



REGISTERED INVESTMENT ADVISORS

*The value of trust. The wealth of experience.*

## **Form ADV 2A**

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**March 27, 2020**

This brochure provides information about the qualifications and business practices of Palladium Partners, LLC DBA Palladium Registered Investment Advisors (Palladium or Advisor). If you have any questions about the contents of this brochure, please contact us at 757.305.1500. 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.

Palladium is a registered investment advisor. Registration of an investment advisor does not imply any level of skill or training. The oral and written communications of an advisor provide you with information to help you determine if you should hire or retain an advisor. Additional information about Palladium is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Palladium who are registered, or are required to be registered, as investment advisor representatives of Palladium.

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## **Item 2 – Material Changes**

The SEC requires investment advisors to deliver to each client a summary of material changes about their business practices on at least an annual basis. We will notify you in your quarterly packet each April of any material changes or new information. We will provide you with a new brochure at any time you request, without charge.

Specific material changes that have been made to this brochure since March 27, 2019 are as follows:

### *Item 4 – Advisory Business*

As of December 31, 2019 we managed \$2.53 billion in assets. Approximately 34 million of this figure is managed on a non-discretionary basis.

One of the founding Principals Dickinson B. Phillips retired on December 31, 2019.

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## Item 4 – Advisory Business

The firm was founded in January 2008 and offers investment management services to institutional and individual clients. As of December 31, 2019, we managed \$2.53 billion in assets with an average account size of \$1.1 million. Approximately \$34 million of this figure was managed on a non-discretionary basis while the remainder was under our discretion. All managed accounts are held with independent qualified custodians.

Our investment management service is implemented on a discretionary basis, allowing us to buy and sell securities whenever we believe changes are appropriate. Such securities include stocks, bonds, exchange traded funds, mutual funds, cash-equivalents, options, and where appropriate, illiquid alternative investments (i.e., hedge funds, real estate, private equity, promissory notes and venture capital). Account supervision is guided by your stated investment objective (i.e., current income, growth in income, capital appreciation, etc.). You are able to impose restrictions on investing in specific securities or types of securities by notifying us in writing.

Your investment objective is identified by determining your risk tolerance based upon your age, income, experience, need for cash flows, investment goals, emotional tolerance for volatility, tax situation, time horizon, legal considerations, and any other unique circumstances. The information provided by you is collected during client meetings and interviews. After reviewing your financial situation and defining investment guidelines, we implement the investment strategy through a combination of investments. Capital market conditions and client circumstances are monitored, and portfolio adjustments are made as needed to reflect significant changes in any or all of the above variables.

In addition to our advisory services, we provide investment consulting services to non-advisory clients charged on an hourly basis that relate to matters such as asset allocation, portfolio diversification, managing portfolio risk, financial planning, financial forecasting, and other general economic and financial topics. We also provide certain investment and consulting services to Qualified Retirement Plan Sponsors such as: investment policy statement reviews, mutual fund searches and recommendations, diversification reviews, fund analysis reports, participant education. Educational seminars are held for employees when requested by the Plan Sponsor. Our services do not include brokerage or trading of mutual fund shares or other securities of Plan participants with the exception of exchanging participant mutual fund shares when a fund does not meet our investment criteria.

Certain of our employees and principals may also be investors in privately held entities such as illiquid alternative investments, hedge funds, etc. In some instances, certain of our employees and principals may also act, or have acted, as financial guarantors for the benefit of one or more of these privately held entities. Also, in some instances, certain of our employees or principals may act, or have acted as an owner in an affiliated business with one or more of these privately held entities. In these cases, the employee or principal may receive or have received compensation. From time to time, we may discuss with you the potential

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investment by you in these entities consistent with your investment objectives. This presents a conflict of interest due to the relationship of certain employees and principals as described above which may give our employee or principal a financial incentive to solicit our clients to invest in these entities. We will disclose any such conflict to you in writing before you invest in such a privately held entity.

Some of our clients have entered into “wrap fee” arrangements sponsored by certain brokerage firms which are unaffiliated with Palladium. Palladium does not act as a sponsor of any wrap fee arrangements. Under a wrap fee arrangement, a brokerage firm may recommend retention of an investment advisory firm such as Palladium to manage all or a portion of your assets; pay us our fee for our services; monitor and evaluate our services in managing your assets; execute securities transactions which we implement on your behalf; and provide you with custodial services for your assets, or the brokerage firm may provide any combination of these services, for a set fee to be paid by you to the brokerage firm. Under a wrap fee arrangement, your assets would be managed by us in the same manner as assets managed by us for our clients not in a wrap fee arrangement although this would be subject to your particular investment needs and objectives and we may have limited or minimal contact with you where the brokerage firm maintains the direct and primary relationship with you. You should understand that, depending upon the amount of the wrap fee the brokerage firm charges you, the number of securities transactions in your account, the value of custodial or other services you will receive under the arrangement, the amount of the wrap fee may not be less than the total cost for such services added together if you obtained them separately and therefore such arrangements may not be suitable for all clients based on the client’s individual financial circumstances and investment goals. You can find more specific information on each wrap fee arrangement in the Wrap Fee Program Brochure which should be available to you from the brokerage firm which is sponsoring your particular wrap fee arrangement.

Quarterly, we publish a commentary on events affecting the financial markets.

## **Item 5 – Fees and Compensation**

The specific manner in which management fees are charged by Palladium is established in your Investment Counsel Agreement. We bill our fees on a quarterly basis on the first day following the calendar quarter. These fees are charged in arrears based on a percentage of the market value of your assets under management with us on the last day of the previous billing quarter (i.e. 10/1 invoice based on the 6/30 market value). Advisory services begin on the date you sign the Investment Counsel Agreement. Billing begins on the day the account is released for trading. You may elect to be billed directly for fees or authorize Palladium to directly debit fees from your account(s) at the custodian. You are provided a copy of the fee invoice and should verify the accuracy of the fee calculation. Your custodian

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will not determine whether the fee has been properly calculated. Accounts initiated during a calendar quarter will be charged a prorated fee.

Proper valuations are necessary for accurate fee billing purposes and performance calculations, among others. Palladium utilizes, to the fullest extent possible, recognized and independent pricing services and qualified custodians for timely valuation information for client securities. Whenever valuation information for specific illiquid, foreign, private or other investments is not available through pricing services or custodians, Palladium's Valuation Committee and/or portfolio manager(s) will obtain and document price information when possible from at least one independent source, whether it be a broker-dealer, bank, pricing service or other source. Any securities for which we are unable to obtain market valuation information are priced at \$0 per unit by the Valuation Committee.

Either the Advisor or you may terminate the Agreement for any reason upon 30 days written notice to the non-terminating party. Accounts terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any earned, unpaid fees will be due and payable. You may cancel the Agreement without penalty within the first five days after signing the Agreement.

Palladium's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by you. You may incur certain charges imposed by custodians, brokers, other third parties such as fees charged by managers, custodial fees, deferred sales charges, mark-ups, transfer taxes, wire transfers and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus. To reduce fees, when possible, we will exchange mutual fund shares for share classes with lower expense ratios. Such charges, fees and commissions are exclusive of and in addition to Palladium's fee. We do not receive any portion of these commissions, fees, or costs. You should review all fees charged by Palladium, the custodian, broker and others to fully understand the total amount of fees incurred.

Item 12 describes the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

The compensation for Palladium's Advisory services is as follows:

<b>Assets Under Management</b>	<b>Annual Fee</b>	<b>Quarterly Fee</b>
On the first \$5,000,000	0.90%	0.225 %
On the next \$5,000,000	0.70%	0.175%
Above \$10,000,000	0.50%	0.125%

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We reserve the right to adjust the fee schedule or charge a fixed fee for accounts depending on the size and type of account and the services required. In some cases, negotiation of fees may result in different fees being charged for similar services and may be less than the stated fee schedule. Our employees and their family related accounts are charged a reduced fee for our services.

The compensation for the additional services Palladium offers is as follows:

**Consulting & Financial Planning** – For those clients who do not retain Palladium for investment management, an hourly consulting or financial planning fee of \$150 - \$250 per hour will apply.

**Estate Evaluations** - \$500 in addition to Palladium's standard fees

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

This section does not apply to Palladium.

### **Item 7 – Types of Clients**

We provide portfolio management services to individuals, high net worth individuals, trusts, estates, 401K plans, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, corporations and other businesses.

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

Our equity selection process focuses on stocks that are high quality, diversified among industries and have attractive valuation. High quality is obtained by screening for stocks that have key safety and financial strength metrics (Exceptions need to be approved by the Investment Committee). Diversification is addressed by purchasing a number of individual stocks that, when combined together, have a similar average size and economic sector distribution as the S&P 500 Index. Diversification can also be obtained through the use of exchange traded funds or mutual funds that hold numerous individual equities. Valuation is determined by the ratio of a stock's price to its underlying earnings power along with earnings and price trends. Current earnings, historic earnings and estimated future earnings are all used to determine a company's underlying earnings power. All of this information is combined and used to examine the potential return of a given company's stock along with the risk that the company may not perform as well as others. The selection process produces a portfolio of stocks with characteristics similar to the S&P 500 Index's industry diversification and market capitalization. The application of this equity selection process is then tailored to each individual client based on their particular investment objectives, aversion to risk, and tax sensitivity.

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Direct exposure to foreign and smaller capitalization securities will generally be obtained by the use of exchange traded funds. Exchange traded funds and/or mutual funds may also be used from time to time to gain exposure to other areas of the market.

The primary risk to equity ownership is loss of principal due to unexpected company, industry, economic, or political problems.

Our fixed income investment strategy is based on a laddered structure: bonds are bought in sequential years and held to maturity. Within this structure we analyze bonds of varying types in order to buy at attractive prices and maintain a diversified mix of high-quality bonds. On occasion exchange traded funds and/or mutual funds may be used to achieve a diversified fixed income portfolio. Our bond selection incorporates both fundamental analysis (where we review financial information to help determine the risk of default) and technical analysis (where we look at historical data and trends to help determine appropriate yields and risk premiums). Relative value is then applied to determine the value versus peers and various bond types; and compensation for additional risk. The securities we purchase typically carry an investment grade rating from at least one of the major credit rating agencies. In addition to our own research and that of the credit rating agencies, we utilize outside, independent research to help identify value and risks.

The primary risk to our bond portfolios is default by the bond issuer. A default could result in less than the face value of the bond being returned to the investor and may include a complete loss in value. Similarly, a default may also impact the amount of interest received. While holding high quality bonds helps reduce this risk, it does not eliminate the risk. We hold most bonds to maturity and minimize market timing risk. However, if a bond is sold prior to maturity the value may be less than the purchase price due to variables including changes in prevailing interest rates, the market's perceived value of the bond, and the quantity of the bond sold.

For clients who want exposure in asset classes beyond equity and fixed income we may include alternative investments. Alternative investments provide exposure to markets and investment strategies that cannot be accessed through other more traditional asset classes or mutual funds. Alternative investments, typically illiquid, may be used with traditional fixed income and equity strategies to potentially enhance overall portfolio performance with lower volatility. Our alternative investment strategy is based on thoroughly evaluating the investment and its managers. Among the factors we consider in selecting alternatives include performance, the use of leverage, understanding sources of risk, and cost. In addition to attractive risk-adjusted return potential, alternatives provide diversification through lower correlated asset classes to reduce the volatility of your overall portfolio. Investing in alternative investments is speculative and not suitable for all investors. Alternatives are meant for experienced and sophisticated investors who are willing to bear the risks of the investment, which can include:



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- Lack of liquidity in that there may be no secondary market
  - Loss of all or a substantial portion of the investment due to leveraging and/or short-selling
  - Restrictions on transferring interests in the investment
  - Absence of information regarding valuations and pricing
  - Delays in tax reporting
  - Less regulation and higher fees

Investing in all securities involves risk of loss that clients should be prepared to bear.

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

We are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the firm or the integrity of Palladium's management.

Palladium has no material legal or disciplinary events to report.

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

Palladium is independently owned and operated and has no other financial industry affiliations.

Certain of our management persons may be investors in privately held entities such as illiquid alternative investments, hedge funds, etc. In some instances, certain of our management persons may also act, or have acted, as financial guarantors for the benefit of one or more of these privately held entities. Also, in some instances, certain of our employees or principals may act, or have acted as an owner in an affiliated business with one or more of these privately held entities. We will disclose any such conflict to you in writing before you invest in such a privately held entity.

### **Item 11 – Code of Ethics**

Palladium has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Palladium must acknowledge the terms of the Code of Ethics annually, or as amended.

#### **Personal Securities Trading**

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We may purchase and/or sell securities for client accounts in which Palladium employees, directly or indirectly, have a position of interest. Palladium's employees are required to follow the firm's Code of Ethics. Subject to satisfying this Code and applicable laws, officers, directors and employees of Palladium may trade, for their own accounts and any accounts in which they maintain a beneficial interest, in securities which are recommended to and/or purchased for Palladium's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Palladium will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not interfere with the best interest of Palladium's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading on the same day in the same security as the client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to trade in the same securities as clients, there is a possibility that employees could receive a better price than a client on the purchase or sale of a security. Employee trading is continually monitored to reasonably prevent conflicts of interest between Palladium and its clients.

Employee accounts managed by Palladium may trade in the same securities with client accounts on an aggregated basis when consistent with Palladium's obligation of best execution. In such circumstances, the employee and client accounts will receive securities at a total average price. Palladium will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order. Employee accounts managed by Palladium may also be rebalanced on an individual basis consistent with the process used for client accounts.

#### Insider Trading

Palladium's insider trading policy prohibit our personnel from trading either personally or on behalf of clients while in possession of material, nonpublic information ("Inside Information"), nor may any personnel communicate material, nonpublic information to others in violation of the law. By reason of its various activities, Palladium may become privy to Inside Information and be restricted from effecting transactions in certain investments that might otherwise have been initiated. Palladium has implemented policies and procedures designed to comply with the requirements of the federal securities laws relating to insider trading. Among other things, such policies and procedures seek to control and monitor the flow of Inside Information to and within Palladium, as well as prevent trading on the basis of inside information. Companies about which Palladium and/or its personnel have inside information will be placed on a Restricted List. As a general rule, trades will not be allowed for clients or for the personal accounts of employees in the securities of a company appearing on the Restricted List, except in limited circumstances and with the approval of the Chief Compliance Officer.

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### Other

Employees may personally take positions inconsistent with the advice of the firm. We are not obligated to acquire for any account any security that our employees may acquire for their own accounts or for the account of any other client, if it is not practical or desirable to acquire a position in such security.

Palladium's clients or prospective clients may request a copy of the firm's Code of Ethics by writing to the Compliance Department at 999 Waterside Drive, Suite 1000, Norfolk, VA 23510.

## **Item 12 – Brokerage Practices**

### The Custodian and Brokers We Use

Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. Absent an existing “qualified custodian” relationship, we will assist you in establishing an account with a custodian/broker. We are independently owned and operated and are not affiliated with any custodian/broker we recommend. The custodian/broker will hold your assets in a brokerage account and buy and sell securities when we/you instruct them to. At the present time, we recommend either Charles Schwab & Co., Inc. (“Schwab”) or Pershing Advisor Solutions, LLC. (“Pershing”), both FINRA registered broker-dealers and SIPC members, as qualified custodians. While we recommend that you use Schwab or Pershing as the custodian/broker, you will decide whether to do so and will open your account with the custodian/broker you choose by entering into an account agreement directly with them. We do not open the account for you although we will assist you in doing so. When your account is maintained at a recommended custodian, we can still use other brokers to execute trades for your account.

### How We Select Brokers/Custodians

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, but not limited to:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payments, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.)
- Availability of investment research and tools that assist us in making investment decisions

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- Quality of services
  - Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
  - Reputation, financial strength, security and stability
  - Prior service to us and our other clients
  - Online access to the account
  - Consolidated reporting
  - Duplicate monthly statements
  - Availability of other products and services that benefit us, as discussed within

#### *Your Brokerage and Custody Costs*

The custodians that we recommend do not charge you separately for custody services but are compensated by charging you commissions or other fees on trades that it executes or that settle into your account held with them. In addition to commissions, these custodians charge you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from securities sold are deposited (settled) into your account held with them. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have your custodian execute most trades for your account.

#### *Products and Services Available to Us from Recommended Custodians*

Schwab Advisors Services and Pershing Advisor Services are the divisions within these respective companies serving independent investment advisory firms such as ours. They provide us and our clients with access to its institutional brokerage services – trading, custody, reporting and related services – many of which are not typically available to their retail customers. They also make available various support services. Some of those services help us manage or administer our clients’ accounts while others help us manage and grow our business. Support services are generally available on an unsolicited basis and at no charge to us.

#### *Services That Benefit You*

The custodians/brokers that we recommend include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by you. These services described generally benefit you and your account.

#### *Services That May Not Directly Benefit You*

The custodians/brokers also make available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us

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in managing and administering our clients' accounts. They include investment research of the custodian/broker and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained with that custodian/broker. In addition to investment research, the custodians/brokers make available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

#### Services That Generally Benefit Only Us

Custodians/brokers also offer other services intended to help us manage and further develop our business. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers and insurance providers

Some of these services may be discounted or their fees waived. In addition, they may also provide us with other benefits, such as occasional business entertainment of our personnel. The availability of these products and services to us is not based on us giving particular investment advice, such as buying particular securities for our clients.

#### Our Interest in Recommended Custodian Services

The availability of the services from the recommended custodians benefits us because we do not have to produce or purchase them. We don't have to pay for these services.. These services are not contingent upon us committing any specific amount of business in trading commissions or assets in custody. The minimums may give us an incentive to recommend that you maintain your account with either one of the recommended custodians based on our interest in receiving services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. We believe, however, that our selection of custodians is in the best interests of our clients. It is primarily supported by the scope, quality and price of services and not services that benefit only us.

#### Directed Brokerage

If you choose not to use a qualified custodian recommended by us, you may direct us to use a particular broker-dealer to execute equity and/or fixed income transactions for your

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account. In doing so, we will not be able to: (1) negotiate commissions, (2) obtain volume discounts, and (3) may not be able to obtain best execution. When you direct the broker to be used for your account, the commission rates are decided upon between you and your broker. In most cases, we do not have access to the negotiated commission schedule, and consequently will not be able to verify commissions charged per transaction. In addition, when you direct brokerage, only the directed broker-dealer chosen by you for equity and/or fixed income transactions will be used to execute your trades. As a result, under these circumstances a disparity in commission charges may exist between the commissions charged to you versus other Palladium clients who do not direct us to use a particular broker or dealer. You may pay brokerage commission rates and/or receive executions that are less favorable than those we may negotiate or obtain when we select brokers to execute transactions on behalf of our clients. When directing brokerage, you should be aware that we may not be able to aggregate your transactions and will generally place such trades after the completion of the trades for clients that do not direct their brokerage. We will not be able to seek better execution services or prices from other broker-dealers. Should it be that your broker referred you to us and it proves that your brokerage commissions are higher than what you might pay elsewhere, it stands to create a conflict of interest for us.

#### Aggregating Trades

The aggregation or blocking of client transactions allows an adviser to execute transactions in a more timely, equitable, and efficient manner. Our firm's policy is to aggregate client transactions where possible and when advantageous to clients. It is at the discretion of the Portfolio Manager ("PM") as to whether trades are aggregated. The PM may enter trades for individual accounts based upon the portfolio they are reviewing, or they may enter trades for a block of accounts when implementing an investment idea for multiple clients. Transactions for any client account will not be aggregated if prohibited by or inconsistent with the client's investment counsel agreement or investment objectives and guidelines. Before aggregating orders, the adviser must reasonably believe that he/she would be able to obtain best price and execution for each client participating in the aggregated order. Clients participating in any aggregated transactions will receive an average share price and transaction costs will be charged based on the custodian agreement.

Orders are aggregated by custodian/broker. When aggregating trades for accounts at multiple custodians/brokers, the order in which the custodian's/broker's trades will be placed will be determined randomly using the random order generator in Excel. No custodian/broker will be favored over another.

We do not receive any compensation or remuneration as a result of aggregating orders.

When a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if the traders and/or Portfolio Managers believe that a larger size block trade would lead to best overall price for the security being transacted.

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### Cross Trades

As is consistent with its duty to seek to obtain best execution, occasionally Palladium may cross bonds for client accounts. A cross trade occurs when the advisor purchases and sells a bond between two or more accounts under the advisor's management by instructing brokers to "cross" the bond. Palladium generally utilizes cross trades to address account funding issues and when it specifically deems the practice to be advantageous for each participant. We will attempt to obtain quotes from at least three different bond brokers. In no instance does Palladium receive additional compensation when crossing trades for client accounts. Palladium will seek to ensure that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable, and the transaction is done for the sole benefit of the clients.

### Trade Errors

From time-to-time errors in executing client transactions may take place when submitting a trade order. When this occurs, we will seek to place a correcting trade with the broker-dealer or custodian which has custody of your account. Any loss incurred as a result of the correction will be covered by us or by your broker-dealer or custodian. Any gain incurred may be retained by your broker-dealer, custodian, Palladium or you.

## **Item 13 – Review of Accounts**

Palladium's portfolio managers are responsible for reviewing client accounts. Each advisory account is assigned a primary portfolio manager who is responsible for the continuous management of the account as well as the maintenance of the relationship. A secondary portfolio manager is also assigned to perform the same functions in the absence of the primary manager. Two portfolio managers have additional responsibilities for direct oversight of equity and fixed income trading for portfolios following various models. On a semi-monthly basis, all of Palladium's portfolio managers meet to discuss investment strategy. Monthly the portfolio managers' review cash equivalent, bond and equity allocations based upon perceived risk and return among these three asset classes. Additionally, the Investment Committee review monthly all non-universe stock holdings, stock concentrations, mutual funds, other assets and accounts with equity allocations away from targets. On a quarterly basis, all primary portfolio managers review client accounts with their backup portfolio manager. The reviews include analysis of asset allocation versus investment objective, cash level and individual security selections. Clients are kept informed about their portfolio activity by receiving written quarterly investment reviews, an annual capital gains statement, and a quarterly commentary on the financial markets. Clients also receive copies of transaction confirmations and monthly/quarterly statements from their brokerage firm and/or custodian. Note that some broker dealers may not provide trade confirmations; however, custodial statements will contain the same information that appears in the trade-by-trade confirmation for each transaction.



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Further reviews are prompted by client contact, significant changes in market conditions, news pertaining to a specific holding, or significant withdrawals/additions to an account.

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

### *Solicitor Arrangements - Client Referrals*

We enter into written agreements with other companies or persons, none of which are affiliated with us, who refer potential clients to us in exchange for a referral fee. The referral fee is a percentage of the fee we receive from the referred client for our services. This means that the companies or persons referring potential clients to us will have a financial interest in your selecting us to provide investment advisory services. The fee we charge you for our services will not be increased as a result of the referral arrangement. When referred to us through an arrangement like this, you will receive a document disclosing the arrangement with the solicitor, any affiliation between us and the solicitor, and a description of the compensation the solicitor will receive from us if you establish an account with us.

### *Charles Schwab & Co., Inc. – Client Referrals*

We receive client referrals from Charles Schwab & Co., Inc. (“Schwab”) through our participation in Schwab Advisor Network® (“the Service”). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with us. Schwab does not supervise us and has no responsibility for our management of clients’ portfolios or our other advice or services. We pay Schwab fees to receive client referrals through the Service. Our participation in the Service may raise potential conflicts of interest described below.

We pay Schwab a Participation Fee on all referred clients’ accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee we pay is a percentage of the fees the client owes us or a percentage of the value of the assets in the client’s account. We pay Schwab the Participation Fee for so long as the account is under Palladium’s management and the referred client’s account remains in custody at Schwab. The Participation Fee is billed to us quarterly and may increase, decrease or be waived by Schwab from time to time. The Participation Fee is paid by us and not by the client. We have agreed not to charge clients referred through the Service fees or costs greater than the fees or costs we charge clients with similar portfolios who were not referred through the Service.

We generally pay Schwab a Non-Schwab Custody Fee if custody of a referred client’s account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher



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than the Participation Fees Advisor generally would pay in a single year. Thus, we will have an incentive to recommend that client accounts be held in custody at Schwab.

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

Our clients that maintain custody of their accounts at Schwab will not be charged separately for custody. Schwab will receive compensation from our clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer fees. Thus, we may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. We nevertheless, acknowledge our duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for our other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

#### Other Compensation

We may purchase for client accounts certain securities that are marketed by the underwriter of those securities, typically exchange traded or index-shares. These underwriters will periodically pay for representatives of Palladium to attend conferences or meetings which they sponsor. The purpose of attending these events is research related. Such conferences provide economic, market and product-related research for the benefit of all Palladium clients.

### **Item 15 – Custody**

An adviser has custody of client assets when it holds, "directly or indirectly, client funds or securities or has any authority to obtain possession of them. Under government regulations, we are deemed to have "custody" of your assets when you authorize us to instruct the custodian to deduct our advisory fees directly from your account; request your advisor to act as trustee or power of attorney on your account; when we forward funds or securities we inadvertently receive by a third party to your account at the custodian (i.e.: tax refunds checks, settlement checks from class action lawsuits, dividend checks, stock certificates); or when you provide us with a standing letter of authorization to move funds or securities to a third party. However, Palladium does not maintain actual custody of client funds or securities, nor are we authorized to hold or receive any stock, bond, investment certificate,

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cash (except in the payment of its advisory fee) or other security that is part of the client's account. The qualified custodian maintains actual custody of your assets.

You will receive account statements at least quarterly directly from the broker dealer, bank or other qualified custodian that holds and maintains your investment assets. They will be sent to the email or postal address you provide to the custodian. Such statements detail all transactions during the period, including fees deducted from the account. We urge you to carefully review such statements and compare such official custodial records to the account statements that we provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

Before assuming discretionary authority, we must receive the executed Investment Counsel Agreement from you granting us discretion. When you agree to discretionary authority, we will be responsible for selecting the identity and amount of securities to be bought and/or sold in your account without your prior approval. Such discretion is to be exercised in a manner consistent with the stated investment objectives for that particular account. When selecting securities and determining amounts, we observe the investment policies, limitations and restrictions of the clients for which we advise. Any limitations or restrictions on your account will be those imposed in writing by you. When a Plan Sponsor secures our services to advise on the investment choices for a retirement plan, such as a 401(k), we are not exercising discretion on behalf of the plan participants. Rather, our client is the Plan Sponsor who secures our services in advising on the investment choices for the plan in keeping with their investment guidelines.

We currently manage numerous advisory accounts. These accounts may have or will have investment objectives that are identical or substantially similar to other accounts. It is not anticipated that accounts having identical or substantially similar investment objectives will have identical or substantially similar investment portfolios. Differing investment portfolios can be expected as a result of several factors, including, without limitation, the following: the cost basis of the securities held which may affect the tax liability to the client if sold; different investment decisions made by the different portfolio managers assigned to the accounts; regulatory constraints that apply to certain accounts but not to others; investment constraints imposed by the client; and the amount of cash available for investment at certain times. As a result of factors such as these, accounts may have a different investment portfolio (and, as a result, different performance results) from other accounts even though the accounts have identical or substantially similar investment objectives. Portfolio managers are authorized to invest the assets of accounts for which they have investment responsibility in a wide range of underlying investments. As a result, it is expected that the accounts will have different investment portfolios resulting from different investment decisions made by their respective portfolio managers. In addition, there may be circumstances when one

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account will sell a security while another account may purchase the security on the same day.

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

We have retained Broadridge for our proxy voting services. Proxy Edge is Broadridge's suite of electronic voting services. Proxy Edge allows us to manage, track, reconcile and report proxy voting through electronic delivery of ballots, online voting, and integrated reporting and record keeping. Voting recommendations are provided by Glass Lewis which provides even greater efficiency and control over the timing and method of vote execution. Such recommendations are binding and will not be overridden by us, unless Glass Lewis reports that it has conflicts in making such recommendations. In any such instance, the vote of the proxy will then become the responsibility of our Risk Committee, who will determine the best interest of its clients as pertains to each issue.

Palladium is responsible for voting proxies only when agreed to in the Agreement or in writing by the client. Clients that wish to direct their vote on a specific proxy may do so by sending the request in writing to the Compliance department. If you choose not to allow us to vote proxies on your behalf, you will receive proxy information directly from your custodian and you will decide if or how to vote those proxies.

You may obtain a copy of our complete proxy voting policies and procedures upon request. You may also obtain information about how we voted any proxies on behalf of your account(s) by contacting the Compliance Department.

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

Registered investment advisors are required in this Item to provide you with certain financial information or disclosures about their firm's financial condition.

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients, and have not been the subject of a bankruptcy proceeding.