

## Item 1: Cover Page

### **Part 2A of Form ADV Firm Brochure**

March 1, 2023

#### **Patrick Mauro Investment Advisor, Inc.**

SEC No. 801-113346

38 Mockingbird Lane  
Oak Brook, IL 60523-1749

phone: 630-789-3374  
email: [patrickmauro@mauroinvestor.com](mailto:patrickmauro@mauroinvestor.com)  
website: [www.mauroinvestor.com](http://www.mauroinvestor.com)

This brochure provides information about the qualifications and business practices of Patrick Mauro Investment Advisor, Inc. If you have any questions about the contents of this brochure, please contact us at 630-789-3374. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

Additional information about Patrick Mauro Investment Advisor, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary. At this time there are no material changes.

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## Item 4: Advisory Business

### A. Patrick Mauro Investment Advisor, Inc.

Patrick Mauro Investment Advisor, Inc. ("PMIA" and/or "the firm") is an Illinois corporation established in 1996. Patrick John Mauro is the manager and sole shareholder of PMIA.

### B. Advisory Services Offered

#### B.1. Investment Management Services

PMIA's investment management services are predicated on the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. PMIA will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance and implement a portfolio consistent with such investment objectives, goals, risk tolerance and related financial circumstances. PMIA's objective is to review the client's tax, financial, and estate planning objectives and goals in connection with the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances and make appropriate recommendations and implementation decisions. PMIA may engage third-party service providers to assist with the tax and estate planning portion of the services provided to clients. In addition, PMIA may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio.

For its investment management services, PMIA receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies described in Item 8 of this brochure.

In addition to providing PMIA with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify the firm of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. PMIA will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. PMIA will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

### C. Client-Tailored Services and Client-Imposed Restrictions

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

#### **D. Wrap Fee Programs**

PMIA does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

#### **E. Client Assets Under Management**

PMIA manages assets only on a fully discretionary basis. Assets under management as of December 31, 2022 were \$174,829,376.

## **Item 5: Fees and Compensation**

### **A. Methods of Compensation and Fee Schedule**

#### **A.1. Investment Management Services Fees**

For investment management services, clients are charged based on a percentage of assets under management with PMIA. The maximum annual fee for this service is 1%. This fee is negotiable.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance.

Asset-based fees are always subject to the investment advisory agreement between the client and PMIA. Such fees are payable quarterly in arrears. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month.

### **B. Client Payment of Fees**

PMIA does not require the prepayment of its fees. PMIA requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees.

PMIA will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account. The custodian's periodic statements will show each fee deduction from the account. The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

A client investment advisory agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination, any earned, unpaid fees will be immediately due and payable.

### **C. Additional Client Fees Charged**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using PMIA may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

#### **D. External Compensation for the Sale of Securities to Clients**

PMIA advisory professionals are compensated solely through a salary and bonus structure. PMIA is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products with respect to managed advisory assets.



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

PMIA does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## **Item 7: Types of Clients**

PMIA manages accounts of individuals (including their Individual Retirement Accounts, known as IRAs), pension and profit sharing plans, trusts, estates, charitable organizations, corporations or any kind of legal business entity such as partnerships, LLC, LLP, etc.). Other types of clients are guardians of persons and estates, custodians for individuals (including minors).

This firm has no minimum asset size required of the client before this firm engages in management activities.

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

### **A. Methods of Analysis and Investment Strategies**

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

#### **A.1. Methods of Analysis**

PMIA uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

PMIA and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to derive the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, PMIA reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. PMIA may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **A.2. Investment Strategy**

##### **A.2.a. Capital Preservation and Income**

The Capital Preservation and Income strategy seeks to generate interest income while preserving the principal value of your investment. To do this, we create a "laddered" bond portfolio. By laddered, we mean the portfolio is divided into bond "rungs" with maturities

beginning at one year, and then moving farther out in succeeding yearly intervals. The furthest rung out is a five-year bond. The principle from each bond that matures is reinvested at the back end of the ladder (five years). Interest payments can either be distributed to you or reinvested into the ladder, based on your need for income from the account.

By laddering a bond portfolio, rather than investing exclusively in a single maturity, risk and reward are optimized. As mentioned above, bond rungs mature every year, and are then reinvested at the back end of the portfolio at the current market interest rate. Therefore, if interest rates and inflation go up, the investor has the opportunity to reinvest at the higher rate, thus maximizing returns, and minimizing the risk of a decrease in the market value of the portfolio. A non-laddered portfolio, on the other hand, loses value and does not increase the amount of interest the investor receive if interest rates and inflation rise. If, conversely, interest rates decline, a laddered portfolio will continue to benefit from the higher interest rates locked in at the back end of the ladder.

We generally use insured certificates of deposit (CDs,) US government obligations, and investment grade corporate credits to construct laddered bond portfolios for retirement accounts like IRAs or pension accounts, while utilizing investment grade municipal bonds in non-tax advantaged accounts to maximize after tax returns. We do independent research on the bond issuer to gain maximum confidence that they have adequate cash flow and marketable assets to insure payment of the interest and principal of the bond.

The above strategy still involves risk of loss that a client must be willing to bear. Just as one example, a corporate bond held in one of the rungs might suffer deteriorating credit quality thus making it necessary to sell the bond at a loss and replace it with a more credit worthy bond.

#### **A.2.b. Growth and Income**

The Growth and Income strategy seeks to maximize the growth in principal value of your account by a focus on growing the income stream that it generates. This is accomplished primarily by investing in the shares of dividend paying operating companies, master limited partnerships (MLPs), and real estate investment trusts (REITs). Additionally, we utilize commodity exchange traded funds as a hedge against inflation and instability. Longer-term bonds may be used as well, if offering equity like returns. Investors utilizing the growth and income strategy must be willing to accept a moderate level of short-term volatility in the principal value of their portfolio. By blending Growth and Income with the Capital Preservation and Income strategy, risk and reward can be optimized to meet the specific objectives and risk tolerance of the client.

In order to achieve the strategy's objectives, we take a principles based approach to equity investing. The principles that guide our investment philosophy are: 1) Quality, 2) Value, 3) Diversification, and 4) Patience.

- **Quality.** We define a quality stock to be one that pays and grows its dividend, while not taking excessive risks with its balance sheet. The payment and growth of the dividend demonstrates both the financial and operational strength of the company, and the importance the company's management puts on sharing the success of the business

with its shareholders. Companies that pay and grow dividends are proven to be much more judicious in the allocation of capital, and therefore enjoy above market rates of return in the long-term. As the credit bust of 2008 demonstrated, companies with highly levered balance sheets that take on significant credit risks are a recipe for disaster. We stay away from such situations at all times.

- **Value.** While it is essential to invest in quality, everything has its price. We only purchase a stock if we believe that it is trading at a discount to our estimate of its fundamental value. We typically use the dividend yield of a stock to estimate valuation in keeping with our income oriented approach. We commonly target a 4% dividend for investing in operating companies, while screening for a yield in the vicinity of 8% for MLPs and REITs. As with paying and growing dividends, research has shown that cheaper shares enjoy market beating returns in the long-run.
- **Diversification.** It is often said that diversification is the one free lunch in investing, and we wholeheartedly agree. In order to minimize the risk to your portfolio, we spread your investment over a number of individual companies and industries, avoiding the vulnerability inherent in over-concentration. Ideally, we invest no more than ten percent in any individual stock and twenty percent in any single economic sector such as utilities, healthcare, or technology. With proper diversification, significant adverse events to an individual company or sector cannot compromise the overall integrity of the portfolio, as was the case with people who put all their money in Enron or dot com stocks.
- **Patience.** When we make an investment, it is for the long-term, and we give it the time needed to work so long as we continue to have faith in the company. If we ever lose faith in a company, we liquidate the position immediately. Otherwise, we will gladly continue to accumulate shares if valuations remain attractive. If a position appreciates above the diversification guidelines described above, we may sell a portion of it to bring it back within desired limits. By and large, however, we avoid wholesale changes in investments and overall investment posture. This avoids transaction costs and tax liabilities that detract from portfolio performance. Research has shown that investment funds with low investment turnover tend to enjoy the highest returns.

By adhering to these principles at all times, we are able to maximize the long-term growth in our customers' capital and their income generating power. While short-term volatility is inherent in any equity investment, our income/quality/value-centered approach greatly reduces the long-term risk to your investment portfolio by avoiding the pitfalls that have historically led investors to lose significant amounts of money in the stock market: buying low quality companies at any price, paying too much for good ones, over-concentrating investments in individual companies and sectors, and constantly churning their accounts.

### **A.3. Mutual Funds and Individual Securities**

PMIA may recommend "institutional share class" mutual funds and individual securities (including fixed income instruments). A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, and individual securities (including fixed-income securities) is set forth below.

PMIA has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform or distribute research of individual securities
- perform billing and certain other administrative tasks

PMIA may utilize additional independent third parties to assist it in recommending and monitoring individual securities and mutual funds to clients as appropriate under the circumstances.

PMIA reviews certain quantitative and qualitative criteria related to mutual funds and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the fund's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund's fee structure

Qualitative criteria used in selecting/recommending mutual funds include the investment objectives and/or management style and philosophy of a mutual fund; a mutual fund's consistency of investment style; and employee turnover and efficiency and capacity.

Quantitative and qualitative criteria related to mutual funds are reviewed by PMIA on a quarterly basis or such other interval as appropriate under the circumstances. In addition, mutual funds are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund by PMIA (both of which are negative factors in implementing an asset allocation structure).

PMIA may negotiate reduced account minimum balances and reduced fees with fund managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds utilized. PMIA will endeavor to obtain equal treatment for its clients with funds, but cannot assure equal treatment.

PMIA will regularly review the activities of mutual funds utilized for the client. Clients who invest in mutual funds should first review and understand the disclosure documents of those mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest.

#### **A.4. Material Risks of Investment Instruments**

PMIA offers advice on publicly traded securities to include common and preferred stock, debt securities (federal, state, local, foreign, and corporate), Master Limited Partnerships (to include assets covering commodities such as oil, timber, metals, etc.), Real Estate Investment Trusts, Exchange Traded Funds (all asset categories). Moreover, the firm offers advice on listed options on any of the publicly traded securities noted:

- Equity securities
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities
- Municipal securities
- U.S. government securities
- Corporate debt obligations

##### **A.4.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

##### **A.4.b. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

##### **A.4.c. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>") iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.4.d. Fixed Income Securities**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds have liquidity and currency risk.

#### **A.4.e. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.4.f. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.4.g. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, the firm may also invest in corporate debt securities



registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.4.h. Non-Traded Real Estate Investment Trusts ("REITs")**

A REIT is a tax designation for a corporate entity which pools capital of many investors to purchase and manage real estate. Many REITs invest in income-producing properties in the office, industrial, retail, and residential real estate sectors. REITs are granted special tax considerations which can significantly reduce or eliminate corporate income taxes. In order to qualify as a REIT and for these special tax considerations, REITs are required by law to distribute 90% of their taxable income to investors. REITs can be traded on a public exchange like a stock, or be offered as a non-traded REIT. REITs, both public exchange-traded and non-traded, are subject to risks including volatile fluctuations in real estate prices, as well as fluctuations in the costs of operating or managing investment properties, which can be substantial. Many REITs obtain management and operational services from companies and service providers which are directly or indirectly related to the sponsor of the REIT, which presents a potential conflict of interest that can impact returns on investments.

Non-traded REITs include: (i) A REIT that is registered with the Securities and Exchange Commission (SEC) but is not listed on an exchange or over-the-counter market (non-exchange traded REIT); or, (i) a REIT that is sold pursuant to an exemption to registration (Private REIT). Non-traded REITs are generally blind pool investment vehicles. Blind pools are limited partnerships which do not explicitly state their future investments prior to beginning their capital-raising phase. During this period of capital-raising, non-traded REITs often pay distributions to their investors.

The risks of non-traded REITs are varied and significant. Because they are not exchange-traded investments, they are often lack a developed secondary market, thus making them illiquid investments. As blind pool investment vehicles, non-traded REITs' initial share prices are not related to the underlying value of the properties. This is because non-traded REITs begin and continue to purchase new properties as new capital is raised. Thus, one risk for non-traded REITs is the possibility that the blind pool will be unable to raise enough capital to carry out its investment plan. After the capital raising phase is complete, non-traded REIT shares are infrequently re-valued and thus may not reflect the true net asset value of the underlying real estate investments. Non-traded REITs often offer investors a redemption program where the shares can be sold back to the sponsor, however, those redemption programs are often subject to restrictions and may be suspended at the sponsor's discretion. While non-traded REITs may pay distributions to investors at a stated target rate during the capital-raising phases, the funds used to pay such distributions may be obtained from sources other than cash flow from operations, and such financing can increase operating costs.

## **B. Investment Strategy and Method of Analysis Material Risks**

Our investment strategy is custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

### **B.1. Margin Leverage**

Although PMIA, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, PMIA will utilize leverage. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.2. Short-Term Trading**

Although PMIA, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.3. Short Selling**

PMIA generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

#### **B.4. Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends, and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

#### **B.5. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

PMIA as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases

##### **B.5.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the-money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

##### **B.5.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.5.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

### **C. Security-Specific Material Risks**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

Neither PMIA nor its affiliates, employees, or independent contractors are registered broker-dealers and do not have an application to register pending.

### **B. Futures or Commodity Registration**

Neither PMIA nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

PMIA maintains no material relationship that present a conflict of interest.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

PMIA does not recommend separate account managers or other investment products in which it receives any form of referral or solicitor compensation from the separate account manager or client.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, PMIA has adopted policies and procedures designed to detect and prevent insider trading. In addition, PMIA has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of PMIA's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the chief compliance officer of PMIA. PMIA will send clients a copy of its Code of Ethics upon written request.

PMIA has policies and procedures in place to ensure that the interests of its clients are given preference over those of PMIA, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

PMIA does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, PMIA does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

PMIA, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which PMIA specifically prohibits. PMIA has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account

- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow PMIA's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

PMIA, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other PMIA clients. PMIA will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation (please refer to Item 12.B.3 Order Aggregation). It is the policy of PMIA to place the clients' interests above those of PMIA and its employees.



## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

PMIA may recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc., or Morgan Stanley & Co., LLC (collectively hereinafter “custodian”), FINRA-registered broker-dealers and SIPC members, to maintain custody of clients’ assets and to effect trades for their accounts. Although PMIA may recommend that clients establish accounts at the custodian, it is the client’s decision to custody assets with the custodian. PMIA is independently owned and operated and not affiliated with custodian. For PMIA client accounts maintained in its custody, the custodian generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into custodian accounts.

PMIA considers the financial strength, reputation, operational efficiency, cost, execution capability, level of customer service, and related factors in recommending broker-dealers or custodians to advisory clients.

In certain instances and subject to approval by PMIA, PMIA will recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by PMIA will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

##### A.1.a. How We Select Brokers/Custodians to Recommend

PMIA seeks to recommend a custodian/broker who will hold client 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, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)

- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### **A.1.b. Client's Custody and Brokerage Costs**

For client accounts that the firm maintains, the custodian generally does not charge clients separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into the custodian's accounts. The custodian's commission rates applicable to the firm's client accounts were negotiated based on the firm's commitment to maintain a certain minimum amount of client assets at the custodian. This commitment benefits the client because the overall commission rates paid are lower than they would be if the firm had not made the commitment. In addition to commissions, the custodian charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, the firm has the custodian execute most trades for the account.

#### **A.1.c. Soft Dollar Arrangements**

As a result of the firm's recommendation to clients to custody assets with a specific custodian, the firm is deemed to be in receipt of soft dollar benefits from said custodian. These soft-dollar benefits are in the form of institutional trading and custody services, other products and services, and additional compensation received from custodians. Please refer to the following Items A.1.d. through A.1.h. for disclosure of such benefits.

#### **A.1.d. Institutional Trading and Custody Services**

The custodian provides PMIA with access to its institutional trading and custody services, which are typically not available to the custodian's retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at a particular custodian. The custodian's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

**A.1.e. Other Products and Services**

Custodian also makes available to PMIA other products and services that benefit PMIA but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of PMIA's accounts, including accounts not maintained at custodian. The custodian may also make available to PMIA software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of PMIA's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

The custodian may also offer other services intended to help PMIA manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

The custodian may also provide other benefits such as educational events or occasional business entertainment of PMIA personnel. In evaluating whether to recommend that clients custody their assets at the custodian, PMIA may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

**A.1.f. Independent Third Parties**

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to PMIA. The custodian may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to PMIA.

**A.1.g. Additional Compensation Received from Custodians**

PMIA may participate in institutional customer programs sponsored by broker-dealers or custodians. PMIA may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between PMIA's participation in such programs and the investment advice it gives to its clients, although PMIA receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations

- Research-related products and tools
- Consulting services
- Access to a trading desk serving PMIA participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to PMIA by third-party vendors

The custodian may also pay for business consulting and professional services received by PMIA's related persons, and may pay or reimburse expenses (including client transition expenses, travel, lodging, meals and entertainment expenses for PMIA's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit PMIA but may not benefit its client accounts. These products or services may assist PMIA in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help PMIA manage and further develop its business enterprise. The benefits received by PMIA or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

PMIA also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require PMIA to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, PMIA will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by PMIA's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for PMIA's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, PMIA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by PMIA or its related persons in and of itself creates a potential conflict of interest and may indirectly influence PMIA's recommendation of broker-dealers for custody and brokerage services.

#### **A.1.h. The Firm's Interest in Custodian's Services**

The availability of these services from the custodian benefits the firm because the firm does not have to produce or purchase them. The firm does not have to pay for the custodian's services so long as a certain minimum of client assets is kept in accounts at the custodian. This minimum of client assets may give the firm an incentive to recommend that clients maintain

their accounts with the custodian based on the firm's interest in receiving the custodian's services that benefit the firm's business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of client transactions. This is a potential conflict of interest. The firm believes, however, that the selection of the custodian as custodian and broker is in the best interest of clients. It is primarily supported by the scope, quality, and price of the custodian's services and not the custodian's services that benefit only the firm.

## **A.2. Brokerage for Client Referrals**

PMIA does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **A.3. Directed Brokerage**

### **A.3.a. PMIA Recommendations**

PMIA typically recommends Schwab or Morgan Stanley as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct PMIA to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage PMIA derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. PMIA loses the ability to aggregate trades with other PMIA advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

PMIA, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, and the amount of such securities. PMIA recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. PMIA will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)

- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, PMIA seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of PMIA's knowledge, these custodians provide high-quality execution, and PMIA's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, PMIA believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

## **B.2. Security Allocation and Order Aggregation**

PMIA does not aggregate the purchase or sale of securities for various client accounts.

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

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

Accounts are reviewed by the firm's president, Patrick Mauro, as well as an investment advisor representative who shares investment management duties with the president on a supervised team basis. The frequency of reviews is determined based on the client's investment objectives, but reviews are conducted no less frequently than monthly.

### **B. Review of Client Accounts on Non-Periodic Basis**

PMIA may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how PMIA formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

PMIA provides a written rate of return analysis on a quarterly basis. The rate of return analysis covers the most recent quarter and the trailing twelve months. These written reports are kept indefinitely on file in the home office of the firm.

The client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by PMIA.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

Other than what is disclosed in Item 12 regarding benefits the firm receives from its custodian(s), PMIA does not receive economic benefits for referring clients to third-party service providers.

### **B. Advisory Firm Payments for Client Referrals**

PMIA does not pay for client referrals.



## Item 15: Custody

Under government regulations, PMIA is deemed to have custody of a client's assets if the client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets. Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in the client's account. Clients are urged to review the custodian's statements for accuracy. Any discrepancies should be brought to the firm's attention. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to PMIA with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, PMIA will exercise full discretion as to the nature and type of securities to be purchased and sold. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## Item 17: Voting Client Securities

PMIA does not take discretion with respect to voting proxies on behalf of its clients. PMIA will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of PMIA supervised and/or managed assets. In no event will PMIA take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, PMIA will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. PMIA has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. PMIA also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, PMIA has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where PMIA receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

PMIA does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

PMIA does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.