

## **Hudson Portfolio Management LLC**

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### **Form ADV Part 2A Brochure**

**This brochure provides information about the qualifications and business practices of Hudson Portfolio Management LLC (HPM).**

**This brochure has been prepared by HPM as mandated by the U.S. Securities and Exchange Commission (SEC). It is neither designed nor intended for promotional or advertising purposes, and it includes standard formulations uniformly found in these forms.**

**If you have any questions about the contents of this brochure, please contact us at (845) 424-4567.**

**The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

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

## **2. Material Changes**

Effective January 1, 2012, Brett M. Watanabe has been appointed Chief Compliance Officer of HPM.

There have been no other material changes at HPM from the date of the last brochure updated on March 29, 2011 through the date of this brochure March 26, 2012.

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#### 4. Advisory Business

- A. Hudson Portfolio Management LLC (HPM) is a fee-only financial advisory firm. It was established in 2004, and the principal owner and managing member is Byron S. Stinson. ToyKen Yee and Brett Watanabe are Partners in the firm.

B. Types of Advisory Services

HPM's sole business is the management of client portfolios and giving investment advice.

HPM is not actively engaged in a business other than managing portfolios and giving related investment advice. HPM does not sell products or services other than portfolio management and related investment advice to clients.

Specifically, HPM provides discretionary portfolio management services to private individuals and to related trusts, estates and family businesses based upon the needs and objectives of those clients. HPM also provides such services to non-profit or charitable organizations. The fees from portfolio management account for 99% of HPM's billings.

In special, rare situations HPM may manage investment advisory accounts on a non-discretionary basis. HPM also furnishes investment advice through consultations not included in the services mentioned above. The fees from such non-discretionary investment advisory services and consultations account for less than 1% of HPM's billings.

HPM does not issue periodicals about securities by subscriptions, special reports about securities, or any charts, graphs, formulae or other devices, which clients may use in evaluating securities.

HPM does not provide a timing service or any other advice about securities in any manner not described above.

HPM itself does not provide financial planning.

C. Tailored Client Services and Client Restrictions

All portfolios managed by HPM are specifically designed to fit the individual needs and objectives of its clients. Investment decisions are intended to reflect the client's specific circumstances which would include considerations such as risk tolerance, liquidity and cash needs, client investment experience and sophistication, security appropriateness, among other factors. HPM does not use

target portfolios though it is common for HPM managed portfolios to have similar investment holdings.

With few exceptions, HPM has full discretion to determine which securities are bought or sold and in what amounts. In a very few cases, clients have requested that certain securities not be purchased (e.g., tobacco stocks) or that certain holdings not be sold (e.g. stock of current or former employer). Clients who wish to limit HPM's discretionary authority should provide HPM with restrictions and guidelines in writing.

It is also possible that "clearance" may need to be obtained from the compliance department of certain client employers before a purchase or a sale is made on behalf of that client employee.

#### D. Wrap Fee Programs

HPM is not involved in any wrap fee programs.

#### E. Assets Under Management

As of February 29, 2012, HPM had \$80,000,000 of assets under management on a *discretionary basis*. At that time, HPM had no assets under management on a *non-discretionary basis* in which HPM has trading authorization. These amounts do not include accounts for which HPM provides consulting and advisory services but does not have trading authorization.

## 5. Fees and Compensation

### A. Compensation for Advisory Services

HPM offers its portfolio management services for a fee based upon a percentage of the assets under management, subject to an overall minimum.

The quarterly fee charged for managing each portfolio is a percentage of the market value of assets under management, subject to a minimum fee per client. The billing rate varies depending upon the investments within the portfolio, as well as the complexity of the portfolio. The standard or minimum fee rate for an individual securities portfolio (composed primarily of individual stocks and bonds) is currently 1% per annum or 1/4% per quarter. The standard or minimum fee rate for a mutual fund portfolio is 3/4% per annum. For portfolios invested primarily in short-term debt securities the standard or minimum fee is 1/2% per annum. Complex portfolios or portfolios requiring special services may be charged rates up to 1/2% per annum higher.

The quarterly fee, which is generally billed during the first month of the quarter, is determined by multiplying the market value of the portfolio at the close of the prior quarter by one-quarter of the annual fee rate. (For example, if an individual securities portfolio closed the year with market value of \$1,000,000, the first quarter standard fee for managing that portfolio would be \$2,500 =  $1/4 \times 1\% \times \$1,000,000$ .) If HPM's services are retained in the middle of a quarter, the fee for such quarter will be calculated on a pro rata basis and will be included in the billing for the following quarter.

The fee rate is set in advance. There is currently (for new clients) a \$4,000 minimum annual fee (\$1,000 per quarter) per client. This minimum per client can be reduced or waived in special circumstances, particularly where the client's portfolio(s) are expected to have significant additions in the future. Clients with portfolios of over \$5 million may be entitled to a reduced fee rate, depending upon the size and complexity of the total holdings. HPM fees are not negotiable, but in certain unusual circumstances, HPM, in its sole discretion, may decide to partially reduce or waive a client's quarterly management fee.

By policy, HPM does not require a written agreement for services with its clients, though one is regularly used.

### B. Fee payment

For discretionary portfolio management, fees are payable during the first month of each quarter and, when allowed by the client's qualified custodian, are deducted

directly from the portfolio or from another portfolio designated by the client. When direct fee deduction is not available, the client is mailed a bill for services. For its investment advisory and consultation services, which do not include discretionary portfolio management, HPM bills clients either hourly charges or fixed fees. Billing rates for these services are dependent on various factors including the complexity of the work and the staff involved. These bills are sent on a periodic basis for on-going services or at the completion of a project.

**C. Other Fees and Expenses**

In addition to the management fee paid to HPM, the client may incur expenses for trading commissions, transaction fees or service fees charged by the client's broker/custodian. HPM may also purchase for a client account: mutual funds, ETFs, closed end funds, or similar investments that charge their own management or administrative expenses. HPM receives no compensation from the client's broker/custodian nor from fund companies or other investment advisers.

HPM also may trade client accounts on margin. Clients must provide authorization for the use of margin that is done as part of the account application executed with their broker/custodian. Management fees are calculated based on the asset value of the account less the amount borrowed. The use of margin will result in interest charges in addition to all other fees and expenses associated with the security involved.

To fully understand the total costs, the client should review all the fees charged by mutual funds, exchange traded funds, HPM, and others. For information on HPM's brokerage practices, please refer to the "Brokerage Practices" section of this brochure.

**D. Termination of Services**

A client may terminate services provided by HPM at any time with 30-days written notice. Unless otherwise instructed, upon receipt of such notice, no further buy-sell orders will be placed and open orders will be cancelled. As described above, fees for portfolio management services are billed and paid quarterly in advance. Upon termination of services, the client will incur a pro rata charge for services rendered prior to the termination and will be entitled to a pro-rata refund of the unearned portion of the pre-paid quarterly fee that will be paid upon request, if not earlier.

**E. Other Compensation**

HPM does not receive any compensation for the purchase, sale or recommendation of any securities, mutual fund or other investment product. HPM also does not receive any subscriptions fees, commissions, mark-ups or other income for the services it provides its clients. HPM is not affiliated with



any broker/dealers, asset custodians, or investment fund companies and does not receive any compensation from such organizations.

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

HPM does not receive any performance-based fees. Therefore, there are not conflicts of interest arising from side-by-side management that may create an incentive for a manager to favor one account over another.

## **7. Types of Clients**

HPM clients are primarily individuals – including couples or families.

HPM clients include trusts and estates associated with such individuals or families.

HPM clients also include a few charitable or non-profit organizations.

HPM clients do not include banks or thrift institutions, investment companies, pension or profit sharing plans, or public corporation or other business entities other than individual- or family-owned businesses.

While HPM clients do not include pension or profit sharing plans themselves, HPM provides portfolio management or non-discretionary investment advisory or consultations services to the individual participants for their 401(k), profit sharing, SEP-IRA or similar individual retirement plan accounts.

HPM also provides investment supervisory or advisory services to individual business owners for investment accounts held by those businesses (corporations, limited liability companies, partnerships or sole proprietorships).

HPM does not have a minimum account size. However, as described in the Fees and Compensation section of this brochure, HPM has a minimum fee, which may be temporarily reduced or waived in special circumstances.

## 8. Methods of Analysis, Investment Strategies, and Risk of Loss

### A. Methods of Analysis

The primary focus of HPM is the management of client portfolios. Thus HPM relies largely upon independent third parties for security and other investment research, analysis and ratings.

The primary source of information is outside research, generally purchased from third parties, such as Value Line or Morningstar, rather than internally generated research. HPM also uses various corporate rating services associated with the third party research. For example, the Value Line timeliness ranking (which is based on a number of factors, including earnings momentum) is a factor in HPM analysis of stocks.

Financial newspapers and magazines (and their websites) are also a main source of current information.

Very rarely does HPM engage in original research on a company. Thus HPM generally does not read first hand annual reports, prospectuses, and filings with the Security and Exchange Commission or even company press releases. Nor does HPM engage in direct inspections of corporate activities.

HPM does not use timing services.

HPM uses a combination of fundamental security and cyclical economic analysis.

HPM does not use charting or technical security analysis, though short-term technical ratings may influence HPM trading.

HPM believes that asset allocation and broad diversification are fundamental to its basic investment strategy as a means of limiting risk consistent with the client's needs and objectives.

HPM is also primarily a long-term investor, mostly making long-term purchases of securities, which are expected to be held at least a year. Nonetheless, HPM also makes short-term purchases, in which securities are sold within a year, and may use trading, where securities are sold within 30 days, as investment strategies to manage its investment portfolios.

Occasionally, HPM may use short-term margin transactions, but only where permitted by the clients account application with the brokerage firm. Margin use is typically more a case in which a client withdraws funds on margin.

To date, HPM has not used short sales or any options writing investment strategies. But HPM does not rule out the use of such strategies in the future. HPM is also prepared to invest in and consult on “alternative” investments.

Investing in securities involves risk of loss that the client should be prepared to bear. HPM does not represent or guarantee that its services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. HPM cannot offer any guarantees or promises that a client’s financial goals and objectives will be met. *Past performance is not an indication of future performance.*

#### B. Material Risks in Investment Strategies and Methods of Analysis

All the investment strategies and methods of analysis discussed above do not insure against risk of loss. The following describes some of the material risks regarding investment strategies or methods of analysis considered by HPM:

- **Fundamental Analysis** involves analyzing individual companies and their industry groups, such as a company’s financial statements, details regarding the company’s product line, the experience and expertise of the company’s management, and the outlook for the company’s industry. The resulting data is used to measure the true value of the company’s stock compared to the current market value. The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock’s value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.
- **Cyclical Economic Analysis** is a type of analysis that involves evaluating investment opportunities as impacted by economic trends. Economic/business cycles may not be predictable and may have many fluctuations between long-term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.
- **Modern Portfolio Theory** is a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully diversifying the proportions of various assets. Market risk is that part of a security’s risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification.
- **Long Term Purchases** are the purchases of securities with the expectation that the value of those securities will grow over a relatively long period of

time, generally greater than one year. Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that the client is invested in or perhaps just a particular investment will go down over time even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost by “locking-up” assets that may be better utilized in the short-term in other investments.

- **Short Term Purchases** are the purchases of securities with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities’ short-term price fluctuations. Using a short-term purchase strategy generally assumes that HPM can predict how financial markets will perform in the short-term which may be very difficult. There are many factors that can affect financial market performance in the short-term (such as short-term interest rate changes, cyclical earnings announcements, etc.) but may have a smaller impact over longer periods of times.
- **Margin Transactions** are transactions in which an investor borrows money to purchase a security, and the security serves as collateral on the loan. If the value of the shares drops sufficiently, the investor will be required to either deposit more cash into the account or sell a portion of the stock in order to maintain the margin requirements of the account. This is known as a "margin call." An investor’s overall risk includes the amount of money invested plus the amount that was loaned to them.
- **Short-term Trading** includes buying and selling securities frequently in an effort to capture significant market gains and avoid significant losses during a volatile market. HPM may use short-term trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing client account(s) when HPM determines that it is suitable given a client’s stated investment objectives and tolerance for risk. However, frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.
- **Short Sales** are securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price, but if the price of the shares increase, the potential losses are unlimited.
- **Option Writing** is a securities transaction that involves selling an option. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option, he or she must deliver to the buyer a specified number of

shares if the buyer exercises the option. The seller pays the buyer a premium (the market price of the option at a particular time) in exchange for writing the option. Options are complex investments and can be very risky, especially if the investor does not own the underlying stock. In certain situations, an investor's risk can be unlimited.

HPM's strategies and investments may also have unique and significant tax implications. While HPM will consider the tax implications of the investment transaction being made, tax efficiency is not HPM's primary consideration in the management of portfolios.

Moreover, as a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. The client's custodian will default to the FIFO (First-In First-Out) accounting method for calculating the cost basis of their investments, though HPM may decide to utilize specified lot identification. The client is responsible for contacting their tax advisor to determine the accounting method that is the right choice for them. If another accounting method is more advantageous, the client should provide written notice to HPM immediately. HPM will alert the account custodian of the individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

#### C. Primary Types of Investments & Material Risks

HPM invests on behalf of its clients in nearly all types of marketable securities, including equities, fixed-income securities and cash-equivalent investments.

HPM invests in both exchange-listed and over-the-counter securities. These investments include foreign issues, including securities issued by non-U.S. companies and foreign governments and their agencies.

HPM equity investments may include warrants and hybrid convertible securities. Among HPM fixed-income investments are U.S. (and foreign) government, municipal (tax-exempt), and corporate debt securities. HPM cash-equivalent investments may include money market funds, commercial paper and other short-term corporate debt securities and bank certificates of deposit.

While HPM primarily invests in individual securities, HPM also invests in both open-end and closed-end mutual funds, exchange-traded funds and similar investment company securities.

In its portfolio management HPM does not invest in insurance products, such as variable life insurance or variable annuities. But HPM may provide non-discretionary advice through consultations on such investments.

HPM is also prepared to invest in options contracts on securities and in publicly traded real estate and oil-and-gas partnerships. HPM currently does not invest directly in option contracts on commodities or in future contracts on either tangibles or intangibles. HPM, however, may invest in these in the future.

Where appropriate, HPM may invest in non-publicly traded investment vehicles such as limited partnerships, which would include hedge funds or managed futures funds.

HPM's advisory and consulting services may cover employer-based equity grants, including restricted shares and options.

While HPM may utilize many investments as described above, HPM primarily utilizes stocks and bonds or funds that hold stocks and bonds. The following describes risks associated with these investments.

Investing in stocks involves the assumption of various risks including:

- Financial Risk is the risk that the companies HPM selects may perform poorly which will affect the price of the investment.
- Market Risk is the risk that the stock market will decline, concurrently decreasing the value of the securities HPM selects.
- Inflation Risk is the risk that the rate of price increases in the economy deteriorates the returns associated with the stock.
- Political and Governmental Risk is the risk that the value of investments may change with the introduction of new laws or regulations.

Investing in bonds involves the assumption of various risks including:

- Interest Rate Risk is the risk that the value of the bond investments HPM selects will fall if interest rates rise.
- Call Risk is the risk that bond investments will be called or purchased back from a client when conditions are favorable to the bond issuer and unfavorable to the client.
- Default Risk is the risk that the bond issuer may be unable to pay the contractual interest or principal on the bond in a timely manner or at all.
- Inflation Risk is the risk that the rate of price increases in the economy deteriorates the returns associated with the bond.



## 9. Disciplinary Information

Neither HPM, nor any of its staff, have been involved in any disciplinary actions or events. This would include:

- any criminal or civil action in a domestic foreign or military court
- any administrative proceeding before the SEC, or any other federal, state, or foreign regulatory agency or authority.
- any proceeding before a self-regulatory organization

## 10. Other Financial Industry Activities or Affiliations

### A. Securities broker-dealer

HPM is not registered (nor has an application pending) as a securities broker-dealer. No staff of HPM is a registered representative of a broker-dealer (nor has an application pending)

### B. Futures commission merchant, commodity pool operator or commodity trading advisor

HPM and its staff are not registered (nor have an application pending) as a futures commission merchant, commodity pool operator, commodity trading advisor nor as an associated person of the foregoing entities.

### C. Arrangements with a related person

HPM has material arrangements with the Hudson Financial Group, Inc. (HFG). HFG, which is owned by Mr. Stinson, provides general, broad-based financial advice (and some related services, such as tax return preparation) to private individuals and families and related entities. HFG also provides certain recordkeeping, accounting, reporting, and analytical services to HPM. HPM's staff are all employees of HFG.

Mr. Stinson devotes approximately one-half of his business time to HFG matters. Similarly, ToyKen Yee, who is an employee and also Treasurer of HFG, devotes about half her business time to HFG matters. Brett Watanabe is also an employee of HFG and devotes about half of his time to HFG.

Clients of HPM are usually also clients of HFG. Though it is not a requirement that HPM clients also be clients of HFG, a relationship with HFG helps HPM have a broader, fuller understanding of a client's financial circumstances and their related needs and objectives.

HPM's affiliation with HFG may be open to a conflict of interest that both HPM and HFG strive to avoid. HPM clients are under no obligation to use HFG services. Similarly, HFG clients are under no obligation to use HPM services.

**D. Other investment advisers**

HPM and its staff are not related or affiliated with any other investment advisers. HPM does not receive compensation from any advisers for recommending or selecting other investment advisers for clients. HPM also does not have any business relationships with other investment advisers that would create a conflict of interest.

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

### **A. Code of Ethics**

HPM has a formal Code of Ethics and Personal Trading Policy for all HPM and HFG employees, which seeks to foster and help implement fiduciary responsibilities and also to promote clients' trust. HPM's fiduciary duties include rendering highly professional, unbiased advice, putting client's interest first, safeguarding confidentiality and not violating securities laws. HPM will neither trade nor disseminate non-public information.

Upon request, HPM will provide a copy of its Code of Ethics and Personal Trading Policy to any client or perspective client who would like a copy. Requests can be made to Brett Watanabe at the contact information on the cover page of this document.

### **B. Participation or Interest in Client Transactions**

HPM and its staff do not:

- buy securities for itself or for themselves from clients;
- sell securities it or they own to clients;
- recommend to clients the purchase or sale of securities or investment products in which HPM staff have some financial interest, except as noted in C. below.

### **C. HPM Purchase and Sale of Same Securities as Client**

HPM officers, directors and members do buy or sell for themselves securities that they also recommend to clients. Indeed, HPM encourages its staff to invest directly or indirectly in the same stocks that are being recommended and purchased for its clients. The philosophy is "if we are willing to recommend something for our clients, generally, we too should be willing to accept the same risks."

Buying and selling of the same securities in client accounts as HPM staff accounts can create a conflict of interest. To avoid conflicts of interest, each security order for an employee or other related person is separately identified. HPM and its related persons' trades are executed in a manner that, through timing and the use of limit orders, avoids having HPM and related persons benefit from client transactions. For instance, HPM and its related persons may not purchase or sell securities in advance of anticipated client transactions. When aggregating orders client equity orders are not aggregated with HPM staff or related person orders

(see Trade Aggregation under the Brokerage Practices section of this brochure for the rare exception related to illiquid securities). In addition, HPM monitors the stock holdings of its employees and other related persons and requires that all related persons obtain prior approval for all stock purchases and sales.

**D. HPM Purchase and Sale of Same Securities as Client around the Same Time**

When orders are placed around the same time, client orders are placed before HPM staff and related person orders. Using limit pricing, client orders are set to execute prior to orders for HPM staff or related person orders.

## 12. Brokerage Practices

### A. Broker Suggestions

HPM may suggest brokers to its clients. HPM does not have authority to determine, without obtaining specific consent, the broker or dealer used or the commission rates paid.

HPM is prepared to either suggest custodian-broker(s) to clients or otherwise help clients in the selection of custodians-brokers. Such recommendations or guidance is provided at the request of clients, and such requests are commonplace. However, it is the client, not HPM, who makes the selection of the client's broker.

Brokers are evaluated on the basis of the full range and quality of products and services provided clients, the total cost of those products and services, and the ease or facility of HPM working with those brokers. The commissions to be charged are an important factor in evaluating brokers, but not necessarily a determining factor.

By policy HPM does not use security research provided by brokerage houses, investment banks or similar parties with obvious potential conflicts of interest, which may bias the research. The security research HPM uses is purchased separately from independent third parties (e.g., Value Line) or is otherwise freely available to the general public.

The quality and timeliness of periodic statements and reports, the ease of access to client account information and records, the ease of placing trade orders and the breadth of brokerage services being offered are factors in evaluating and recommending brokers to clients.

Other products and services that brokers may offer HPM (including seminars and conferences, expert conference calls and webcasts) are not factors in such evaluations and recommendations.

Currently, HPM utilizes the broker associated with the custodian that is selected by the client. Under this arrangement, HPM may be unable to achieve the most favorable execution of client transactions and clients may pay higher brokerage commissions than they might otherwise pay through another broker. Should a client wish to use multiple brokers, HPM will consider providing this option.

Over 90% of the portfolios HPM manages are with the Institutional Division of Charles Schwab and Company (Schwab). HPM is not affiliated with Schwab and is not compensated by Schwab.

As an institutional client, HPM has access to Schwab's institutional trading and custody services, which are typically not available to Schwab's retail investors.

Schwab also assists in managing and administering client accounts by providing software and technology to (i) provide access to client account data; (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) facilitate payment of HPM's management fees from its clients' accounts; (iv) provide pricing, research and market data and (iv) assist with recordkeeping and client reporting. Schwab also occasionally offers local seminars, web-casts, conference calls, or publications/literature free of charge to HPM staff.

Schwab services are not contingent upon HPM committing to Schwab any specific amount of business or transactions, HPM receives no compensation for trading commissions earned by Schwab or other expenses charged to the client by Schwab.

HPM does not receive client referrals from broker-dealers in exchange for cash or other compensation.

#### **B. Trade Aggregation**

In order to potentially obtain better access to securities, or better security prices, and to facilitate more uniform pricing among client orders, HPM normally aggregates client orders when similar transactions are advisable in multiple client accounts.

HPM staff and related person equity orders are not aggregated with client orders. In very rare instances, with some illiquid investments such as certain fixed income securities that require minimum lots, staff and related party orders may be aggregated with client orders provided there is no negative price impact on the client.

At this time only HPM clients with accounts at Schwab can participate in trade aggregation.

### 13. Review of Accounts

#### A. Reviews and the Reviewers of the Accounts

Portfolios are reviewed on both regularly scheduled and special, ad hoc bases. Generally, portfolio cash positions are reviewed daily, asset allocations are reviewed weekly or biweekly and brokerage statements are reconciled monthly.

Each portfolio is assigned a “portfolio manager”, who is responsible for approving all non-cash purchases and sales, and a “portfolio reviewer” (in some instances, the portfolio manager and portfolio reviewer are the same individual). The portfolio reviewer conducts full (holding-by-holding) reviews of each portfolio on a regularly scheduled basis. The frequency of those reviews will vary from portfolio to portfolio and from time to time. Full reviews are conducted generally every 30-45 days and at least quarterly – except for a few, very small and relatively inactive portfolios. In some cases, certain portfolios may be reviewed every few days. Special or ad hoc reviews may be triggered by changes in client circumstances or investment objectives, unexpected large deposits or withdrawals, tax planning, or events in the financial markets.

The securities that the portfolios are invested in are under continuous review. Price changes are monitored daily. Analyst ratings and forecasts are generally updated weekly. More extensive updates (including current projected revenues and earnings) are done quarterly. Major changes in the price, outlook or analyst rating of a security can also trigger special reviews of portfolios holding that security

At present, Byron Stinson, ToyKen Yee and Brett Watanabe are the portfolio managers, who either conduct or oversee all full reviews and approve all equity or fixed-income investments. These full reviews focus first on asset allocation, secondly on diversification and thirdly on the individual holdings.

#### B. Nature and Frequency of Regular Reports to the Clients

The clients receive monthly brokerage statements directly from the broker-custodian. Statements from custodians indicate all amounts disbursed from the account, including the amount of quarterly fee(s) paid from the portfolio(s) directly to HPM.

Each calendar quarter, HPM provides each client with a written quarterly report, consisting of a quarterly Market Review, Portfolio Review(s) and a Billing statement. The Market Review recaps the performance of the major global equity and fixed-income markets over the quarter just ended and often comments about HPM’s outlook for the coming quarter(s).



Each Portfolio Review has two sections. The accounting section shows how the portfolio market value has changed (increased or decreased) over both the quarter just ended and year to date. The portfolio accounting section lists the aggregate deposits, withdrawals, interest and dividends received, and price appreciation (depreciation) over those periods, as well as the investment returns. The asset allocation and benchmarks section shows the quarter end asset allocation of the portfolios, as well as the asset allocation of that portfolio's Benchmark Portfolio and the hypothetical market return of that Benchmark Portfolio. The client receives a separate Portfolio Review for each portfolio being managed.

The quarterly Billing statement indicates the amount to be charged for managing each portfolio in the coming quarter and how those amounts were calculated. (See the Fees and Compensation section of this brochure for further explanation on fees.)

#### **14. Client Referrals and Other Compensation**

Neither HPM, nor any of its staff, have client referral arrangements with other individuals or organizations. HPM and its staff are not compensated for client referrals to other organizations, and HPM and its staff do not pay for client referrals made by other individuals or organizations to HPM.

## 15. Custody

HPM only manages investment accounts that are custodied at qualified custodians. HPM does not have physical custody of any client funds and/or securities. Each of the qualified custodians directly sends HPM clients a monthly account statement. Also, as discussed in the Review of Accounts section of this brochure, clients receive quarterly portfolio reviews directly from HPM. Clients are urged to carefully review the account statements and to compare the account statements to the HPM provided quarterly portfolio reviews.

For clients who use Schwab as their independent custodian, Schwab will directly debit their account(s) for the payment of HPM management fees. This ability to instruct Schwab to deduct management fees from client accounts causes HPM to have “limited custody” over client funds or securities. The account statements from Schwab will indicate the amount of HPM management fees deducted from client account(s) each billing period. HPM also provides statements to clients reflecting the amount of management fees deducted from their account(s). Account and billing statements should be carefully reviewed for accuracy.

## 16. Investment Discretion

For the portfolios it manages on a discretionary basis, HPM has authority to determine, without obtaining specific consent, the securities to be bought or sold and the amount of the securities to be bought or sold.

With few exceptions, HPM has full discretion to determine which securities are bought or sold and in what amounts. In a very few cases, clients have requested that certain securities not be purchased (e.g., tobacco stocks) or that certain holdings not be sold (e.g. stock of current or former employer).

It is also possible that “clearance” may need to be obtained from the compliance department of certain client employers before a purchase or a sale is made on behalf of that client employee.

To provide discretionary authority over an account, the client executes a limited power of attorney providing HPM with trading authority. This is typically done as part of the account application process with the client’s broker/custodian.

If HPM enters into a non-discretionary arrangement with a client, HPM will obtain appropriate approval prior to the execution of any transactions for the account(s).

## 17.Voting Client Securities

HPM will not vote any proxies on behalf of any client unless requested in writing to do so by the client. By providing HPM with the authority to vote its proxies, the client relinquishes the right to direct any particular solicitation. Except as noted, the following discussion applies only to clients who have requested HPM to vote proxies on their behalf.

If HPM becomes aware of any material conflict of interest between a client and HPM that might be affected by HPM voting proxies, HPM will send the client a Conflict Notice. The Conflict Notice shall contain, among other things, a description of the conflict of interest, a statement about how HPM proposes to vote, and an indication that HPM may withdraw HPM authority to vote as indicated. To date no Conflict Notices have been issued by HPM.

HPM also has voting guidelines. HPM will usually vote with management on routine proposals such as approval of auditors and election of directors and vote against management on corporate governance proposals such as poison pills and golden parachutes. HPM will review, on a case-by-case basis, non-routine proposals that may affect the structure and operations of a corporation (such as mergers, acquisitions, stock option and other compensation plans) and all proposals submitted by shareholders.

HPM maintains records of its proxy voting activities, including copies of each Conflict Notice and records of each vote cast on a client's behalf. A client wishing to obtain a complete copy of HPM voting policies and procedures or information about how HPM voted with respect to such client's securities should contact Brett Watanabe using the contact information on the front of this document.

For clients not providing HPM with authority to vote their proxies, the proxies will be mailed directly to them by their custodian.

## 18. Financial Information

HPM is not required to provide financial information because HPM does not:

- require the prepayment of more than \$1,200 in fees six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair its ability to meet its commitments to clients.

## **19. Requirements for State-Registered Advisers**

As HPM is an SEC registered investment advisor, this section is not required.