



Item 1 – Cover Page  
**Firm Brochure**  
(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Howland Capital Management, Inc. For questions about the contents of this brochure, please call 617-357-9110. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC), or by any state securities authority.

Additional information about Howland Capital Management, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

March 28, 2012

## **Item 2 - Material Changes**

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### **Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

The last release of this brochure was on September 16, 2011. Since then, there have been no material changes to this Brochure.

Copies of Howland Capital Management, Inc.'s Firm Brochure may be obtained by calling 617-357-9110.

## Item 3 – Table of Contents

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### Item 1- Cover Page

### Item 2 - Material Changes

Annual Update

Material Changes since the Last Update

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## Item 4 - Advisory Business

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### **Firm Description**

Howland Capital Management, Inc. was founded as Blackstone Management Corporation in 1967. The name of the firm was changed to Howland Capital Management, Inc. in 1994.

Howland Capital Management, Inc. (HCM) provides personalized, confidential investment management to various types of clients and invests in publicly and privately traded securities.

HCM generally provides investment advice to:

- individuals
- revocable and irrevocable trusts
- retirement and pension accounts
- custodian accounts and educational trusts
- foundations and charitable organizations
- endowments for non-profits
- estates

The investment advice provided by HCM is variable depending on the needs, objectives and other preferences of the client. Advice is provided through consultation with the client and may include:

- determination of financial objectives
- identification of financial problems
- cash flow management
- tax planning
- insurance review
- investment management
- education funding
- retirement planning
- estate planning

Client accounts are managed on a separate account basis.

The initial meeting with the client is considered an exploratory interview to determine the extent to which investment management may be beneficial to the client.

A written evaluation of each client's initial situation is documented as part of the account opening process with a new client. Periodic reviews with the client are conducted and the investment strategy is updated if necessary. More frequent reviews by HCM's team of portfolio managers are conducted but are not necessarily communicated to the client unless requested.

Through HCM, clients may also invest in venture capital funds, leveraged buy-out funds, hedge funds and private placements of stocks of operating companies.

For the purpose of investing in venture capital funds, hedge funds and private placements, accounts may be managed on a pooled basis in which each individual client in a particular pool shares pro rata in the gains and losses of the investment in proportion to the client's capital contributions.

HCM is strictly a fee-only investment advisory firm. The firm is not affiliated with entities that sell financial products or securities.

HCM employs the services of National Advisors Trust Company, FBS (NATCo) to act as qualified custodian for HCM clients.

HCM also provides tax consultation, tax return preparation and financial planning to its clients for a separate fee.

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**Principal Owners**

Weston Howland III is the majority stockholder and owns 80% of the outstanding stock.

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**Types of Advisory Services**

HCM provides investment advisory services, also known as asset management services.

HCM frequently furnishes advice to clients on matters not involving securities, such as financial planning, taxation issues, and trust services that often include estate planning.

As of December 30, 2011, HCM managed \$921,873,096 on a discretionary basis.

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**Tailored Relationships**

The goals and objectives for each client are documented in HCM's client relationship management system. Investment Policy Statements are created that reflect the client's stated goals and objectives. Clients may impose restrictions on investing in certain securities or types of securities.

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**Types of Agreements**

The following agreements define typical client relationships:

**Investment Advisory Agreement -**

HCM provides investment management services to all of its clients.

The scope of the work and fee structure is provided to the client prior to the start of the relationship in the Investment Advisory Agreement. An Investment Advisory Agreement covers investment management, performance reporting, and may include an overview of: cash management; insurance; education planning; retirement planning and estate planning.

The client's financial affairs are reviewed, including those of their children, if required. Realistic and measurable goals are determined and objectives are set

to reach those goals. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

HCM cannot transfer an Investment Advisory Agreement without client consent.

Please refer to Item 5 of this brochure for applicable fee schedules.

**Tax Service Agreement -**

Tax consultation and preparation work is performed separately and is billed on an hourly basis.

**Financial Planning Agreement -**

A financial plan is separate from the Investment Advisory Agreement that governs investment management. It may cover, but is not limited to:

- a net worth statement
- a cash flow statement
- a review of investment accounts
- a review of asset allocation including recommendations
- strategic tax planning
- a review of retirement accounts and plans including recommendations
- a review of insurance policies and recommendations
- one or more retirement scenarios
- a review of estate planning and recommendations
- a review of education planning and recommendations

Implementation of the recommendations is at the discretion of the client.

The fee for a financial plan is based on an hourly rate.

After delivery of a financial plan, future face-to-face meetings may be scheduled as necessary. Follow-on implementation work is billed separately per hour.

HCM may terminate any of the aforementioned agreements at any time by notifying the client in writing. Please refer to Termination of Agreement below regarding the billing procedure for the final fee.

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**Asset Management**

Assets are invested primarily in:

- equities (stocks) - domestic and international
- municipal, agency and corporate bonds
- Treasury securities
- direct private investments
- mutual funds; exchange-traded funds
- venture capital and hedge funds



Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. HCM does not receive any compensation, in any form, from fund companies.

Stocks and bonds are purchased or sold through a broker dealer chosen by the firm. The brokerage firm charges commission for stock and bond trades.

HCM also manages private equity and pooled investments. Please refer to Item 8 for more information on these private investments.

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## **Valuation of Securities**

### **Publicly Traded Securities -**

HCM has a Valuation Policy that defines how the value for securities held in HCM's client accounts is determined. Equities listed on any stock exchange, mutual funds and exchange traded funds are valued daily. Bonds are valued on a daily, weekly, or monthly basis depending on the security type.

### **Pooled Investments -**

HCM relies on the capital account valuation provided in the quarterly reports published by the underlying funds held in the pool. In general, these funds follow guidelines that have become universal for most private equity funds. Valuation of these funds is ongoing and is reviewed monthly.

### **Private Equity Chosen by HCM -**

In the small number of private equities where HCM makes a direct investment in the company, the security is valued at cost until there is a significant event that the principals of the firm believe warrant a change in price. A significant event is generally defined as a major deviation from the business plan or a financing where an independent third party sets the price for the company. In the event that HCM is unable to substantiate the price, it continues to value the asset at cost but may waive the client fee associated with the asset and remove it from performance calculations.

### **Private Equity Chosen by Clients -**

Under certain circumstances, HCM may hold private equity selected by clients in their accounts. In these situations, it is the client's responsibility to furnish the firm with an initial price and pricing updates.

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## **Termination of Agreement**

A client may terminate an Agreement by written notice to HCM. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed up to the termination notice date. The portfolio value at the end of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

A client may withdraw, in whole or in part, any assets held in the account by delivery of written notice to HCM and NATCo, subject to reasonable delays necessary to obtain the transfer of securities or to convert assets into cash.

## **Item 5 - Fees and Compensation**

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### **Description**

The annual Investment Advisory fee is based on a percentage of the assets under management according to the following schedule which became effective on July 1, 2003:

- 1.00% on the first \$1,000,000 (from 10 to 1,000,000)
- 0.60% on the next \$1,000,000 (from 1,000,001 to 2,000,000)
- 0.50% on the next \$1,000,000 (from 2,000,001 to 3,000,000)
- 0.35% on the next \$1,000,000 (from 3,000,001 to 4,000,000)
- 0.25% on the assets above \$4,000,000

An example of the fee for an account with \$5,000,000 under management:

- |                                 |             |                 |
|---------------------------------|-------------|-----------------|
| • \$10.00 per \$1,000 for first | \$1,000,000 | \$10,000        |
| • \$ 6.00 per \$1,000 for next  | \$1,000,000 | \$ 6,000        |
| • \$ 5.00 per \$1,000 for next  | \$1,000,000 | \$ 5,000        |
| • \$ 3.50 per \$1,000 for next  | \$1,000,000 | \$ 3,500        |
| • \$ 2.50 per \$1000 thereafter | \$1,000,000 | <u>\$ 2,500</u> |
| • Total Annual Fee in dollars   |             | \$27,000        |
| • As a Percentage of assets     |             | 0.5%            |

Current client relationships may exist where the fees are higher or lower than the fee schedule above. Upon request, HCM, in its sole discretion, may alter its investment advisory fee based upon certain criteria such as unsupervised assets and consolidation of fees across a family group.

The fees for financial planning, tax consultation and tax return preparation are based on an hourly rate and are in addition to the investment advisory fee.

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### **Fee Billing**

Investment Advisory fees are billed quarterly, in arrears, meaning that the client is invoiced after the three-month billing period has ended. Fees are collected quarterly based on the valuation of the account made on the last business day of the quarterly cycle (last day of the third month) then billed on or around the 16<sup>th</sup> day of the following month.

Fees are usually deducted from the designated client account to facilitate billing. Upon request, a client may also have the fees for an IRA billed to the client's taxable account. A client must consent in advance to direct debiting of their investment account. Alternatively, a client may choose to be billed directly

rather than have the fees deducted from the account. Payment in full is expected upon invoice presentation.

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**Other Fees**

Custodians charge a separate fee for the custodial services they provide. For clients using NATCo as their custodian, HCM has chosen to assume this cost on behalf of its clients.

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds as well as wire transfer fees for certain cash remittances. These transaction charges are usually small and incidental to the purchase or sale of a security. NATCo's transaction charges/wire fees are in addition to the HCM investment advisory fee.

The following additional yearly administration fees are charged to these specific kinds of accounts: Charitable Remainder Trusts \$2,500, Insurance Trusts \$300 and IRAs \$50. A \$100 account fee is charged by our custodian to close each account.

**Fund Expenses -**

HCM uses open-end and, on occasion, closed-end mutual funds which charge a management fee as part of the overall expense ratio to the fund shareholders. This expense ratio is deducted from the net asset value of the funds and is in addition to the management fee that HCM charges. The investments that HCM makes in exchange traded funds also have this additional fee, which is typically lower than that for mutual funds.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

Fees and other compensation payable to HCM, as manager of pooled investment funds, are described in Item 8, the disclosure section relating to such funds.

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**Past Due Accounts and Termination of Agreement**

HCM reserves the right to terminate any account that is more than 60 days overdue. In addition, HCM reserves the right to terminate any financial planning or tax service engagement in which a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in HCM's judgment, to providing proper financial advice.

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**Item 6 - Performance-Based Fees**

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**Sharing of Capital Gains**

Fees are not based on a share of the capital gains of managed securities.

HCM does not use a performance-based fee structure.

## Item 7 - Types of Clients

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### Description

HCM generally provides investment advice to

- individuals
- revocable and irrevocable trusts
- retirement and pension accounts
- custodian accounts and educational trusts
- foundations and charitable organizations
- endowments for non-profits
- estates

HCM also provides investment advice on a discretionary basis to pooled investment vehicles investing in venture capital funds, leveraged buy-out funds, hedge funds, and private placements of the stock of operating companies. Please refer to Item 8 for more information about these investments.

Client relationships vary in scope and length of service depending on the objectives and desires of the client.

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### Account Minimums

As a general rule HCM does not impose a minimum dollar amount or other conditions for opening or maintaining an account.

However, the minimum capital commitment for participation in HCM Venture Fund, LLC, HCM Venture Fund II, LLC and HCM Venture Fund III, LLC is \$15,000, and the minimum for participation in HCM Venture Fund IV, LLC, HCM Venture Fund V, LLC, and HCM Venture Fund VI, LLC is \$50,000.

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

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### Methods of Analysis

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis. HCM's main sources of information include:

- financial publications
- analysis of corporate activities
- research materials prepared by others e.g. ValueLine, Morningstar, etc.
- corporate rating services
- annual and quarterly reports
- prospecti
- reports from brokers
- FactSet
- filings with the Securities and Exchange Commission
- company press releases

- interviews of company management by HCM advisors

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### **Investment Strategies**

An Investment Policy Statement (IPS) is created for each account or client at the inception of the relationship and is the “play book” to which both the client and manager refer in the management of the account. The IPS reviews risk tolerance, time horizon, income needs, specific client restrictions and other relevant factors that are important elements in determining a client’s investment objectives. These factors form the basis for determining which model portfolio(see next paragraph) best fits the client’s investment objectives. Portfolio managers are responsible for implementing the IPS for their respective clients and meeting with them on a periodic basis to make sure that changes in the client’s circumstances and corresponding changes in investment objectives, if necessary, are captured in a revised IPS.

HCM manages four distinct model portfolios, each with varying risk parameters and return objectives. Asset allocation to stocks, bonds, and other asset classes will vary for each model in accordance with these risks and return objectives, as well as with income needs of the client.

The four models are:

- Aggressive Growth
- Growth
- Growth & Income
- Income

Specific characteristics of each model include the following:

#### **Aggressive Growth:**

- Seeks maximum growth of capital with little or no need for current income
- Considered appropriate for clients with a high tolerance for market risk of owning equities
- Weights assets primarily towards U.S. and International stocks
- Assumes investment horizon of ten years or greater

#### **Growth:**

- Seeks long-term growth of capital
- Considered appropriate for clients willing to accept market risk inherent in owning equities
- Has some exposure to fixed income assets, which are used to mitigate price volatility and provide current income
- Assumes investment horizon of five years or greater

#### **Growth & Income:**

- Seeks to balance need for long-term growth of capital with capital preservation and current income
- Includes significant exposure to fixed income
- Uses asset class diversification to mitigate total portfolio risk

- Assumes investment horizon of three to five years (although it may be a longer horizon for a more conservative client)
- Generally requires that no more than 10% of equity holdings be non-dividend paying

**Income:**

- Seeks current income and capital preservation as primary goal
- Considered appropriate for shorter time horizons of three years or fewer, or for more conservative clients who are less willing to tolerate the risk of owning stocks
- Contains primarily fixed income, along with high dividend paying stocks

As their names imply, these models have varying levels of risk and expected return. Accordingly, each model has different allocations to stocks and bonds and holds different securities, although there is some overlap. While the models help to insure that HCM is following a consistent approach, many of HCM's client accounts may not exactly match these models. Factors such as those listed below explain non-adherence to a model at any given time:

- specific client requests to maintain a minimum cash balance
- timing and size of cash flows
- dollar cost averaging strategies in an investment program
- client risk profiles that do not match the model
- integration of other assets that are held in separate accounts

These factors often prevent the exact mirroring of the client account to the model that best fits the investment objective. The Investment Committee, consisting of the portfolio managers, meets weekly and is responsible for reviewing the equity holdings and the asset allocation of each of the models and other relevant factors that are integral to a disciplined investment program.

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**Risk of Loss**

All investment programs have certain risks that are borne by the investor. Investors face the following investment risks:

- **Interest-Rate Risk:** Fluctuations in interest rates may cause security prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of an equity, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events that affect specific security prices.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a lower rate of return (i.e. interest rate). This risk primarily relates to fixed income securities.
- **Business Risk:** This risk is associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in buying and selling them. For example, Treasury Bills are highly liquid and therefore less risky than real estate, which is quite illiquid.
- **Financial Risk:** Excessive borrowing to finance business operations increases the risk of profitability, because the company must meet the terms of its debt obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Our investment approach constantly takes into account the potential of loss from any of the aforementioned risks.

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## **Private Investments**

### **Pooled Investments -**

Howland Capital Management also manages a number of pooled investments. These investment pools were created for those clients for whom the particular investment opportunity seems appropriate and suitable in the light of the client's financial situation, investment goals, restrictions and sophistication.

The client is included in the pool only after they have had an opportunity to review the disclosure documents related to the particular investment opportunity. However, their participation is driven by factors many of which the firm does not control. They include:

- whether the client is an eligible investor
- whether the client has the necessary cash to make the investment
- whether the client's account is below or above the target allocation for private equity
- whether the client is interested in the particular opportunity

As a result, not all of HCM's clients who have an interest are necessarily

participants in each of the private equity opportunities.

HCM has formed and acts as manager to these pooled investment funds:

- HCM Venture Fund, LLC
- HCM Venture Fund II, LLC
- HCM Venture Fund III, LLC
- HCM Venture Fund IV, LLC
- HCM Venture Fund V, LLC
- HCM Venture Fund VI, LLC

These funds invest in venture capital funds, hedge funds and leveraged buy-out partnerships. Initial investments made by these funds are subject to an extensive due diligence process by the HCM Review Committee, which examines the suitability of each prospective investment for the fund. In monitoring such investments HCM, among other things, receives and reviews quarterly reports from the funds' portfolio investments, attends the annual meetings of such portfolio investments and prepares an annual report updating the pool participants on the progress of the pool and in particular their portion of the pool.

For the pooled investment funds that HCM manages, the administrative fees are charged directly to the fund such that each of the limited partners pays their pro-rata share of these fees. The basis upon which these fees are calculated is part of the underlying documentation for each of the above identified HCM venture funds. The fees that are associated with the investment pools are in addition to those charged as part of HCM's investment advisory fee.

#### **NECP Investment Program -**

HCM also manages an investment program through which investors' funds are invested in portfolio companies of New England Capital Partners. Under this program, it is the client's responsibility to advise HCM in writing of any changes in the client's financial situation, objectives or restrictions relating to the investment, and to give HCM prompt notice if the client deems any investment decisions or recommendation made for the account to be in violation of such restrictions. At least annually, HCM will advise the client of this responsibility and provide the appropriate contact information. Any client may contact HCM during normal business hours to consult about the management of this investment.

#### **Private Equity -**

On occasion, HCM makes direct investments in individual companies for accredited investors. These direct investments are normally done alongside partners with whom we have previously invested such that we do not take on the "lead investor" role. These individual investments are made only for those



clients for whom the investment opportunities seem appropriate and suitable in light of the client's financial situation and sophistication.

HCM may hold a particular private equity investment in a client account at the request of the client. As stated in Item 4, with a client-directed private equity investment, it is the client's responsibility to furnish an initial price and pricing updates to the firm.

## **Item 9 - Disciplinary Information**

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### **Legal and Disciplinary**

HCM and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Financial Industry Activities**

Howland Capital Management, Inc. is an Investment Adviser registered with the Securities and Exchange Commission.

Registration does not imply a certain level of skill or training.

### **Affiliations**

HCM has no arrangements that are material to its advisory or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships.

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

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### **Code of Ethics**

In accordance with the Investment Advisers Act of 1940 ("Advisers Act"), HCM has adopted a Code of Ethics ("Code"). The purpose is to preclude activities which may lead to, or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct. This Code is based upon the principle that HCM and its employees have a fiduciary duty to conduct their affairs, including their personal securities transactions, in such a manner as to avoid: serving their own personal interests ahead of clients'; taking inappropriate advantage of their position with the firm; and any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

Further, the Code prohibits HCM and its employees from engaging in fraudulent, deceptive or manipulative conduct. HCM expects all of its employees to demonstrate the highest standards of ethical conduct and to act in a manner that is solely in the best interest of its clients. Annually, this Code is reviewed and all employees are required to certify that they understand and will comply with all of its provisions. Failure to comply with the policies and procedures set forth in the Code are grounds for disciplinary action or termination.

HMC's Code of Ethics is available for review by clients and prospective clients upon request.

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**Participation or Interest in Client Transactions**

From time to time HCM through its profit sharing plan or one or more of its employees and their family members may have an interest in securities or investment products recommended to and owned by clients. HCM is very aware that this situation may pose a conflict of interest and monitors any such transactions closely.

See "Personal Trading" below for more details.

**Cross Trades –**

From time to time HCM effects what the SEC considers "pure" cross trades, where one client of HCM is buying from or selling to another client of HCM the same security (generally individual bonds) and where HCM does not receive any compensation for this activity. These trades are infrequent and are only completed when the cross trade meets the following two criteria:

- The transaction is in the best interest of both parties.
- The transaction is performed as an arms-length trade, executed through one of HCM's approved brokers to ensure current and fair pricing and execution for both parties.

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**Personal Trading**

The Chief Compliance Officer of HCM, Maureen E. Quigley, CFA, reviews all employee trades each quarter. Her trades are reviewed by Weston Howland III, CEO. These reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm are not disadvantaged.

All employees of HCM and their immediate family members are required to comply with the company's Policies and Procedures for the Prevention of Insider Trading and Personal Securities Transactions ("the Procedures") and Code of Ethics. The Procedures require all employees and their families handle their personal securities transactions in such a manner as to avoid any actual or potential conflict of interest or any abuse of their position of trust and responsibility. The Procedures allow for personal investment activities by employees and their families, but restrict and control the circumstances under which such investments can be made. The Procedures also require quarterly reporting of all securities transactions by HCM employees and their families.

HCM's policies restrict trading by employees and their families so that they either trade alongside a client or after 3 p.m. on a given day. Employee trades effected alongside those of clients may occur only in employee accounts that are in-house. Employee trades effected after 3 p.m. may occur in accounts inside or outside HCM, but are permissible only when the employee account receives a less favorable price for a security than a client account on that day.

HCM makes every effort to insure that clients' accounts are given preference on favorable executions or allocations if conflicts arise.

## **Item 12 - Brokerage Practices**

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### **Selecting Brokerage Firms**

HCM generally has discretion over the placement of trades for its clients. In selecting brokers and placing orders, it is the policy of HCM to seek the best execution for each transaction, taking into account price, promptness of execution and other advantages to its clients, as well as certain other relevant factors. These factors include:

- the size and nature of the transaction
- the nature of the market for the security
- the broker's ability to execute a particular trade
- the broker's specific industry and regional expertise
- the level of service
- the quality of the broker's research provided to HCM
- the capability, experience and financial condition of the broker

At the beginning of each year, at an Investment Committee meeting, HCM reviews each brokerage relationship and assesses their prior year's performance against the factors mentioned above. Based on this assessment, a tiered ranking and amount of commission budgeted for the coming year is set. At the end of each quarter at an Investment Committee meeting, the portfolio managers review year-to-date commission figures and make adjustments as necessary.

HCM does not receive fees or commissions from any of these arrangements. Additionally, HCM does not have any directed brokerage arrangements nor does it have any affiliation with product sales firms.

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### **Best Execution**

In seeking best execution, HCM is not obligated to solicit competitive bids for each transaction or to seek the lowest available commission cost, so long as HCM reasonably believes that the broker selected can be expected to obtain a "best execution" market price on the particular transaction and determines in good faith that the commission charge associated with the transaction is reasonable in relation to the value of the brokerage and research services provided by such

broker to HCM. All of HCM's brokers execute trades on the same discounted commission schedule.

HCM utilizes the services of an outside firm to analyze sample trades each quarter. These analyses help determine whether the broker involved in a particular trade is able to achieve an execution price in line with those of other market participants at a given time.

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**Soft Dollars**

The research services provided to HCM by brokers include research reports and analyses of industries and specific companies. In addition, HCM has a "soft dollar" arrangement with Fidelity Investments, which pays for the on-line research services of FactSet. Soft Dollar trades are executed through Fidelity Investments' electronic trading system, at a commission rate comparable to, but in some cases, higher than the commission rate normally paid to other brokers. Commissions generated through this arrangement are used to pay for FactSet from which all clients benefit.

This soft dollar arrangement benefits HCM because by using soft dollars, HCM does not incur the majority of the cost of FactSet. The arrangement could give HCM the incentive to choose the broker related to our Soft Dollar arrangement for trades to generate commissions that pay for Baseline research. However, in practice, the firm generally reserves only small trades for Fidelity (fewer than 1,000 shares).

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**Order Aggregation**

In general, investment decisions for each client (or group of clients with a similar investment objective) are made independently from those of other client accounts and are made with specific reference to the individual needs and objectives of each client account (or group of client accounts). Because investment decisions frequently affect more than one client account and sometimes more than one type of account (e.g., a trust and IRA), at times it will be desirable to acquire or dispose of the same securities for more than one client account at the same time. In such situations, consistent with HCM's duty to obtain best execution for its clients, client orders may be aggregated.

HCM's Order Aggregation Procedure is designed to ensure that buy and sell opportunities, which have been aggregated, are allocated fairly among clients so that all clients are treated equitably, given their investment objectives. This procedure also seeks to ensure best execution and reasonable efficiency in client transactions.

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**Item 13 - Review of Accounts**

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**Periodic Reviews**

Each account is reviewed quarterly by a portfolio review committee consisting of the portfolio managers of HCM. In addition, securities held in an account are

reviewed periodically to determine whether they continue to meet the client's investment objectives and restrictions relating to the account. Individual account reviews are conducted by the primary managers throughout the year, both with and without the client.

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's situation or Investment Policy Statement.

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### **Regular Reports**

Clients receive quarterly account statements from HCM identifying their assets under management, the value of the accounts at the beginning and end of the period and all transactions that occurred during the prior three months. When HCM sends these reports to a client, it includes a review letter that discusses the statement. Clients also receive the firm's quarterly Economic and Market Commentary, which recaps the activity in the major markets and provides an outlook for the quarters ahead.

#### **Pool investors-**

Clients receive a quarterly statement from the custodian for each of their pooled investments identifying the underlying investments in the pool, the value of the pool at the beginning and end of the period and all transactions that occurred during the prior three months. Annually, HCM prepares unaudited financial statements and a partners' letter for each pooled investment fund. This letter recaps the activity in and outlook for the fund and is sent to each fund investor.

#### **NECP Investment Program investors –**

In addition to a review of the outlook for the funds in this program, the annual management letter notifies clients that HCM should be contacted by phone or mail if there have been any changes in the client's financial situation, investment objectives or restrictions relating to the account.

Typically, all reports are mailed to clients; however clients may choose to have their statements delivered electronically by providing authorization.

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

### **Referrals**

HCM has been fortunate to receive many client referrals over the years. The referrals have come from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

HCM does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to another firm.

## **Item 15 - Custody**

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### **Account Statements**

The majority of our clients choose to have NATCo provide custodial services. Clients receive quarterly statements directly from NATCo either in paper or electronic form, depending on their preference.

Clients are urged to compare the account statements received directly from the custodian to the account statements provided by HCM.

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### **Performance Reports**

Performance reports are generated by Investment Scorecard, HCM's performance vendor, with information extracted from Infovisa's MAUI, which is HCM's trust accounting system. These reports are run on individual accounts as well as in a consolidated format based on family relationships. As a general rule, primary managers review performance at face-to-face meetings with clients so as to address specific questions. On occasion, performance statistics are provided in quarter-end mailings to apprise clients of how their portfolio has generated returns relative to standard benchmarks.

## **Item 16 - Investment Discretion**

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### **Discretionary Authority for Trading**

HCM has discretionary authority to manage accounts on behalf of its clients and the authority to determine, without obtaining specific client consent, the securities, and the amount of the securities to be bought or sold.

HCM does not receive any portion of the transaction fees or commissions paid by the client to the custodian or broker on trades.

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### **Limited Power of Attorney**

A limited power of attorney constitutes a trading authorization for this purpose. Clients sign a limited power of attorney so that we may execute the trades that clients have approved.

## **Item 17 - Voting Client Securities**

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### **Proxy Votes**

HCM votes proxies for securities over which it maintains discretionary authority consistent with its Proxy Voting Policy.

HCM has adopted and implemented a policy and procedure for voting proxies which is designed to ensure that proxies are voted in the best interest of its clients. HCM considers the "best interests" of its clients to mean their best long-term economic interests. When conducting proxy voting, HCM considers various factors including

but not limited to whether any conflicts of interest exist between an HCM employee and the company as well as specific company factors. Generally, HCM anticipates that in the event it has a material disagreement with the management of an issuer, it will sell the shares as opposed to attempting to effect changes through the proxy voting process.

This policy also includes a procedure designed to address conflicts the unlikely event that a proxy vote would present a conflict of interest between the HCM and its clients. In such situations, HCM may engage an independent third party service provider to assist in voting proxies and cause the proxies to be voted in accordance with the recommendations of the third party.

Copies of the Proxy Voting Policy and information about how clients' proxies were voted are available upon request.

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**Class Action Litigation**

HCM has engaged Chicago Clearing Corporation (CCC) to provide class action litigation monitoring and securities claim filing services. CCC's sole business is securing class action claims. CCC monitors each claim of HCM's clients, collects the applicable documentation, interprets the terms of each settlement, files the appropriate claim form, interacts with the administrators and distributes the award on behalf of each client. The award is sent directly to HCM in check form payable to each client, and, after a review of the claim, HCM then forwards said check to NATCo for deposit into the client's account. CCC charges a contingency fee of 20%, which is subtracted from each client's award when the award is paid.

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**Item 18 - Financial Information**

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**Financial Condition**

HCM does not have any financial impairment that precludes the firm from meeting contractual commitments to clients.

HCM is not required to file a balance sheet.

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**Item 19 - Business Continuity Plan**

HCM has a Business Continuity Plan (the Plan) in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

The Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat or bomb, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is HCM's intention to contact all clients within five days of a disaster that dictates moving HCM's office to an alternate location.

HCM has key man insurance to cover the loss of the two largest shareholders of the firm. It also generally assigns a back-up portfolio manager to cover for the lead manager for each account. In the event the firm is unable to operate, NATCo has instructions on how to contact clients. HCM has arranged for one of its former portfolio managers, now retired and living out-of-state, to ensure that NATCo fulfills its role.

## **Item 20 - Information Security Program**

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### **Information Security**

HCM maintains an Information Security Program to reduce the risk that client personal and confidential information may be breached.

HCM is committed to maintaining the confidentiality, integrity and security of the personal information that clients provide.

The categories of nonpublic information that HCM collects from clients may include information about personal finances, information about health to the extent that it is needed for the financial planning process, information about transactions between the client and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help clients meet their personal financial goals.

With client permission, HCM discloses limited information to attorneys, accountants, and mortgage lenders with whom the client has established a relationship. The client may request that the firm not share information with these nonaffiliated third parties by notifying us at any time by telephone 617-357-9110, mail, fax or in person. With the client's permission, HCM shares a limited amount of information with brokerage firms in order to execute securities transactions on the client's behalf.

HCM maintains a secure office to ensure that client information is not placed at unreasonable risk. HCM employs a firewall barrier, secure data encryption techniques and authentication procedures in its computer environment.

HCM does not provide client personal information to mailing list vendors or solicitors. HCM requires strict confidentiality in its agreements with unaffiliated third parties that require access to personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review HCM's company records and client personal records as permitted by law.

Personally identifiable information about clients will be maintained while they are clients of HCM, and for the period thereafter that records are required to be



maintained by federal and state securities laws. After that time, information may be destroyed.

HCM will notify its clients in advance if its privacy policy is expected to change. HCM is required by law to deliver its *Privacy Notice* to clients annually, in writing.