



A BOUTIQUE INVESTMENT ADVISORY

## Item 1

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Punch & Associates Investment Management, Inc.  
Form ADV Part 2A  
7701 France Avenue South, Suite 300  
Edina, MN 55435  
(952) 224-4350  
[www.punchinvest.com](http://www.punchinvest.com)  
March 31, 2023

This brochure provides information about the qualifications and business practices of Punch & Associates Investment Management, Inc. ("Punch & Associates"). If you have any questions about the contents of this brochure, please contact Nancy Caselli at (952) 224-4350 or [nancy@punchinvest.com](mailto:nancy@punchinvest.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.

Additional information about Punch & Associates is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may also find additional information within our Form CRS Disclosure about how we work with clients including a description of business practices and conflicts we face at <https://punchinvest.com/privateclients/disclosures/>.

Investment advisers including Punch & Associates face conflicts of interest in working with clients. We use this disclosure brochure, along with our Form CRS Disclosure, to communicate conflicts of interest which we believe could have a meaningful impact on you. We strive to disclose these conflicts of interest in a clear manner with sufficient information to allow you to understand the implications of these conflicts of interest. As such, we encourage you to review this disclosure brochure carefully and notify us if you have questions regarding the conflicts of interest identified.

## **Item 2      Material Changes**

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Punch & Associates is required to identify and discuss any material changes made to our brochure since the last annual update dated March 31, 2022. Materials changes since our last update include:

- Item 5: Added a revised institutional client fee schedule which applies to all new institutional client agreements executed after 1/1/23.
- Item 7: Added disclosure describing our practices to address risks associated with clients being executives or insiders of public companies.
- Item 8: Revised the Punch Large Cap Strategy description as this strategy no longer takes a “hub and spoke” approach to building a portfolio, and therefore we no longer incorporate closed-end funds or exchange traded funds as components of the strategy.
- Item 8: Added disclosure of our use of “expert network firms” to supplement our proprietary research process.
- Item 14: Added disclosure describing our informal referral relationships with third parties and internal compensation arrangements, as well as how we address the related inherent conflicts.
- Item 19: Added disclosure describing our approach to address risks of diminished capacity of clients.

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## **Item 4      Advisory Business**

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Punch & Associates is an independent boutique investment adviser located in Edina, Minnesota, founded in February 2002. Punch & Associates is 100% employee owned; its principal owners are Howard D. Punch, Jr. (majority owner), Andrew J. Matysik, John C. Carraux and Jessica Johnson. As of December 31, 2022, we had discretionary assets under management of \$1,773,093,800.

We offer two primary services to clients: Investment Management and Wealth Advisory.

### *Investment Management*

We provide discretionary portfolio management services to private and institutional clients, based on the specific needs and objectives of each client. In addition, we serve as investment adviser and managing member to two private funds focused on micro cap investment opportunities (the “Micro Cap Fund”) and nano cap investment opportunities (the “Nano Cap Fund”, each a “Private Fund” and collectively the “Private Funds”).

In managing portfolios, we incorporate a risk-averse investment philosophy that, at its core, seeks to preserve and grow our clients’ assets. We are a multi-cap manager with the following core strategies:

1. Income
2. Large Cap Equity
3. Small Cap Equity
4. Micro Cap and Nano Cap Equity (Private Funds)
5. Strategic Total Return

Our institutional clients generally hire us for a specific strategy or a subset of one of our existing strategies. Our private clients generally hire us to manage a substantial portion of their personal portfolio, where we believe one of the most important decisions involves the allocation of assets among different asset classes, supplemented by rigorous fundamental analysis which, in our experience, provides the key to successful security selection. We believe it is possible to achieve consistent investment returns over full market cycles by using a disciplined and opportunistic style of investing.

When managing client portfolios, we will consider client-imposed restrictions on investing in securities or specific types of securities, as directed by clients and agreed to by us.

Clients may request us to manage assets within a donor advised fund. Under these arrangements, the client selects the donor advised fund to which he or she makes a charitable contribution. At the donor advised fund’s sole discretion and subject to its policies and restrictions, the donor advised fund may permit an individual to select an investment advisor to manage those assets. In these cases, the donor advised fund becomes the client, as the donor advised fund owns the assets donated by the individual. The selection of a donor advised fund and the decision to make a charitable donation from the client’s investment portfolio rests solely with the client. Punch &

Associates maintains relationships with a select number of donor advised funds, but does not have a formal referral arrangement in place with any donor advised fund and does not receive compensation for referrals to any donor advised fund. See Items 7 and 10 for a discussion of relationships we maintain with other entities.

### *Wealth Advisory*

In connection with our Wealth Advisory service, our Wealth Strategies Group oversees clients' overall financial situations on an ongoing basis, striving to assist clients in addressing their important financial issues. Our process begins with a "Discovery Meeting" where we assess the individual's or family's financial situation, both qualitatively and quantitatively. We examine the client's current situation, future goals, investment objectives and risk tolerance along with their time horizon and income needs. Then, we develop a plan and a timeline, after which we begin implementing and monitoring the plan through frequent and detailed communication in an effort to ensure we are aware of events and changes that will require adjustments.

Our Wealth Advisory service is customized to each client's specific needs and circumstances.

## **Item 5      Fees and Compensation**

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### **General Fee Information**

In cases where we are responsible for billing the client, individual client accounts are billed quarterly in advance. Except in extraordinary circumstances, we do not adjust the billed quarterly fee based on subsequent client contributions or withdrawals. Institutional client accounts are also billed quarterly in advance, unless otherwise directed by the client. Clients terminating their agreement before the end of the quarter will receive a pro-rated refund of the fees paid in advance.

We deduct fees directly from the client's custodial account, unless otherwise mutually agreed upon.

Clients will incur separate custodian, brokerage and transaction costs. Custodian fees are negotiated by the clients and their selected custodian(s). In addition, we at times invest a client's account in registered investment companies or exchange-traded funds ("ETFs") not affiliated with us. In addition to our fees, clients are responsible for shareholder fees embedded within the share price of these securities. Please see Item 12 for a discussion of our brokerage practices.

### **Fee Schedule**

#### *Private Client Fee Schedule*

Our standard investment management fee for private client accounts is 1.00% of gross assets under management.

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*Institutional Fee Schedule*

Our standard investment management fee for institutional clients is tiered as follows:

<b>Assets Under Management</b>	<b>Fee</b>
Up to \$10 Million	0.85%
Above \$10 Million to \$50 Million	0.80%
Above \$50 Million to \$100 Million	0.75%
Above \$100 Million	0.72%

Our standard investment management fee schedule is revised as of January 1, 2023, and applies to all new institutional client agreements executed after that date.

*Additional Notes*

While we generally do not negotiate fees, we reserve the right to do so in certain circumstances based on various factors, including account size and the size of future potential assets under our management. For negotiated fee arrangements, we generally have applied either a fixed percentage or another tiered fee schedule to the client's and, in select cases, to the related family's consolidated assets as agreed upon between the client and us.

We do not charge fees to employees and their family members (defined as spouses, descendants, and descendants' spouses). We also do not charge fees for management of certain donor advised funds through which the firm and employees make charitable contributions. While we do not currently charge performance-based fees on separately managed accounts, we would consider entering into such an arrangement with select clients eligible to pay performance-based fees in the future.

*Wealth Advisory*

We offer inclusive Wealth Advisory services for individual clients. We generally do not charge an additional fee for Wealth Advisory services, but we reserve the right to negotiate fees depending upon the complexity and circumstances of the client's needs.

*Private Fund*

We collect asset-based and performance-based fees as adviser to each Private Fund, as fully described in the Private Fund's Confidential Private Placement Memorandum. Investors in each Private Fund are encouraged to consult the Confidential Private Placement Memorandum as the authoritative source for disclosure regarding fees paid to each Private Fund, as the Private Fund's standard fee schedules as outlined within the offering documents are generally higher than the standard fee schedules described herein. The Private Funds' administrator, ALPS Alternative Investment Services, LLC ("ALPS") calculates both the asset-based and performance-based fees using the market value determined by an independent pricing service as of the last day of the previous month-end. In addition, each Private Fund pays our firm a monthly management fee calculated by ALPS for our role as the Managing Member.

While we are authorized to negotiate fees paid by investors in the Private Funds based upon factors determined by us to be material, we have not and do not intend to negotiate such fees. However, our employees invested in the Private Funds pay neither investment management nor performance-based fees. See Item 6 for more information on performance-based fees.

### **Account Valuation Practices**

When possible, we use account market values for publicly traded securities as provided by our clients' custodians to calculate investment performance and client fees. While this rarely occurs, if the custodian does not supply a price or if we believe a price supplied is not indicative of an accurate market value, we will attempt to obtain a price from another third-party source. If a price is still not available, our Investment Committee will establish a fair value for the security. When establishing a fair value for a security, we will attempt to obtain a quote from ideally three but at least two independent pricing sources where possible. No single factor or approach will be routinely used by our Investment Committee, as each situation is unique in nature.

When valuing a PIPE (a Private Investment in a Public Equity) held within a client portfolio, we generally use publicly available prices for the underlying public equity, amortizing the discount to account for the restricted period.

We encounter inherent conflicts of interest when we participate in the valuation of client accounts, as higher security prices increase market values, thereby enhancing performance results and increasing fees. In addition, because clients pay different fees based on varying fee schedules or the size of the account, we have an incentive to favor those accounts from which we earn the highest fees. We maintain investment, trade allocation and account valuation (including fair valuation) policies and procedures designed to address such conflicts of interest. Further, our Trade Oversight Committee reviews the rationale of all investments priced via the firm's fair valuation procedures. See Item 6 for more information on performance-based fees, and Item 12 for a discussion of our brokerage and trading practices.

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

Our Private Funds incur performance-based fees, as more fully described within the Private Fund's Confidential Private Placement Memorandum. In addition, select institutional separate accounts (which are charged asset-based fees) and the Private Fund are managed following similar investment mandates, which results in these accounts often investing in the same securities, known as "side-by-side" management.

Performance-based fee arrangements provide additional fees to us if the investment account's performance is above a "high-water" mark. Such performance-based fee arrangements create an incentive for us to invest in a different manner than in an account without a performance-based fee in an effort to increase our compensation. To address this inherent conflict, we maintain a Trade Aggregation and Allocation policy and related procedures designed to ensure all accounts are treated fairly, and to provide reasonable assurance that accounts with performance-based fees are not favored. Our management team also routinely reviews all accounts to confirm accounts with

performance-based fees are not intentionally favored, including a daily review of investment opportunity allocations between the Private Fund and other similarly managed accounts.

## **Item 7      Types of Clients**

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We manage assets for foundations, pension and profit-sharing plans, government entities, corporations, high net worth individuals, families, trusts, private funds and donor advised funds. At times, we may group individual clients into applicable families for purposes of internal and external reporting matters, including use in marketing materials. As of December 31, 2022, we managed assets for 550 families.

We manage our firm's profit-sharing plan as well as individual retirement accounts for employees, and we direct accounts for our employees' immediate family members. These proprietary accounts are not included in block orders along with client trades. Please see Items 11 and 12 for a discussion of our personal trading and firm trading practices.

Some of our clients may be executives or insiders of public companies. As these clients could at any time be in receipt of material, nonpublic information about their affiliated company, we maintain policies designed to ensure our investment management team does not inadvertently gain access to such material, nonpublic information. In addition, employees are prohibited from trading in securities of companies for which a client serves as an executive or an insider.

Our minimum account size for institutional clients is \$10,000,000. We reserve the right to increase or decrease this minimum account size or otherwise place limitations and covenants on accounts. Our minimum Private Fund investor account size is addressed within the Confidential Private Placement Memorandum. Our minimum account size for private client accounts is \$250,000. We have no specific minimum account size for Wealth Advisory clients. At our discretion, we may waive our account minimums. Reasons we waive such minimums include: the client is a family member or friend of firm management; we have a long-standing relationship with the client; or we have an expectation to manage additional client assets in the future. At our discretion, we will at times consider the size of underlying separately managed portfolios of a client's family members in determining the minimum account size.

We maintain separate relationships with certain individuals, for example:

- Select clients, vendors or other service providers used by firm clients (including broker-dealers) may be family members or friends of firm personnel, including firm owners. At times, firm personnel will engage in personal business dealings with these individuals as a natural extension of their outside personal relationships.
- Some clients are affiliated with entities which have a business relationship with the firm (such as firm vendors or other service providers used by firm clients), and certain of these entities have engaged us to manage their investment portfolios.

Given the inherently close working relationship we have with our clients, we expect relationships with clients to continue to evolve over time. These expanded relationships present an inherent incentive to provide preferential treatment to certain clients. We believe our firm's steadfast



dedication to fairness and integrity, along with our policies and procedures designed to ensure all clients are treated fairly as summarized within this disclosure brochure, help to mitigate this conflict. Also, all client portfolios are managed following a team approach, with no one employee responsible for any individual client's portfolio. Finally, all employee outside business activities require advanced notice and approval, with the goal of identifying and determining how to mitigate conflicts identified (potentially including denying the request to participate in the outside business activity).

We have an incentive to encourage individual clients to rollover an employer retirement account into a Punch & Associates-managed Individual Retirement Account ("IRA"), with the potential for higher fees and lower liquidity. The decision of whether to rollover an employer retirement account rests with the individual account owner, and we are committed to providing information to help a client make a decision that is in that client's overall best interests.

When we provide investment advice to clients regarding their retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours.

Our investment management agreement with the client determines the protocol the client or we will follow in terminating accounts.

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

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### **Investment Philosophy**

Our investment philosophy is based on the belief that returns on capital are greatest where capital is most scarce. We formulate investment ideas by focusing in areas of the market where we believe we can identify investment opportunities that other investors have discarded, misunderstood, or simply ignored. We look for market behavior toward investments that we regard as short-sighted, emotionally driven and uninformed. We place an emphasis on behavioral investing and believe that the migration of the "investment herd" can create value. We strive to identify areas where investor sentiment and expectations are lowest, anticipate themes that currently have low or limited recognition and employ time arbitrage. We believe that most investors tend to have increasingly short-term time horizons and might employ rapid turnover while trying to exploit extremely short-term anomalies in the market. In an environment where any investor has access to an unlimited amount of data, combined with the natural human emotion to want to measure success daily, we believe that opportunities can be provided to those whose investment time frame is measured in years.

We are committed to managing risk by staying disciplined throughout each market cycle. Our approach is primarily fundamental, as we believe that there are no shortcuts to selecting good investments. We perform our own research to make the most informed decisions and strive to gain an information edge over other small cap investors. We closely monitor investor sentiment and

believe that investors make predictable, repeated errors that frequently create value. All too often, we have observed investors tend to chase performance in popular stocks or asset classes that have performed the best recently and at times in which they receive the most notoriety. As valuations in these popular securities are pushed to extremes, we find capital may get distracted away from other industries and companies, and value is often created in these left-behind areas.

For clients seeking greater stability or clients with a total return objective, we often recommend a portion of their portfolio be invested in our Income Strategy. Here we utilize a bottoms-up security selection process in which we seek securities with specific characteristics in order to find income-producing investments that have a strong potential for total return. In selecting investments, we seek companies or securities whose cash-flow payouts are adequately supported by the underlying strength of the issuing entity and that are unlikely to change dramatically. We also believe that asset classes or sectors that have under-performed over the past three to five years or are out-of-favor with most investors, are fertile ground for finding value-priced securities. We believe the bottoms-up security selection process works best when analysis is unique and independent from the views of most investors.

Overall, we attempt to purchase growth companies at value prices. We believe that these companies afford the greatest returns as they transition from “value” to “growth” and as other investors recognize them and value them more fairly. We combine a value manager’s risk assessment abilities with a growth manager’s imagination in our small cap approach. We strive to assemble a portfolio of high-quality companies at undemanding valuations. In assembling portfolios, we favor the small cap asset class because we find, on balance, that fewer professional investors are focused on this less-liquid asset class, creating a dearth of analysis which we believe leads to persistent pricing and informational inefficiencies. Because of these inefficiencies, we believe the small cap space is where thorough research matters and has a chance of providing excess returns. Our risk-averse investment philosophy also integrates behavioral and contrarian elements that permeate every aspect of our process.

Punch & Associates currently does not actively manage accounts or invest in securities based on Environmental, Social and Governance (“ESG”) criteria. However, we do incorporate select ESG factors into our research process. Punch & Associates will consider client-specific guidelines or restrictions on a case-by-case basis.

### **Investment Strategies**

We manage assets by utilizing the following strategies:

**Punch Small Cap Strategy:** The Punch Small Cap Strategy invests in small cap equities with market capitalizations generally between \$250 million and \$3 billion. This universe contains a large number of public companies but a relatively small portion of the total U.S. stock market capitalization. We have found small cap companies to be generally less efficiently priced than larger companies, and we search for those companies with minimal Wall Street coverage – and lower investor expectations – in order to take advantage of inefficiencies in this space.

We combine intensive bottoms-up investment research with elements of behavioral finance to create a portfolio of companies that are purchased at what we believe are compressed valuations. We seek out sectors and companies with accelerating fundamentals, economically attractive business models and low recognition among the general investing public. These are the areas where we have found original fundamental research provides the most value.

We narrow the small cap universe according to the following criteria:

- Sufficient trading volume and liquidity;
- Conservative capital structure;
- Profitable on an operating basis with consistent cash flow;
- Predictable revenue and earnings streams and durable business models;
- Prudent capital allocation by managers; and
- Low Wall Street coverage.

We aim to identify the highest quality small cap companies which have the greatest probability of deserving above-market valuations or becoming larger enterprises over time. We emphasize proven business models and management teams that have set a clear and realistic path to achieving their goals over the medium-term. At the same time, we attempt to discover these firms before other investors by limiting ourselves either to those companies with low sell-side coverage or to those companies with low analyst ratings.

**Punch Large Cap Strategy:** The Punch Large Cap Strategy takes a long-term approach to building a portfolio of large cap equities. Portfolios are constructed with concentrated positions in individual stocks taken from the universe of domestic companies generally with market capitalizations over \$3 billion.

We perform fundamental analysis on individual large-cap companies and take concentrated positions in stocks we think will outperform the broader market. While the universe is generally defined as S&P 500-member companies, we occasionally take positions in mid-cap companies or companies located abroad. Our buy-and-hold approach to owning individual companies enables us to limit turnover and tax consequences. When investigating individual companies, we emphasize durable, high quality franchises, reliable and predictable earnings, reputable management, conservative capital allocation and capital structure, and above-market returns on capital. We believe that it is these characteristics that allow us to find companies worth holding for several years.

**Punch Strategic Total Return (“STR”):** The Punch Strategic Total Return Strategy was created to manage client accounts that do not meet the minimum investment amount for our other strategies (generally under \$250,000), although it can also be suitable for larger accounts as well. STR is a total return strategy that focuses on generating an attractive dividend yield in addition to capital appreciation. Portfolios are constructed utilizing a limited number of closed-end funds, index shares and other pooled vehicles.

**Punch Micro Cap and Nano Cap Equity Strategies:** The Punch Micro Cap Equity and Nano Cap Equity Strategies apply a similar investment process as the Small Cap Equity Strategy while screening for companies in the smallest end of the small cap spectrum (generally those with a market capitalization under the weighted average market capitalization of the benchmark index for the Micro Cap Equity Strategy, and generally those under the median market capitalization of the benchmark index for the Nano Cap Equity Strategy). In our experience, this segment of these marketplaces for publicly traded companies is made up of thousands of small, under-researched and overlooked companies. The Micro Cap and Nano Cap Equity Strategies are currently offered to Accredited Investors and Qualified Clients through private investment partnerships via a Confidential Private Placement Memorandum.

**Punch Income Strategy:** The Punch Income Strategy invests in a wide variety of securities with the characteristics of producing durable, predictable yields and price appreciation over full market cycles. Incorporating varied yield vehicles to provide total return in both a taxable and tax-efficient manner, the strategy focuses on total return and emphasizes regular cash flow and takes a “reversion-to-the-mean” approach to asset allocation, emphasizing those asset classes that have under-performed over the past three-to five-years.

Securities included in the portfolio include:

- Closed-end funds;
- Preferred stocks;
- Utility equities;
- REIT equities;
- Corporate bonds;
- Municipal bonds; and
- Treasury bonds.

We apply a combination of qualitative and quantitative analysis to identify under-researched opportunities which generate current income and have the potential for long-term capital appreciation. Maintaining a focus on value, we select securities that have sustainable and durable income streams. Importantly, we take an opportunistic and active management approach that seeks to take advantage of extreme investor behavior and exaggerated price movements.

### **Expert Networks**

We use pre-approved and vetted “expert network firms” to assist us with our research processes from time to time. They are used to supplement our regular research process and not as a substitute for our own fundamental analysis. These expert network firms provide us with access to individuals with expertise across a variety of industries. We have implemented policies designed to ensure we do not inadvertently receive material non-public information from these experts, some of whom are insiders of public companies.

While we maintain a strict policy to not trade securities while in the possession of material, nonpublic information nor to improperly communicate such information to others, we at times knowingly accept material, nonpublic information in a controlled fashion solely for research purposes (known as “going over the wall”). When this occurs, all trading activity within the security by firm personnel (both on behalf of clients and within personal accounts) is prohibited while the firm is in receipt of this material, nonpublic information and until the information is made public. Our investment management team is selective in choosing which securities to knowingly accept material, nonpublic information as going over the wall could result in lost trading opportunities within client accounts (as all trading activity is prohibited while the firm is over the wall).

### **Risk Factors**

The risk factors set forth below are intended to summarize the material risks of investing using one or more of our investment strategies. The following summary is not intended to be a complete and comprehensive statement of all possible risks related to investing generally or investing in the strategies that we manage specifically.

#### **INVESTMENT OR PRODUCT RISKS**

##### *Mutual Funds and Exchange Traded Funds (“ETF”)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are 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 distribute net capital gains incurred.

Shares of open-end 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, plus any shareholder fees (e.g., sales loads, purchase fees, redemption fees).

Shares of closed-end mutual funds are listed on securities exchanges and transacted at negotiated prices in the secondary market. As such, the closed-end mutual fund’s shares could trade at a premium or discount to NAV. Further, purchasing shares of a closed-end mutual fund at a discount does not guarantee a profit, as there can be no assurance the closed-end mutual fund’s market price will subsequently revert to the fund’s calculated NAV.

Shares of ETFs are also 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 more frequently for actively managed ETFs. However, certain inefficiencies could 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, as an ETF generally redeems shares when aggregated as creation units (usually 50,000 shares or more).

### *Options*

Options allow investors to buy or sell a security at a contracted “strike” price (not necessarily the current market price) at or within a specific period of time. Clients pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain inherent risks, including the partial or total loss of principal if the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

### *Liquidity*

Our investment style results in owning shares of securities with varying levels of liquidity, which we define as the degree to which we can efficiently sell or dispose of an instrument with minimal impact on its market price. Our investment management team focuses on managing the overall liquidity profile of each client portfolio. However, managing liquidity risk is a best-efforts exercise, as we have no direct control over the market which will or will not exist to support a future sale of any instrument held. While we believe less-liquid instruments held within client portfolios present a favorable potential risk/return reward, holding such instruments escalates the risk of us not being able to sell the instruments as quickly as we would sell highly liquid instruments. We consider management of the liquidity profile of a client account to be a key component of our investment management process.

## TRADING AND MARKET RISKS

### *Market Risks*

The profitability of a significant portion of our recommendations depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. We cannot assure we will be able to predict those price movements accurately. Our strategies do not, however, attempt or depend on our ability to predict the direction of the overall market in the short to intermediate term.

### *Inflation Risk*

Inflation represents the increase of goods and services over time, and acts to decrease the real value of your investments. We obviously have no control over inflation, and there can be no assurance client investment portfolios will keep pace with the rate of inflation.

### *Management Through Similarly Managed Accounts*

For certain clients, we manage portfolios by allocating portfolio assets among various mutual funds and other securities on a discretionary basis using one or more of our proprietary investment strategies (collectively referred to as the “investment strategy”). In so doing, we buy, sell, exchange and/or transfer shares of mutual funds / securities based upon the investment strategy.

The investment strategy may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the investment strategy are usually purchased or sold without regard to a client’s individual tax ramifications. Certain investment opportunities that become available to our clients may be limited. For example,

various mutual funds or insurance companies may limit our ability to buy, sell, exchange or transfer securities consistent with our applicable investment strategy. As further discussed in response to Item 12 (below), we maintain policies and procedures designed to ensure we allocate investment opportunities among our clients on a fair and equitable basis.

#### *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by us in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to us will be increased. As a result of this conflict of interest, the decision as to whether to employ margin is left totally to the discretion of client.

While the use of margin borrowing can improve returns, these arrangements also increase the likelihood of an adverse impact upon a client's portfolio. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, the broker-dealer may demand an increase in the collateral that secures the client's obligations. If the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

#### *General Risk of Loss*

We do not offer any products or services that guarantee rates of return on investments for any time period to any client. Investing is speculative and involves risk, including the possible loss of principal.

### **PUNCH & ASSOCIATES RISKS**

#### *Reliance on Key Personnel*

The investment management activities of our firm rely on the business and investment acumen of our management team. Should anything happen to a member of our management team or if a member of our management team departs from our firm, the business and investment management activities related to managing client portfolios may be adversely affected.

#### *Managing Member of Private Funds*

We are the managing member to each Private Fund. This can create conflicts in the allocation of time, resources and investment opportunities among our clients. We believe these conflicts of interest are mitigated by our trade allocation procedures as described in Item 12, as well as our compliance policies and procedures.

#### *Allocation of Time and Resources*

Generally, we are not subject to specific obligations or requirements concerning the allocation of time, efforts or resources to any particular client. Our personnel devote time to the affairs of our clients as they, in their discretion, determine to be necessary in satisfactorily meeting the client's needs.

## **Item 9      Disciplinary Information**

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Investment advisers registered with the SEC are required to disclose all material facts regarding any legal or disciplinary event that could be important to a client's evaluation of the firm or the integrity of the firm's management. We have no such disciplinary or legal events to disclose.

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

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We serve as investment adviser to and managing member of the Private Funds. Further, owners of our firm as well as select employees are investors in each Private Fund, and generally benefit from investment activities in the Private Funds the same as any other investor. Please see Item 6 for a discussion of our side-by-side management practices and Item 11 for a discussion of our Personal Trading activity.

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

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### **Standards of Conduct**

We maintain a Code of Ethics ("Code") which applies to all our employees. We expect our employees to avoid potential conflicts of interest; however, as a practical matter, investment advisers routinely encounter conflicts of interest with clients, as addressed throughout this brochure and within our compliance program.

Our Code and related compliance policies outline the standards of conduct we expect of our employees and includes limitations on personal trading, giving and accepting gifts, making charitable or political contributions, serving as a director or trustee for an external organization, and engaging in outside business activities.

Employees, subject to prior approval, may serve on advisory boards for entities which have business relationships with Punch & Associates or our clients, including donor advised funds. Punch & Associates' Compliance Committee monitors these arrangements.

We maintain a policy which governs our gifts and business entertainment practices. We believe the proper use of business entertainment and gifts creates goodwill and aids in the development of strong working relationships. As a matter of policy, we strive to not offer nor receive business entertainment or gifts which could be viewed as influencing the recipient's decision-making process or making any individual feel beholden to the firm. We do from time to time strategically determine to sponsor or purchase access to a high-profile event, generally with the goal of entertaining select clients or prospects. As the purpose of investing in such an event is not to make the recipient feel beholden to the firm, we will consider the nature of the invitee's relationship to the firm in determining whether to extend an invitation. Therefore, not all clients are eligible to be invited to all the firm's entertainment opportunities, and the criteria used to determine which



clients to invite to the firm's entertainment opportunities: 1) rests with us; 2) is subjective in nature; and 3) generally varies based upon the nature of the event. In practice, our clients which pay us the largest fees are provided more entertainment opportunities than other clients as, besides the level of fees paid to us, those high fee clients often have a relatively large net worth and therefore are less likely to feel beholden to us based on their participation in entertainment opportunities.

In addition, employees are prohibited from using inside information to trade in personal accounts or on behalf of our clients including trading on nonpublic information related to any strategy we manage. We also maintain physical and electronic safeguards to protect nonpublic client information while in our possession.

We serve as investment adviser to and managing member of the Private Funds, and we recommend select qualified clients to make investments in the Private Funds. As described within Item 5, we receive compensation for our role in managing the Private Funds. Further, our owners and various employees are investors in the Private Fund and could benefit by additional investments made in the Private Funds. For example, the Private Funds hold smaller, less liquid securities whose share price could be expected to benefit from the upward pressure associated with investing new funds contributed to the Private Fund. Prospective Private Fund investors are provided various disclosure documents including the Confidential Private Placement Memorandum which describes risks associated with investing in the Private Funds. To mitigate these conflicts, we maintain policies and procedures designed to ensure all clients are treated fairly, as summarized within this disclosure brochure. Also, all client portfolios are managed following a team approach, with no one employee responsible for any individual client's portfolio.

Employees are required to report any violation of the Code (including the discovery of any violation or suspected violation committed by another employee) to our Chief Compliance Officer ("CCO").

### **Personal Trading**

Our Personal Trading Policy governs each of our employees' personal securities trading activity. Employees are permitted to buy and sell securities that we also recommend to clients. Employees are also permitted to hold the same securities which are held in client accounts. Our Personal Trading Policy, along with the controls identified within this disclosure brochure, are designed to address the conflicts arising from allowing our employees to invest in the same securities as clients. Employees are also able to invest their personal holdings in a manner which is not consistent with Punch & Associates' advice provided to clients.

Employees are generally prohibited from purchasing or selling securities on the same day we execute a transaction in the security for a client or if our portfolio management team expects to purchase or sell the security for a client strategy. Employees must also wait five business days before selling a security that was purchased for a client strategy, or before buying a security that was sold within a client strategy by the firm's investment management team. We waive the five-business day waiting period for client-directed trades. Employees are also prohibited from purchasing any equity security with a market capitalization smaller than \$10 billion unless the

security is also held in a client portfolio. Further, employees cannot acquire securities in an Initial Public Offering (“IPO”) and must obtain pre-approval prior to investing in private placements.

These personal trading restrictions apply to employee accounts managed by the firm’s portfolio managers. Donor advised funds managed by the firm to which the company and employees make tax-deductible donations are not treated as personal investment accounts and are not subject to these personal trading restrictions, as employees have no beneficial ownership interest in these accounts. However, such donor advised fund accounts present a potential conflict as the employee is able to direct donations to a charity of his/her choice from the donor advised fund’s assets. As such, the employee has an inherent incentive to increase the asset size of the account. We believe this risk is mitigated through our trading policies and controls described in Item 12.

We require employees to pre-clear certain personal securities transactions. In addition, our Code requires all employees to submit personal security holdings reports initially upon employment and on an annual basis thereafter. Finally, all Access Persons are required to report personal transactions to the CCO on a quarterly basis.

Our Code of Ethics is available upon request.

## **Item 12      Brokerage Practices**

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### **Selection of Brokers and Best Execution**

We determine in most cases which securities are bought or sold, the broker-dealer through which the securities are to be traded and the commission rates at which transactions are effected.

We seek “best execution” when executing trades on behalf of our clients, which we define as placing trades in such a manner that the client’s total proceeds or cost for each transaction is the most favorable under the circumstances in which the trades are placed. We consider various factors in selecting a broker, including:

- Execution
  - Ability to execute
  - Quality of execution
  - Order flow
  - Locating liquidity
  - Commission structure
- Research Services
  - Proactive delivery of ideas
  - Conferences
  - Access to company management or analysts
- Knowledge of and dominance in specific markets, securities and industries
- Acceptable record keeping, administrative and settlement functions
- Reputation and integrity

We currently do not have arrangements whereby clients direct us to execute portfolio transactions through particular brokers or dealers. We would not direct brokerage on a client's behalf unless specifically directed by the client in writing within the client investment advisory agreement or a separate letter of agreement. Although we do not anticipate entering into directed brokerage arrangements with clients, clients that request us to use a particular broker or dealer should understand they would forgo any benefit from savings on execution costs that we obtain for other clients, such as negotiating volume discounts on block orders. These clients will also not receive the same price or commission paid by other clients who utilize different brokers. In addition, in accordance with our policies, trades in accounts where the client directs brokerage would be generally placed after fully discretionary trades.

We invest client accounts in the publicly traded equity and debt securities of a broker-dealer that we also rely on to execute some client transactions. Punch & Associates' investments represent one of the ten largest external stockholders of this broker-dealer's publicly offered equity and debt securities. We chose to invest our client accounts in this broker-dealer based solely on our security selection criteria outlined within Item 8 above. Further, we believe our clients benefit from the research services provided by the broker-dealer, consistent with the "Soft Dollars and Commission Arrangements" disclosure below. The research services provided by the broker-dealer include invitations to investment conferences it hosts. Our investment in the broker-dealer's securities creates conflicts of interest including the incentive for us to allocate client trades to the broker-dealer in order to improve upon its profitability, which in turn could improve our client's portfolio returns. We also could be in a position to receive preferential treatment from the broker-dealer. In addition to our trading policies and procedures which govern our trading activity and require that we comply with "best execution" requirements, we also have implemented various controls to help mitigate these conflicts, including: 1) neither the firm nor any employee is permitted to accept gifts of any amount from the broker-dealer (though, employees can accept customary meals and entertainment provided to all attendees of a broker-sponsored conference); 2) our Trade Oversight Committee routinely reviews our relationship with this broker-dealer; and 3) we have put controls in place designed to ensure our interactions with the broker-dealer are consistent with other broker-dealers and that transactions are "arm's-length".

We typically recommend private clients use Fidelity Investments, Inc. ("Fidelity") for custody and brokerage services. For these clients, we generally find it most advantageous to the client for Fidelity to execute trades, although as described further below we at times direct select transactions to other qualified broker/dealers as executing broker in an effort to obtain quality execution. We believe Fidelity offers clients a compelling combination of cost and services. We have no affiliation with Fidelity and all benefits provided by Fidelity are made available to Punch & Associates' employees. The receipt of such benefits by employees is not a factor in determining whether to recommend Fidelity.

### **Soft Dollars and Commission Arrangements**

We routinely authorize a client to pay a broker a greater commission than what another broker might have charged for effecting the same transaction, in recognition of the value of research services provided by the broker to the firm. These arrangements, generally known as "soft dollar arrangements," are not used solely for the client accounts that generate the brokerage commission

used to pay for the research service but are used in managing any or all of our accounts. As such, we do not seek to allocate soft dollar benefits to client accounts proportionally to the soft dollar credits each client account generates. Research services we receive from broker-dealers are supplemental to our research effort, and we allocate client brokerage commissions for research services that could otherwise be available for cash. Therefore, these soft dollar arrangements allow us to not pay certain research-related expenses we might otherwise be required to pay. Research services we receive from broker-dealers include:

- Bloomberg Professional Service;
- Research services which provide market analyses and company and sector research.
- A proprietary Index provider (related primarily to portfolio attribution analysis);
- An expert network service for research purposes;
- Algorithmic trading platforms;
- Access to public company management;
- Access to broker-dealer analysts;
- Access to consultants coordinated by expert network firms; and
- Access to conferences sponsored by broker-dealers.

As noted above, we recommend Private Clients use Fidelity for custody and brokerage services. To service these clients, we use standard technology and research services provided by Fidelity (or other custodians as applicable), including services related to trade execution, clearing and settlement functions, as well as trading software and general economic commentary and analyses. All services provided by Fidelity are generally available to all advisors with clients on the Fidelity platform and are used to service all our accounts.

We at times place trades with third-party brokers in consideration of, among other factors, research services provided to the firm. Such trades are executed by the third-party broker but settle at the client's custodian (for most clients, Fidelity). We negotiate a commission to be paid to the third-party broker for research services provided following the firm's current standard executing broker commission schedule:

- \$.02/share for equity securities priced under \$3/share;
- \$.03/share for equity securities priced between \$3 and \$20/share; and
- \$.04/share for equity securities priced over \$20/share.

This commission schedule applies to all brokers, as we find value in placing trades through both traditional brokers (which provide us with research services) as well as alternative trading platforms (which provide us with other trading options such as algorithmic-based trading options). We expect trades placed through alternative trading platforms to generate more commissions to pay for research services than trades we place through traditional brokers, as execution-only commission rates are generally lower for alternative trading platforms than for traditional brokers. While this approach results in an inherent incentive to place trades through alternative trading platforms, our Trade Oversight Committee routinely reviews the appropriateness of trading activity among all trading platforms.

This commission is typically accounted for on a "net" basis during the settlement process at the custodian and is not separately reported to the client. The client will also incur the custodian's

standard commission rates for trades executed elsewhere but settling at the custodian. As such, the total cost the client pays for these trades is greater than other trades executed through the custodian, in part as a result of compensating the third-party broker for research services provided.

When we determine a service is not used exclusively for research purposes, we perform a good faith analysis to determine the percentage of the service which is not used for research purposes. We then pay for the non-research portion of the service with the firm's resources.

We at times will execute a trade at one broker-dealer with settlement occurring at a different broker-dealer to facilitate our goal of seeking best execution when trading less-liquid securities for Private Clients which use Fidelity for custody and brokerage services. We also at times arrange for a portion of a trade's commission to be applied to another broker-dealer to compensate that broker-dealer for research services provided.

Our authority to select brokers presents an inherent conflict, as we face an incentive to choose brokers who provide us with research services rather than our clients' interest in receiving the most favorable execution. To mitigate this conflict, we maintain policies and procedures designed to ensure we select brokers based on our fiduciary obligations, and not based on this conflict. Our Trade Oversight Committee also routinely reviews allocation of client commissions to brokers.

### **Allocation of Investment Opportunities**

We strive to make investment opportunities available to all clients: 1) that are eligible to participate; and 2) where such investment opportunities are deemed to be appropriate for the specific client. We maintain a policy to allocate investment opportunities without regard to factors that solely benefit us, including but not limited to client-specific financial arrangements (such as the Private Funds' performance-based fee arrangements noted within Item 6 or our personal relationships with clients noted within Item 7). Our ability to allocate investment opportunities presents a conflict, as we face an inherent incentive to favor certain accounts over others. To mitigate this conflict, we maintain policies and procedures designed to ensure clients are treated fairly, as summarized within this disclosure brochure. Further, all client portfolios are managed following a team approach, with no one employee responsible for any individual client's portfolio.

Our Small Cap/Micro Cap and our Micro Cap/Nano Cap Equity Strategies at times hold the same or similar securities, although under normal market conditions we do not expect our Small Cap and Nano Cap Equity Strategies to hold the same securities. With limited exceptions based on liquidity constraints of the underlying security, new positions in smaller cap securities are generally allocated to the applicable strategy based on market capitalization at the time of purchase as follows:

- Greater than approximately \$250 million but less than approximately \$3 billion in market capitalization will be allocated to the Small Cap Equity Strategy;
- Generally those with a market capitalization under the weighted average market capitalization of the benchmark index will be allocated to the Micro Cap Equity Strategy; and
- Generally those with a market capitalization under the median market capitalization of the benchmark index will be allocated to the Nano Cap Equity Strategy.

Once the security becomes a holding of a Small Cap, Micro Cap or Nano Cap Equity Strategy, future purchases in the security could be eligible for other strategies due to: 1) increases or decreases in the security's market capitalization; 2) size and number of positions within a specific strategy; 3) tax reasons; and 4) investment rationale as determined by the Investment Committee. As such, in practice select holdings of Small Cap, Micro Cap or Nano Cap Equity Strategies are held in other strategies.

Further variances exist specifically between the Small Cap and Micro Cap Equity Strategy, as the Micro Cap Equity Strategy is managed in a more aggressive, nimble manner than our Small Cap Equity Strategy, which often results in: 1) varying holdings and weightings of securities held within the two strategies; 2) more frequent trades of securities within the Micro Cap Equity Strategy; and 3) decisions to exit the security from the Micro Cap before the Small Cap Equity Strategy.

Our Investment Committee routinely reviews and discusses activity within all equity strategies and makes purchase or sale decisions based on the merits of the security relative to the investment needs of the applicable strategy regardless of whether the investment is held in other strategies.

We treat allocations of investments in IPOs and other offerings (such as secondary or crossover offerings) in the same manner as any other security.

### **Trade Aggregation and Allocation**

To support our efforts in seeking best execution when effecting trades on behalf of our clients, as well as to help provide assurance our investment management clients are not competing against one another in the marketplace, we generally aggregate (or "block") our trade orders together following these guidelines:

- Private Clients: We generally direct these client account transactions to the broker affiliated with the client's custodian (in most cases, Fidelity). Therefore, trades which have been designated for these clients will generally be blocked together and executed through the broker, subject to our assessment of the broker's ability to provide best execution related to the trades executed.
- Institutional Clients: Our institutional clients have various custodians; as such, we will determine the broker with whom to trade following the factors outlined above.

Donor advised fund accounts we manage to which employees make tax-deductible contributions generally participate in block trades with all other clients.

We direct transactions in securities which are eligible for both private and institutional clients; as such, we at times trade with several different trading partners to complete a particular transaction. Due to the nature of the securities in which we invest, not all clients eligible for the trade will participate on a given day.

To help provide assurance our clients are treated fairly over time, our trading department uses an order rotation schedule. On a per trade basis, we rotate the order of:

- Private and institutional clients' trades; and
- Private and institutional brokers to whom we direct trades.

This rotation results in certain client accounts trading the same security after other client accounts. Trading activity in the security (including our trading activity) will inherently place either upward or downward pressure on the security, the degree to which depends upon numerous external factors including the liquidity profile of the security. Therefore, clients trading after other clients should expect to pay more or less than other clients for the same security. Our trade rotation process is designed to minimize the impact over time of any price variances resulting from the order in which client trades are placed.

As described more fully above, certain securities are also eligible to be included within both our: 1) Micro Cap and Small Cap Equity Strategies; and 2) Micro Cap and Nano Cap Equity Strategies. In such situations, we generally also rotate trades by strategy.

If a block order is filled (full or partial fill) at several prices through multiple trades, we will calculate an average price (including the commission charged) for all trades executed by the broker for the day, and all participants in the block trade will receive the average price. Only trades executed within the block on the single day will be combined for purposes of calculating the average price. Trades are allocated to underlying client accounts after completion of each trade, but no later than by day-end.

At times, including when we participate in an offering on behalf of our clients, we will not receive a sufficient number of shares to fulfill our desired allocation among participating client accounts. In such scenarios, we will allocate shares received to all participating accounts on a pro rata basis.

Once a trade is executed, the shares are allocated according to the pre-allocation schedule. In cases where a block order is only partially completed:

- Private Clients: These trades are generally allocated on a random, full-fill basis, subject to a *de minimis* number of shares.
- Institutional Clients: These trades are generally allocated on a pro-rata basis, subject to a *de minimis* number of shares.

In all cases, we endeavor to ensure trade allocations are fair to our clients. While we consistently apply this policy, we will deviate from this policy if we determine the standard method of aggregating or allocating trades would result in unfair or inequitable treatment to some or all of our clients.

### **Cross Transactions**

We maintain a cross transaction policy which addresses a purchase and sale transaction between two client accounts coordinated by Punch & Associates. We effect such cross transactions infrequently, typically involving municipal bonds held within client accounts. However, we will execute other cross transactions when we believe the cross transaction is in the best interest of both clients involved. Our procedures are designed to provide reasonable assurance each cross transaction executed is in each client's best interests, including the reasonableness of the price

used. Our Trade Oversight Committee routinely reviews all cross transactions executed. ERISA and IRA accounts, accounts associated with Punch & Associates (including employee managed accounts and firm retirement accounts) and Private Funds are not eligible by policy to participate in cross transactions.

### **Trade Error Correction**

While expected to occur infrequently, we correct errors resulting from our management activity within a reasonable period of time, with the objective of ensuring the impacted client(s) are made whole. Our policy considers “trade errors” to cover situations where we failed to invest a security as intended, but specifically excludes administrative errors which are generally immediately correctable through communications with the broker (such as a clerical error by the broker in allocating shares of the block trade). In no instance will such administrative errors result in financial loss to a client.

For client accounts which use Fidelity for brokerage and custody services, we follow Fidelity’s base policy to net gains and losses within a separate firm Trade Error Account maintained at Fidelity. Net losses are absorbed by us, and net profits are allocated to a donor advised fund: 1) which is used to support charitable causes as selected by firm management; and 2) to which the firm makes tax-deductible donations.

Addressing trade errors presents a conflict of interest to all advisers, including us, as we have a financial incentive to minimize a trade error resulting in a loss and to maximize a trade error resulting in a gain. To mitigate this conflict, we maintain policies and procedures designed to provide reasonable assurance trade errors are properly addressed. In addition, our Trade Oversight Committee reviews all trade errors.

### **Item 13      Review of Accounts**

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We monitor portfolios for investment management clients on an ongoing basis while general account reviews are conducted on at least a quarterly basis. For our investment management clients which use our Wealth Advisory services, reviews are performed on an as needed basis by our Director of Wealth Strategies or Managing Partner. We routinely contact ongoing investment advisory clients (most on an annual basis) to discuss any changes in the client’s financial situation and/or investment objectives and restrictions.

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

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We receive economic benefits related to soft dollar arrangements and broker provided services as disclosed within Item 12 above. We also maintain relationships with various third parties (both individuals and entities such as attorneys or accountants), and we at times receive referrals from these third parties. We also periodically refer clients to other service providers when we believe a service provider would add value to the client and/or when a client requests such a referral. While we have no compensation arrangement in place with these third parties, we at times choose to provide relatively small gifts to the individual or entity as a sign of appreciation (such as a meal, gift certificate or a bottle of wine) for an introduction made to us. Our objective in providing these



de minimis signs of appreciation is not to compensate the individual or entity for the introduction, nor do we believe the recipient views any gift received as a form of compensation.

We typically entertain or are entertained by these third parties as a natural extension of our ongoing business relationship. Establishing and maintaining goodwill with others is important to us, and we feel business entertainment is an important element to establishing and maintaining these relationships. Any level of entertainment we provide or receive is designed to foster our broader relationship with the individual or entity, and not to compensate others for entrusting us with referrals made.

We typically make referrals to individuals or entities we respect and with whom we have a high rapport, and we feel others making referrals to us feel the same. There is an inherent conflict of interest that exists from our relationship with these individuals or entities, as these introductions are generally borne out of a larger relationship.

As noted within Item 12 above, we use standard technology and research services provided by Fidelity, including services related to trade execution, clearing and settlement functions, as well as trading software and general economic commentary and analyses. We also receive soft dollar services from broker-dealers as described more fully within Item 12 above.

While we strive to compensate employees fairly, we do not offer incentive programs tied to the profitability of client accounts or investment products nor do we link financial professionals' compensation to specific accounts or investment products. All employees receive a base salary, and partners receive bonuses based on firm profitability. Other employees (including partners) are eligible to receive discretionary bonuses based on individual performance metrics and/or firm performance. A portion of these bonuses are at times paid via shares of the Private Funds for partners and select staff. Business development staff are paid a base salary with bonuses determined by fees generated by these employees' sales activities. At times, employees are also paid a signing bonus. These compensation arrangements inherently incentivize our financial professionals to increase our assets under management which thereby increases our revenue generated. We feel our policies and procedures designed to ensure all clients are treated fairly as summarized within this disclosure brochure helps to mitigate this inherent conflict. Also, all client portfolios are managed following a team approach, with no one employee responsible for any individual client's portfolio.

## **Item 15      Custody**

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For our separately managed accounts, we do not maintain custody of client assets, except: 1) as a consequence of our ability to withdraw our advisory fee directly from those client accounts which have authorized us to do so; and 2) as a result of our limited ability to assist clients in communicating transfers of client funds to third-party entities. Both the client's custodian (generally, Fidelity and, in limited cases, Charles Schwab & Co.) and we maintain controls related to the transfer of such client funds to third-party entities, in the interest of ensuring such client funds remain secure. These controls include a requirement for the client to provide written instructions.

Our fee is fully disclosed on monthly or quarterly client account statements sent by the client's custodian. We encourage you to review these statements carefully. We also maintain policies and procedures designed to provide reasonable assurance our client's custodian is sending monthly or quarterly statements to our clients and that we do not inadvertently obtain further custody over client assets. We encourage clients to compare information in our reports to reports provided by the client's qualified custodian. While we regularly reconcile the balances from our internal accounting system to the balances per the custodian records, certain differences routinely occur due to the timing of entries made within each system, differences in pricing sources or calculations of income accruals among other reasons. We have no affiliated custodians.

We serve as the Managing Member of the Private Funds. In this role, we have legal access to the Private Fund's securities or funds in a manner which results in us having technical custody of the Private Fund's assets. The Private Fund is audited by an independent accountant registered with Public Company Accounting Oversight Board annually, and we send copies of these financial statements to investors of the Private Fund and the third-party outside administrator within 120 days of the Private Fund's fiscal year end.

## **Item 16 Investment Discretion**

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We manage each client account on a discretionary basis subject to the signed investment management agreement between our firm and the client. As a courtesy, certain legacy securities owned by a client will be placed in an unmanaged account. We do not provide investment management services to these unmanaged accounts, nor do we monitor nor provide performance reports on the unmanaged account's holdings. We do not charge a fee to such unmanaged accounts.

## **Item 17 Voting Client Securities**

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Where we vote proxies pursuant to written authority granted by the client, we strive to vote proxies in the clients' best economic interest. In evaluating a particular proxy proposal, we take various factors into consideration, including: 1) whether the client has agreed in advance to limit our ability to cast a vote; 2) our determination of how the proxy proposal will impact our clients; and 3) our determination of whether the proxy proposal will create dilution for shareholders.

We maintain a policy designed to reasonably ensure we will not be influenced by outside sources whose interests conflict with our clients' interests, and to properly resolve any conflict identified. Strategies we would employ to address potential proxy voting conflicts include: 1) engaging an independent party; 2) preparing a report outlining our approach; 3) referring the proxy to a client; 4) seeking a client's consent to vote; or 5) voting in accordance with our pre-determined voting policy.

We maintain written proxy voting guidelines which summarize our approach to voting proxy matters. We will generally support management's recommendations on proxy issues as we believe a company's management should generally have the latitude to make decisions related to basic business operations matters. We will also consider proxy proposals regarding control matters on a case-by-case basis but will generally vote against recommendations we believe will limit the

rights of shareholders or entrench existing management (such as poison pills and dual class shares). We will also generally oppose measures preventing shareholders from accepting an offer of a sale of the company. We consider highly contested or controversial proxy proposals on a case-by-case basis. Clients who have authorized us to vote proxies on their behalf may request a report showing how we voted shares held in their account(s). In addition, a copy of our Proxy Voting Policy is available upon request.

## **Item 18 Financial Information**

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We have no known financial conditions to disclose which would impair our ability to meet our contractual commitments to our clients.

## **Other Information**

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### **Identity Theft**

Our firm recognizes the inherent risk all individuals face with respect to identity theft. Consistent with regulatory requirements, we have created an identity theft program, primarily designed to help employees identify potential red flags indicating a client's identity may have been stolen. In addition to identifying potential red flags, our identity theft program outlines the actions employees and the firm will take in the event they believe a client's identity may have been stolen. We request any client who suspects his/her identity has been compromised to immediately notify the client's primary relationship manager, thereby permitting us to consider implementing additional controls around the client's account.

### **Disaster Recovery**

We maintain a Disaster Recovery Plan designed to reasonably ensure the essential business functions of our firm are promptly restored in the event of a disaster event. While we strive to establish and maintain comprehensive processes supporting this Disaster Recovery Plan, the firm cannot ensure it will be able to continue business operations during every disaster event, given the inherently unknown nature and scope of future disaster events. Such events could include acts of war, terrorism, accidents and sabotage. If there were to be an actual disaster event, we will make every attempt to notify clients of the impact of the event on our firm and our clients.

### **Cybersecurity**

Information security concerns impact every user of the internet, and investment advisers such as Punch & Associates are no exception. We recognize the importance of protecting clients' personal information as well as the confidential and proprietary information of our firm and our employees and have established processes reasonably designed to protect this information. While we employ resources (both internal and external) we deem reasonable relative to our size and complexity to protect this information, we cannot guarantee the protection of all such information, nor can we assure against all related losses, in consideration of the real and evolving cybersecurity risks in existence (now or in the future).

We believe clearly communicated information represents a critical control to identifying and managing cybersecurity risks and have encouraged employees to communicate early and often regarding any potential cybersecurity risk. As such, we encourage all clients to communicate any information security risk or breach they have detected to their primary relationship manager immediately.

### **Legal Actions**

As a matter of policy, we do not participate in or act on legal actions such as class action lawsuits or bankruptcies on behalf of clients. Such decisions remain with the client or an entity designated by the client. At the client's request, we will assist the client in reaching this decision. However, the final determination of whether to participate, and the completion and tracking of any such related documentation, generally rests with the client or a party designated by the client, unless the client and we contractually agree otherwise. The client's custodian is generally responsible for communicating legal proceedings information to the client.

### **Diminished Capacity**

We are mindful that cognitive capacities can diminish over time, though not always as a result of age. We take our fiduciary responsibilities to our clients seriously, and have implemented policies to help guide our employees when they suspect a client is experiencing diminished capacity, as these clients could through no fault of their own be susceptible to making decisions which are not in their long-term best interests. As generally requested by the custodian, we encourage all clients to name a trusted contact with whom we could speak if we identify a potential diminished capacity concern.

### **Privacy Policy Notice**

#### ***Our Promise to You***

As a client of Punch & Associates, you share both personal and financial information with us. Your privacy is important to us, and we are dedicated to safeguarding your personal and financial information.

#### ***Information Provided by Clients***

In the normal course of doing business, we typically obtain the following non-public personal information about our clients:

- Personal information regarding our clients' identity such as name, address and social security number;
- Information regarding securities transactions effected by us; and
- Client financial information such as net-worth, assets, income, bank account information and account balances.

#### ***How We Manage and Protect Your Personal Information***

We do not sell information about current or former clients to third parties, nor is it our practice to disclose such information to third parties unless requested or permitted to do so by a client or client representative or, if necessary, in order to process a transaction, service an account or as permitted by law. However, we share information with outside companies that perform administrative

Punch & Associates Investment Management, Inc.

Form ADV Part 2A

March 31, 2023

services for us. Our arrangements with these service providers require them to treat your information as confidential.

In order to protect your personal information, we maintain physical, electronic and procedural safeguards to protect your personal information. Our Privacy Policy restricts the use of client information and requires that it be held in strict confidence.

***Client Notifications***

We are required by law to provide a notice describing our privacy policy prior to or commensurate with entering into an investment management agreement with you. In addition, we are required to inform you promptly if there are changes to our policy. Please do not hesitate to contact us at (952) 224-4350 with questions about this notice.