

# Paulson Investment Company, LLC

## Regulation Best Interest Conflict Disclosure

This guide summarizes important information concerning the scope and terms of the brokerage services we offer and details the material conflicts of interest that arise through our delivery of brokerage services to you. We encourage you to review this information carefully, along with any applicable account agreement(s) and disclosure documentation you may receive from us.

As you review this information, we would like to remind you that we are registered with the United States Securities and Exchange Commission (“SEC”) as a broker-dealer and are a member of the Financial Industry Regulatory Authority (“FINRA”). Our Form CRS contains important information about the types of services we offer along with general information related to compensation, conflicts of interest, disciplinary action, and other reportable legal information. For more information, you should also review any brokerage agreements you entered into with us and other disclosures.

Please carefully review and consider the information in each section below.

### Brokerage services

When you establish a brokerage account with us, you can buy, sell, and hold investments within your account. The primary service we provide is our trading capability. We execute purchases and sales on your behalf, and as directed by you. In a brokerage services relationship, we can trade with you for our own account, for an affiliate or for another client, and we can earn a profit from those trades. However, we are not required to communicate it in advance, obtain your consent, or inform you of any profit earned on trades. The capacity in which we act is disclosed in your trade confirmation.

### Cash Brokerage and Margin Brokerage Accounts

We provide brokerage services through either a cash brokerage account or margin brokerage account, based on your eligibility and selection. In a cash brokerage account, you must pay for your purchases in full at the time of purchase. In a margin brokerage account, you must eventually pay for your purchases in full, but you may borrow part of the purchase price from either of our clearing firms, Axos Clearing or Vision Brokerage Services. This is generally referred to as a “margin loan.” The portion of the purchase price that is loaned to you is secured by securities in your account, also referred to as “collateral.” You will incur interest costs because of your margin activity. While many securities are eligible to be used as collateral for a margin loan, some assets are not available for margin collateral purposes.

Given that a margin-enabled brokerage account has specific eligibility requirements, unique costs, and governing regulatory requirements, our default brokerage option is our cash brokerage account. You must execute a separate margin agreement before engaging in margin brokerage activity. Included with your margin agreement is a copy of the Margin Disclosure Statement. This statement contains important information you should understand and consider before establishing a margin brokerage relationship with us. For more information on our margin brokerage services, contact your registered representative.

## Brokerage Account Types

We offer many different brokerage account types including individual and joint accounts, custodial accounts, Delivery Versus Payment (DVP) accounts, estate and trust accounts, partnership accounts, individual retirement accounts and other types of retirement accounts as outlined in our account agreement(s). You should refer to our account agreement(s) for more information concerning available account types or speak with a registered representative.

## Incidental Brokerage Services, Recommendations and Account Monitoring

Within your brokerage account, we may also provide other incidental services such as research reports, and recommendations to buy, sell, or hold assets. When we make a securities recommendation, investment strategy recommendation or recommendation to rollover assets from your Qualified Retirement Plan (QRP) to an Individual Retirement Account (IRA), the recommendation is made in our capacity as a broker-dealer unless otherwise stated at the time of the recommendation. Any such statement will be made orally to you. Moreover, when we act in a brokerage capacity, we do not agree to enter into a fiduciary relationship with you.

It is important for you to understand that when our registered representatives make a brokerage recommendation to you, we are obligated to ensure the recommendation is in your best interest, considering reasonably available alternatives, and based on your stated investment objective, risk tolerance, liquidity needs, time horizon, financial needs, tax status, and other financial information you provide us. You may accept or reject any recommendation. It is also your responsibility to monitor the investments in your brokerage account, and we encourage you to do so regularly. We do not commit to providing on-going monitoring of your brokerage account. If you prefer on-going monitoring of your account or investments, you should speak with a financial advisor about whether an advisory services relationship is more appropriate for you.

Please also consider that from time to time we may provide you with additional information and resources to assist you with managing your brokerage account. This may include but is not limited to educational resources, sales and marketing materials, performance reports, asset allocation guidance, and/or periodic brokerage account reviews. When we offer these services and information, we do so as a courtesy to you. These activities are not designed to monitor specific investment holdings in your brokerage account, they do not contain specific investment recommendations about investment holdings, and you should not consider them a recommendation to trade or hold any particular securities in your brokerage account. Upon your request, we will review such information and reports with you and may provide you with investment recommendations, but we are not under a specific obligation to do so.

## Clearing Services

We have entered into agreements with Axos Clearing and Vision Brokerage Services (also referred to herein as “Clearing Agent”) to carry your account and provide certain back-office functions. We and our Clearing agents share responsibilities with respect to your account as set forth in the Customer Agreement that was delivered to you upon opening of your account. Please refer to the Customer Agreement for more information on how such responsibilities have been allocated between us, as well as the specific fees and charges associated with each Clearing Firm.

## Understanding Risk

It is important for you to understand that all investment recommendations and activities involve risk, including the risk that you may lose your entire principal. Further, some investments involve more risk than other investments. Higher-risk investments may have the potential for higher returns but also for greater losses. The higher your “risk tolerance,” meaning the amount of risk or loss you are willing and able to accept to achieve your investment goals, the more you

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may decide to invest in higher-risk investments offering the potential for greater returns. A Conflict of interest exists as many higher risk investments pay higher transaction fees to our firm. We align risk tolerances with investment needs to offer you different investment objectives from which to choose (see below). You should select the investment objective and risk tolerance best aligned with your brokerage account goals and needs.

Investment goals typically have different time horizons and different income and growth objectives. Generally, investment goals are on a spectrum, with “Income” investors typically holding the smallest percentage of higher-risk investments, followed by “Growth and Income” investors holding *some* higher-risk investments, and finally “Growth” investors holding a significant portion of their portfolio in higher-risk investments. Risk tolerance also varies, and we measure it on a continuum that increases from “Conservative” to “Moderate” to “Aggressive,” and finally “Trading and Speculation.”

For more information about risk see specific risk disclosed in the Customer Agreement document that you received when you opened your account as well as any subsequent amendments or supplements to that Agreement, as well as other information regarding risks in connection with specific investments you make (i.e., prospectuses, etc.). You should also ask your registered representative about the risk associated with your investments and any recommendations he or she is making.

In making recommendations that are in your best interest, our registered representatives rely on you to provide an accurate risk tolerance and investment objective. We encourage you to carefully consider your investment objective and risk tolerance and provide accurate information to Paulson and your representative before investing.

### Account Minimums and Activity Requirements

There is no minimum initial account balance required to open a brokerage account with us. However, if you either fail to fund your account or do not return account opening documents as required, your account will be closed. In addition, some types of brokerage accounts have minimum account activity requirements and/or minimum on-going balance requirements that must be maintained, or your brokerage account will be closed. These requirements are detailed in the account agreement(s) you receive when you open your brokerage account.

You should also understand that our registered representatives may establish their own minimum account balance requirements for the brokerage accounts they service. For example, a registered representative may choose to service only those brokerage account clients who satisfy account-specific or total household asset conditions. Minimum asset requirements are disclosed to you orally by your registered representative.

### Brokerage service models and products

Our registered representatives have general business discretion to operate and service their book of business. Most of the accounts serviced by our registered representatives are Full Service, meaning that you will receive communications from your registered representative, including securities recommendations and other advice, and servicing of your account(s) such as deposits and distributions. Your registered representative is also available to you to discuss your account(s). A conflict of interest exists as different securities products have varying transaction costs associated with them and recommendations may not be for the investment with the lowest cost.

## Brokerage Platform Products

Our brokerage platform offers a variety of product types including:

- **Equity Offerings** – Private, initial, and secondary public offerings of common stock, master limited partnerships, and other equity-related securities.
- **U.S. and International Equity Securities** – U.S. common stock and preferred securities, American Depository Receipts, common stock of companies organized outside the United States, master limited partnerships, closed-end funds, and exchange-traded funds (“ETFs”) traded on an exchange or in the over-the-counter market. Equity securities may be made available to certain clients through initial and secondary public offerings.
- **Listed Options on U.S. Equities** – Puts and calls that are traded on an exchange. Clients must be approved for options trading.
- **Municipal Securities** – Bonds issued by states, cities, counties, and other governmental entities.
- **Taxable Fixed Income Securities** – Corporate bonds, both investment grade and non-investment grade, organized under U.S. and non-U.S. law, U.S. Treasuries or federal agency bonds, and other debt securities issues by governments and their associated agencies.
- **Convertible Bonds** – Corporate bonds that may be converted into a pre-determined number of shares.
- **Free Credit Balances** – Funds you hold in your account in cash. For the avoidance of doubt, free credit balances are not inclusive of cash equivalents, such as money market funds or bank deposits.
- **Mutual Funds** – Pooled investment vehicles, including money market funds, managed by an investment manager, which invests in specific investment assets, such as stocks and bonds, in accordance with stated objectives. These funds can be purchased by all investors, although Paulson may offer only certain share classes to investors with certain asset levels or investments at certain levels. As an alternative to third party mutual funds, you may access a variety of exchange traded funds in a brokerage or advisory account.
- **Special Investments** – Generally, privately placed securities (such as private equity, private real estate, private credit, hedge funds, or traditional long-only manager strategies offered through LLC structures) may be made available only to eligible clients. LLCs are structured as private investment funds and are treated as partnerships for tax purposes. Special investments, as described above, can be illiquid and carry more risk than publicly traded securities. We may offer external (managed by third-party, unaffiliated advisors) special investments, including multi-manager funds, single manager funds and single company investment, or co-investment, private equity opportunities. Certain large institutional investors who qualify may be offered the opportunity to purchase privately placed securities that are not offered more widely to retail clients.

## Brokerage fees and our compensation

It is important to consider that while a brokerage relationship can be a cost-effective way of investing your assets, it is not for everyone given the fees and costs involved.

### Transaction-Based Fees

You will pay transaction-based fees for trades you decide to enter, such as buying and selling stocks, bonds, Exchange Traded Products (ETPs), mutual funds, annuity contracts, exercising options and other investment purchases and sales. These transaction-based fees are generally referred to as a “commission,” “mark up,” “sales load,” or a “sales charge.” Transaction-based fees are based on a host of factors, including, but not limited to:

- Underlying product selection

- Your brokerage account type
- Size of your transaction and/or overall value of your account
- Frequency of your trade activity
- Available discounts and/or fee waivers

### Account and Service Fees

You will pay fees for various operational services provided to you through your brokerage account. These fees are set at least annually and communicated to you through information included in your account statement and other notifications. These fees do not apply to all account types and may be waived under certain conditions.

You should understand that, based on the accounts opened, the same or similar products, and services may vary in terms of the fees and costs charged to you. For more information concerning our administrative and service fees, speak with a registered representative.

### How We Are Compensated

The fees you pay depend on the agreed upon fee arrangement, the nature of your relationship with us, and the investments transacted in your accounts. Charges applied to your accounts and transactions may include execution charges (including commissions, commission equivalents, markups, markdowns, and dealer spreads), as well as, if applicable, the fees and expenses of any underlying pooled investment vehicles held in your account.

Depending on the products in which you invest, you may receive product specific documentation that includes more information on specific charges associated with such products, including prospectuses for mutual funds, initial public offerings, and structured products. In addition, for certain secondary trades, your trade confirmation will disclose the amount of any commission charged (but will not disclose charges that may be embedded in the price of the security, such as a markup).

Certain investments may be more expensive for you than others even if they seek to implement the same or a similar investment strategy. For example, Private Equity funds will generally be more expensive than ETFs.

### Brokerage Accounts:

With respect to brokerage accounts, you will be charged on a transactional basis. In this regard, commissions will be charged in connection with transactions involving equities, master limited partnerships (“MLPs”), ETFs, listed options, and any other securities where trades are executed on an agency basis. Commission equivalents, such as markups / markdowns, will be charged in connection with transactions executed on a principal basis including for certain fixed income securities, such as bonds and structured notes, as well as certain equity and derivative transactions. Execution costs are generally higher for brokerage accounts than for advisory accounts. If you borrow on margin or from a securities-based loan in any account you maintain, you will incur interest charges.

Additional fees, such as custody fees and administrative costs, may apply. Charges related to a specific product, such as mutual funds, may include certain embedded fees, as described in the applicable product documentation.

## Advisory services

Certain broker-dealer Registered Representatives are also Investment Adviser Representatives of ORCA Investment Management. ORCA Investment Management is an affiliate of Paulson Investment Company, LLC. Additional information regarding ORCA Investment Management may be found on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Revenue Sharing

The Firm receives from its clearing firms a share of revenue generated from ACAT Termination Fees, Inactive Account Fees, and Postage & Handling service charges to your account. The Firm also receives revenue from Margin Interest and Lending Services.

The firm also receives compensation from Mutual Funds in the form of 12b-1 fees for support and marketing.

The firm receives compensation from the Managing Broker-Dealer of outside sponsors and issuers of directly held investments such as Direct Participation Programs, Private REITs, and other Alternative Investment sponsors and issuers. Such compensation ranges from 0% to 7% calculated upon the investment amount.

## When Fees are Applied to Clients' Accounts

### Brokerage Fees:

Brokerage fees are charged on a transaction basis and may be reflected on your trade confirmations (either as commissions / commission equivalents for equity securities or included in the net price shown for fixed income or preferred equity securities). Such fees will be debited from your account upon settlement of the transaction.

### Other Fees:

Other fees, such as custody fees if applicable, may apply to and be debited from your account on an annual basis.

More information about fees and charges is available from us at any time and is included in the Account Agreements.

## Training and Education

We work closely with product and service providers who provide training and education compensation to offset or reimburse us for costs incurred in conducting comprehensive training and educational meetings for our registered representatives. These meetings or events are held to educate registered representatives on product characteristics, business building ideas, successful sales techniques, suitability as well as various other topics. In addition, certain vendors such as 401k plan providers provide free or discounted research or other vendor products and services, which can assist our registered representatives with providing services to the plan.

Likewise, from time to time, product providers will reimburse us for expenses incurred by individual branch offices in connection with conducting training and educational meetings, conferences, or seminars for registered representatives and participants. Also, registered representatives may receive promotional items, meals or entertainment or other non-cash compensation from product providers. We require all such product providers to submit a request to invite our registered representatives to such events for approval by the firm to confirm that such compensation and non-cash compensation is reasonable and to mitigate conflicts of interest.

Although training and education compensation is not related to individual transactions or assets held in client accounts, it is important to understand that, due to the total number of product providers whose products are offered by us, it is not possible for all companies to participate in a single meeting or event. Consequently, those product providers that do participate in training or educational meetings, seminars or other events gain an opportunity to build relationships with registered representatives; these relationships could lead to sales of that company's products, which creates a conflict.

### Operational Fees

We receive compensation for various operational services provided to you through a brokerage account. For more information regarding account fees for brokerage services, please see your brokerage account agreement.

### Compensation for Termination of Services

Other than any contingent deferred sales charge for a fund (as described under the Mutual Funds section above, if applicable), IRA termination fees (when applicable), and account transfer fees, the firm would not receive any additional compensation in connection with the termination of its services. If you have questions, contact your registered representative.

### Conflicts of interest

Conflicts of interest exist when we provide brokerage services to you and recommend securities transactions or investment strategies to you, including the fact that we recommend securities to you for which we may serve as an underwriter and for which we are paid significant compensation. A conflict of interest is a situation in which we engage in a transaction or activity where our interest is materially averse to your interest. The mere presence of a conflict of interest does not imply that harm to your interests will occur, but it is important that we acknowledge the presence of conflicts. Moreover, our regulatory obligations require that we establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest associated with our recommendations to you. Please review additional conflicts of interest disclosures, including in brokerage account agreements, prospectuses and other product disclosures, trade confirmations and account statements you receive from us.

Our conflicts of interest are typically the result of compensation structures and other financial arrangements between us, our registered representatives, our clients and third parties. We offer a broad range of investment services and products, and we receive various forms of compensation from our clients, affiliated and non-affiliated product providers and money managers, and other third parties as described above. Securities rules allow us, our registered representatives, and our affiliates to earn compensation when we provide brokerage services to you. However, the compensation that we and our registered representatives receive from you varies based upon the product or service you purchase, which creates a financial incentive to recommend investment products and services that generate greater compensation to us. Additionally, there are instances in which a third party pays our fees. As an example, when we recommend securities

for which we are acting as a placement agent, we are receiving a fee from the issuer of that security. Although you may not pay a fee in those transactions, Paulson will have a conflict depending on the nature and size of the fee.

We are committed to taking appropriate steps to identify, mitigate and avoid conflicts of interest to ensure we act in your best interest when providing brokerage recommendations to you. Below you will find additional information related to our conflicts of interest. This information is not intended to be an all-inclusive list of our conflicts, but generally describes those conflicts that are material to your brokerage relationship. In addition to this disclosure, conflicts of interest are disclosed to you in your account agreement(s) and disclosure documents, our product guides and other information we make available to you.

## Compensation We Receive from Clients

### Transaction-based conflicts

In your brokerage account you pay certain fees (commissions and sales charges) in connection with the buying and selling of each investment product, including mutual funds, variable annuities, alternative investments, exchange traded funds, equity securities, and bonds. Where these fees apply, the more transactions you enter, the more compensation that we and your registered representative receive. This compensation creates an incentive for us to recommend that you buy and sell, rather than hold, these investments. We also have an incentive to recommend that you purchase investment products that carry higher fees, instead of products that carry lower fees or no fees at all.

### Markups and markdowns for principal transactions

When you buy or sell securities in a brokerage account, and in accordance with industry regulations, we may impose a markup (increase) or markdown (decrease) in the price of transactions we execute on a principal basis. We are compensated based upon the difference (markup) between the price you pay for securities purchased from us and the price we sell such securities to you over the prevailing market price, or the difference (markdown) between the price you sell securities to us and the price we purchase such securities from you over the prevailing market price. We maintain policies and procedures reasonably designed to help ensure compliance with the markup and markdown industry rules and guidelines.

### Account maintenance and other administrative fees

For the services we provide or make available to you with respect to your brokerage account, we charge certain account maintenance and other administrative fees, including transfer, wire, or other miscellaneous fees, as described in the fee schedule provided to you on an annual basis. The higher the fees we charge, the more we are compensated.

## Compensation We Receive from Third Parties

Third-party payments we receive may be based on new sales of investment products, creating an incentive for us to recommend you buy and sell, rather than hold, investments. In other cases, these payments are made on an ongoing basis as a percentage of invested assets, creating an incentive for us to recommend that you buy and hold investments (or continue to invest through a third-party manager).

The total amount of payments we receive varies from product to product and varies with respect to the third-party investment management products we recommend. It also varies from the compensation we receive in connection with other products and services we may make available to you. We have an incentive to recommend investment products and services that generate greater payments to us, which creates a conflict. This compensation generally

represents an expense embedded in the investment products and services that is borne by investors, even where it is not paid by the Product Sponsor and not directly from the investment product or other fees you pay. The types of third-party compensation we receive include:

- **Revenue Sharing.** The firm receives compensation in the form of selling group compensation for certain products and sharing operational and other revenue with its clearing firms as described more fully in this document above.
- **Trail Compensation.** Ongoing compensation from Product Sponsors may be received by us and shared with our registered representatives. This compensation (commonly known as trails, service fees or Rule 12b-1 fees in the case of mutual funds) is typically paid from the assets of the investment product under a distribution or servicing arrangement and is calculated as an annual percentage of invested assets. The amount of this compensation varies from product to product. We have an incentive to recommend that you purchase and hold interests in products that pay us higher trails.

#### Additional Compensation from Product Sponsors and Other Third Parties

We and our registered representatives, associates, employees, and agents receive additional compensation from Product Sponsors and other third parties including:

- Gifts and awards, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings or marketing or advertising initiatives, including services for identifying prospective clients.
- Payment or reimbursement for the costs associated with education or training events that are attended by our employees, agents, and registered representatives, and for conferences and events that we sponsor.
- Reimbursement from Product Sponsors for research and technology-related costs, such as those to build systems, tools, and new features to aid in servicing clients.

**Note:** The amount of these payments is not dependent on or related to the level of assets you or any other of our clients invest in or with the Product Sponsor.

#### Product Share Classes

Some Product Sponsors offer multiple structures of the same product (e.g., mutual fund share classes) with each option having a unique expense structure, and some having lower costs to you as compared to others. We are incentivized to make available those share classes or other product structures that will generate the highest compensation to us.

#### Compensation Related to Proprietary Products

Brokerage recommendations can include a recommendation to invest in a product or service that is managed, issued, or sponsored by us or our affiliates. We and our affiliates will receive additional compensation or economic benefits from investments by you in such products, including, but not limited to, management credits, service fees and similar revenue sharing arrangements. The compensation related to these may be greater than comparable products provided by third parties. Thus, we have an incentive to recommend investments in proprietary/affiliated products.

## Compensation Received by Registered Representatives

Registered representatives are compensated in a variety of ways based on the percentage of revenue generated from sales of products and services to clients, including brokerage account activity. This compensation may vary by the product or service associated with a brokerage recommendation. In addition to upfront transaction-based compensation, some products feature on-going residual or “trail” payments. Thus, registered representatives are incentivized to recommend products that have higher fees as well as those with on-going payments. Additionally, registered representatives may receive compensation in the form of warrants from the sales of the firm’s private equity offerings. These warrants allow the registered representative to purchase the company’s stock at a specific price before the warrant’s expiration date.

Typically, a registered representative’s participation in fees obtained by the firm is determined by a payout schedule determined by the registered representative and the firm. As a result, registered representatives have an incentive to provide brokerage recommendations that result in selling more investment products and services, as well as investment products and services that carry higher fees. Registered representatives also have an incentive to provide brokerage recommendations to gather more assets under management and to increase brokerage trading activity, and to reduce the number of discounts available to you.

Registered representatives have an incentive to recommend you rollover assets from a Qualified Retirement Plan (“QRP”), such as a 401k or 403b plan, to a brokerage Individual Retirement Account (“IRA”) because of the compensation they will receive. We maintain policies and procedures designed to ensure that rollover recommendations are in your best interest.

Brokerage accounts, unlike advisory accounts, do not feature an on-going fee based on assets under management. Registered representatives are incentivized (if properly licensed) to recommend you transition your brokerage services account to an advisory account to generate on-going revenue where your brokerage account has minimal activity. Further, registered representatives are incentivized to recommend you transition your brokerage account to an advisory account after you have already placed purchases resulting in commissions and/or other transaction-based brokerage fees. We have controls established to identify and mitigate this risk. Registered representatives also have an incentive to provide higher levels of service to those clients who generate the most fees.

Recruitment compensation may be provided to registered representatives who join our firm from another financial firm. This compensation, which may vary by registered representative, often includes either an upfront or backend award based upon new client assets to the firm and/or revenue generated from such client assets. This creates an incentive for the registered representative to recommend the transfer of assets to the firm, including brokerage assets, to earn this compensation.

Non-cash compensation may be provided to registered representatives in the form of credits toward business expenses and certain titles. Registered representatives are also compensated in the form of education meetings and recognition trips. Portions of these programs are subsidized by external vendors and affiliates, such as mutual fund companies, insurance carriers, or money managers. Consequently, product providers that sponsor and/or participate in education meetings and recognition trips gain opportunities to build relations with registered representatives, which could lead to sales of such product provider’s products. Registered representatives may also receive promotional items, gifts, and other non-cash compensation from product providers up to \$100 per year for gifts per vendor. Additionally, vendors may host meals and entertainment above this \$100 limit.

### Other Registered Representative Activities

Registered representatives may be motivated to place trades ahead of clients to receive more favorable prices than their clients.

Registered representatives who are transitioning through a succession plan may be incentivized to make brokerage recommendations designed to increase the value of their “book of business” through asset accumulation or brokerage trades that are not in your best interest. Registered representatives who receive clients from a retiring registered representative are incentivized to meet growth goals and may make recommendations not in your best interest.

### Contact Information:

If you have any questions concerning the information contained in this disclosure, please contact your registered representative. You can also contact our Compliance Department available Monday through Friday, 7 a.m. to 4 p.m. at (503) 243-6003.