



# **Hamilton Capital Management, Inc.**

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

**March 2012**

This brochure provides information about the qualifications and business practices of Hamilton Capital Management, Inc. ("HCM"). If you have any questions about the contents of this brochure, please contact us at 614/273-1000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about HCM is also available on the SEC's website at:  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

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Since the filing of the updated Part 2A of Form ADV in July 2011, HCM has not experienced any material changes to the Company's advisory operations.

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## **Advisory Business**

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HCM was founded on October 1, 1997, and is primarily owned by R. Matthew Hamilton. As of February 29, 2012, HCM provided advisory services to \$814, 000, 000 in assets under advisement, representing assets managed directly by HCM on a discretionary basis as well as assets that are reviewed by and implemented into an overall financial plan recommended by HCM. HCM's services are currently provided to approximately 900 clients. HCM offers the following types of services:

### **Investment Management**

Investment Management is at the core of almost every service HCM provides. HCM serves as Chief Investment Officer to its clients by applying continuous oversight to the clients' portfolio within the context of a guiding investment policy developed mutually with the client. Managed portfolios are supervised using HCM's dynamic forward-looking investment process.

### **Wealth Management**

HCM helps individual clients build and manage wealth through the skillful integration of long-range planning strategies and professional investment management.

HCM provides Financial Advisory Services which include a review, evaluation and analysis of a client's financial situation. Reports are generated and recommendations are made for client in the areas of cash flow planning, debt structure planning, education planning, investment planning, insurance planning, income tax planning, retirement planning and forecasting, and estate and wealth transfer planning as well as many other areas.

HCM offers Investment Advisory Services to clients which are tailored to their individual circumstances. The firm offers several proprietary strategies to clients or can offer customized solutions. For client accounts for which HCM does not have the ability to directly manage the accounts ("assets under advisement"), HCM will monitor and report on these accounts and will make formal investment recommendations and implementations where possible regarding such accounts. Clients are not required to utilize any other services of the firm.

### **Services to Fiduciaries**

HCM serves as advisors to corporations, foundations, endowments, retirement plans and family trusts in the governance and management of their investment portfolios. In addition, HCM can assist fiduciaries in developing clear portfolio objectives and written investment policies and procedures. That includes counseling and supporting clients with:

- Custodian selection
- Manager searches
- Performance measurement and evaluation systems
- Economic and financial market outlooks
- Board member education
- Constituent communication programs

HCM provides these services on a consulting basis or in a direct advisory capacity overseeing a comprehensive investment management and support program.

### **401(k) Plans**

HCM provides advisory services for 401(k) plans, whether the investment portfolios are trustee or participant directed. For plans where participants direct their own investment accounts, HCM offers strategies with actively managed asset allocations. Selections recommended by HCM provide a strategy for most every participant circumstance and are designed to address the breadth of the risk/return spectrum and fit within the safe harbor provisions of ERISA 404(c). HCM also provides a Qualified Default Investment Alternative (QDIA) to further protect plan fiduciaries.

HCM's services were developed to provide an alternative to the "menu" format of many plans that forces non-expert participants into the potentially undesirable role of managing their own asset allocations by choosing among a select group of funds. In addition, HCM provides an alternative to plans utilizing Target Date funds and Model Portfolios by designing actively managed asset allocation plans to adjust to opportunities and risks that emerge in the financial markets. HCM's role is to make the necessary investment decisions in an attempt to take advantage of investment opportunities, attempt to minimize risks and make investment decisions on behalf of the participant after the participant has selected the appropriate strategy.

## **Fees and Compensation**

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### **Fees for Integrated Services**

While fees are negotiable, HCM has adopted the following fee guidelines for new clients that choose to engage HCM to provide its Integrated Services. Integrated Services is where HCM will provide both Investment Advisory Services on a discretionary basis, for certain client portfolios, as well as Financial Advisory services. This fee schedule does not take into account those clients that have engaged HCM to provide only Investment Advisory Services or only Financial Advisory Services, as described above. Fees for the Integrated Services are as follows:

1.20% of the first \$2,000,000;  
0.95% of the next \$2,000,000; and  
0.65% on all amounts thereafter

Clients engaging HCM for Integrated Services outside of formal arrangements HCM has established with third party solicitors may be charged reduced advisory fees at the discretion of HCM.

Clients seeking HCM to provide Integrated Services typically must have assets exceeding \$300,000. All fees and minimum account balances are negotiable. Fees may be assessed at the time HCM begins to provide Financial Advisory Services, as described above, even though HCM may not have direct access to the Client's assets at that time.

In certain circumstances deemed appropriate by HCM, financial advisory services beyond the scope of traditional financial advisory services provided through the Integrated Services may be provided on either an hourly charge in effect at the time the services are performed or on a pre-established fixed fee. These fees are based on the expected complexity of the analysis and the resulting recommendations, as well as the anticipated amount of time to achieve the desired objectives. Examples would include fundamental changes in a client's life circumstances, sale of a business or professional practice, development of a complex charitable giving strategy, succession planning, death, divorce, career changes or relocation, as well as assistance with Employee Stock Ownership Plans. Under certain circumstances, as agreed upon between Client and HCM, payment of fees may be advanced for services to be performed, but in no event, for more than six months in advance.

### **Fees for Investment Advisory Services**

Fees for Investment Advisory Services are negotiable, are most often based upon an annual percentage of the net asset value of client's Account, and are charged according to a sliding scale. The fees are determined taking into account the time and costs associated with the supervision of the client's assets. Generally, advisory fees do not exceed 2.00% of assets under management on an annual basis and are not less than 0.25% of the net asset value of the client's Account, which is negotiable. There may be certain instances in which fees are waived.

### **Fees for Financial Advisory Services**

Financial Advisory Services may be provided on a fee basis, based on either an hourly charge or on a pre-established fixed fee. Fees are based upon the expected complexity of the analysis and the resulting recommendations, as well as the anticipated amount of time to achieve the desired objectives. HCM's hourly charges range from \$60 to \$350 per hour depending on the professional performing the services. Clients may terminate its agreement with HCM at any time and receive a refund of any funds not yet earned.

### **Fees for Institutional Services and 401(k) Plans**

HCM may charge up to 0.15% of assets annually for consulting services related to institutional accounts. Fees for institutional clients that engage HCM for active management of these accounts range up to 0.55%.

Advisory fees charged for 401(k) plans generally do not exceed 1.50% of assets under management on an annual basis with a minimum account size of \$300,000.

Fees for services provided to both institutional and 401(k) plans are negotiable at the discretion of HCM depending on the size of the assets to be managed and service to be provided.

### **General Information on Fees**

Fees for the Integrated Services and Investment Advisory Services are generally billed quarterly in advance and directly debited from client custodial accounts with a limited number of clients paying HCM directly by check. Quarterly fees are calculated by applying the annual fee schedule to the value of the accounts covered by the client's agreement with HCM at the end of each prior calendar quarter. HCM will value assets under advisement using the quarter end balance for assets held in accounts for which the HCM has direct access to the client's account information. For accounts under advisement where the HCM relies on the client to provide quarterly account statements for assets under advisement, HCM will bill on the most recent account balance information provided by the client. Initial fees for new client accounts are pro-rated to the end of the initial quarter. Likewise, fees for contributions to existing client accounts are pro-rated to the end of the current quarter at the discretion of HCM. Fees for the Integrated Services and Investment Advisory Services for new clients are fully refundable if client sends written notice of termination to the firm within five business days after the execution of the client's agreement with HCM. Also, in the event that an Integrated Services or Investment Advisory relationship is terminated in the middle of a quarter and HCM has received compensation for its services for the quarter, it shall be HCM's practice to refund the unearned portion of its fees to client. Due to the associated administrative costs involved, HCM's Integrated Services and Investment Advisory Services fees are not refundable in the event that a client withdraws only a portion of the funds in the client's account during a given quarter.

In addition to the foregoing fee arrangement, to the extent that client's assets are invested in a mutual fund or variable annuity separate accounts, the fund's or separate account's investment advisor will also receive an investment advisory fee. This fee will vary depending upon the mutual fund or separate account. These amounts are deducted from the mutual fund or separate account's assets before determining the net asset value of each share of the fund or separate account. Also, the fund or separate account may incur certain other administrative expenses. These amounts will vary from fund to fund or separate account to separate account and are deducted from the mutual fund's or separate account's assets before determining the net asset value of each share of the fund or separate account. It should be understood that client would not pay HCM an annual advisory fee in the event client invested directly with each mutual fund or variable annuity contract. In certain situations, clients transacting in over-the-counter securities will pay an agency commission in addition to a markup or markdown on the security.

The application of a minimum or flat fee on small accounts may result in an annual fee that exceeds the percentage of the net asset value of the client's portfolio as stated in their agreement. Therefore, investment advisory services for smaller accounts may be available from another investment advisor at a lesser fee. Furthermore, some clients may be charged a flat fee. In rendering services, HCM may waive certain out-of-pocket expenses associated with servicing the client's account including travel expenses. Significant out-of-pocket expenses may be the client's responsibility which will be communicated to the client and billed separately.

Clients may establish an account with any investment company group or insurance company offering insurance or annuity contracts whose services are compatible with HCM. While HCM and its advisory representatives are not licensed nor appointed to sell any insurance or annuity products, it may suggest the establishment of such accounts with certain investment company group(s) or insurance company(ies) that it is familiar and works with. HCM's objective in suggesting an investment company group or insurance company is not to recommend that particular company or any of its products, but rather to make the client aware of which companies it knows of

that fit what it and the client are trying to achieve. For example, HCM might suggest an insurance company that sells a no-load (no commission) variable annuity product that has an adequate selection of suitable investment companies and execution capabilities that are compatible with the systems of HCM. Clients who designate the use of a particular investment company group, insurance or annuity product, other than those suggested by HCM should understand that (a) the client may pay a commission to purchase investment company shares, insurance or an annuity contract which other clients of HCM may not pay; (b) the investment performance of client's account may be worse than other clients of HCM with similar risk tolerance; and (c) clients may not enjoy as efficient an execution as they might have had if they had not made such a designation.

HCM may maintain various levels of access to Client accounts in order to provide management services to client accounts. HCM may access Client accounts through the Client's on-line username and personal identification number ("PIN") and/or through fee liquidation authorization forms signed by the Client. This may give HCM the ability to obtain possession of or to appropriate Client funds or securities in accounts managed by HCM and in non-managed related accounts that are accessible through this personal information. Clients should carefully monitor their accounts for any erroneous or unauthorized transactions or withdrawals.

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

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HCM does not charge any performance fees. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to HCM.

## **Types of Clients**

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HCM provides Investment Advisory Services to individuals, business entities and corporations, foundations, endowments family trusts and qualified and non-qualified retirement plans. Generally, HCM typically requires a minimum account size of \$300,000, however, the minimum is negotiable and has been adjusted for certain clients.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

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Client, in consultation with HCM, chooses the investment strategy(ies) the firm is to employ. Most strategies will primarily invest in mutual funds (actively managed or indexed-type, passively managed) or the separate accounts of variable annuity contracts; in exchange-traded funds ("ETFs") or similar vehicles. In addition, for selected client accounts, HCM may implement a fixed income strategy that focuses on individual debt securities.

HCM currently emphasizes a top-down, macro-economic approach to portfolio management. For all our strategies, HCM starts with an assessment of global macro-economic and political conditions. Then, these are followed by an assessment of valuations, and expected return and risk for a range of asset classes (e.g., US Small Cap stocks or non-US emerging market debt) and risks (e.g., Duration or Interest Rate risk), in the US and abroad. HCM runs a range of scenarios to understand risks to the base case. Portfolios are constructed to reflect our analysis of both our base case ranking of returns for various assets classes/risks as well as the outcome of other scenarios.

Implementation of any investment plan involves varying degrees of risk and potential for loss, dependent on the specific investment goals and risk tolerances of each client.

Strategies that primarily invest in mutual funds, ETFs or the separate accounts of variable annuity contracts seek either portfolio growth, portfolio income or a combination of portfolio growth and income. Within the context of these objectives (growth, income or a combination thereof), client may select an asset allocation strategy that focuses on the issue of balancing return and market risk. It is expected that the great majority of the firm's clients will employ this strategy which will from time to time seek to reduce the market risk associated with equity and fixed-income investments by reducing or eliminating certain investment positions in mutual funds or separate accounts that primarily invest in equity, debt securities or other assets that are expected to have exposure to

greater price volatility or risk of loss.

In most circumstances, HCM has investment discretion over the accounts it supervises. Therefore the firm usually issues investment instructions to the custodian of its clients' accounts without prior consultation with client. Investment instructions given by HCM are consistent with the general goals and objectives of the investment strategy(ies) that is selected by client. However, HCM will accommodate a client's individual instructions with regard to the firm's supervision of client's account. Implementation of any investment plan involves varying degrees of risk and potential for loss, dependent on the specific investment goals and risk tolerances of each client.

HCM provides a service to assist new clients in transitioning from existing portfolios largely comprised of one or a few stocks and/or bonds to a more broadly diversified portfolio designed to meet stated financial objectives without taking undue risks. Strategies may be developed to sell portions of these large security positions or, in other cases; it may involve using an appropriate exchange partnership, which would allow clients to diversify their holdings without selling their appreciated securities and triggering income taxes. In still other situations, we may use option strategies to protect gains even when publicly traded options are not available.

#### **Risk of Loss - General**

All investing involves a risk of loss and the investment strategy offered by HCM could lose money over short or even long periods. Performance could be negatively impacted by a number of different market risks including, but not limited to, that portfolio management techniques used by HCM may not produce the desired results. This could cause accounts to decline in value. HCM selects investments based, in part, on information provided by issuers to regulators or made directly available to HCM by the issuers or other sources. HCM is not always able to confirm the completeness or accuracy of such information, and in some cases, complete and accurate information is not available. Incorrect or incomplete information increases risk and may result in losses.

#### **Potential Risks of Investing in Securities Purchased in Mutual Funds, ETFs, and by Investment Managers:**

**Stock Market Risk** - Stock market risk is the possibility that stock prices overall will decline over short or extended periods. Markets tend to move in cycles, with periods of rising prices and periods of falling prices.

Investing in small- and medium-sized companies involves greater risk than is customarily associated with more established companies. Stocks of such companies may be subject to more volatility in price than larger company securities.

**Foreign Securities Risk** - Foreign securities are subject to the same market risks as U.S. securities, such as general economic conditions and company and industry prospects. However, foreign securities involve the additional risk of loss due to political, economic, legal, regulatory, and operational uncertainties; differing accounting and financial reporting standards; limited availability of information; currency conversion; and pricing factors affecting investment in the securities of foreign businesses or governments.

**Interest Rate Risk** - Bonds also experience market risk as a result of changes in interest rates. The general rule is that if interest rates rise, bond prices will fall. The reverse is also true: if interest rates fall, bond prices will generally rise. A bond with a longer maturity (or a bond fund with a longer average maturity) will typically fluctuate more in price than a shorter term bond. Because of their very short-term nature, money market instruments carry less interest rate risk.

**Credit Risk** - Bonds and bond mutual funds are also exposed to credit risk, which is the possibility that the issuer of a bond will default on its obligation to pay interest and/or principal. This risk may also impact the "spread" or yield premium that these bonds require over low risk reference securities. Even if bonds do not default, investors' fear of default may lead to fluctuations in this spread that act much like rises and falls in interest rates. U.S. Treasury securities, which are backed by the full faith and credit of the U.S. Government, have limited credit risk, while securities issued or guaranteed by U.S. Government agencies or government-sponsored enterprises that are not backed by the full faith and credit of the U.S. Government may be subject to varying degrees of credit risk. Corporate bonds rated BBB or above by Standard & Poor's are generally considered to carry moderate credit risk.

Corporate bonds rated lower than BBB are considered to have significant credit risk. Of course, bonds with lower credit ratings generally pay a higher level of income to investors.

Liquidity Risk - Liquidity risk exists when a particular security or vehicle is difficult to trade. A mutual fund's investment in illiquid securities may reduce the returns of the mutual fund because the mutual fund may not be able to sell the assets at the time desired for an acceptable price, or might not be able to sell the assets at all.

Call Risk - Many fixed income securities have a provision allowing the issuer to repay the debt early, otherwise known as a "call feature." Issuers often exercise this right when interest rates are low. Accordingly, holders of such callable securities may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, after a callable security is repaid early, a mutual fund would reinvest the proceeds of the payoff at current interest rates, which would likely be lower than those paid on the security that was called.

Objective/Style Risk - All of the mutual funds and investment managers are subject, in varying degrees, to objective/style risk, which is the possibility that returns from a specific type of security in which a mutual fund or manager invests will trail the returns of the overall market.

U.S. Government Agency Securities Risk - Securities issued by U.S. Government agencies or government-sponsored entities may not be guaranteed by the U.S. Treasury. If a government-sponsored entity is unable to meet its obligations, the securities of the entity will be adversely impacted.

Third Party Investment Management Risk - HCM will not have a role in the management of clients' third-party managed accounts and it will likely not have the opportunity to evaluate in advance the specific investments made by any third-party managers. As a result, the rates of return to clients could significantly depend upon the choice of investments and other investment and management decisions of third-party managers and returns could be adversely affected by unfavorable performance of such managers. Further, HCM depends on third-party managers to develop the appropriate systems and procedures to control operational risks.

## **Disciplinary Information**

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HCM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

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HCM and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

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To avoid any potential conflicts of interest involving personal trades, HCM has adopted a Code of Ethics ("COE"), which includes policies and procedures for personal trading as well as insider trading. HCM's COE requires, among other things, that Employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of HCM above one's own personal interests;
- Adhere to the fundamental standard that an Employee should not take inappropriate advantage of his/her position;
- Avoid any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with this policy;



- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on oneself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve one's professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal and state securities laws.

HCM's COE also requires Employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide HCM with a detailed summary of certain holdings and securities accounts (both initially upon commencement of employment and annually thereafter) over which such Employees have a direct or indirect beneficial interest.

A copy of HCM's COE is available to any client or prospective client upon request.

## Brokerage Practices

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Integrated Services or Investment Advisory Services clients may establish an account with any broker-dealer whose services are compatible with the investment strategies used by HCM. However, in the event that client elects to establish an account with a broker-dealer, Hamilton Capital Management, Inc. recommends the establishment of such account with Charles Schwab & Co., Inc. (hereinafter, "Schwab"), an independent and unaffiliated broker-dealer. HCM's objective in recommending Schwab is to obtain the best selection of no-load mutual funds, the most efficient reporting of client transactions, and/or the best combination of commission cost and execution capability. HCM has negotiated a commission schedule with Schwab for its client accounts. Generally, this commission schedule is lower than the commission schedule offered by Schwab to its retail clients. However, this fee schedule may be higher than those available from other brokers for similar services. To the extent that HCM or its principals maintain accounts at Schwab, they realize the benefits of its favorable commission structure and execution capabilities. Therefore, this may raise potential conflicts of interest.

HCM will subscribe to certain electronic information services offered by Schwab. The primary services to which the firm subscribes are the capability to: (1) direct Schwab via electronic means to purchase and sell securities in client accounts; (2) electronically produce copies of Schwab forms and applications; receive copies of client trade confirmations via electronic means; (3) receive via electronic means certain account status reports; (4) download daily account transactions for all client accounts via electronic means that is acceptable to HCM's portfolio management computer software; (5) download the daily closing price of all security positions held in client accounts via electronic means in a format that is acceptable to HCM's portfolio management computer software; and (6) cross reference composite client investment information with individual account balances and positions. Schwab charges a quarterly fee for these services. However, to the extent that the client accounts at Schwab for which HCM provides advisory services have a minimum asset value and if the firm directs mutual fund trades via electronic means, receives electronic trade confirmations, and generates Schwab forms and applications via electronic means, then these fees are waived by Schwab.

The waiver of fees for electronic information services is available to all investment advisors that meet the foregoing criteria. Neither the commission schedule negotiated between HCM nor Schwab on behalf of clients of the firm, nor the level of commissions generated in client accounts at Schwab are a factor in Schwab's election to waive its fees. However, a conflict of interest may exist since a condition of the fee waiver is that aggregate accounts at Schwab for which HCM provides Investment Advisory Services must have a certain combined minimum value.

Many of the above noted services generally may be used to service all or a substantial number of HCM's accounts, including accounts not maintained at Schwab. Schwab may also provide HCM with information and consulting services intended to help HCM manage and further develop its business enterprise. These services

may include information technology consulting, regulatory compliance publications and presentations and mock regulatory inspections and internal control reviews by an independent third party. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to HCM. The availability to HCM of the foregoing products and services is not contingent upon HCM committing to Schwab any specific amount of business (assets in custody or trading).

For accounts of Hamilton Capital's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from HCM's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, HCM may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. HCM nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for HCM's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Clients who designate the use of a particular broker-dealer other than Schwab should understand that (a) HCM will generally not attempt to negotiate commissions with designated broker-dealers; (b) clients may pay higher commissions; and (c) clients may not enjoy the same selection of mutual funds or enjoy as efficient execution as they might have had they not made such designations. Transactions for a client who directs brokerage may not be batched for execution with transactions in the same securities for other clients. As a result, directed brokerage transactions may result in higher commissions, greater spreads, or less favorable net prices than would be the case if HCM were authorized to choose the broker/dealers through which to execute transactions for the client's account.

There may be instances in which HCM will purchase fixed income securities from a broker or dealer other than the one that is chosen by the client to custody the client's assets. This is due to the client's custodian possibly having insufficient inventory or less attractive prices in the fixed income securities desired. HCM has relationships with various brokers and dealers that we believe can frequently offer sufficient inventory that is competitively priced. HCM uses its discretion to determine not only which fixed income securities to purchase and sell, but also which brokers and dealers offer the "best execution" for HCM's clients. Brokers and dealers trading fixed income securities for HCM's clients may charge a markup or mark down on the security, an agency commission, or both. When appropriate, however, HCM will execute blocked purchase or sells in fixed income securities in an effort to gain improved pricing. The securities are then transferred to the client's chosen custodian who may in turn charge the client a "trade away" fee.

Any trade errors identified will be corrected to ensure each client is made whole as if the error did not occur. If a loss occurs greater than \$100, HCM will cover the loss, while Schwab will cover the loss if it is less than \$100. Transactions executed to correct an error resulting in a gain will remain in the affected client account unless the same error involved other client accounts that should receive the gain or it is not permissible for a client to retain the gain. If a client cannot retain the gain, Schwab will donate any amount over \$100 to charity and keep any portion less than that amount to minimize and offset administrative expenses related to correcting the error.

Orders for the same Security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating Clients. All Clients participating in each aggregated order shall receive the average price and subject to minimum ticket charges, pay a pro-rata portion of commissions.

## **Review of Accounts**

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The Chief Investment Officer, Antonio Caxide, Chairman and CEO, R. Matthew Hamilton, Senior Vice President and Chief Compliance Officer, William A. Leuby, President, Jeffrey R. Loehnis, and the Executive Vice President and Chief Operating Officer, Timothy M. Montague are responsible for the financial and investment

advisory services, the client relationships and the coordination of client services for more than 900 clients. Financial advisory services are reviewed and updated only as agreed upon with the client, either on a periodic basis or upon changes in the client's financial situation or investment objectives as communicated by the client to HCM.

Each account receiving Integrated Services or Investment Advisory Services are reviewed as frequently as necessary. The review of a client's investment account, their investment objectives, the continued appropriateness of the investment strategy selected by the client and the client's tolerance for risk are reviewed with the client on a schedule which is jointly agreed upon between the client and the officer of HCM who is responsible for the relationship with the client.

Additionally, once per quarter, clients receiving Integrated Services or Investment Advisory Services are provided with a statement outlining the value of their account. Accompanying this statement is an inquiry seeking to ascertain whether or not a client's investment objectives, financial circumstances or personal needs have changed. Clients are requested to contact the firm if there is a change in their investment circumstance. Generally, an officer of HCM is available during normal business hours to discuss these changes and to take any and all appropriate actions.

Reviews of the investment positions contained in a client's account are conducted as is necessary. The performance of all securities which are owned in a client's account in conjunction with a given investment strategy(ies) is reviewed on a timetable that is consistent with the objectives of the strategies. If a change of investment position is dictated in a client's account and HCM has discretionary authority to direct trades in that account; then instructions are given by HCM to the custodian broker, investment company, or insurance company to execute the appropriate change of investment position. These instructions are given without prior consultation with the client. If a change of investment position is dictated in a client's account and HCM does not have the discretionary authority to direct trades in that account, then the client is responsible to provide investment instructions to their custodian broker, investment company or insurance company.

In addition to confirmations of purchases and sales and monthly/quarterly account statements clients receive from the custodian of their account(s), all investment advisory clients are furnished with an appraisal of their portfolio assets by HCM at the end of each calendar or fiscal quarter. Additional reports relative to account performances and transactions are provided on a client by client basis as needed or requested.

## **Client Referrals and Other Compensation**

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HCM currently receives client referrals from Schwab through HCM's participation in the Schwab Advisor Network™ ("the Service"). HCM pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by HCM is a percentage of the fees the client owes to HCM or a percentage of the value of the assets in the client's account. HCM pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to HCM quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by HCM and not by the client. HCM may charge clients introduced by the Service a higher fee of up to 20 basis points or additional amounts than what it would charge a new client that comes directly to HCM without the benefit of the Service. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees HCM generally would pay in a single year. Thus, HCM will have incentives to encourage clients and household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit HCM's fees directly from the accounts.

From time to time, HCM enters into written agreements with other unrelated third parties ("solicitors") to use its best efforts on behalf of HCM to solicit and refer as clients those individuals or entities which it believes are suitable and appropriate for the advisory services provided by HCM. These agreements typically provide for a percentage of the fees collected by HCM to be paid to the solicitors from those advisory clients who became

clients as a result of the solicitor's efforts. Subject to existing federal and state securities laws and regulations, solicitors receive such fees on a fully vested basis, so long as the client's advisory agreement remains in effect. HCM may charge clients introduced by such solicitors a higher fee or additional amounts than what it would charge a new client that comes directly to HCM without the benefit of a solicitor. Such agreements are usually for an unspecified duration and are terminable upon notice. In addition to employees achieving other performance based criteria, HCM may compensate employees for soliciting new advisory clients for HCM. This compensation, which may include cash payments, is paid pursuant to written agreements with employees.

## **Custody**

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HCM does not take physical custody of client funds or securities. Instead, client selects either a mutual fund group(s), variable annuity contract(s) or a custodian broker from those designated by HCM as being compatible with the investment strategy(ies) selected by client.

All clients' accounts are held in custody by unaffiliated broker/dealers or banks, but HCM can access many clients' accounts through its ability to debit advisory fees. For this reason HCM is considered to have custody of client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by HCM.

## **Investment Discretion**

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HCM is typically granted discretion by limited power of attorney to select the amount and nature of securities which are purchased and sold in relation to those investment strategies selected by client for whom HCM provides a continuous and regular service. In some instances, margin balances may be initiated by the client, either through securities purchases or by writing a check for an amount which is greater than the cash available in the account.

At the inception of each client relationship or upon request, HCM will document any client requested restrictions to be applied to the management of their account. Due to the additional care required by client accounts for which restrictions have been applied, HCM will typically execute transactions for these accounts after transactions have been submitted for accounts without such restrictions.

## **Voting Client Securities**

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HCM will not exercise proxy or class action voting authority over client securities. The obligation to vote client proxies and class actions shall at all times rest with client. Client shall in no way be precluded from contacting HCM for advice or information about a particular proxy or class action vote. However, HCM shall not be deemed to have voting authority solely as a result of providing such advice to client.

Should HCM inadvertently receive proxy or class action information for a security held in client's account, then HCM will immediately forward such information on to Client, but will not take any further action with respect to the voting of such proxy or class action. Upon termination of its Agreement with client, HCM shall make a good faith and reasonable attempt to forward proxy or class action information inadvertently received by HCM on behalf of client to the forwarding address provided by client to HCM.

## **Financial Information**

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HCM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts. HCM does not require prepayment more than six months or more in advance for any services provided.