

# Pathworks Financial, Inc.

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## WRAP FEE PROGRAM BROCHURE

*This wrap fee program brochure provides clients with information about the qualifications and business practices of Pathworks Financial, Inc., a registered investment adviser. It also describes the services Pathworks Financial, Inc. provides as well as background information on those individuals who provide investment advisory services on behalf of Pathworks Financial, Inc. Please contact Pathworks Financial, Inc. at (248) 946-4515 if you have any questions about the contents of this disclosure brochure.*

*The information in this wrap fee program brochure has not been approved or verified by the U.S. Securities and Exchange Commission or any state securities authority. Registration does not imply that Pathworks Financial, Inc. or any individual providing investment advisory services on behalf of Pathworks Financial, Inc. possess a certain level of skill or training.*

*Information on the disciplinary history and the registration of Pathworks Financial, Inc. and its associated persons is available on the Internet at [www.adviserinfo.sec.gov/IAPD/](http://www.adviserinfo.sec.gov/IAPD/). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Pathworks Financial, Inc. is 138393.*

## **Item 2 – Material Changes**

This item discusses specific material changes to the Pathworks Financial, Inc. wrap fee program brochure. Pursuant to current regulations, Pathworks Financial, Inc. will ensure that clients receive a summary of any material changes to this and subsequent wrap fee program brochures within 120 days of the close of its fiscal year which occurs at the end of the calendar year. Pathworks Financial, Inc. may further provide other ongoing disclosure information about material changes as necessary.

Pathworks Financial, Inc. will also provide clients with a new wrap fee program brochure as necessary based on changes or new information, at any time, without charge.

Pathworks Financial, Inc. has not made any material change to this disclosure brochure since the date of its last annual amendment filing.

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## Item 4 – Services, Fees and Compensation

Pathworks Financial, Inc. (“Pathworks” or the “firm”), a Michigan corporation founded in 2005, has been registered with U.S. Securities and Exchange Commission (“SEC”) since March 2021. Pathworks was registered with the State of Michigan from January 2006 to March 2021.

The principal owner of Pathworks is D. Scott Smith.

### A. Services and Fees

#### Pathworks Asset Management Program

The Pathworks Asset Management Program (the “SAM Wrap Program”) is a wrap fee asset allocation program sponsored by Pathworks. The client retains Pathworks and an Pathworks investment adviser representative (“Adviser Representative”) for the purpose of opening an investment advisory account and participating in the SAM Wrap Program. Pathworks will invest participating client assets in one or more diversified asset allocation models primarily consisting of open-end investment companies (commonly referred to as mutual funds) and closed-end investment companies (commonly referred to as exchange-traded funds or ETFs) in a broad range of asset classes and market sectors, including domestic stocks, international stocks, global bonds, and alternative investments in exchange for an all-inclusive asset-based wrap fee (“Wrap Fee”). When market circumstances warrant, Pathworks may also invest in other types of securities.

Neither Pathworks nor any of its affiliates serve as investment adviser to any of the investment company products included in portfolio assets. SAM Wrap Program portfolios range from conservative to aggressive. The client’s Adviser Representative assists the client in selecting the asset allocation model that best meets the client’s needs. Clients’ grant Pathworks limited discretionary authority in the management of their SAM Wrap Program portfolios and individual portfolios may or may not represent the overall objectives of the client’s total investment assets.

The Adviser Representative will consider the client’s financial situation, goals and investment objectives, risk tolerance, time horizon, liquidity needs, and other relevant factors, as described by the client in selecting the client’s asset allocation model. Pathworks does not provide tax or legal advice. The client is instructed to seek advice from a tax or legal adviser before making an investment decision. The client should inform his or her Adviser Representative if changes occur in investment objectives or financial situation.

All clients participating in SAM Wrap Program are provided with, and urged to review, the Pathworks Wrap Fee Program Brochure.

#### Pathworks Asset Management Program Fees

For its services provided pursuant to the SAM Wrap Program, Pathworks receives a wrap fee based on the value of assets under management (the “Wrap Fee”). The amount of the fee will be set out in the specific client agreement executed by the client at the time the relationship is established.

The Wrap Fee is set according to the following tiered fee schedule:

For the Portion of the Account that is:	Annual Fee
Up to \$250,000	1.5%
\$250,001 to \$500,000	1.25%
\$500,001 to \$1,000,000	1.00%
\$1,000,001 to \$3,000,000	0.75%
Above \$3,000,000	Negotiable

The Wrap Fee is based on the average quarterly account balance managed during the calendar quarter. Quarterly Wrap Fees deducted from the clients' account by the custodian will be outlined in Pathworks' fee invoice as fees are withdrawn. The first payment is calculated based on the number of days assets are placed in the account during a calendar quarter. Generally, Wrap Fees are deducted from the client's account no later than the fifteenth (15th) day after the end of each quarter, in arrears. If an account is terminated prior to the end of a calendar quarter, the terminating client will pay the Wrap Fees up to the termination date. Clients who cancel services within five business days of the contract date will not be charged the Wrap Fee.

Each quarter, Pathworks will notify the client's qualified custodian of the amount of the Wrap Fee due and payable to Pathworks pursuant to the Wrap Fee schedule and advisory agreement. The qualified custodian will not validate or check Pathworks' fees, its corresponding calculation or the assets on which the Wrap Fee is based unless the client has retained their services to do so. With the client's pre-approval, the qualified custodian will "deduct" the Wrap Fee from the client's account or, if the client has more than one account, from the account(s) the client has designated to pay the Wrap Fee.

Each month, the client will receive a statement directly from the qualified custodian showing all transactions, positions and credits/debits into or from the client's account. Statements sent after quarter end will also reflect the Wrap Fee paid by the client to Pathworks.

## **B. Program Fee Disclosures**

A wrap fee program allows Pathworks' clients to pay a specified fee for investment advisory services and the execution of transactions. Accordingly, a portion of the Wrap Fee paid to Pathworks is used to cover the securities brokerage commissions and transactional costs attributed to the management of its clients' portfolios, the financial advice offered by the client's selected Adviser Representative, as well as the fees charged by the asset managers engaged to provide services under the SAM Wrap Program. The asset managers servicing accounts through the SAM Wrap Program receive a fee based upon the assets under their management.

Services provided through the SAM Wrap Program may cost clients more or less than purchasing these services separately. The number of transactions made in a client's account(s), as well as the commissions charged for each transaction, determines the relative cost of the SAM Wrap Program versus paying for execution on a per transaction basis and

paying a separate fee for advisory services. Fees paid for the SAM Wrap Program may also be higher or lower than fees charged by other sponsors of comparable investment advisory programs.

Pathworks does not normally consider its fee to be negotiable for accounts of \$5 million or less, provided, however, that Pathworks reserves the right in its sole discretion and based on factors Pathworks deems relevant, to agree to a fee for any particular client that varies from the fee set forth in the tables above and which may be lower or higher than fees charged to another client with a similar sized account. In certain situations, minimum account fees may apply that may exceed the fees in the schedule above. Relevant factors that may lead to a variation in fees include, for example, the size and scope of the client's overall relationship with Pathworks and the fees that the client's account was charged at another firm prior to transferring to Pathworks.

### **C. Additional Fees**

There may be other costs assessed by third parties and/or Pathworks, which are not included in the Wrap Fee. For example, there may be charges imposed directly by a mutual fund or exchange-traded fund in the account (e.g. fund management fees and other fund expenses as disclosed in the prospectus), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, annual check writing and debit card fees, check stop payment fees, returned check fees, ACH return fees, security transfer and redemption fees, reorganization processing fees, trade confirmation fees, outgoing account transfer fees, margin extension fees, margin debit interest, IRA annual maintenance fees, IRA termination fees, amounts charged to produce year-end statements and account reports, and other fees and taxes on brokerage accounts and securities transactions. In addition, Pathworks' fees do not include the services of any professional engaged by a client which will be billed directly by such professional(s).

### **D. Compensation**

Adviser Representatives receive a portion of the Wrap Fee that clients pay to Pathworks as a percentage of the client's overall Wrap Fee. This creates an incentive for such Adviser Representatives to recommend that clients participate in a wrap fee program rather than a non-wrap fee program (where clients pay for trade execution costs) or brokerage account where commissions are charged. In some cases, the Adviser Representatives may stand to earn more compensation from Wrap Fees paid to Pathworks through a wrap fee program arrangement if a client's account is not actively traded.

### **E. Additions and Withdrawals**

Clients may make additions to or withdrawals from their account at any time, however, the SAM Wrap Program is designed as a long-term investment vehicle and asset withdrawals may impair the ability to achieve a client's investment objectives. Excessive withdrawals that cause material reductions in the value of the account could cause Pathworks to terminate the account.

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

### **Account Requirements**

Pathworks requires new clients have a minimum account size of \$25,000 for portfolio management services. Pathworks may, in its sole discretion, accept clients with smaller

portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities. Pathworks will only accept clients with less than the minimum portfolio size if, in the sole opinion of the firm, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Pathworks may aggregate the portfolios of family members to meet the minimum portfolio size.

### **Types of Clients**

Pathworks generally provides investment advice to individuals, including high net worth individuals, pension and profit sharing plans, estates, small businesses and trusts. Client relationships vary in scope and length of service.

## **Item 6 – Portfolio Manager Selection and Qualifications**

### **A. Selection and Review**

Pathworks acts as the sponsor and portfolio manager under the SAM Wrap Program. Pathworks does not select or utilize the services of any third-party portfolio manager for SAM Wrap Program accounts. The Pathworks Investment Committee and the clients' individual Adviser Representative oversee the management of the assets for the SAM Wrap Program accounts.

### **B. Related Persons**

Pathworks and its related persons act as portfolio manager for the SAM Wrap Program previously described in this Wrap Fee Program Brochure. This creates a conflict of interest in that portfolio managers could place their own or Pathworks' interests before a client's interest. Pathworks has adopted Compliance Procedures and a Code of Ethics that requires Pathworks' portfolio managers and other employees of the firm to adhere to their fiduciary duty and avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of clients.

### **Advisory Services**

In addition to the SAM Wrap Program, Pathworks offers the following investment advisory services:

#### Investment Management Services

Pathworks, through its Adviser Representatives, offers investment management services based on the individual objectives of each specific client portfolio. Pathworks offers clients ongoing investment management services determined through individual investment goals, time horizons, objectives and risk tolerance. Investment strategies, investment selection, assets allocation, portfolio monitoring and the overall investment program will be based on the above factors. Investment management services include, among other things, basic financial planning consisting of giving advice regarding asset allocation and the selection of investments. Pathworks provides investment management services on a discretionary basis only. Clients will be required to give Pathworks authority to manage the client's assets in accordance with what Pathworks deems to be in the client's best interest based on the client's investment objectives and guidelines. Clients will retain individual ownership of all securities in their account.

As part of this service, each client portfolio is tailored to their particular investment needs and circumstances. This includes allocating assets based on the client's investment needs and a risk strategy (from conservative to aggressive), which is selected in conjunction with the client and incorporated into the account agreement. The available risk strategies correlate to asset allocation models developed by Pathworks based on target allocations for various asset classes and sub-classes. Pathworks selects investments for the client's account that are consistent with the selected risk strategy and that pass a series of quantitative and qualitative filters. Depending on the specific engagement, the types of securities that the client's particular Adviser Representative may purchase and sell including, but are not limited to, mutual funds, ETFs, equities, and fixed income securities.

### Financial Planning Services

If a client desires to obtain financial planning apart from the basic planning services provided as part of portfolio management services, Pathworks also provides financial planning services as a stand-alone service. Clients will receive a written financial plan, providing the client with a detailed outline designed to achieve their stated financial goals and objectives.

In general the plan will address any or all of the following:

- *Personal*: Family records, budgeting, personal liability, estate information and financial goals.
- *Tax and Cash Flow*: Income tax spending analysis and planning for past and future years.
- *Death and Disability*: Cash needs at death, income needs of surviving dependents, and estate planning.
- *Retirement*: Strategies and investment plans to help client achieve their retirement goals.
- *Investments*: Analysis of investment alternatives and their effect on a client's portfolio.

Information on clients will be gathered by in-depth personal interviews and a review of personal financial information. Gathering data concerning current financial status, future requirements, risk appetite and goals is essential. Based upon this thorough review, a written plan is prepared for the client and it is recommended that the client review this plan with tax accountants, attorneys and other professional service providers.

Should a client choose to implement the financial planning recommendations made by Pathworks, Pathworks may recommend its own services or that of other professionals (*i.e.*, attorney, accountant, insurance agent, and/or stockbroker). Clients are advised that a conflict of interest exists if Pathworks recommends its own services. The client is under no obligation to act upon any of the recommendations made by Pathworks under a financial planning engagement and/or engage the services of any such recommended professional, including Pathworks or its Adviser Representatives. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation made by Pathworks or its Adviser Representatives. Pathworks shall cooperate with any attorney, accountant, broker or other adviser chosen by the client with regard to implementation of any such recommendations.

### Retirement Plan Services

Pathworks provides both fiduciary and non-fiduciary services as a consultant to retirement plan sponsors, named fiduciaries, plan trustees, and plan committees relative to employee benefit plans, including, but not limited to, 401(k) plans, 403(B) plans, defined benefit plans, profit-sharing plans, money purchase pension plans and similar plans offered by sponsoring entities to their employees (the “Plan”). In providing services to a plan and/or its participants, Pathworks acts as a non-discretionary fiduciary of the Plan as defined in Section 3(21) under ERISA.

As part of these services, Pathworks will typically advise the plan fiduciaries on matters related to the Plan. These consulting services, some of which are discussed below, may be provided separately or in combination with one another, and may involve the coordination of multiple vendors and/or third party advisors to the Plan, depending on the needs of the sponsor. The specific details of any engagement to provide consulting services are agreed upon in writing prior to commencement of the engagement and are subject to the terms of the written investment consulting and advisory agreement. Pathworks may consult on a variety of Plan matters, including, but not limited to:

- Plan governance issues, policies and procedures, board resolutions and the development or review of an Investment Policy Statement.
- Plan service provider reviews, evaluations and searches.
- Investment options: searches, recommendations, monitoring and review
- Employee education by providing general information on the funds available under the plan and other general investment information aimed at helping participants make better choices for themselves from among the alternatives available under the plan.
- Fee benchmarking;
- Fiduciary file development and record keeping.

Pathworks may also provide other information aimed at assisting Plan sponsors or trustees in fulfilling their obligations to the plan. For example: information on pending or recent legislative changes that may impact the Plan, Plan participants and beneficiaries.

### Estate Planning Services

Pathworks offers support for estate planning through Estate Guru, LLC, an online third-party estate planning preparation service (“Estate Guru”), to help clients prepare estate planning documents. Through Estate Guru, clients can have trusts, wills, and other estate planning documents prepared by licensed, local attorneys. Pathworks does not provide estate planning advice and only assists clients with the Estate Guru, discovery process and notarizes the client’s completed documents. Clients can directly engage Estate Guru for estate planning services without using the services of our firm.

After client requests that Pathworks provide estate planning services, Pathworks will conduct a client interview to gather data that will be forwarded to Estate Guru. Estate Guru will then prepare the estate planning documents strictly using the data gathered by Pathworks. Pathworks is not a licensed attorney and will be giving no legal advice as part of

the engagement. Because Estate Guru will be producing an estate plan based on the information provided to Estate Guru by Pathworks, it is essential that the client provide Pathworks with accurate and complete information.

### Family Office Services

Pathworks offers clients a broad range of Family Office Services -- as further described below -- to families, individuals, and institutions. These Family Office Services include advice pertaining to asset allocation, portfolio construction, financial planning, family governance and succession planning, investment manager selection, estate planning, insurance (life, health, disability) consulting, cash flow forecasting, and charitable gifting strategies.

Additionally, Pathworks provides its clients with consolidated asset and investment portfolio reporting. Pathworks provides strategic input to clients in tax and estate planning decisions -- primarily related to our clients achieving their investment planning objectives in the most tax-efficient manner possible. However, in doing so, Pathworks does not act as a CPA or attorney in the implementation or oversight of a tax or estate plan or strategy.

Each of our clients is served by the entire Pathworks team and is supported by our in-house financial analysts and operations team. If a Family Office client retains Pathworks to manage their investment portfolio on a discretionary or non-discretionary basis, such client will need to separately elect to receive Investment Management Services in their advisory agreement. While each of these services is available on a stand-alone basis, certain Family Office Services may also be rendered in conjunction with investment portfolio management as part of a comprehensive wealth management engagement.

In performing these services, Pathworks is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. Clients are advised that it remains their responsibility to promptly notify Pathworks of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising Pathworks' recommendations and/or services.

Family Office Services are generally offered to clients with at least \$25 million in assets under management or advisement, although Pathworks reserves the right, in its sole discretion, to accept clients that do not meet this threshold based on the complexity and scope of services required.

### **Client Tailored Services and Client Imposed Restrictions**

Pathworks' investment management services are tailored to meet the specific needs of each client. In order to provide appropriately individualized services, Pathworks' Adviser Representatives will work with the client to obtain information regarding the client's financial circumstances, investment objectives, overall financial condition, income and tax status, personal and business assets, risk profile and other information regarding the client's financial and investment needs.

At least annually, an Adviser Representative will review with clients their financial circumstances, investment objectives and risk profile. In order for Pathworks to provide effective investment advisory services, it is critical that clients provide accurate and complete information to Pathworks and inform Pathworks anytime such information needs to be updated or anytime there is a change in their financial circumstances, investment objectives and/or risk profile.

Generally, clients are permitted to impose reasonable restrictions on investing in certain securities or types of securities in their advisory accounts, provided, however, that some restrictions may not be accommodated when utilizing Exchange Traded Funds, mutual funds or with respect to certain third-party investment managers. In addition, a restriction request may not be honored if it is fundamentally inconsistent with Pathworks' investment philosophy, runs counter to the client's stated investment objectives, or would prevent Pathworks from properly servicing client accounts.

### **Performance-Based Fees and Side-By-Side Management**

Pathworks does not accept performance-based fees or engage in side-by-side management. Pathworks' fees are not charged on the basis of a share of the capital gains upon, or capital appreciation of, the funds in a client's account.

### **Methods of Analysis**

Pathworks relies on an investment philosophy that is based on the latest academic research such as Modern Portfolio Theory and the Fama-French Three-Factor Model, and the latest discoveries in behavioral finance. Pathworks believes that solid science, backed by decades of academic research, offers one of the smartest approaches to investing.

#### Modern Portfolio Theory

Modern Portfolio Theory says that it is not enough to look at the expected risk and return of one particular asset class. By investing in more than one asset class, an investor can reap the benefits of diversification, chief among them a reduction in the riskiness of the portfolio. Modern Portfolio Theory quantifies the benefits of diversification, also known as "not putting all of your eggs in one basket."

#### Fama-French Three-Factor Model

The Fama-French Three-Factor Model is based on research showing that over long periods of time, value stocks outperform growth stocks, and similarly, small cap stocks tend to outperform large cap stocks. Therefore, with analysis of these factors, it becomes easier to evaluate the potential portfolio performance.

The Pathworks investment philosophy is based on the following basic principles:

- Develop highly diversified portfolios that feature a broad range of asset classes and market sectors;
- Use market-based investments, not manager-based investments;
- Hold the investments for long periods of time;
- Periodically reallocate investments as conditions warrant;
- Strategically rebalance as needed.

The SAM Wrap Program is highly diversified, invests primarily in mutual funds and ETFs, and features as many as nineteen (19) asset classes and market sectors. This approach is

very effective, but cannot ensure investment success or prevent loss in a declining market. Past performance is no guarantee of future results.

### Investment Strategies

Pathworks will use all or some of the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance and time horizons, among other considerations:

#### *Long-Term Purchases*

Securities are purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

#### *Alternative Investments*

As part of its investment advisory services, Pathworks may recommend alternative investments for certain clients, including but not limited to private funds, private equity, private credit, real assets, hedge strategies, digital assets, and other non-traditional investment vehicles. Such investments are generally available only to investors who meet the definition of an "accredited investor" or higher under applicable federal securities laws and regulations.

Alternative investments may involve a high degree of risk and are typically subject to limited liquidity. These investments may include lock-up periods, redemption restrictions, gates, or extended holding periods, which may limit a client's ability to access capital when desired or required. In certain market conditions, redemption requests may be delayed, restricted, or suspended, and investors may be required to hold their investment for longer periods than anticipated.

Valuations of alternative investments are often based on information provided by the investment sponsor, issuer, or other third-party sources and may be estimates rather than market-based prices. As a result, reported values may not reflect the price at which an investment could be sold at a given time. Valuation information may be subject to delay, adjustment, or restatement, and advisory fees may be calculated based on such reported or estimated valuations.

Prior to recommending alternative investments, Pathworks considers a client's overall financial condition, investment objectives, risk tolerance, liquidity needs, time horizon, and ability to bear the risks associated with illiquid, complex, or speculative investments. Alternative investments are generally recommended only for clients for whom such investments are consistent with their financial circumstances, long-term investment strategy, and sophistication level.

Alternative investments may involve additional risks not typically associated with traditional investments, including but not limited to leverage, limited transparency, concentration risk, manager risk, regulatory risk, operational risk, and tax complexity. Clients should be prepared to bear the risk of loss, including the possible loss of their entire investment.

**Digital Assets (including certain digital assets that may be deemed securities under applicable law)**

Certain alternative investments recommended by Pathworks may include digital assets, including securities that are issued, recorded, transferred, or settled using blockchain or distributed ledger technology. Such investments are generally available only to investors who meet the definition of an “accredited investor” or higher under applicable federal securities laws and regulations.

### **Price Volatility and Market Risk**

A principal risk associated with digital assets is significant price volatility. Digital asset markets may experience rapid and substantial price fluctuations, which can adversely affect the value of client portfolios. The value of digital assets held in a client’s portfolio may be influenced by numerous complex and difficult-to-predict factors, including but not limited to supply and demand dynamics, transaction fees, network participation, perceived or actual security vulnerabilities, inflation levels, fiscal and monetary policy, interest rates, and political, natural, or economic events. There is no assurance that clients will be able to transact digital assets at favorable prices or avoid periods of extreme volatility.

### **Digital Asset Service Providers**

Digital asset markets rely on various third-party service providers, including exchanges, custodians, wallet providers, payment processors, and other infrastructure participants. There is no assurance that such service providers will continue to operate, support specific digital assets, or maintain adequate operational, financial, or cybersecurity controls. Government regulation, market conditions, or technological developments may limit the availability of or access to digital asset service providers, which could adversely affect the liquidity, valuation, or viability of certain digital assets.

### **Custody and Safekeeping Risks**

Certain digital assets may present custody-related risks. Under the Investment Advisers Act of 1940, SEC-registered investment advisers are required to maintain client securities with qualified custodians. While some digital assets may be held with qualified custodians, many custodial service providers in the digital asset ecosystem may not meet the SEC’s definition of a qualified custodian or may offer limited custody solutions. As a result, clients may be required to hold some digital assets with third-party custodians or technology providers that present additional operational, cybersecurity, or insolvency risks. There can be no assurance that custodial safeguards will prevent loss, theft, hacking, or system failures.

### **Regulatory and Legal Uncertainty**

The regulatory framework governing digital assets continues to evolve at both the domestic and international levels. Future laws, regulations, or regulatory interpretations may materially impact the value, liquidity, transferability, taxation, or legality of certain digital assets. Government authorities may also take investigative, enforcement, or prosecutorial actions related to the issuance, ownership, transfer, or use of digital assets, which could adversely affect market conditions or investment outcomes.

### **Valuation and Reporting Risk**

Valuations of digital assets are often based on information provided by sponsors, exchanges, custodians, or other third-party sources and may be estimates rather than observable market prices. As a result, reported values may not reflect the price at which an investment could be sold at a given time and may be subject to delay, adjustment, or restatement. Advisory fees may be calculated based on such reported or estimated valuations.

### **Suitability and Risk of Loss**

Digital assets involve unique and significant risks, including regulatory uncertainty, valuation challenges, cybersecurity risks, protocol or network changes, limited liquidity, and the potential for complete loss of value. These investments may not be suitable for all clients and are recommended only after Pathworks evaluates a client's financial condition, investment objectives, risk tolerance, liquidity needs, time horizon, and ability to bear the risks associated with complex and illiquid investments. Clients should be prepared to bear the risk of partial or total loss of their investment.

### *Trading Authorization and Reallocation*

Once an asset allocation model portfolio has been selected, the client grants Pathworks limited discretionary authority to:

- Invest the assets in their SAM Wrap Program account in a diversified asset mix;
- Reallocate assets in their SAM Wrap Program account; and
- Rebalance the assets in their SAM Wrap Program account when needed.

### *Rebalancing*

At account opening, SAM Wrap Program assets are invested in specific asset types including mutual funds and ETFs. Amounts invested in each asset type are determined in accordance with set target percentages of total assets in the SAM Wrap Program account. Thereafter, as markets fluctuate and values change, amounts originally allocated to an asset type will either exceed or fall below the original target allocations. Pathworks periodically adjusts SAM Wrap Program account holdings back to the original asset targets (i.e., “rebalance” the account). However, Pathworks does not rebalance SAM Wrap Program accounts constantly, and asset allocations may drift away from their original target percentages before Pathworks, within its authority and judgment, brings those allocations back in line to the original percentages. In a sense, when Pathworks rebalances a SAM Wrap Program account, Pathworks will sell holdings that are appreciating in value to buy other holdings that may be declining in value. However, the investment philosophy of an asset allocation strategy is to be positioned in various asset types so that when the asset type becomes profitable, the SAM Wrap Program account is positioned to take advantage of the upturn.

Clients may impose reasonable restrictions on the SAM Wrap Program account(s) that are not fundamentally inconsistent with the client's investment objective or the nature or operation of the SAM Wrap Program. Pathworks will notify clients quarterly, as a reminder, to contact Pathworks regarding any changes in a client's financial situation or investment objectives. In addition, the Adviser Representative will contact clients at least annually to determine whether any such changes have occurred and the ongoing suitability of participation in the SAM Wrap Program.

Pathworks does not provide tax or legal advice. Clients are instructed to seek advice from a tax or legal adviser before making an investment decision. Clients should inform his or her Adviser Representative if changes occur in such client's investment objectives or financial situation.

### *Reallocating*

When reallocating, Pathworks changes the target percentages of some or all of the asset classes or types relative to the total SAM Wrap Program account. The SAM Wrap Program account is monitored on an ongoing basis and assets are reallocated based on market or other conditions, as warranted. Changes in the asset allocation model, which include adding, removing or replacing securities at the discretion of Pathworks and the Investment Committee, are made based on significant changes in the economic, financial or political climate; changes in the tax code, the management of the securities used by the asset allocation model; and/or the client's personal circumstances. Pathworks may replace a particular security, if it significantly diverges from its relevant index in terms of risk or return, with a security that is more in line with the risk/return profile of the relevant index. Reallocations occur with less frequency than rebalancing, and when we reallocate SAM Wrap Program accounts, it generally is in anticipation of the impact that expected long-term market volatility could have on specific asset classes or types. Clients are notified of reallocations after the transactions are effected.

### **Investing Involves Risk**

Investing in securities involves risk of loss that each client should be prepared to bear. The value of a client's investment may be affected by one or more of the following risks, any of which could cause a client's portfolio return, the price of the portfolio's shares or the portfolio's yield to fluctuate:

- *Market Risk.* The value of portfolio assets will fluctuate as the stock or bond market fluctuates. The value of investments may decline, sometimes rapidly and unpredictably, simply because of economic changes or other events that affect large portions of the market.
- *Interest Rate Risk.* Changes in interest rates will affect the value of a portfolio's investments in fixed-income securities. When interest rates rise, the value of investments in fixed-income securities tend to fall and this decrease in value may not be offset by higher income from new investments. Interest rate risk is generally greater for fixed-income securities with longer maturities or durations.
- *Credit Risk.* An issuer or guarantor of a fixed-income security, or the counterparty to a derivatives or other contract, may be unable or unwilling to make timely payments of interest or principal, or to otherwise honor its obligations. The issuer or guarantor may default causing a loss of the full principal amount of a security. The degree of risk for a particular security may be reflected in its credit rating. There is the possibility that the credit rating of a fixed-income security may be downgraded after purchase, which may adversely affect the value of the security. Investments in fixed-income securities with lower ratings tend to have a higher probability that an issuer will default or fail to meet its payment obligations.
- *Allocation Risk.* The allocation of investments among different asset classes may have a significant effect on portfolio value when one of these asset classes is performing more poorly than the others. As investments will be periodically reallocated, there will be transaction costs which may be, over time, significant. In

addition, there is a risk that certain asset allocation decisions may not achieve the desired results and, as a result, a client's portfolio may incur significant losses.

- *Foreign (Non-U.S.) Risk.* A portfolio's investments in securities of non-U.S. issuers may involve more risk than those of U.S. issuers. These securities may fluctuate more widely in price and may be less liquid due to adverse market, economic, political, regulatory or other factors.
- *Emerging Markets Risk.* Securities of companies in emerging markets may be more volatile than those of companies in developed markets. By definition, markets, economies and government institutions are generally less developed in emerging market countries. Investment in securities of companies in emerging markets may entail special risks relating to the potential for social instability and the risks of expropriation, nationalization or confiscation. Investors may also face the imposition of restrictions on foreign investment or the repatriation of capital and a lack of hedging instruments.
- *Currency Risk.* Fluctuations in currency exchange rates may negatively affect the value of a portfolio's investments or reduce its returns.
- *Derivatives Risk.* Certain strategies involve the use of derivatives to create market exposure. Derivatives may be illiquid, difficult to price and leveraged so that small changes may produce disproportionate losses for a client's portfolio and may be subject to counterparty risk to a greater degree than more traditional investments. Because of their complex nature, some derivatives may not perform as intended. As a result, a portfolio may not realize the anticipated benefits from a derivative it holds or it may realize losses. Derivative transactions may create investment leverage, which may increase a portfolio's volatility and may require the portfolio to liquidate portfolio securities when it may not be advantageous to do so.
- *Capitalization Risk.* Investments in small- and mid-capitalization companies may be more volatile than investments in large-capitalization companies. Investments in small-capitalization companies may have additional risks because these companies have limited product lines, markets or financial resources.
- *Liquidity Risk.* Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing an investment manager from selling out of such illiquid securities at an advantageous price. Derivatives and securities involving substantial market and credit risk also tend to involve greater liquidity risk.
- *Issuer Specific Risk.* The value of an equity security or debt obligation may decline in response to developments affecting the specific issuer of the security or obligation, even if the overall industry or economy is unaffected. These developments may comprise a variety of factors, including, but not limited to, management issues or other corporate disruption, political factors adversely affecting governmental issuers, a decline in revenues or profitability, an increase in costs, or an adverse effect on the issuer's competitive position.
- *Concentrated Portfolios Risk.* Certain investment strategies focus on particular asset classes, countries, regions, industries, sectors or types of investments. Concentrated portfolios are an aggressive and highly volatile approach to trading and investing. Concentrated portfolios hold fewer different stocks than a diversified portfolio and are much more likely to experience sudden dramatic prices swings. In addition, the rise or drop in price of any given holding is likely to have a larger impact on portfolio performance than a more broadly diversified portfolio.
- *Legal or Legislative Risk.* Legislative changes or court rulings may impact the value of investments or the securities' claim on the issuer's assets and finances.

## **Voting Client Securities**

Pathworks does not vote proxies on behalf of its clients. Therefore, although Pathworks may provide discretionary investment advisory services relative to client investment assets, it is the client that maintains exclusive responsibility for: (i) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted and (ii) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceeding or other type events pertaining to the client's investment assets. Pathworks and/or the client shall correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

## **Item 7 - Client Information Provided to Portfolio Managers**

As portfolio manager, Pathworks will obtain information, prior to opening an account, regarding the client's financial situation, goals and investment objectives, risk tolerance, time horizon and other relevant factors, as described by the client, in selected the client's asset allocation model. Pathworks will also inquire as to the client's interest in imposing any reasonable restrictions on the management of the account. Pathworks will contact the client at least annually to determine if any changes have occurred that may affect the ongoing suitability of the portfolio selected and the determine if any new restrictions should be imposed on the account.

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

Clients are generally free to contact Pathworks and their Adviser Representative at any time during normal business hours via telephone, fax, mail or e-mail. In-person meetings should be scheduled in advance to ensure that the Adviser Representative is available. Generally, custodians and the issuers or sponsors of the investments used in the SAM Wrap Program are not available to answer questions or discuss specific investment issues. However, if a client has a specific need, we will reasonably attempt to arrange the discussion.

## **Item 9 – Additional Information**

### **Disciplinary Information**

Neither Pathworks nor its management personnel have any reportable disciplinary history.

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

#### **Broker-Dealer Registration and Registered Representatives**

Pathworks is not registered, nor does it have an application pending to register, as a broker-dealer. No management person is registered, nor does any management person have an application pending to register, as a registered representative of a broker-dealer.

#### **Futures and Commodity Registration**

Pathworks is not registered, nor does it have an application pending to register, as a futures commission merchant, commodity pool operator or a commodity trading advisor. No management person is registered, nor does any management person have an application

pending to register, as an associated person of a futures commission merchant, commodity pool operator or a commodity trading advisor.

#### Financial Industry Affiliations

Adviser Representatives of Pathworks are also licensed to sell insurance products. From time to time they will offer clients advice or insurance products as part of his financial review. This practice represents a potential conflict of interest because it gives such Adviser Representatives an incentive to recommend products based on the commission amount received. This conflict is mitigated by the fact that clients are not required to purchase any products. Clients also have the option to purchase these products through another insurance agent of their choosing.

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

Pathworks has adopted a Code of Ethics to prevent violations of the securities laws. The Code of Ethics is predicated on the principle that Pathworks owes a fiduciary duty to its clients. Accordingly, Pathworks expects all firm personnel to act with honesty, integrity and professionalism and to adhere to federal securities laws. All firm personnel are required to adhere to the Code of Ethics. At all times, Pathworks and its personnel must (i) place client interests ahead of the firm's; (ii) engage in personal investing that is in full compliance with the firm's Code of Ethics; and (iii) avoid taking advantage of their position.

Clients and prospective clients may request a copy of the firm's Code of Ethics by contacting Pathworks at (248) 946-4515.

#### Recommendations Involving Material Financial Interests

Pathworks does not recommend to clients securities in which the firm or any related person has a material financial interest.

#### Investing in Same Securities as Clients

From time to time, representatives of Pathworks may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of Pathworks to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. However, the size of personal trades and the types of investments (ETFs or Open-End Mutual Funds) that are likely to be transacted in would not have a practical impact on prices in those securities. Pathworks will always document any transactions that could be construed as conflicts of interest and will always transact client business before their own when similar securities are being bought or sold.

#### Participation or Interest in Client Transactions

From time to time, representatives of Pathworks may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of Pathworks to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. However, the size of personal trades and the types of investments (ETFs or Open-End Mutual Funds) that are likely to be transacted in

would not have a practical impact on prices in those securities. Pathworks will always document any transactions that could be construed as conflicts of interest and will always transact client's transactions before its own when similar securities are being bought or sold. No person associated with Pathworks shall prefer his or her own interest to that of any client.

## **Review of Accounts**

### Periodic Reviews

Account reviews are performed quarterly by each Adviser Representative for their respective client accounts. Financial Plans are considered complete when recommendations are delivered to the client. An ongoing review for Financial Plan clients is done only upon request of the client.

### Other Reviews

Other conditions that may trigger a review of clients' accounts are changes in the tax laws, new investment information and changes in a client's own situation. Reviews may also be triggered by material market, economic or political events, cash inflow or outflow to/from the portfolio or by changes in client's financial situations (such as retirement, termination of employment, physical move, or inheritance).

### Reports

Each client will receive at least monthly from the custodian, a written report that details the client's account including assets held and asset values. Clients will receive, at least quarterly, performance reports directly from Pathworks. The report will include performance and asset allocation information.

## **Client Referral and Other Compensation**

### Economic Benefits

Pathworks does not receive any economic benefits such as sales awards or other prizes from any non-client for providing investment advisory services to the firm's clients.

### Client Referrals

Neither Pathworks nor any related person directly or indirectly compensates any person for client referrals.

## **Financial Information**

### Prepayment of Fees

Because Pathworks does not require or accept prepayment of more than \$1,200 in fees six months or more in advance, Pathworks is not required to include a balance sheet with this disclosure brochure.

Financial Condition

Pathworks does not have any adverse financial conditions to disclose.

Bankruptcy

Pathworks has never been the subject of a bankruptcy petition.