

**Item 1: Cover Page**



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Doing Business As: PAX Financial Group

**Appendix 1 of Part 2A  
Wrap Fee Program Brochure**

March 11, 2025

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This wrap fee program brochure provides information about the qualifications and business practices of PAX Financial Group. If you have any questions about the contents of this brochure, please contact us at 210-881-5700. 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 PAX Financial Group 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. There have been no material changes made to the PAX Financial Group Wrap Fee Program Brochure since the last annual update issued March 7, 2024.

You can request a free brochure by calling us at 210-881-5700. You can also find out more about us and receive our current brochure from the SEC's website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4: Services, Fees and Compensation

### A. Firm Description

PAX Financial Group, LLC, dba PAX Financial Group ("PAX" and/or the "firm") is a registered investment adviser with the U.S. Securities and Exchange Commission ("SEC") offering portfolio management services and retirement plan consulting services for individuals and high net worth individuals (together with their trusts and estates) and small businesses, corporations and their pension and profit sharing plans (each referred to as a "Client"). PAX has been in business since 2007 and was originally founded by Darryl Lyons, Joseph Schuetze, and Andres Gutierrez.

PAX is organized as a Texas Limited Liability Company ("LLC"), with principal owners Darryl Lyons and Joseph Schuetze owning approximately 80% of the partnership interests. The remaining owners primarily include current investment adviser representatives, agents, and employees of PAX.

PAX is also an insurance agency licensed with the Texas Department of Insurance. Our insurance group operates under the name PAX Financial Group Insurance Services, a registered DBA. Our investment adviser representatives (or IARs) may also be registered as insurance agents.

PAX is the sponsor of the PAX Financial Group Wrap Fee Program. Our wrap fee program allows you to pay a single fee that covers advisory services, trade execution, custody and other standard brokerage services.

#### A.1. Investment Management Services

PAX provides discretionary and non-discretionary fee-based investment management services for compensation. PAX provides investment management services exclusively on a wrap fee basis as a wrap program sponsor. Under our wrap program, clients will receive investment advisory services and the execution of securities brokerage transactions for a single specified fee.

PAX's investment management services are predicated on the Client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. PAX 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. In addition, PAX may utilize third-party software to analyze individual security holdings and separate account managers utilized within the Client's portfolio.

For discretionary investment management, PAX receives a limited power of attorney to effect securities transactions on behalf of its Clients.

PAX's engagement with a Client will include, as appropriate, the following:

- Providing assistance in reviewing the Client's current investment portfolio against the Client's personal and financial circumstances as disclosed to PAX in response to a questionnaire and/or in discussions with the Client and reviewed in meetings with PAX.

- Analyzing the Client's financial circumstances, investment holdings and strategy, and goals.
- Providing assistance in identifying a targeted asset allocation and portfolio design.
- Implementing and/or recommending individual equity and fixed income securities, mutual funds and ETFs.
- Reporting to the Client on a quarterly basis or at some other interval agreed upon with the Client, information on contributions and withdrawals in the Client's investment portfolio, and the performance of the Client's portfolio measured against appropriate benchmarks (including benchmarks selected by the Client).
- Proposing changes in the Client's investment portfolio in consideration of changes in the Client's personal circumstances, investment objectives and tolerance for risk, the performance record of any of the Client's investments, and/or the performance of any fund retained by the Client.
- If the Client's portfolio and personal circumstances, investment objectives, and tolerance for risk make such advice appropriate, providing recommendations to hedge a Client's portfolio through the use of derivative strategies, to generate additional income through the use of covered call option writing strategies involving exchange listed or OTC options, and/or to monetize or hedge concentrated stock positions.

Clients have the right to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio and should promptly notify the firm in writing of any changes in such restrictions or in the Client's personal financial circumstances, investment objectives, goals and tolerance for risk. PAX 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. PAX 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.

*Conservative and Christian Values-Based Investing.* PAX recommends ETFs managed by unaffiliated investment managers that follow the principals of conservative and Christian-based investing.

*Retirement Rollovers – Conflicts and Added Fees.* As a fee-based investment adviser, PAX (and its investment adviser representatives) makes more money either when your account assets grow or when you add money to your account. As a plan participant, clients may be paying little or nothing for the plan's investment services. As such, clients' costs are likely to be more post-rollover. We may compensate our investment professionals in a way that incrementally rewards them based on the level of aggregate revenue they generate for our firm. In this regard, we have policies and procedures for supervisory review to ensure we are advising clients in a way that's in their best interests. In addition, we conduct an annual review of rollover transactions to ensure our business practices are aligned in a manner that places clients' interests first. Such annual review is provided to a member of our executive team, who certifies the firm's compliance. We do not engage in sales contests, production awards, or related giveaways that inhibit our ability to provide advice that's in clients' best interests. We regularly update our

conflicts of interest and will update clients accordingly on any material changes affecting our relationship with them.

## **A.2. Third-Party Separate Account Management**

PAX may recommend that all or a portion of Client assets in an account be managed by third-party manager(s). For such arrangements, the Client will grant Pax written authorization to use discretion in selecting or changing a strategy within a third-party manager relationship or changing the third-party manager entirely without prior notice. In most cases, the Client pays the third-party manager an investment management fee out of account assets directly that is separate from Pax's fee.

For certain Client assets, PAX makes available the investment management services of approved third-party sub-advisers. Each sub-adviser is granted discretionary investment authority over assets that PAX assigns to the sub-adviser in accordance with the specific strategy or model that is selected for management.

Any authority of the sub-adviser only applies to the specific assets within the Client's custodial account for which sub-adviser has been appointed as the discretionary manager. Each sub-adviser shall not have any Client facing responsibilities and will rely on instructions PAX provides on behalf of such Client. The sub-adviser will not provide investment advice or have any advisory responsibility to the Client beyond the assets for which it is appointed as sub-adviser. The terms of services provided by each sub-adviser are directed in accordance with a separate written agreement entered into between PAX and the sub-adviser.

PAX has a financial incentive to refer Clients to approved sub-advisers rather than managing the assets on its own or referring them to another third-party manager, creating a conflict of interest. When PAX refers Clients to approved sub-advisers, it receives various incentives which benefit PAX but not all PAX Clients, which may include some or all of the following:

- Certain technology implementation fees incurred by PAX in connection with PAX's use of the sub-adviser's technology solutions will be reduced or waived entirely if a predetermined number of PAX Client subscribe to PAX's guidance services which utilize such technology solutions.
- Certain technology implementation fees incurred by PAX in connection with PAX's use of the sub-adviser's technology solutions will be reduced if a predetermined number of PAX's Client's assets are placed in investment models or in mutual funds or exchange-traded funds available through such sub-adviser or one of its affiliates.

### **A.2.a. Goldman Sachs Personal Financial Management Service Offering**

In an effort to enhance the quality and breadth of services that PAX provides to its Clients, PAX utilizes a suite of digitally powered technology solutions offered by GSPFM, a division of Goldman Sachs ("GSPFM"). GSPFM provides access to its technology platform to PAX which includes use of certain technology platforms, training relating to use of such technology platform, and if elected by PAX certain clerical document and data compilation services.

GSPFM is not in any way involved in, or responsible for, the individual investment management or guidance provided to Clients. PAX pays GSPFM a flat fee for its technology implementation services and fees calculated per percentage-basis formula in accordance with the volume of Clients for whom PAX utilizes such services and/or products. As such, for certain services offered, Clients indirectly contribute to the payment of cost of services paid to GSPFM. Relating to the cost for services, PAX is financially incentivized to refer Clients to GSPFM portfolios in order to reduce its costs of utilizing its platform, creating a conflict of interest. Financial incentives are described herein.

When PAX refers Clients to approved GSPFM, it receives various incentives which benefit PAX but not all PAX Clients, which may include some or all of the following:

- Certain technology implementation fees incurred by PAX in connection with PAX's use of GSPFM's technology solutions will be reduced or waived entirely if a predetermined number of PAX Client subscribe to PAX's guidance services which utilize such technology solutions.
- Certain technology implementation fees incurred by PAX in connection with PAX's use of GSPFM's technology solutions will be reduced if a predetermined number of PAX's Client's assets are placed in investment models or in mutual funds or exchange-traded funds available through GSPFM or one of its affiliates.
- Clients are advised that if PAX does not meet a predetermined threshold of production utilizing services or technology solutions offered by GSPFM, as applicable, GSPFM may terminate its sub-advisory relationship with PAX. To address this conflict, if the Client does not want to invest their assets with GSPFM as the Sub-Manager or receive PAX financial guidance services that require access to the GSPFM platform, the Client may discuss alternative options with PAX.
- If PAX invests \$15,000,000 or more in Goldman Sachs Asset Management managed US registered 1940 Act mutual funds ("GSAM Mutual Funds"), PAX will receive a quarterly credit equal to \$6,250 for every \$15,000,000 of assets invested in GSAM Mutual Funds on the date of the applicable invoice. The total credit may not exceed the total quarterly invoiced amount for the CX Use Fee as specified on the fee schedule. GSPFM will measure eligibility for and apply the credit, if any, on a quarterly basis against the annual fees due and owing. GSPFM reserves the right to terminate the credit program at any time. As a result of this arrangement, PAX has an economic incentive to recommend GSAM Mutual Funds.

#### **A.2.b. SMArtX Advisory Solutions**

PAX has entered into a relationship with SMArtX Advisory Solutions ("SMArtX"), where SMArtX sub-advises PAX client accounts and provides access to a platform in which PAX may utilize various programs offered by SMArtX.

The SMArtX platform makes available model portfolios offered by one or more third-party strategists. Through the sub-advisory agreement with PAX, SMArtX will provide discretionary investment advisory services with respect to the assets held in the client's account in accordance with the client's objectives and PAX's direction and/or discretion.

### A.3. Schwab's Brokerage Services

In addition to the advisory services, the wrap fee program includes certain brokerage services of Charles Schwab & Co., Inc. ("Schwab") a broker-dealer registered with the Securities and Exchange Commission and a member of FINRA and SIPC. We are independently owned and operated and not affiliated with Schwab. Schwab will act solely as a broker-dealer and not as an investment advisor to you. It will have no discretion over your account and will act solely on instructions it receives from us (or you). Schwab has no responsibility for our services and undertakes no duty to you to monitor our firm's management of your account or other services we provide to you. Schwab will hold your assets in a brokerage account and buy and sell securities and execute other transactions when we [or you] instruct them to. We do not open the account for you.

### A.4. Fees and Compensation

#### A.4.1. Fees for Wrap Fee Program

PAX charges a single asset-based fee for services covered by the wrap program. The schedule below reflects the maximum fees charged to PAX-advised Clients. The specific annualized fee charged is set forth by the Client and Pax respectively.

Amount	Fee
\$0 - \$199,999	1.50%
\$200,000 - \$499,999	1.25%
\$500,000 - \$999,999	1.00%
\$1,000,000 - \$1,999,999	0.90%
\$2,000,000 - \$2,999,999	0.80%
\$3,000,000 - \$3,999,999	0.70%
\$4,000,000 - \$4,999,999	0.60%
\$5,000,000 +	0.50%

The advisory fee is an annual percentage based on the value of all assets in the account. Fees are billed in advance calculated on the last day of each calendar quarter. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. The advisory fee shall be prorated with respect to any contributions to or withdrawals from the account. Eligible accounts may be aggregated by household to determine the lowest possible fee if all accounts are managed as one relationship.

Accounts are billed on the gross equity of the account and not on net equity. As a result, the firm may be incentivized to recommend the use of leverage to enhance the gross value of the portfolio for fee purposes.

Certain alternative investments held in the client's Schwab account are subject to an additional annual maintenance fee of \$250, which will be directly debited from the client's account by Schwab.



If Client participates in Third-Party Separate Account Management services, the Client pays the third-party manager an investment management fee out of account assets directly which is separate and in addition to PAX's fee.

*SMArtX Advisory Solutions:* In addition to PAX's management fee, the Client will be charged a platform fee of .1%, which covers the cost of technology/services for performance reporting and trading, and a third-party strategist model fee set by the third-party strategist. The Strategist Fee varies depending on the Strategist and model portfolio selected.

The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month. Reference the Third-Party Separate Account Manager ADV for more information.

The trading cost component of the above-mentioned advisory fees is estimated to range from \$250 to \$500 per account per year.

These fees include charges for all transaction costs such as commissions on purchase and sales of stocks, bonds, exchange-traded funds and options, and mutual fund transactions fees. Except as otherwise provided below, client will incur no charges other than the adviser's fee pursuant to the above fee schedule in connection with the maintenance of and activity in client's account. The wrap fee does not include private alternative investment fees and expenses, annual account fees or other administrative fees, such as wire fees, charged by manager or brokerage firm; fees for securities transactions executed away from the custodian; certain odd-lot differentials, transfer taxes, transaction fees mandated by the Securities Act of 1934, postage and handling fees, and charges imposed by law with regard to transactions in the client's account; and advisory fees, expenses or sales charges (loads) of mutual funds (including money market funds), closed-end investment companies or other managed investments, if any, held in client's account. The wrap fee also does not cover certain costs associated with securities transactions in the over-the-counter market, such as fixed income securities where manager must approach a dealer or market maker to purchase or sell a security. Such costs include the dealer's mark-up, mark-down or spread and odd-lot differentials or transfer taxes imposed by law.

#### **A.4.2. Fees We Pay Schwab**

In addition to compensating PAX for advisory services, the wrap fee you pay PAX allows us to pay for brokerage and execution services provided by Schwab.

PAX pays to Schwab either (1) the commissions, transaction fees, and handling fees, as applicable, or (2) the asset-based service fees, and in each case the following additional fees as applicable:

- Fees for Schwab's Prime Brokerage, Step-In, and Trade-Away Services;
- Exchange process fees; and
- Mutual fund short-term redemption fees

## **B. Relative Cost of Wrap Fee Program**

A wrap fee is not based directly on the number of transactions in your account. Various factors influence the relative cost of our wrap fee program to you, including the cost of our investment advice, custody and brokerage services if you purchased them separately, the types of investments held in your account, and the frequency, type and size of trades in your account. The program could cost you more or less than purchasing our investment advice and custody/brokerage services separately.

Bundled fees generally provide an economic incentive for the advisory firm to select investments and strategies that minimize trading costs. Frequent trading in an account where transaction fees are included as part of the overall advisory fee to the client drive trading costs higher and reduce the overall fee revenue to the advisor. As a result, higher trading costs in a bundled fee account have a negative impact on the advisory firm's profitability.

The benefits under a wrap fee program depend, in part, upon the size of the account, the costs associated with managing the account, and the frequency or type of securities transactions executed in the account. For example, a wrap fee program may not be suitable for all accounts, including but not limited to accounts holding primarily, and for any substantial period of time, cash or cash equivalent investments, fixed income securities or no-transaction-fee mutual funds, or any other type of security that can be traded without commissions or other transaction fees.

In order to evaluate whether a wrap fee arrangement is appropriate for you, you should compare the agreed-upon wrap program fee and any other costs associated with participating in our wrap fee program with the amounts that would be charged by other advisers, broker-dealers, and custodians, for advisory fees, brokerage and execution costs, and custodial services comparable to those provided under the wrap fee program.

*Conflict of Interest.* When managing a client's account on a wrap fee basis, we receive as compensation for our investment advisory services, the balance of the total wrap fee you pay after custodial, trading, and other management costs (including execution and transaction fees) have been deducted. Accordingly, we have a conflict of interest because we have a financial incentive to maximize our compensation by seeking to reduce or minimize the total costs incurred in your account(s) subject to a wrap fee.

For example, our wrap fee arrangement creates incentives for our firm to trade less frequently or select investments that that reduce our costs, and in some cases increase expenses that are borne by the client.

Additionally, Schwab generally does not charge commissions [or transaction fees] for online trades of U.S. exchange-listed equities, U.S. exchange-listed ETFs, and no-transaction-fee ("NTF") mutual funds. This means that, in most cases, when we buy these types of securities, we can do so without paying commissions to Schwab.

## C. Additional Client Fees and Terms of Payment

### C.1. Client Payment of Fees

PAX generally requires fees to be prepaid on a quarterly basis. PAX 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. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

PAX 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 Client is responsible for verifying the accuracy of the fee calculation, as the Client's custodian will not verify the calculation.

A Client investment advisory agreement may be canceled at any time by the Client, or by PAX with 30 days' prior written notice to the Client. Upon termination, any unearned, prepaid fees will be promptly refunded.

### C.2. Additional Fees

Our wrap fee covers our advisory services and the brokerage and execution services provided by Schwab. As a result, we have an incentive to execute transactions for your account at Schwab.

Our wrap fee does not include the fees and costs listed below. The fees and costs may apply to transactions in your account. The fees and costs not included in the wrap fee that you will pay include:

- Commissions and other fees charged by broker-dealers other than Schwab for transactions in your account if PAX uses Schwab's Prime Brokerage, Step-In, or Trade Away Services. Because you will pay our wrap fee in addition to any charges paid to broker-dealers other than Schwab, we have an incentive to execute transactions for your account through Schwab. However, as discussed in more detail Brokerage Practices section (Items 9.B.2 and 9.B.3), we consider various factors in our best execution analysis and may trade at another broker-dealer if we believe we can obtain better execution.
- Fees charged by mutual fund companies, closed-end funds, electronically traded funds, and other collective investment vehicles, including, but not limited to, sales loads and/or charges and short-term redemption fees.
- Markups and markdowns, bid-ask spreads, and selling concessions in connection with transactions Schwab executes as principal. Principal transactions contrast with transactions in which Schwab acts as your agent in effecting trades. Markups and markdowns and bid-ask spreads are not separate fees, but are reflected in the net price at which a trade order is executed.

- Costs imposed by third parties, such as transfer taxes, odd-lot differentials, certificate delivery fees, reorganization fees, and any other fees required by law. Schwab may also charge for additional services such wire transfer fees and fees for alternative investments.

## **D. Compensation for Recommending the PAX Wrap Fee Program**

The PAX Wrap Fee Program is a proprietary product offered exclusively through PAX. As such, there is a conflict of interest in that we economically disincentivized to trade your portfolio. The less we trade the more money we make, as our wrap fee includes trading costs.

## **E. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered through such custodian(s) that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please note the following:

***Limitation on Mutual Fund Universe for Custodian Investment Programs:*** There are certain programs in which we participate where a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client.

***Conflict Between Revenue Share Class (12b-1) and Non-Revenue Share Class Mutual Funds:*** Revenue share class/12b-1 fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances where the custodian receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm clients.

***Additional Disclosure Concerning Wrap Programs:*** To the extent that we either sponsor or recommend wrap fee programs, please be advised that certain wrap fee programs may (i) allow our investment adviser representatives to select mutual fund classes that either have no transaction fee costs associated with them but include embedded 12b-1 fees that lower the investor's return ("sometimes referred to as "A-Shares," depending on the mutual fund issuer), or (ii) allow the use of mutual fund classes that have transaction fees associated with them but do not carry embedded 12b-1 fees (sometimes referred to as "I-Shares," depending on the mutual fund sponsor). Wrap fee programs offer investment services and related transaction

services for one all-inclusive fee (except as may be described in the applicable wrap fee program brochure). The trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its investment adviser representative avoids paying the transaction fees charged by other mutual fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively, the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser representative to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees. As a policy matter, the firm does not allow funds that impose 12b-1 or revenue sharing fees on the client's investment within its wrap fee programs. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

## **Item 5: Account Requirements and Types of Clients**

PAX generally provides advice to individuals and high net worth individuals (together with their trusts and estates) and small businesses, corporations and their pension and profit sharing plans. However, the services offered by PAX are also available to, among others, banks, thrift institutions, charitable organizations, state and municipal government entities as such opportunities may arise.

PAX does not require a minimum account value to open an account. Third Party Managers may have account minimums. Please review the third-party manager's ADV for further details regarding such account minimums.

## **Item 6: Portfolio Manager Selection and Evaluation**

### **A. PAX's Participation in Wrap Fee Programs; Portfolio Manager Selection and Review**

PAX offers its investment management services exclusively on a wrap fee basis as a wrap program sponsor. Under our wrap program, you will receive investment advisory services and the execution of securities brokerage transactions for a single specified fee. Participation in a wrap program may cost you more or less than purchasing such services separately. We adhere to our fiduciary duty when trading in your accounts. Trades are made only on the basis of the account's stated investment objectives, and without concern for the firm's trading costs and firm's expenses.

The PAX Wrap Fee Program is a proprietary product offered exclusively through the firm and is the only wrap fee program the firm participates in.

### **B. Wrap Fee Program Portfolio Management**

#### **B.1. Investment Management Services**

Please refer to Item 4.B of this Brochure for a description of the investment management services provided under the PAX Wrap Fee Program.

#### **B.2. 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.

#### **B.3. Management of Wrap Fee Program**

The firm is the sole sponsor and sole portfolio manager for the PAX Wrap Fee Program.

Participation in a wrap fee program may cost you more or less than purchasing such services separately. We adhere to our fiduciary duty when trading in your accounts. Trades are made only on the basis of the account's stated investment objectives, and without concern to the firm's trading costs and firm's expenses.

#### **B.4. Performance-Based Fees and Side-by-Side Management**

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

## **B.5. Methods of Analysis, Investment Strategies and Risk of Loss**

### **B.5.a. Investment Strategy**

PAX's investment philosophy is based on traditional scholastic research, such as Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT). EMH suggests it is impossible to "beat the market," because stock market efficiency causes existing share prices to always incorporate and reflect all relevant information. MPT is a theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. MPT suggests that an investment's risk and return characteristics should not be viewed alone but should be evaluated by how the investment affects the overall portfolio's risk and return. By investing in more than one asset class, an investor may be able to reap the benefits of diversification. PAX constructs highly diversified portfolios that incorporate a range of asset classes and market sectors utilizing market based and manager-based investments. PAX implements this philosophy by holding investments for long periods of time as deemed appropriate, periodically reallocating investments as conditions warrant and methodically rebalancing as needed.

#### ***B.5.a.1. Conservative and Christian Values-Based Investing***

PAX recommends ETFs managed by unaffiliated investment managers that follow the principals of conservative and Christian-based investing. Values-based investing involves making investment decisions that reflect conservative and/or Christian ethics and teachings. This practice goes beyond financial gain, emphasizing stewardship, moral integrity, and social impact. It seeks investments in exchange-traded funds ("ETF"s) that focus their investment strategy in companies or industries that align with conservative and/or Christian values.

Please note that ETFs focusing their investment strategy on companies that align with conservative and-or Christian-based values may reduce the pool of high-performing companies available for investment. There is no guarantee that such a values-based investment strategy will yield positive results.

#### **B.5.b. Investment Selection**

PAX employs a team approach to manage Client assets. We have an Investment Committee ("IC") with members who have varying investment backgrounds, experiences, and skill sets. The IC constructs multiple models to satisfy multiple investment objectives leveraging tools such as third-party investment analytics tools, third-party investment management resources, IC research and public resources. Investments are selected from a funds list provided by a third-party analytics tool and third-party investment management teams, and further evaluated by the IC based on applicable fees, fund track records and past performance (as applicable) in addition to a variety of statistical data which include beta, standard deviation, R-squared and Sharpe Ratio. Our IC systematically and methodically invests in new assets regularly and will determine the rebalancing schedule.

A Client's portfolio may include, but not be limited to, equities (stocks) – domestic and foreign, exchange traded funds (ETFs), mutual funds, and fixed income (bonds –government or corporate/domestic or foreign).



Each market may function and change in different ways depending on supply and demand, current events and investor behaviors. These changes may also affect a Client's tax situation and filings. While our goal is to help increase a Client's net worth, investing in securities involves risk of loss that Client should be prepared to bear.

Employees of PAX do not provide tax or legal advice.

#### **B.5.c. Methods of Analysis**

PAX uses a variety of sources of data to conduct its economic, investment and market analysis, which may include economic and market research materials prepared by others, conference calls hosted by individual companies or mutual funds, corporate rating services, annual reports, prospectuses, and company press releases, and financial newspapers and magazines. 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.

PAX and its investment committee 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 risk tolerance classification.
- 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, PAX reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. PAX may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to Clients.

The Client's individual investment strategy is tailored to their specific needs and may include some or all of the previously mentioned securities. Once a portfolio has been selected, we regularly review the portfolio and when appropriate, rebalance the portfolio.

Accounts are rebalanced, or assets reallocated based on market conditions, investment committee recommendations, or other conditions as warranted. Securities we buy or sell for accounts are subject to our discretionary authority. Any changes in the asset allocation models,

which include adding, removing or replacing securities (i.e., mutual funds, ETFs, etc.) are made at the recommendation of the Investment Committee. Those changes are based on a variety of factors, which include but are not limited to changes in the economic, financial or political climate; changes in the tax code; changes in the management of the securities used by the asset allocation models or changes in the degree of desired diversification/concentration in certain sectors or investment themes. Changes may also be made based on the Client's personal circumstances, including changes to marital status, funding needs or investment objectives.

There are different types of investments that involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy will be profitable or equal any specific performance level(s). Past performance is not indicative of future results.

**B.5.d. Mutual Funds and ETFs, Individual Securities, Third-Party Separate Account Managers, and Pooled Investment Vehicles**

PAX may recommend "institutional share class" mutual funds, exchange-traded funds, individual securities (including fixed income instruments), and pooled investment vehicles. PAX may also assist the Client in selecting one or more appropriate manager(s) for all or a portion of the Client's portfolio. Such managers will typically manage assets for Clients who commit to the manager a minimum amount of assets established by that manager—a factor that PAX will consider when recommending managers to Clients.

PAX's selection process cannot ensure that money managers will perform as desired, and PAX will have no control over the day-to-day operations of any of its selected money managers. PAX either performs or engages competent third parties to perform reasonable due diligence of its third-party money managers as further described below.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, individual securities (including fixed-income securities), pooled investment vehicles, and managers is set forth below.

PAX 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

PAX may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, pooled investment vehicles, and managers to Clients as appropriate under the circumstances.

PAX reviews certain quantitative and qualitative criteria related to mutual funds and managers 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 manager'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, sub-advisor or manager's fee structure
- the relevant portfolio manager's tenure

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

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by PAX on a quarterly basis or such other intervals as appropriate under the circumstances. In addition, mutual funds or managers 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 or manager by PAX (both of which are negative factors in implementing an asset allocation structure).

PAX may negotiate reduced account minimum balances and reduced fees with 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 or managers utilized. PAX will endeavor to obtain equal treatment for its Clients with funds or managers, but cannot assure equal treatment.

PAX will regularly review the activities of mutual funds and managers utilized for the Client. Clients that engage managers or who invest in mutual funds should first review and understand the disclosure documents of those managers or 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. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

## **B.6. Investment Strategy, 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.6.a. Margin Leverage**

Although the firm, 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, the firm 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.6.b. Short-Term Trading**

Although the firm, 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.6.c. Short Selling**

The firm 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.6.d. 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.6.e. 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.

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

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

#### ***B.6.d.1. 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.6.d.2. 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.6.d.3. 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.

#### **B.6.f. Concentration Risk**

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.

PAX does not assume market risk on behalf of the Client. PAX does not guarantee the performance of the Client account or any specific level of performance. Past performance is not indicative of a guaranteed future result. Most values of the securities within the account will fluctuate with market conditions. When the account is liquidated, it may be worth more or less than the original amount invested.

PAX will accept and follow all liquidation instructions given by Client and will seek to execute Client' orders in a timely manner on a best-efforts basis. Occasionally, due to market conditions, liquidity and time constraints imposed by custodians or their respective asset, trades may be executed the following business day, with most liquidations occurring within 10 business days. In handling liquidation requests and purchases, we will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers, or other corporate financial events. The liquidations and reinvestment process will likely result in tax consequences, Clients are advised to consult with their tax professional before depositing and liquidating cash and/or securities.

Contributed cash or cash equivalents in Client accounts may remain un-invested in securities for a period of time. PAX invests liquid assets methodically and believes it is to each Client's benefit to invest in an aggregated fashion rather than intermittently. For this reason, a period of time may elapse between the deposit of cash, or liquid assets, to the account and the account reaching a fully invested position.

#### **B.7. Material Risks of Investment Instruments**

PAX may invest in open-end mutual funds and exchange-traded funds for the vast majority of its Clients. In addition, for certain Clients, PAX may effect transactions in the following types of securities:

- Equity securities
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities
- Municipal securities
- Corporate debt obligations
- Fixed equity annuities
- Fixed equity indexed annuities
- Real Estate Investment Trusts ("REITs")

- Digital Assets
- Structured Notes
- Digital Assets
- Private Placements
- Pooled Investment Vehicles
- Hedge Funds
- Private Equity

#### **B.7.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.

#### **B.7.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.

#### **B.7.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>. ETFs have embedded expenses that the Client indirectly bears.

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.

#### **B.7.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.

#### **B.7.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 are domiciled.

#### **B.7.f. 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).

#### **B.7.g. Fixed Equity Annuities**

A fixed annuity is a contract between an insurance company and a customer, typically called the annuitant. The contract obligates the company to make a series of fixed annuity payments to the annuitant for the duration of the contract. The annuitant surrenders a lump sum of cash in exchange for monthly payments that are guaranteed by the insurance company. Please note the following risks: (i) *Spending power risk*. Social Security retirement benefits have cost-of-living adjustments. Most fixed annuities do not. Consequently, the spending power provided by the monthly payment may decline significantly over the life of the annuity contract because of inflation, (ii) *Death and survivorship risk*. In a conventional fixed annuity, once the annuitant has turned over a lump sum premium to the insurance company, it will not be returned. The annuitant could die after receiving only a few monthly payments, but the insurance company may not be obligated to give the annuitant's estate any of the money back. A related risk is



based on the financial consequences for a surviving spouse. In a standard single-life annuity contract, a survivor receives nothing after the annuitant dies. That may put a severe dent in a spouse's retirement income. To counteract this risk, consider a joint life annuity. (iii) *Company failure risk*. Private annuity contracts are not guaranteed by the FDIC, SIPC, or any other federal agency. If the insurance company that issues an annuity contract fails, no one in the federal government is obligated to protect the annuitant from financial loss. Most states have guaranty associations that provide a level of protection to citizens in that state if an insurance company also doing business in that state fails. A typical limit of state protection, if it applies at all, is \$100,000. To control this risk, contact the state insurance commissioner to confirm that your state has a guaranty association and to learn the guarantee limits applicable to a fixed annuity contract. Based on that information, consider dividing fixed annuity contracts among multiple insurance companies to obtain the maximum possible protection. Also check the financial stability and credit ratings of the annuity insurance companies being considered. A.M. Best and Standard & Poor's publish ratings information.

#### **B.7.h. Fixed Equity Indexed Annuities**

An equity-indexed annuity is a type of fixed annuity that is distinguished by the interest yield return being partially based on an equities index, typically the S&P 500. The returns (in the form of interest credited to the contract) can consist of a guaranteed minimum interest rate and an interest rate linked to a market index. The guaranteed minimum interest rate usually ranges from 1 to 3 percent on at least 87.5 percent of the premium paid. As long as the company offering the annuity is fiscally sound enough to meet its obligations, you will be guaranteed to receive this return no matter how the market performs. Your index-linked returns will depend on how the index performs but, generally speaking, an investor with an indexed annuity will not see his or her rate of return fully match the positive rate of return of the index to which the annuity is linked — and could be significantly less. One major reason for this is that returns are subject to contractual limitations in the form of caps and participation rates. Participation rates are the percentage of an index's returns that are credited to the annuity. For instance, if your annuity has a participation rate of 75 percent, then your index-linked returns would only amount to 75 percent of the gains associated with the index. Interest caps, meanwhile, essentially mean that during big bull markets, investors won't see their returns go sky-high. For instance, if an index rises 12 percent, but an investor's annuity has a cap of 7 percent, his or her returns will be limited to 7 percent.

Some indexed annuity contracts allow the issuer to change these fees, participation rates and caps from time to time. Investors should also be aware that trying to withdraw the principal amount from a fixed indexed annuity during a certain period — usually within the first 9 or 10 years after the annuity was purchased — can result in fees known as surrender charges and could also trigger tax penalties. In fact, under some contracts if withdrawals are taken amounts already credited will be forfeited. After paying surrender charges an investor could lose money by surrendering their indexed annuity too soon.

### **B.7.i. 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 that 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 that 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 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.

With respect to publicly traded REITs, publicly traded REITs may be subject to additional risks and price fluctuations in the public market due to investors' expectations of the individual REIT, the real estate market generally, specific sectors, the current yield on such REIT, and the current liquidity available in public market. Although publicly traded REITs offer investors liquidity, there can be constraints based upon current supply and demand. An investor, when liquidating, may receive less than the intrinsic value of the REIT.

### **B.7.j. Structured Notes**

**What are Structured Notes?** Structured notes are fixed income securities that are issued by financial institutions with returns that are linked to or based on, among other things, equity indices, a single equity security, a basket of equity securities, interest rates, commodities, debt securities, exchange traded funds, and/or foreign currencies (a "Structured Note"). The security, asset, or index on which a Structured Note is based is often called the "Reference Instrument." Structured Notes have a fixed maturity date and include two components – a bond component and an embedded derivative. While some Structured Notes offer substantial protection of invested principal, others offer limited or no principal protection.

The embedded derivatives within Structured Notes adjust the note's risk/return profile by including additional modifying structures that can increase potential returns. The return performance of a Structured Note typically tracks the return profile of the underlying debt obligation and the derivative that is embedded within it. Instead of simply paying straight fixed or floating interest, Structured Notes can offer interest payments that are tailored to specific indices and/or rates. The derivative securities that are embedded in the Structured Note can also positively or negatively affect the redemption value and final maturity of the security.

Depending on complexity, risk profile, and numerous other factors, Structured Notes often pay interest or coupon rates that are above the prevailing market rate. Many Structured Notes cap or limit the amount of upside participation in the Reference Instrument or underlying asset, particularly in cases where the Structured Note offers principal protection or pays interest that is above-market. Structured Notes are typically issued by investment banks or their affiliates and feature a fixed maturity date.

Structured Notes are not suitable for everyone. All investors assume full credit risk of the security's issuer and/or guarantor. This means that the investor may lose all the monies invested, including all initial amounts invested as principal protection may not apply, if the issuer and/or the guarantor become insolvent or fail in any way.

Each Structured Note involves varying degrees of risk and unique suitability issues that investors must consider before investing in such securities. Structured Notes involve important legal and tax consequences and investment risks, which each investor should discuss with qualified financial, accounting, and tax advisors regarding the suitability of the specific Structured Note in light of each investor's particular circumstances.

**Understanding the Risk Factors.** Before investing in any Structured Note security, it is important that you obtain and read the pricing supplement, accompanying prospectus, and prospectus supplements to ensure that you understand the risks associated with the specific Structured Note that you are purchasing.

Payment terms vary significantly for each Structured Note depending on the structure and component of the specific security. While some Structured Notes may pay interest prior to liquidation, others may include payments only upon maturity. Additionally, rates of return vary based on many factors, including the performance of the underlying securities, assets, indices, and/or commodities.

As discussed in the risk factor explanation below, you are also advised that, in cases where the return on the underlying securities is positive, payment may be limited if the structure includes a cap on the percentage return for the underlying security or depending on how the percentage increase for the underlying security is calculated as of the determination date. You are also advised that it may be difficult to sell or liquidate the Structured Note or underlying security as there may be little or no secondary market for such securities, and independent market pricing may be limited or unavailable, and market values may vary based on a variety of factors affecting the underlying securities or assets. Such factors may include, among other things: time to maturity; appreciation or depreciation of underlying securities; market volatility; interest rate fluctuations; and myriad other events that may positively or negatively affect the value of underlying securities, indices, or assets.

*Issuer Credit Worthiness.* Unless a Structured Note is specifically stated to be 100% principal protected or FDIC insured, some or all of your invested principal may be at risk. The return of your principal is guaranteed only to the extent specified in the specific offering terms for the Structured Note security you are purchasing and is specifically subject to the credit and creditworthiness of the issuer and the underwriter. If there is a negative return on the underlying security or Reference Instrument, then you may receive an amount that is less than your invested principal at maturity and you could lose up to the percentage indicated in your initial investment terms. In some cases, you may end up owning the underlying security at a price that is lower than the original purchase price.

*Issuance price and note value.* The price you will pay for a Structured Note at the time of issuance will often be higher than the fair market value of the Structured Note on the date of issuance. The cover page of the offering prospectus discloses the Issuer's estimated value of the Structured Note in order to enable you to note the difference between the issuance price and the issuer's estimated value of the note. The issuance price of the note is typically higher than the estimated market value of the note because issuers include in the initial price the costs for selling, structuring, and/or hedging their exposure on the note. Additionally, Structured Notes often may not be resold on a daily basis, which makes it difficult to value them, particularly given their complexity as compared to other financial products.

*Liquidity.* With the exception of Exchange Traded Notes ("ETNs"), Structured Notes are typically not listed on any national securities exchange and can be difficult to sell, trade, or liquidate, especially in any large quantity or within any limited period of time. Although some Structured Notes are listed on national securities exchanges, such securities are often thinly traded and difficult to sell, trade, or liquidate. As a result, the issuing financial institution's broker-dealer affiliate or the broker-dealer distributor of the note may be the only potential buyers for your Structured Note, and many issuers often specifically disclaim their intention to repurchase or make markets in the notes that they issue. If you choose to invest in a Structured Note, you must be prepared to hold the note until it reaches the maturity date or bear the risk of selling the note at a discount to its value at the time of sale.

*Payoff structure.* Structured notes often have complicated payoff structures that make it difficult to accurately assess their value, risk, and growth potential over the term of the note. It can be complex to determine each note's performance as the payoff structures and features

vary considerably among different notes. For example, payoff structures may be leveraged, inverse, or inverse-leveraged, which can result in larger returns or losses for the investor. You should review the prospectus and pricing supplements carefully for each Structured Note to ensure that you thoroughly understand how the payoff on each note will be calculated. For example, the payoff on Structured Notes can depend on:

- *Participation rates:* Many Structured Notes provide a minimum payoff of the invested principal plus an additional payoff amount to the investor. This is calculated by multiplying the increase in the Reference Instrument by a fixed percentage, which is often called the "participation rate." The participation rate determines how much of the increase in the Reference Instrument will be paid to you a purchaser of the Structured Note.
- *Capped maximum returns:* Some Structured Notes provide payments that are linked to a Reference Instrument with a leveraged or enhanced participation rate, but the payoff amount is capped at a pre-set maximum payoff amount. This means that the investor does not participate in any increase in the Reference Instrument above the maximum payoff level.
- *Knock-in feature:* Structured Notes often include a pre-specified threshold for the Reference Instrument that is called a knock-in feature (also known as a barrier or trigger) that affects the payout return on the note. If the Reference Instrument falls below a pre-specified level during the term of the note, you could lose some or all of your principal investment at maturity. You could also lose the coupon payments scheduled throughout the term of the note.
- *Credit Rating:* While many Structured Notes, Reference Instruments, and underlying securities may be assigned a credit rating from a national rating organization, many Structured Notes and underlying securities have no credit rating. To the extent that a particular credit rating may pertain to the creditworthiness of the issuer, it is not necessarily indicative of the risk associated with a specific Structured Note or Reference Instrument, index, or asset. The presentation of a credit rating in relation to any Structured Note or underlying security may not indicate or reflect the safety of the principal invested or the potential investment returns associated with your investment. Such credit ratings may not affect or enhance the likely performance of the Structured Note investment.

**Tax.** The Structured Note investment may be treated as a "contingent payment debt instrument" for U.S. federal income tax purposes. Consequently, even in cases where any accrued interest is not payable until maturity, investors may be required to accrue such interest as ordinary income based on the "comparable yield" of the underlying securities as determined by the underwriter. Halo strongly recommends that you consult your tax advisor regarding such tax treatment and implications prior to purchasing any Structured Note security.

**B.7.k. Digital Assets**

Purchasing and investing in digital, virtual or crypto currencies, coins and tokens, and similar or related investments (collectively, for purposes of these Special Risks, "Digital Asset Investments") is speculative and involves significant risks. Certain of those risks are identified below, however, these risks likely are not exhaustive and are in addition to the general market, economic, industry and financial performance risks that affect valuations of other investment types and classes. The Client understands that because Digital Asset Investments' markets are continually evolving at a rapid pace, it is impossible to identify all of their risks or to project which risks may become the most meaningful.

*Lack of regulatory guidance; Significant volatility.* There is no clear tax or regulatory guidance and oversight on issuers of Digital Asset Investments and the use of Digital Asset Investments as trading and investment vehicles. Further, the issuance of various Digital Asset Investments may not have been effected in accordance with all applicable laws, such as those imposed by the U.S. Securities and Exchange Commission ("SEC") or the Commodities Futures Trading Commission ("CFTC"). This may expose a holder of one or more Digital Asset Investments to significant risks. Further, digital assets, such as bitcoin, have experienced significant fluctuations in market value and trading prices. These fluctuations have been, and are expected to continue to be, very volatile. This volatility may lead to considerable levels of risk, and therefore the Client should carefully consider the level of risk that the Client is comfortable bearing.

*Regulatory changes or actions may restrict the issuance, use and transfers of Digital Asset Investments, and platforms that facilitate the issuance and trading of Digital Asset Investments.* Until recently, little or no regulatory attention has been directed toward digital assets by U.S. federal and state governments, foreign governments and self-regulatory agencies. As Digital Asset Investments have grown in popularity and in market size, the Federal Reserve Board, U.S. Congress and certain U.S. agencies (e.g., the CFTC, FinCEN and the SEC) are examining the operations and practices of Digital Asset Investments issuers, users, wallet providers and platforms that facilitate the issuance or secondary trading of Digital Asset Investments (such platforms, collectively, "Platforms"). Certain state regulators have also initiated examinations of the issuers of Digital Asset Investments, industry participants and Platforms. Both the SEC and the CFTC have begun to assert regulatory authority over Digital Asset Investments and trading and ownership of such assets and have brought enforcement actions against certain issuers. To the extent that any Digital Asset Investment is determined to be a security, commodity future or other regulated asset, or to the extent that a U.S. or foreign government or quasi-governmental agency exerts regulatory authority over the digital currency industry in general, the issuance of Digital Asset Investments, trading and ownership, transactions involving the purchase and sale of such assets may be adversely affected, which could adversely affect the value and liquidity of all or certain types of Digital Asset Investments. The effect of any future regulatory change on Platforms or Digital Investment issuers and industry participants in general is impossible to predict, but such change could be substantial and adverse to the value and liquidity of all or certain types of Digital Asset Investments.

*Digital Asset Investments are subject to significant valuation risks.* Particularly because Digital Asset Investments are typically not backed by hard assets or any governmental entity, and do not represent an equity or debt instrument, they are subject to significant valuation risk – which is the risk that such assets are priced incorrectly due to factors such as incomplete data, projections that do not prove to be accurate, significant market speculation, market instability or human error. There is no assurance that any Digital Investment owned in the Account could be sold or transferred for the value established or assigned for it at any time, and it is possible that various Digital Asset Investments would incur a loss because they are sold at a discount to its assigned, or believed, value.

*The unregulated nature and lack of transparency surrounding the operations of Platforms may cause the marketplace to lose confidence in such exchanges.* The Platforms on which bitcoin and other Digital Asset Investments trade are relatively new and, in some cases, unregulated. Furthermore, while many prominent Platforms provide significant information regarding their ownership structure, management teams, corporate practices and regulatory compliance, many other exchanges do not provide this information. As a result, the marketplace may lose confidence in digital asset exchanges, including prominent exchanges that handle a significant volume of digital asset trading. In recent years there have been a number of Platforms that have closed due to fraud, business failure or security breaches; additionally, larger Platforms have been targets for hackers and malware and may be more likely to be targets of regulatory enforcement action. A lack of stability in the digital asset exchange markets and the closure or temporary shutdown of such exchanges due to fraud, business failure, hackers or malware, or government-mandated regulation may reduce confidence in the Digital Investment marketplace in general and result in greater volatility in the Digital Investment marketplace. These potential consequences would adversely affect the stability of the value and liquidity of all or certain Digital Asset Investments.

*The Platforms may be subject to extensive and complex regulatory regimes.* Platforms that facilitate the primary or secondary issuance of Digital Asset Investments may be subject to extensive federal, state and local regulation, non-compliance with which could have a negative impact on the Adviser's ability to acquire Digital Asset Investments through the Platforms or to sell them for the Account. For example, the Platforms may be required to be registered as a broker-dealer, authorized to operate an alternative trading system, be registered as a stock exchange or register with the CFTC. If the Platforms do not comply with applicable laws, they could be subject to sanction and compelled to cease operations, which may have an adverse effect on the Adviser's ability to execute an investment strategy involving Digital Asset Investments.

*The further development and acceptance of digital currencies is subject to a variety of risks.* Digital currencies are a new and rapidly evolving asset of which blockchain technology is a prominent, but not unique, part. The growth of the digital currency industry in general, and distributed ledger technology that supports such digital currencies in particular, is subject to a high degree of uncertainty. The factors affecting the further development of digital currencies, as well as distributed ledger technology, include further growth in the adoption and use of digital currencies; government and quasi-government regulation of digital assets and their use, or restrictions on or regulation of access to and operation of the Platforms that facilitate

their issuance and secondary trading; the maintenance and development of the open-source software protocol of certain blockchain networks used to support digital currencies; changes in consumer demographics and public tastes and preferences; the availability and popularity of other forms or methods of buying and selling goods and services, including new means of using fiat currencies; and general economic conditions and the regulatory environment relating to digital currencies.

*Beneficial holders of Digital Asset Investments typically do not have voting or governance rights in the issuer of such assets.* Typically, Digital Asset Investments do not afford a holder with any voting rights or other management or control rights in the issuer or the particular protocol or project. Therefore, the beneficial holders of such assets are not able to exercise any control or voting influence over any significant actions of the issuer or the applicable project, such as a sale of its assets or winding up of the project.

*Beneficial holders of Digital Asset Investments typically do not have distribution rights.* Digital Asset Investments typically do not represent an equity stake in the issuer or a given project, and thus holders of such Digital Asset Investments typically do not have distribution or dividend rights. Therefore, holders do not have liquidation rights otherwise commonly afforded to stockholder holders in a corporation organized under the laws of the states of the United States.

*The tax characterization of investing and trading in Digital Asset Investments is uncertain and may result in adverse tax consequences for beneficial holders.* The tax characterization of Digital Asset Investments is uncertain. An investment in, or transactions involving, Digital Asset Investments may result in adverse tax consequences to investors, including withholding taxes, income, corporation or profit taxes, value-added taxes or goods and services taxes, stamp duties or other forms of transactional taxes, and tax reporting requirements.

*A lack of a central regulatory authority and structure and the global nature of digital assets and blockchain technologies limit legal remedies and recourses.* Because there is a lack of a central regulatory authority and structure and due to the global nature of digital assets and blockchain technologies, a holder of Digital Asset Investments may have no legal remedies or recourse against issuers, other users, holders, purchasers or sellers of Digital Asset Investments, and any other person or entity that may interfere with any Digital Asset Investments owned by the holder, or a holder's digital wallet.

*There is no existing trading market for certain Digital Asset Investments and an active trading market may not develop.* Certain Digital Asset Investments that may be identified by a representative of IHT may be a new issue of digital tokens for which there is no established public market. Although the issuer of such Digital Asset Investments may intend to list those assets on certain Platforms that facilitate secondary trading, there can be no assurance that such exchanges will accept the listing of the applicable Digital Asset Investments or maintain the listing if accepted. There can be no assurance that a secondary market will develop or, if a secondary market does develop, that it will provide the holders of those Digital Asset Investments with liquidity of investment or that it will continue for the life of the particular digital asset. The liquidity of any market for many Digital Asset Investments will depend on a number of factors, including:



- the number of holders;
- the performance and financial condition of the issuer or applicable project;
- the market for similar digital tokens;
- the interest of traders in making a market in the specific Digital Asset Investments; and
- regulatory developments in the digital token or cryptocurrency industries.

The digital token market is a new and rapidly developing market which may be subject to substantial and unpredictable disruptions that cause significant volatility in the prices of digital tokens. There are no assurances that the market, if any, for any or all Digital Asset Investments will be free from such disruptions or that any such disruptions may not adversely affect a holder's ability to sell certain or all Digital Asset Investments.

*Risks associated with Digital Asset Investments issued by foreign issuers or projects.* The adviser may invest directly or indirectly in the Digital Asset Investments issued by foreign issuers. Such investments may involve risks not ordinarily associated with exposure to instruments or assets of U.S. issuers. Foreign issuers or projects may be subject to less governmental supervision and regulation than exists in the U.S.; conversely, foreign regulatory regimes applicable to the Digital Investment space and industry may be more complex and more restrictive than those in the U.S., resulting in higher costs associated with such investments, and such regulatory regimes may be subject to interpretation or change without prior notice to issuers and operators in the industry. For example, in September 2017 China announced that initial coin offerings are illegal in China and that all fundraising activity involving digital token sales should be halted and the Financial Services Commission in the Republic of Korea also recently prohibited initial coin offerings in the Republic of Korea. In addition, digital token financing and trading platforms are prohibited from undertaking conversions of coins with fiat currencies in China, meaning that digital tokens cannot be used as currency in the market. Further, foreign issuers of Digital Asset Investments and operators of Platforms may not be subject to accounting, auditing and financial reporting standards and practices comparable to those in the U.S. The Account's exposure to Digital Asset Investments issued by foreign issuers may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments.

*Intellectual property rights claims may adversely affect the operation of prominent blockchains and crypto assets in general.* Third parties may assert intellectual property claims relating to the holding and transfer of digital assets and their source code. Regardless of the merit of any intellectual property or other legal action, any threatened action that reduces confidence in digital assets or the ability of end-users to hold and transfer various digital assets may adversely affect an investment strategy focused on Digital Asset Investments. Additionally, a meritorious intellectual property claim could prevent the Adviser or other end-users from accessing a specific blockchain network or holding or transferring digital assets that utilize those blockchains, which could force the liquidation of the certain digital assets held in the Account or that are a part of the Adviser's investment strategy or cause the value of such digital assets to significantly decline. As a result, an intellectual property claim against large participants on certain blockchain networks could adversely affect the value and liquidity of all of certain Digital Asset Investments.

*Many Digital Asset Investments may be subject to malfunction or function in an unexpected or unintended manner.* Digital Asset Investments, and any network with which they are interacting, may malfunction or function in an unexpected or unintended manner. This may be caused by the applicable Digital Investment itself, the Ethereum protocol, other networks, or a number of other causes, some of which are unforeseeable. Any malfunction or unintended function could result in the complete loss with respect to the affected Digital Investment.

*There is risk of theft and fraud, both at the custodian or any third-party exchanges at which Digital Asset Investments may be custodied.* Although the third parties utilized to custody Digital Asset Investments are expected to employ significant security measures and diversify risk on any particular exchange, there is risk of hacking from outside criminals at the exchange level as well as any third-party custodian, which could lead to the loss of some or all client funds.

#### **B.7.i. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **B.7.m. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, the firm will be unable to monitor or verify the accuracy of such performance information.

#### **B.7.n. Hedge Funds**

A hedge fund is an alternative investment vehicle suitable for sophisticated investors, such as institutions and individuals that typically meet the Qualified Investor standard under the Investment Advisers Act of 1940. Hedge funds may invest in traditional securities, such as stocks, bonds, commodities and real estate, but they typically use sophisticated (and risky)

investments, strategies, and techniques. Hedge funds typically use long-short strategies, which invest in some balance of long positions (which means buying stocks) and short positions (which means selling stocks with borrowed money, then buying them back later when their price has, ideally, fallen).

Additionally, many hedge funds invest in “derivatives,” which are contracts to buy or sell another security at a specified price. Many hedge funds also use leverage, which is essentially investing with borrowed money—a strategy that could significantly increase return potential, but also creates greater risk of loss.

Third, hedge funds are structured as private funds, exempt from registration, have limited liquidity, and complex tax structures. Most hedge funds, in contrast, seek to generate returns over a specific period of time called a “lockup period,” during which investors cannot sell their shares.

Hedge fund managers earn a “management fee,” typically in the range of 1% to 2% of the net asset value of the fund. In addition, the hedge fund manager receives a percentage of the returns they earn for investors (performance-based fee), which typically is 20% of the net profits over some hurdle or minimum return to the fund investors. Performance-based fee structures may lead the hedge fund managers to invest aggressively to achieve higher returns, increasing investor risk. Investors looking to invest in hedge funds and alternative investment vehicles are urged to carefully review the fund’s offering documents, related investor agreements, and disclosures prior to investing.

#### **B.7.o. Private Equity**

Private equity is an ownership interest in a company or portion of a company that is not publicly owned, quoted, or traded on a stock exchange. Private equity takes an ownership interest in a company with the goal of enhancing the company's value by bringing about change. Compared to public equity, long-term results of private equity investments are less dependent on overall market performance. Private equity investments are subject to certain risks such as market and investment style risk. Investments are highly illiquid and subject to greater risk. These risks include lack of liquidity, lack of valuation transparency, conflicts of interest, higher management fees, and complex tax structures. Private equity investments may require a longer holding period and are highly speculative and may result in a loss of invested capital. The strategies discussed may only be appropriate for certain qualified investors.

#### **B.8. Proxy Voting**

The firm does not take discretion with respect to voting proxies on behalf of its clients. The firm 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 the firm supervised and/or managed assets. In no event will the firm take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, the firm 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. The firm has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. The firm 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, the firm 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 the firm 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 7: Client Information Provided to Portfolio Managers

The firm is the sole portfolio manager in the PAX Wrap Fee Program and does not share any personal information it collects from its clients other than as required by law or regulatory mandate. The firm may collect the following information in order to formulate its investment recommendations to clients:

- Income
- Employment and residential information
- Social security number
- Cash balance
- Security balances
- Transaction detail history
- Investment objectives, goals, and risk tolerance
- Sources of wealth and/or deposits
- Risk assessment
- Investment time horizon
- Income and liquidity needs
- Asset allocation
- Restrictions on management of accounts
- Client interview(s)
- Review of client's current portfolio
- Analysis of historical risk/return characteristics of various asset classes
- Analysis of the long-term outlook for global financial markets
- Analysis of the long-term global economic and political environments

## **Item 8: Client Contact with Portfolio Managers**

The firm encourages communication with its clients and does not limit or condition the amount of time clients can spend with the firm's advisory professionals.

## Item 9: Additional Information

### A. Disciplinary and Other Financial Activities and Affiliations

#### A.1. Disciplinary

##### A.1.a. Criminal or Civil Actions

There is nothing to report for this item.

##### A.1.b. Administrative Enforcement Proceedings

There is nothing to report for this item.

##### A.1.c. Self-Regulatory Organization Enforcement Proceedings

There is nothing to report for this item.

#### A.2. Other Financial Activities and Affiliations

##### A.2.a. Broker-Dealer or Representative Registration

Neither the firm nor its affiliates are registered broker-dealers and do not have an application to register pending.

##### A.2.b. Futures or Commodity Registration

Neither the firm 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.

##### A.2.c. Material Relationships Maintained by this Advisory Business and Conflicts of Interest

###### A.2.c.1. Insurance Sales

PAX is an insurance agency licensed with the Texas Department of Insurance. Our insurance group operates under the name PAX Financial Group Insurance Services, a registered DBA. Our investment adviser representatives ("IAR") may also be registered as insurance agents. Please see your IAR's Form ADV Part 2B – Brochure Supplement for additional information.

PAX agents make available services from Crump Life Insurance Services ("Crump") to assist Clients who wish to buy insurance products, such as life, long-term disability, fixed annuities, and long-term care insurance, the unaffiliated independent Field Marketing Organization ("FMO") specializes in insurance brokerage. PAX agents receive compensation when they refer PAX Clients to Crump and the Client purchases a product. The compensation received by PAX and its agents is a percentage of the compensation paid to Crump.

In addition, IARs may recommend commission-based insurance products to a Client. PAX's agents have a conflict of interest because there is an economic incentive to sell insurance products that result in commissions or sales revenue. Client are advised that they are under no

obligation to purchase any insurance products through PAX or the Crump Agency, products may be less expensive elsewhere. These insurance and/or investment vendors may provide sales support in various forms including but not limited to funding corporate events and/or Client education events hosted by PAX. Educational events are conducted to bring awareness to consumers regarding market trends and product education.

***A.2.c.2. Book and Online Program Sales***

PAX makes available books published by third parties and sold by the Chief Executive Officer (CEO) of PAX. Books are available for sale through booksellers, with pricing averaging between \$0 - \$18. As an IA of PAX, books may be provided to organizations, individual Client or prospective Client at a discount or at no cost. PAX receives 0% of any book royalties or other revenue from the sale of any books written by the CEO.

The CEO also makes available an online retirement readiness course titled "Pivot Your Retirement," which enables consumers to obtain for a fee valuable education-only material to kick start and/or prepare for retirement. Material contains budgeting tools, personal balance sheet construction, and much more. PAX receives a portion of the fees collected for its services. The fees paid are separate and in addition to any advisory services offered through PAX.

***A.2.c.3. NC Accounting Group, LLC "NCAG"***

NC Accounting Group, LLC is an affiliate of PAX Financial Group and provides bookkeeping and related accounting services to individuals, corporations and other legal entities. PAX Financial Group and one of its managing officers have a combined equity interest of 35% in NCAG. Please be advised that PAX has an economic interest in recommending NCAG's services to its clients; however, clients are under no obligation to utilize the services of NCAG and may engage any accounting firm of their choice.

***A.2.c.4. Encore Bancshares, Inc. ("EBI")***

EBI is private bank located in Houston, TX, and provides banking, investment management, financial planning, and insurance services to its clients. PAX has acquired a non-controlling interest in EBI. Please be advised that PAX may recommend the banking services of EBI. As such, please be advised of the conflict of interest in that PAX is economically incented to recommend the services of EBI. Clients are not required to utilize the services of EBI as part of their PAX advisory relationship and may use any banking institution they desire.

***A.2.d. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest***

Although PAX may recommend separate account managers, it does not receive any form of referral or solicitor compensation from the separate account manager or Client.



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## **B. Code of Ethics, Brokerage Trading Practices, Account Reviews, and Financial and Related Matters**

### **B.1. Code of Ethics Description**

In accordance with the Advisers Act, PAX has adopted policies and procedures designed to detect and prevent insider trading. In addition, PAX has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of PAX'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 PAX. PAX will send Clients a copy of its Code of Ethics upon written request.

PAX has policies and procedures in place to ensure that the interests of its Clients are given preference over those of PAX, 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.1.a. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

The firm 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, the firm does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

#### **B.1.b. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

The firm, 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 the firm specifically prohibits. The firm 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 the firm's procedures when purchasing or selling the same securities purchased or sold for the Client.

#### **B.1.c. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

PAX, 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 PAX Clients. PAX 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. It is the policy of PAX to place the Clients' interests above those of PAX and its employees.

### **B.2. Review of Accounts**

#### **B.2.a. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

Account surveillance is conducted on an ongoing basis by PAX IARs in conjunction with the Investment Committee. IARs monitors portfolio construction, investment objectives and risk tolerance per Client, and the Investment Committee continually monitors model allocations per investment strategy. All Client are advised that it remains their responsibility to advise PAX of any changes in their investment objectives and/or financial situation. All Client (in person, video conference, via email or via telephone) are encouraged to review all financial planning recommendations (to the extent applicable), investment objectives, and account performance with their PAX IARs on an annual basis. If the Client and IAR do not meet for a considerable period of time, greater than a year, after reasonable effort is made by the IAR to do so, the Client's account will be managed based on previously discussed expectations.

Client review periods are generally recommended annually unless a triggering event occurs materially impacting a financial engagement such as, however not limited to, changes to marital status, funding needs or investment objectives and change of employment. Occasionally a review may result in a "no change" recommendation.

#### **B.2.b. Review of Client Accounts on Non-Periodic Basis**

The firm 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 PAX formulates investment advice. If a Client has a change in their financial situation, after notifying PAX, we will perform a review of the Clients financial position to help ensure the recommendations remain appropriate for the Client and satisfies their needs.

**B.2.c. Content of Client-Provided Reports and Frequency**

PAX provides Quarterly Executive Reports to Clients that include information on contributions and withdrawals in the Client's investment portfolio, and the performance of the Client's portfolio measured against appropriate benchmarks (including benchmarks selected by the Client).

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 PAX.

**B.3. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest****B.3.a. Compensation from Product Sponsors**

PAX and its employees can receive additional compensation from product sponsors whose products we make available to our Clients. PAX participates in activities that are designed to help our financial advisers be more knowledgeable about those company's products, operations, and management.

However, such compensation is not being tied to the sales of any products. Compensation may include such items as merchandise, gifts, prizes, leisure activities such as dinner or tickets to a sporting event, as well as payment or reimbursement in connection with business development expenses, educational meetings with investment IARs, Client workshops, seminars or appreciation events, software, marketing events or advertising initiatives, including services for identifying prospective Client.

Product sponsors may also pay for, or reimburse PAX for the costs associated with, education or training events that may be attended by PAX employees, Client and IARs in addition to PAX sponsored conferences and events. The educational activities, gifts and entertainment received by PAX from product sponsors do, however, create a conflict of interest for PAX. They incentivize PAX to focus more on or otherwise recommend or promote the products of those sponsors that provide this additional compensation over those that do not. Although direct or indirect compensation is received by these product sponsors, PAX IAR's only offer recommendations that are in the best interest of our Clients taking into consideration multiple areas of a Client's financial position such as suitability of recommendations, investment objectives, risk tolerance and financial goals etc.

PAX and its supervised person's receipt of additional compensation and/or services represents a conflict of interest because we have an incentive to offer products from product sponsors that provide these benefits. We mitigate this conflict of interest by disclosing it to our Client, by conducting our operations in accordance with our fiduciary duty, by following our firm's code of ethics and through ongoing monitoring conducted by our chief compliance officer.

**B.3.b. Sub-Adviser Referrals**

As referenced in Item 4, PAX has a financial incentive to refer Clients to approved sub-advisers rather than managing the assets on its own or refer them to another adviser, creating a conflict of interest. When PAX refers Clients to approved sub-advisers for Sub-Manager services it receives various incentives which benefit PAX but not all PAX Client, including:

- Certain technology implementation fees incurred by PAX in connection with PAX's use of the sub-adviser's technology solutions will be reduced or waived entirely if a predetermined number of PAX Client subscribe to PAX's guidance services which utilize such technology solutions.
- Certain technology implementation fees incurred by PAX in connection with PAX's use of the sub-adviser's technology solutions will be reduced if a predetermined number of PAX's Client's assets are placed in investment models or in mutual funds or exchange-traded funds available through such sub-adviser or one of its affiliates.
- Program fees normally incurred by PAX to offer a Wrap Fee program will be incurred by the sub-adviser as part of its services. The fees typically paid for by PAX include trade costs, platform fees and third-party provider fees; these fees will be paid for by the sub-adviser under the Third-Party Investment Management program.

**B.3.c. IAR Incentives**

PAX offers its financial advisers (IAR's) financial benefits based on his or her assets under management. This provides an incentive for the financial advisers to seek to retain additional assets from you. This conflict is mitigated by the financial adviser's adherence to the firm's fiduciary best interest obligations for account recommendations based on analysis of Client investment objectives and risk tolerance, and periodic review of accounts to ensure that client portfolios remain appropriate. Senior management and compliance also review accounts to ensure the appropriateness of investment recommendations on a regular basis.

**B.3.d. Advisory Firm Payments for Client Referrals**

PAX may enter into agreements with Solicitors who will refer prospective advisory clients to the firm in return for a portion of the ongoing investment advisory fee our firm collects. Generally, when the firm engages a Solicitor, such Solicitor is compensated through receipt of a portion of the advisory fees we collect from our advisory clients. The receipt of such fees creates a conflict of interest in that the Solicitor is economically incented to recommend our services because of the existence of a fee sharing arrangement with our firm. Please be advised that the firm's payment of a referral fee to the Solicitor does not increase the client's advisory fee paid to the firm.

**B.4. Financial Information****B.4.a. Balance Sheet**

PAX does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

**B.4.b. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

The firm does not have any financial issues that would impair its ability to provide services to Clients.

**B.4.c. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report for this item.