

**Item 1: Cover Page**

**Appendix 1 of Part 2A**  
**Harbor Wealth Investment Management Account**  
**Wrap Fee Program Brochure**  
March 08, 2012

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This brochure provides information about the qualifications and business practices of Harbor Wealth Management, LLC. If you have any questions about the contents of this brochure, please contact us at [lrose@harbor-wealth.com](mailto:lrose@harbor-wealth.com). 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 Harbor Wealth Management, LLC, is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

N/A – Initial publication date is March 31, 2011.

## Item 3: Table of Contents

Item 1: Cover Page.....	1
Item 2: Material Changes.....	2
Item 3: Table of Contents .....	3
Item 4: Services, Fees and Compensation.....	4
A. Harbor Wealth Investment Management Account .....	4
B. Disclosure of Cost Difference if Services Purchased Separately.....	7
C. Client Payment of Fees.....	7
D. Prepayment of Client Fees .....	8
E. Additional Fees.....	8
F. External Compensation for the Sale of Securities to Clients.....	8
G. Compensation for Recommending the Harbor Wealth Investment Management Account .....	9
H. Client Assets Under Management .....	9
Item 5: Account Requirements and Types of Clients .....	10
Item 6: Portfolio Manager Selection and Evaluation .....	11
A. Portfolio Manager Selection and Review .....	11
B. Participation in Wrap Fee Programs .....	11
C. HWM Acts as Both a Wrap Fee Sponsor and Portfolio Manager .....	11
Item 7: Client Information Provided to Portfolio Managers.....	22
Item 8: Client Contact with Portfolio Managers .....	23
Item 9: Additional Information .....	24
A. Disciplinary and Other Financial Activities and Affiliations .....	24
B. Code of Ethics, Brokerage Trading Practices, Account Reviews, and Financial and Related Matters.....	25

## Item 4: Services, Fees and Compensation

Harbor Wealth Management, LLC ("HWM" or "the firm"), is a Wisconsin limited liability company principally owned by Larry Rose, Eric Heus and Brent Polzin. HWM is an independent investment advisory and financial planning firm offering a variety of financial services to high-net-worth individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. Advisory services may include financial planning, investment strategy, portfolio management, tax preparation, and tax and estate planning. HWM has been providing investment advisory and financial planning services since August of 2010.

### A. Harbor Wealth Investment Management Account

HWM manages investment advisory accounts on a discretionary basis for affluent individuals as well as corporations, partnerships, trusts and other legal entities. Services to high-net-worth and affluent individuals, corporations, partnerships, trusts and other legal entities may include, at the client's election, some or all of the following:

- Advice with respect to the appropriate allocation of assets for a client.
- Advice with respect to the creation of diversified portfolios consisting of recommended mutual funds, exchange-traded funds, options, individual equity or debt securities (exchange listed or over-the-counter), warrants, municipal debt securities, foreign issuers (equity and debt), commercial paper, certificates of deposit, investment company securities (mutual funds) and government securities.
- Recommendations with respect to portfolio hedging and income generation strategies involving, for example, the use of exchange listed options.
- Recommendation to participate in "wrap fee programs" sponsored by HWM, such as this HWM Investment Management Account Program.

HWM is a limited liability company formed under the laws of the State of Wisconsin and is registered with the Securities and Exchange Commission ("SEC") as an investment advisor. HWM is a notice filer with Wisconsin and such other state regulatory authorities as required. This Wrap Fee Brochure narrative provides clients with information regarding HWM and the qualifications, business practices and nature of advisory services that should be considered before becoming an advisory client. The information in this Wrap Fee Brochure has not been approved or verified by the SEC or by any state regulatory authority.

Professionals associated with HWM are appropriately licensed, qualified and authorized to provide advisory services on the firm's behalf. Such individuals are known as investment advisor representatives ("IARs").

Please contact Gery Sadzewicz, Chief Compliance Officer, at 815-782-1250 if you have any questions about this Wrap Fee Brochure. Additional information about HWM is available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **A.1. Investment Management Services**

HWM offers the Harbor Wealth Investment Management Account ("HWMIMA"), an investment management program pursuant to which HWM provides professional investment management services based upon the client's stated investment objectives. Services include investment advice, asset allocation, initial and ongoing asset monitoring and due diligence, reporting, and product and strategy research and development. HWM requires a minimum account size of \$100,000 to participate in the program, but may, in its sole discretion, waive the required minimum.

HWM provides these same services pursuant to its Standard Investment Management Agreement, whereby the client pays a fee to HWM for these professional services and separately incurs charges for transactions, commissions and custody services provided by the custodian. By contracting for HWM's HWMIMA program as opposed to contracting for HWM's Standard Investment Management services, the client will incur no additional costs for transactions, commissions or custody—that is, the fee paid to HWM for the HWMIMA program will include all transaction costs. Examples of such transaction costs include, but are not limited to, commissions on stock, exchange-traded funds, option and bond transactions, trade-away fees on bonds and transaction fees on mutual funds, if applicable.

### **A.2. Rebalancing**

HWM will periodically re-balance the client's investment portfolio to conform to the asset allocation/asset class guidelines established by the client. HWM, in consultation with the client, will periodically review each client's portfolio to determine whether risk and return objectives and investment policies need revision as a result of changes in the client's financial circumstances.

### **A.3. Investment Restrictions and Changes in Clients' Financial Circumstances**

In addition to providing HWM with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide HWM with any reasonable investment restrictions that should be imposed on the management of their portfolio and to promptly notify HWM of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, HWM's reports to clients will remind clients of their obligation to inform HWM of any such changes or any restrictions that should be imposed on the management of their account. HWM will also contact clients at least annually to determine whether there have been any changes in their personal financial circumstances, investment objectives and tolerance for risk.

### **A.4. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type of security to be purchased in the portfolio.

### A.5. Fee Schedule

Annual advisory fees for the HWMIMA program are determined based upon the combined market value of all accounts that are part of the client's relationship with the advisor pursuant to following schedule:

*Tiered Pricing Schedule – HWM Managed Assets*

<u>Assets Under Supervision</u>	<u>Annual Fee (%)</u>
\$0–\$250,000	1.50%
\$250,000–\$500,000	1.10%
\$500,000–\$1,000,000	0.80%
\$1,000,000–\$2,500,000	0.50%
\$2,500,000–\$5,000,000	0.30%
\$5,000,000–\$10,000,000	0.25%
Minimum Account Size – \$100,000	

These fees include charges for all transaction costs, such as commissions on purchases and sales of stocks, bonds, exchange-traded funds and options, trade-away fees on bonds, and non-NTF mutual fund transaction fees. Except as otherwise provided below, the client will incur no charges other than advisor's fee pursuant to the above fee schedule in connection with maintenance of and activity in the client's account. The HWMIMA wrap fee does not include management, administrative and marketing fees and expenses for mutual and exchange-traded funds. To the extent securities transactions are effected away from Schwab, there may be commission mark-ups and mark-downs that the client will pay in addition to the wrap fee.

Annual fees are prorated and charged quarterly in advance on the first day of the month following each quarter (Jan, April, July, and Oct) based upon the market value on the last business day of the preceding calendar quarter. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs.

These fees include charges for all transaction costs such as commissions on purchases and sales of stocks, bonds, exchange-traded funds and options, trade-away fees on bonds and non-NTF mutual fund transaction fees. Except as otherwise provided below, clients will incur no charges other than adviser's fee pursuant to the above fee schedule in connection with maintenance of and activity in client's account. The HWMIMA wrap fee does not include mutual administrative and marketing fees and expenses. To the extent securities transactions away from Schwab then there may commission mark-ups and mark-downs that the client will pay in addition to the wrap fee.

The trading cost component of the above mentioned advisory fees are estimated to range from \$100 to \$500 per account per year.

**A.5.a. Additional Terms for All HWM Client Accounts**

Annual fees are prorated and charged quarterly in advance on the first day of each quarter based upon the market value on the last business day of the preceding quarter. Fees for the first quarter are prorated and charged at the end of the first quarter based upon the market value at the end of that quarter. Fees for a portion of any quarter are prorated.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. HWM may modify the fee at any time upon thirty (30) days written notice to the client.

Generally, fees will be charged in advance. Clients will be invoiced at the beginning of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous quarter, as mutually agreed upon by the client and HWM.

Asset-based fees are always subject to the investment advisory agreement between the client and HWM. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs.

A client investment advisory agreement may be canceled at any time by the client, or by HWM with thirty (30) days prior written notice to the client. If the agreement terminates other than at the end of a calendar quarter, HWM will promptly refund all unearned, prepaid fees to the client. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

**B. Disclosure of Cost Difference if Services Purchased Separately**

Depending on a number of factors, such as the number, size and nature of the securities transactions in an advisory account, the overall fees and charges borne by the client over time could be more or less than what these fees and charges would be if the same services were provided on a separate basis. Bundled fees generally provide an economic incentive for the advisory firm to select investments and strategies that minimize trading costs. Frequent trading in an account where transactions fees are included as part of the overall advisory fee to the client drive trading costs higher and reduce the overall fee revenue to the advisor. As a result, higher trading costs in a bundled fee account have a negative impact on the advisory firm's profitability.

**C. Client Payment of Fees**

HWM's fees will be billed directly to and paid from the client's account by the custodian of the portfolio. If the client's account is managed by a separate account manager, such manager will

generally require that any fees be paid on a monthly basis, in advance, directly from the client's account with the custodian of the portfolio assets.

HWM will deduct its advisory fees directly from the client's account, provided that

- the client provides the qualified custodian written authorization
- the qualified custodian sends the client a statement, at least monthly, indicating all amounts disbursed from the account

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

#### **D. Prepayment of Client Fees**

HWM requires the pre-payment of fees for its asset management services. HWM's investment advisory fees will either be paid directly by the client or disbursed to the firm by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least monthly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time by the client, or by HWM with thirty (30) days prior written notice to the client. If the agreement terminates other than at the end of a calendar month, HWM will promptly refund all unearned, pre-paid fees to the client. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

#### **E. Additional Fees**

The fees charged by HWM do not include fees charged by any exchange-traded fund or mutual fund selected by the client. In the case of an exchange-traded fund or mutual fund, in the respective fund's prospectus. Clients are advised to read these materials carefully before investing. All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds and mutual funds. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus. A client using HWM may be precluded from using certain mutual funds because they may not be offered by the client's custodian.

#### **F. External Compensation for the Sale of Securities to Clients**

HWM's financial advisors are compensated solely through a salary and bonus structure. HWM is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products.



### **G. Compensation for Recommending the Harbor Wealth Investment Management Account**

The Harbor Wealth Investment Management Account is a proprietary product offered exclusively through HWM. As such, there are no conflicts of interest in that there are no commissions paid for selling the Harbor Wealth Investment Management Account program.

### **H. Client Assets Under Management**

As of March 29, 2011, HWM has \$37,769,000 in discretionary assets under management and \$14,005,000 in non-discretionary assets under management.

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

HWM offers its investment services to various types of clients, including high-net-worth individuals, corporate executive groups, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. Although HWM provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by the firm for each of the investment programs it offers.

HWM generally requires a minimum account value of \$100,000 for accounts it manages on a discretionary basis; as a result, there is an implied minimum fee of \$1,300. For accounts utilizing third-party asset managers, HWM imposes a minimum account size of \$250,000; as a result, there is an implied minimum fee of \$3,000. In either case, HWM, in its sole discretion, may waive the required minimum.

Please be advised that HWM offers its wrap fee services for clients at the same fee schedule as its non-wrap investment advisory services. As a result, it will always be economically advantageous for a client to engage HWM for the wrap fee program.

## Item 6: Portfolio Manager Selection and Evaluation

### A. Portfolio Manager Selection and Review

HWM is the sole sponsor and sole portfolio manager for the Harbor Wealth Investment Management Account.

### B. Participation in Wrap Fee Programs

Other than offering its Harbor Wealth Investment Management Account, HWM does not participate in wrap fee programs.

### C. HWM Acts as Both a Wrap Fee Sponsor and Portfolio Manager

The Harbor Wealth Investment Management Account is a proprietary product offered exclusively through HWM. Other than offering its Harbor Wealth Investment Management Account, HWM does not participate in wrap fee programs.

#### C.1. Harbor Wealth Investment Management Account

HWM's discretionary asset management services are predicated on asset allocation models to create diversified portfolios consisting of individual securities, mutual funds, and exchange-traded funds. The asset allocation methodology employed by HWM relies on *modern portfolio theory*, which involves the application of certain mathematical principles to the historical risk, return and correlation characteristics of asset classes to combine asset classes in such a way that maximizes return potential for a targeted level of risk. The resulting asset allocation chosen seeks a projected return potential consistent with the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. In preparing the asset allocation, HWM will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance. HWM's objective is to review the client's tax, financial, and estate planning objectives and goals in connection with the client's investment objectives, goals, tolerance for risk and other personal and financial circumstances, and make appropriate asset allocation recommendations and implementation decisions. HWM may engage third-party service providers to assist with the tax and estate planning portion of the services provided to clients. In addition, HWM may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio. HWM will monitor those portfolios and make additional recommendations from time to time to rebalance and/or reallocate each client's investments.

HWM's investment advisory services to clients are based on asset allocation models that, as noted above, take into account a client's personal financial circumstances, investment objectives and tolerance for risk (e.g., cash flow, tax and estate). HWM's engagement with a client will include, as appropriate, the following:

- Providing assistance in reviewing the client's current investment portfolio against the client's personal and financial circumstances as disclosed to HWM in response to a questionnaire and/or in discussions with the client and reviewed in meetings with HWM.
- Analyzing the client's financial circumstances, investment holdings and strategy, and goals.
- Providing assistance in identifying a targeted asset allocation and portfolio design.
- Implementing and/or recommending mutual funds and exchange-traded funds, and individual equity and fixed income securities matched to the asset categories in the client's targeted asset allocation for consideration by the client.
- Reporting to the client on a quarterly basis or at some other interval agreed upon with the client, information on contributions and withdrawals in the client's investment portfolio.
- Proposing changes in the client's targeted asset allocation in consideration of changes in the client's personal circumstances, investment objectives and tolerance for risk, the performance record of any of the client's investments, and/or the performance of any fund or manager retained by the client.

In addition to providing HWM with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolios, and to promptly notify the firm of any changes in such restrictions or in their personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, HWM's reports to clients will remind clients of their obligation to inform HWM of any such changes or any restrictions that should be imposed on the management of their account. HWM will also contact clients at least annually to determine whether there have been any changes in their personal financial circumstances, investment objectives and tolerance for risk.

#### **C.1.a. Investment Policy Statement**

HWM will monitor clients' portfolios and make additional recommendations and implementation decisions from time to time to rebalance and/or reallocate each client's investments.

#### **C.1.b. Rebalancing**

HWM will periodically rebalance the client's investment portfolio to conform to the asset allocation/asset class guidelines established by the client. HWM, in consultation with the client, will periodically review each client's portfolio to determine whether risk and return objectives and investment policies need revision as a result of changes in the client's financial circumstances. If revision is necessary, then HWM will amend the IPS with the updated information and implement a new model portfolio.

#### **C.1.c. Investment Restrictions and Changes in Clients' Financial Circumstances**

In addition to providing HWM with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide

HWM with any reasonable investment restrictions that should be imposed on the management of their portfolio and to promptly notify HWM of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, HWM's reports to clients will remind clients of their obligation to inform HWM of any such changes or any restrictions that should be imposed on the management of their account. HWM will also contact clients at least annually to determine whether there have been any changes in their personal financial circumstances, investment objectives and tolerance for risk.

## **C.2. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

## **C.3. Management of Wrap Fee Program**

The Harbor Wealth Investment Management Account is the only asset management program offered by HWM.

## **C.4. Performance-Based Fees and Side-by-Side Management**

HWM does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in clients' best interests.

## **C.5. Methods of Analysis, Investment Strategies and Risk of Loss**

The methods of analysis may include fundamental and technical analysis, quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. In addition, HWM reviews research material prepared by others, corporate filings, corporate rating services and a variety of financial publications.

HWM may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

## **C.6. Investment Strategy, Method of Analysis and Material Risks**

### **C.6.a. Leverage**

Although HWM, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, HWM will utilize leverage. In this regard please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment.

Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

#### **C.6.b. Short-Term Trading**

Although HWM, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

#### **C.6.c. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. HWM as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

**C.6.c.1. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

**C.6.c.2. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

**C.6.c.3. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or "put" the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

**C.6.c.4. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder "locks in" a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

**C.6.c.5. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and

buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **C.6.c.6. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### **C.6.c.7. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

#### **C.6.c.8. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

#### **C.6.d. Concentration Risk**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.



### **C.7. Material Risks of Investment Instruments**

HWM typically invests in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper and certificates of deposit
- Municipal securities
- U.S. government securities
- Option contracts on securities
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations

#### **C.7.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **C.7.b. Warrants and Rights**

HWM may invest in warrants and rights. Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

**C.7.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

**C.7.d. Exchange-Traded Funds ("ETFs")**

HWM may invest in ETFs (which may, in turn, invest in equities, bonds and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

**C.7.e. Corporate Debt, Commercial Paper and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the

length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **C.7.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **C.7.g. U.S. Government Securities**

HWM may invest in U.S. government securities. U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **C.7.h. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **C.7.i. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHMLC guarantees timely

payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **C.7.j. Corporate Debt Obligations**

HWM may invest in corporate debt obligations. Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, HWM may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **C.7.k. Mortgage-Backed Securities**

HWM may invest in mortgage-backed securities, including pass-through securities and collateralized obligations. Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, HWM may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

### **C.7.I. Collateralized Obligations**

HWM may invest in collateralized mortgage obligations ("CMOs") that are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

HWM may also invest in collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

### **C.8. Proxy Voting**

HWM does not vote proxies on behalf of its clients. All proxy material will be forwarded to the client for the client's review and action.

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

HWM is the sole portfolio manager in the Harbor Wealth Investment Management Account program and does not share any personal information it collects from its clients other than as required by law or regulatory mandate. HWM collects the following information in order to formulate its investment recommendations to clients:

- Income
- Employment and residential information
- Social security number
- Cash balance
- Security balances
- Transaction detail history
- Investment objectives, goals and risk tolerance

The following are the major factors HWM considers when recommending and implementing investment recommendations:

- Sources of wealth and/or deposits
- Risk assessment
- Investment time horizon
- Income and liquidity needs
- Asset allocation
- Restrictions on management of accounts

Sources of information used to develop investment recommendations may include, but are not limited to, the following:

- Client questionnaire(s) and interview(s)
- Review of client's current portfolio
- Analysis of historical risk/return characteristics of various asset classes
- Analysis of the long-term outlook for global financial markets
- Analysis of the long-term global economic and political environments

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

HWM encourages communication with its clients and does not limit or condition the amount of time clients can spend with HWM advisory professionals.

## Item 9: Additional Information

### A. Disciplinary and Other Financial Activities and Affiliations

#### A.1. Disciplinary

There are no current or pending disclosure items to report on behalf of HWM Advisors.

##### A.1.a. Criminal or Civil Actions

N/A

##### A.1.b. Administrative Enforcement Proceedings

N/A

##### A.1.c. Self-Regulatory Organization Enforcement Proceedings

N/A

#### A.2. Other Financial Activities and Affiliations

##### A.2.a. Broker-Dealer or Representative Registration

Officers, directors and registered personnel of HWM are associated with Comprehensive Asset Management and Servicing, Inc. ("Comprehensive"), a FINRA-and SEC registered broker-dealer and member of SIPC. Comprehensive is a financial services company engaged in the sale of investment products. The officers, directors and registered personnel of HWM are also licensed as insurance agents. Approximately 75% of time and effort of HWM's registered sales personnel is attributable to the functions of HWM, while the remaining 25% of time is allocated to the function of commission sales as registered representatives of Comprehensive's Green Bay, WI, office.

##### A.2.b. Futures or Commodity Registration

Neither HWM nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

##### A.2.c. Material Relationships Maintained by this Advisory Business and Conflicts of Interest

###### A.2.c.1. Comprehensive Asset Management Pricing, Inc.

As a result of HWM's managers, members and registered personnel's affiliation with Comprehensive, such professionals, in their capacity as registered representatives of Comprehensive, are subject to the oversight of Comprehensive and FINRA. As such, clients of HWM should understand that their personal and account information is available to FINRA and Comprehensive personnel in the fulfillment of their oversight obligations and duties. Under an agreement with Comprehensive, Comprehensive undertakes certain obligations



established under FINRA rules with respect to certain brokerage activities performed by HWM personnel in their capacity as Comprehensive registered representatives.

HWM advisory clients are not compelled to effect securities transactions through Comprehensive. HWM professionals who effect transactions for advisory clients will not receive transaction or commission compensation from either Comprehensive or any other executing broker. HWM may be deemed to have a conflict of interest in that effecting transactions through Comprehensive will benefit HWM by providing leverage to potentially negotiate a better compensation structure from Comprehensive.

Managers, members and registered personnel of HWM are associated persons of Comprehensive. Comprehensive may provide brokerage services to one or more of the third-party advisers to whom investment advisor representatives of HWM refer potential clients. Comprehensive may receive brokerage fees for transactions completed on behalf of customers. As a result, a conflict of interest may be deemed to exist in that referral of separate account managers offered by Comprehensive may benefit HWM by providing leverage for HWM to negotiate a more favorable economic arrangement or to procure additional services with or through Comprehensive.

#### ***A.2.c.2. Relationships with Several Insurance Firms***

Certain managers, members and registered employees of HWM are agents for certain insurance carriers. With respect to the provision of financial planning services, HWM professionals may recommend insurance products offered by such carriers for whom they function as agents and receive a commission for doing so. Clients are advised of a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Clients are also advised that HWM professionals strive to put their clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with HWM professionals' employing broker-dealer.

#### ***A.2.c.3. Certified Public Accounting Activities***

HWM member Larry Rose is a Certified Public Accountant. Mr. Rose spends approximately 10% of his time devoted to such accounting activities.

## **B. Code of Ethics, Brokerage Trading Practices, Account Reviews, and Financial and Related Matters**

### **B.1. Code of Ethics Description**

In accordance with the Advisers Act, HWM has adopted policies and procedures designed to detect and prevent insider trading. In addition, HWM has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of HWM's advisory and access persons. The Code also imposes certain reporting obligations on persons

subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of HWM. HWM will send clients a copy of its Code of Ethics upon written request.

HWM has policies and procedures in place to ensure that the interests of its clients are given preference over those of HWM, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

**B.1.a. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

HWM does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory, or buying stocks from advisory clients into a firm's inventory). In addition, HWM does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

**B.1.b. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

HWM, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients.

**B.1.c. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

HWM, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other HWM clients. HWM will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of HWM to place the client's interests above those of HWM and its employees.

**B.2. Factors Used to Select Broker-Dealers for Client Transactions**

HWM may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although HWM may recommend/require that clients establish brokerage accounts with Schwab, HWM is independently owned and operated and not affiliated with Schwab.

Schwab does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through or that settle into Schwab accounts.

In certain instances and subject to approval by the firm, HWM will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client and taking into

consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by HWM will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

#### **B.2.a. Institutional Trading and Custody Services**

Schwab provides HWM with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab. These services are contingent upon HWM committing to Schwab \$40,000,000 any specific amount of customer assets in custody. Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment.

#### **B.2.b. Other Products and Services**

Schwab also makes available to HWM other products and services that benefit HWM but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of HWM's accounts, including accounts not maintained at Schwab. Schwab also makes available to HWM its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of HWM's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

Schwab also offers other services intended to help HWM manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to HWM. 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 HWM. Schwab may also provide other benefits such as educational events or occasional business entertainment of HWM personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, HWM may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

#### **B.2.c. Independent Third Parties**

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to HWM. Schwab may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to HWM.

#### **B.2.d. Aggregating Securities Transactions for Client Accounts**

##### ***B.2.d.1. Best Execution***

HWM, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker and the commission rates to be paid to effect such transactions. HWM recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. HWM will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, HWM seeks to ensure that clients receive best execution with respect to the client's transactions in mutual fund shares by blocking client trades to reduce transactions costs. To the best of HWM's knowledge, these custodians

provide high-quality mutual fund execution, and HWM's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, HWM believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

#### **B.2.e. Directed Brokerage**

##### ***B.2.e.1. HWM Recommendations***

HWM currently recommends Schwab as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

##### ***B.2.e.2. Client-Directed Brokerage***

Occasionally, clients may direct HWM to use a particular broker-dealer to execute portfolio transactions for their accounts or request that certain types of securities not be purchased for their accounts. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage HWM derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. HWM loses the ability to aggregate trades with other HWM advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

#### **B.2.f. Security Allocation**

Since HWM may be managing accounts with similar investment objectives, HWM may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by HWM in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

HWM's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. HWM will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

HWM's advice to certain clients and entities and the action of HWM for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of HWM with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice or actions of the firm to or on behalf of other clients.

**B.2.g. Order Aggregation**

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. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if HWM believes that a larger size block trade would lead to best overall price for the security being transacted.

**B.2.h. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

HWM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interest of its clients.

**B.2.i. Soft Dollar Arrangements**

HWM does not utilize soft dollar arrangements. HWM does not direct brokerage transactions to executing brokers for research and brokerage services.

**B.2.j. Brokerage for Client Referrals**

HWM does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

**B.3. Review of Accounts****B.3.a. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

The review of accounts of high-net-worth and affluent clients, including corporations, partnerships and trusts, are conducted in the first instance by the professional servicing the client relationship on at least a quarterly basis. Such professionals are subject to the general authority of HWM's Managing Member. The Managing Member or his designee(s) must

review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The Managing Member or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client.

**B.3.b. Review of Client Accounts on Non-Periodic Basis**

HWM may perform *ad hoc* reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how HWM formulates investment advice.

**B.3.c. Content of Client-Provided Reports and Frequency**

Investment advisory clients receive standard account statements from the custodian of their accounts on a monthly basis, but no less frequently than quarterly. Financial planning clients do not normally receive investment reports.

**B.4. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

In the context of its Harbor Wealth Investment Management Account, HWM does not receive economic benefits from third parties other than as described in this Item 9 of the Wrap Fee Brochure. When HWM acts in the capacity of a solicitor for non-HWM advisory relationships, it does receive economic benefits as further described below.

**B.4.a. Advisory Firm Payments for Client Referrals**

HWM may enter into agreements with solicitors who will refer prospective advisory clients to HWM in return for a portion of the ongoing investment advisory fee. Such arrangements will comply with the cash solicitation requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940. Generally, these requirements require the solicitor to have a written agreement with HWM. The solicitor must provide the client with a disclosure document describing the fees it receives from HWM, whether those fees represent an increase in fees that HWM would otherwise charge the client, and whether an affiliation exists between HWM and the solicitor.

**B.5. Financial Information**

**B.5.a. Balance Sheet**

HWM does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

**B.5.b. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

HWM does not have any financial issues that would impair its ability to provide services to clients.

**B.5.c. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report for this item.