over the past quarter, individual positions – both returns and size within the portfolio – and an asset class summary. Pagnato Karp provides an overview of holdings, cash flows, contributors, detractors, and material changes. Pagnato Karp summarizes the performance of ETF's, third party managers, mutual funds, and private investments. Lastly, Pagnato Karp 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 investments, depreciating real estate and efficient tax-loss harvesting.
- Cost
  - Reduce costs by creating a competitive market for every piece of the portfolio - including custodians, trading, portfolio management fees and lending.

### *Investment Process*

Pagnato Karp begins every relationship with its thorough proprietary interview process. This unique process known as D.O.S., allows the Firm to understand our clients greatest fears, opportunities and strengths. In addition, the process allows Pagnato Karp to begin to formulate a client's investment strategy, liquidity, cash flow needs, estate planning goals, philanthropic interests, and educational funding interests, as well as, begin to assess 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. This is why every portfolio is custom designed for every client. Once Pagnato Karp 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. A critical component of every portfolio

is to always meet client's lifestyle and cash flow needs. This must occur through all markets, economic and interest rate cycles.

Pagnato Karp 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 – 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 Assets – These positions help to expand your 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.

Pagnato Karp segments each portfolio 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.

## **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 Pagnato Karp'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 Pagnato Karp 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 mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

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). 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, Pagnato Karp may select certain Independent Managers to manage a portion of its clients' assets. In these situations, Pagnato Karp 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, Pagnato Karp generally may not have the ability to supervise the Independent Managers on a day-to-day basis.

### *Use of Private Collective Investment Vehicles*

Pagnato Karp 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 few limitations on the types of securities or other financial instruments which may be traded and 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 Pagnato Karp 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.

## **Item 9. Disciplinary Information**

Pagnato Karp 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**

This item requires investment advisers to disclose certain financial industry activities and affiliations. The Firm does not have any other financial industry activities or affiliations that need to be disclosed.

## Item 11. Code of Ethics

Pagnato Karp 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. Pagnato Karp’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 Pagnato Karp’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; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Pagnato Karp to request a copy of its Code of Ethics.

## Item 12. Brokerage Practices

### Recommendation of Broker/Dealers for Client Transactions

Pagnato Karp 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 for investment management accounts.

Factors that Pagnato Karp considers in recommending Fidelity or any other broker-dealer to clients include their respective independence, financial strength, reputation, execution, pricing and service. Fidelity 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 because it enables 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 is not an unsecured lender and has been financially stable even during difficult times.

Pagnato Karp 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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Pagnato Karp only accepts benefits from Fidelity 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. Pagnato Karp may receive without cost from Fidelity computer software and related systems support, that allow Pagnato Karp to better monitor client accounts maintained at Fidelity. Pagnato Karp may receive the software and related support without cost because the Firm renders investment management services to clients that maintain assets at Fidelity. 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 Pagnato Karp, but not its clients directly. In fulfilling its duties to its clients, Pagnato Karp endeavors at all times to put the interests of its clients first as well as meet its duty of best execution. Clients should be aware, however, that Pagnato Karp's receipt of economic 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. The reasons are stated above.

Specifically, Pagnato Karp receives the following benefits from Fidelity 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



## **Brokerage for Client Referrals**

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Pagnato Karp 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 to clients, the client may direct Pagnato Karp 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 Pagnato Karp (as described above). Subject to its duty of best execution, Pagnato Karp 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 Pagnato Karp decides to purchase or sell the same securities for several clients at approximately the same time. Pagnato Karp 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 Pagnato Karp’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 Pagnato Karp’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. Pagnato Karp 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, Pagnato Karp 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 Pagnato Karp 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 quarterly 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 Pagnato Karp 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 Pagnato Karp or an independent third party.

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

The Firm does not provide compensation to any third-party solicitors for client referrals.

## **Item 15. Custody**

Pagnato Karp 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 Pagnato Karp 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, including any amounts paid to Pagnato Karp.

In addition, as discussed in Item 13, Pagnato Karp 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 Pagnato Karp.

## **Item 16. Investment Discretion**

Pagnato Karp may be given the authority to exercise discretion on behalf of clients. Pagnato Karp is considered to exercise investment discretion over a client's account if it can effect and/or direct transactions in client accounts without first seeking their consent. Pagnato Karp is given this authority in the agreement between Pagnato Karp and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Pagnato Karp 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**

Pagnato Karp has retained the services of a third party proxy voting service, Institutional Shareholder Services, for the purpose of voting proxies with respect to securities held in Client's Account. Pagnato Karp will not have responsibility to vote such proxies itself. Information regarding the proxy voting policy of the third party proxy voting service is available upon request. Pagnato Karp will not act for Client or Client's Account in any legal

proceeding, including class actions or bankruptcies, involving a security in or formerly held by the Account or the issuer of any security in or formerly held by the Account.

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

Pagnato Karp 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.