



## Investment Advisory Disclosures Form ADV Part 2

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September 30, 2014

### **Item 1: Cover Page**

This Brochure provides information about the qualifications and business practices of Harrington Investments, Inc. If you have any questions about the contents of this Brochure, please contact us at 707-252-6166. 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.

Harrington Investments, Inc. is a registered investment adviser located in Napa, California. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Harrington Investments Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Click on the "Investment Adviser Search" link and then search for "Investment Adviser Firm" using the firm's IARD number, 110790.

## **Item 2: Material Changes**

### **Material Changes for the 2014 Fiscal Year**

There were no material changes to our brochure during our fiscal year ending June 30, 2014.

### **To Request Copies of our Brochure**

Currently, our Brochure may be requested by contacting Monica Nelson at (707) 252-6166 or [Monica@harringtoninvestments.com](mailto:Monica@harringtoninvestments.com). Our Brochure is also available on our web site [www.harringtoninvestments.com](http://www.harringtoninvestments.com), free of charge.

Additional information about Harrington Investments is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about certain persons affiliated with Harrington Investments.

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## **Item 4: Advisory Business**

Harrington Investments, Inc. (HII) is a Napa-California based investment advisory firm specializing in socially responsible investing (SRI), an investment strategy that seeks to maximize both financial return and positive social impact. HII provides discretionary portfolio advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities. Such services are provided in accordance with each client's financial objective, risk tolerance and social investment criteria. Under our management agreement, we generally hold a limited power of attorney to act on a discretionary basis with client securities subject to any restrictions the client may place on individual securities or types of securities. Client assets are deposited at our broker-dealer, Charles Schwab & Co. Inc. No assets are held by HII, as required by applicable law.

We emphasize, but are not limited to, investments in stocks, bonds, mutual funds and exchange traded funds (ETFs). Stocks held in client accounts consist primarily of large cap domestic stocks, domestic mid-cap stocks and foreign ADRs. Only equities that pass our social screens and meet our financial criteria are included in our client's portfolios. All fixed income securities held in client accounts must be investment grade (rated BBB or higher by Moody's and Standard & Poor's). Securities in this asset class may include investment-grade corporate and municipal bonds, U.S. government and agency securities, convertible debentures and socially screened bond funds. All corporate bonds must be issued by companies that have passed our social screens. We use a select group of SRI mutual funds to provide clients with greater diversification in domestic small-cap stocks, foreign stocks, and fixed income. We may purchase gold, silver and currency ETFs to hedge against inflation and a decline in the value of the U.S. dollar (subject to a client's approval). HII does not invest in derivatives, short stock, or trade on margin. We will manage client assets on margin only when directed by a client for the purpose of a short-term loan.

HII has a sub-adviser agreement with Castlebar Asset Management (CAM), a United States registered investment advisory firm headquartered in Leawood, Kansas. CAM provides portfolio management services to HII clients interested in investing in the stocks of socially responsible companies traded in the European, Far Asian and Japanese stock markets. CAM's role includes stock selection, portfolio asset allocation and performance reporting. HII is responsible for client asset allocation to foreign stocks, currency denomination choices, and approval of CAM's securities based on social and environmental criteria.

HII commenced advisory operations on November 24, 1982. HII was founded by John Harrington, who is the President and CEO, and along with his spouse Diana L.

Harrington, is the principal owner of the business. As of June 30, 2011, HII managed approximately \$159.4 million on a discretionary basis and \$0 on a non-discretionary basis.

## **Item 5: Fees and Compensation**

The standard annual investment management fee for Growth and Balanced accounts is (a) 1% of assets up to \$2 million, plus (b) 0.75% of assets greater than \$2 million up to \$5 million, plus (c) 0.50% of assets greater than \$5 million. Growth accounts are managed primarily for capital appreciation. Balanced accounts are less aggressive than Growth accounts and are managed for both capital appreciation and income.

The standard annual investment management fee for Income accounts is (a) 0.75% of assets of up to \$2 million, plus (b) 0.50% of assets greater than \$2 million up to \$5 million, plus (c) 0.25% of assets greater than \$5 million. Income accounts are managed primarily for income and conservation of principal.

For portfolios consisting of mutual funds only, the standard annual investment management fee is 1% of assets, which is in addition to the mutual funds' fees and expenses.

The foregoing investment management fees are negotiable, primarily for clients with HII-managed assets in excess of \$10 million.

For foreign stock portfolios managed by HII and EAM, the standard annual management fee is 1.75 % of assets and is negotiable.

HII also provides investment consulting services to clients on an hourly basis. We charge a hourly consulting fee of \$250.

HII's asset based fee is payable in arrears at the end of each calendar quarter. HII causes such fees to be deducted directly from the client's assets upon written notice to the client. If HII provides service for less than one full calendar quarter, it will pro-rate its fee based on the number of days of the quarter HII provided its services. Either HII or the client can terminate the client's investment management agreement upon written notice at any time, and if a client terminates an agreement within five (5) business days after signing the agreement, HII charges no fees for the period between signing and terminating.

HII may hold a few mutual funds in client accounts to provide greater diversification among and between asset classes. All mutual funds have fees associated with their

management, and some funds also charge a distribution or services fee(i.e. 12b-1), to cover marketing costs. Clients pay these fees when HII purchases mutual funds in their accounts. Clients also pay all brokerage, transaction and custodial expenses that incur as a result of our management of their portfolio. Please see Item 12 on page 14 for more information on our brokerage practices.

## **Item 6: Performance Based Fees and Side-by-Side Management**

HII does not charge performance-based fees because we believe it encourages advisors to take excessive risk in order to boost fees.

## **Item 7: Types of Clients**

As discussed above in Item 4, HII provides investment services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other businesses. Advisory services provided to all clients are fully discretionary, subject to client restrictions. We generally require new clients to have a minimum investment portfolio of \$1 million to open an account. We, in our discretion reserve the right to waive this minimum. In addition, we require all clients make representations concerning their sophistication as investors and their ability to bear the risk of loss of their entire investment under our management.

HII also provides investment consulting services to clients on an hourly basis. There is no minimum portfolio size required for these services.

## **Item 8: Method of Analysis, Investment Strategies and Risk of Loss**

**Method of Analysis:** HII uses both internal and external sources to conduct social and financial research on securities.

Internal financial research involves using intrinsic analytical methods to determine the underlying value of a company's stock, as well as analyzing a number of quantitative measures, such as valuation (e.g. price-earnings ratio, book value, price per revenue), growth performance (earnings per share, revenues and free cash flow), price/earnings to growth ratio, return on capital and various debt metrics, to identify potentially undervalued stocks and /or stocks with good growth potential.

Internal research on social screening and environment, social and governance (ESG) criteria involves reading reports published by independent social investing organizations, reading corporate sustainability reports, and contacting companies,

stakeholders and independent non-governmental and governmental organizations directly.

External research on financial issues is obtained using reports and on-line information provided by Schwab Institutional, Value Line, Morningstar, and Standard & Poor's.

External research on social issues is obtained from a subscription to the Risk Metrics MSCI Global Socrates website (formerly KLD Research & Analytics).

**Investment Strategy:** There are two types of investments that make up the majority of our client's portfolio assets; equities (or stocks) and fixed income (or bonds). Our equities sector primarily includes individual stocks of large cap domestic companies. Mid-cap stocks and foreign ADRs may be included in a portfolio if they meet the client's financial needs and social goals. The equities sector may also include socially screened mutual funds and exchange traded funds to provide greater geographic, industry and market cap diversification.

Our fixed income sector includes investment-grade corporate and municipal bonds, U.S. government and agency securities, convertible debentures, preferred stocks, and socially screened mutual bond funds. All corporate bonds and preferred stocks are issued from companies that have passed our social screens. We do not invest in derivatives or short stock, or trade on margin.

As discussed in Item 5, HII offers three types of asset allocation models to fit the risk tolerance of our clients. The growth model is for clients with a long-term investing horizon who are primarily interested in investing for capital appreciation (a rise in the value of securities). The balanced model is for more conservative clients with a medium to long-term investment horizon, who are interested in generating primarily income (dividends and interests, respectively, paid on stocks and bonds) with some capital appreciation. The income model is for clients who are primarily interested in preservation of principal and generating income from investments.

All three models can be varied to fit the individual client's risk tolerance. The target allocations of the three models are shown below:

Model	Equities	Fixed Income	Cash Equivalents*
Growth	60% - 100%	0% - 30%	0% - 15%
Balanced	35% - 55%	35% - 55%	5% - 15%
Income	0% - 30%	60% - 75%	5% - 25%

\* Money Market Funds and FDIC insured bank Certificates of Deposit.

HII maintains a proprietary securities list of approximately 70 companies, which is updated on a regular basis by our Investment Committee. Securities from our proprietary list are the basis for developing our stock allocation for our clients. A typical client portfolio will hold between 25 – 35 stocks at any one time.

The social and financial screening process at HII consists of three phases. First, we use negative screens to eliminate all companies that negatively impact our communities, such as the manufacturers of tobacco and weapons, companies involved in gambling, and companies that produce nuclear power (exclusionary criteria).

Second, we evaluate the environmental record, social impact, and internal governance practices of potential companies to identify sustainable leaders within each sector of the stock market (inclusionary criteria).

Finally, we analyze the financial strength of the top performing social companies. Only stocks that have consistent earnings growth, are fairly valued, and are perceived to have long-term sustainable growth prospects are included on the list.

**Risk of Loss.** Investing in securities involves risk of loss that clients should be prepared to bear. The principal risks of our investment strategies and the types of securities in which we invest are:

*Management Risk.* Our ability to meet the portfolios' investment objectives is directly related to our investment strategies. The value of our client's account may vary with the effectiveness of our research, analysis and asset allocation among portfolio securities. If our investment strategies do not produce the expected results, our client's account assets could be diminished or even lose value.

*General Market Risk.* The market value of a security may move up or down, sometimes rapidly and unpredictably. These fluctuations may cause a security to be worth less than the price originally paid for it, or less than it was worth at an earlier time. Market risk may affect a single issuer, industry, or sector of the economy or the market as a whole. U.S. and international markets have experienced significant volatility since 2008. The fixed income markets have experienced substantially lower valuations, reduced liquidity, price volatility, credit downgrades, increased likelihood of default and valuation difficulties. Concerns have spread to domestic and international equity markets. In some cases, the stock prices of individual companies have been negatively impacted even though there may be little or no apparent degradation in the financial conditions or prospects of that company. As a result of this significant volatility, many of the following risks associated with our portfolios may be increased. The U.S. government has taken numerous steps to alleviate these market conditions. However,

there is no assurance that such actions will be successful. Continuing market problems may have adverse effects on our portfolios.

*Equity Market Risk.* Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors including: expectations regarding government, economic, monetary and fiscal policies; inflation and interest rates; economic expansion or contraction; and global or regional political, economic and banking crises. If you held common stock of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer because common stockholders generally have inferior rights to receive payments from issuers in comparison with the rights of preferred stockholders, bondholders and other creditors of such issuers.

*Large-Capitalization Company Risk.* Larger, more established companies may be unable to respond quickly to new competitive challenges such as changes in consumer tastes or innovative smaller competitors. Also, large-capitalization (“large cap”) companies are sometimes unable to attain the high growth rates of successful, smaller companies, especially during extended periods of economic expansion.

*Mid-Capitalization Company Risk.* Generally, mid-capitalization (“mid-cap”) companies may have more potential for growth than large-cap companies. Investing in mid-cap companies, however, may involve greater risk than investing in large-cap companies. Mid-cap companies may not have the management experience, financial resources, product diversification and competitive strengths of large-cap companies and therefore their securities may be more volatile than the securities of larger, more established companies, making them less liquid than other securities. Mid-cap company stocks may also be bought and sold less often and in smaller amounts than larger company stocks. Because of this, if we want to sell a large quantity of a mid-cap company’s stock, we may have to sell at a lower price than we might prefer, or we may have to sell in smaller than desired quantities over a period of time.

*Risk Relating to Investment in International Companies.*

International (non-U.S.) Company Risk Generally. Investments in international companies involve certain risks not generally associated with investments in the securities of U.S. companies including changes in currency exchange rates, unstable political, social and economic conditions, a lack of adequate or accurate company information, differences in the way securities markets operate, less secure international banks or securities depositories than those in the U.S. and foreign controls

on investment. In addition, individual international country economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rates of inflation, capital reinvestment, resources, self-sufficiency and balance of payments position. Also, certain investments in international companies also may be subject to a foreign country's withholding taxes. International companies may use different accounting standards, and international securities markets may not be as liquid as U.S. securities markets. International company investments also involve such risks as currency fluctuation risk, possible imposition of withholding or confiscatory taxes, possible currency transfer restrictions, expropriation or other adverse political or economic developments and the difficulty of enforcing obligations in foreign countries. These risks may be greater in emerging market and in less developed countries.

Political Risk. The value of our portfolios' international company investments may be adversely affected by political and social instability in their home countries and by changes in economic or taxation policies in those countries. Investments in international companies will expose these portfolios to the direct or indirect consequences of political, social or economic changes in the countries that issue the securities or countries in which the issuers are located. Certain foreign countries in which our portfolios may invest, especially emerging market countries, have historically experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. The cost of servicing the country's external debt generally will be adversely affected by rising international interest rates because many external debt obligations bear interest at rates that are adjusted based upon international interest rates. In addition, with respect to certain foreign countries, there is a risk of the possibility of expropriation of assets, confiscatory taxation, difficulty in obtaining or enforcing a court judgment, economic, political or social instability, and diplomatic developments that could adversely affect investments in those countries.

Foreign Currency Risk. International company investments often are purchased with and make interest payments in foreign countries' currencies. Therefore, if our portfolios invest in international companies, they will be subject to foreign currency risk, which means that the portfolios' values could decline as a result of changes in the exchange rates between foreign country currencies and the U.S. dollar. Certain foreign countries may impose restrictions on the ability of international companies to make payment of principal and interest to investors located outside the country due to blockage of foreign currency exchanges or otherwise. Furthermore, insofar as our international portfolios invest in emerging markets, there is a higher risk of currency depreciation. Historically, most emerging market country currencies have

experienced significant depreciation against the U.S. dollar. Some emerging market country currencies may continue to fall in value against the U.S. dollar.

*Debt Market Risk.* Debt securities are subject to interest rate risk, credit risk, call risk and liquidity risk, which are more fully described below.

Interest Rate Risk. Debt securities are subject to the risk that the securities could lose value because of interest rate changes. For example, bonds tend to decrease in value if interest rates rise. Debt securities with longer maturities sometimes offer higher yields, but are subject to greater price shifts as a result of interest rate changes than debt securities with shorter maturities.

Call Risk. During periods of declining interest rates, a bond issuer may “call”--or repay-- its high yielding bonds before their maturity dates. We would then be forced to invest the unanticipated proceeds at lower interest rates, resulting in a decline in our portfolios’ incomes.

Credit Risk. Debt securities are generally subject to the risk that the issuer may be unable to make principal and interest payments when they are due. There is also the risk that the securities could lose value because of a loss of confidence in the ability of the borrower to pay back debt. Lower rated debt securities involve greater credit risk, including the possibility of default or bankruptcy.

## **Item 9: Disciplinary Information**

As a registered investment advisor, HII is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of HII or the integrity of HII’s management.

We have no information to discuss applicable to this item.

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

HII does not have a relationship or arrangement with a broker-dealer, investment advisor, bank, accounting firm, lawyer or any other financial institution that that would present a conflict of interest with the needs of our clients.

HII provides services to certain clients whom HII believes may benefit from being referred to The Social Equity Group (SEG) for investment advisory and client services. These are usually clients who do not meet our minimum portfolio size. For the referral services provided by the advisor, SEG will compensate HII based on the assets of each

referred client managed by SEG at the annual rates of 0.5% for the first year, 0.3% for the second year, 0.2% for the third year, and 0.0% thereafter. SEG provides the client with written disclosure of the referral fee arrangement and requires the client to acknowledge receipt of same prior to the SEG's commencement of management services.

Except for the compensation we received from the SEG for client referrals, we do not believe that our arrangement with the SEG presents any material conflicts of interest.

## **Item 11: Code of Ethics**

HII has adopted a Code of Ethics in compliance with Rule 204A-1 under the Advisers Act that establishes standards of conduct for our supervised persons. The Code of Ethics includes general requirements that our supervised persons comply with their fiduciary obligations to clients and applicable securities laws. The Code of Ethics is intended to ensure that the financial best interests of the client are always placed above those of HII, or any officer, director, or employee of HII.

HII's Code of Ethics addresses the following areas of portfolio management and supervisory oversight:

**Business Conduct:** All employees shall observe high standards of commercial honor and just and equitable principles of trade. Employees shall not advise clients in areas in which they lack expertise and/or credentials. Employees shall maintain strict confidentiality at all times.

**Use of Information Obtained in Fiduciary Capacity:** All employees are expected to adhere to HII's "Privacy Policy" which prohibits the dissemination of information about a client to another person not specifically authorized by the client to receive information.

**Influencing or Rewarding Employees of Others:** No employee shall directly or indirectly, give or permit to be given anything of value, including gratuities in excess of fifty (\$50) dollars per individual per year to/from any person, principal, proprietor, employee, agent or representative of another person, where such payment or gratuity is in relation to the business of the employer of the recipient of the payment or gratuity.

**No Guarantee Against Loss:** No employee shall guarantee a client against loss in any managed account of such client. The risk of investment belongs with the investor. It shall not be stated or suggested in any way that there is any guarantee against loss and the inherent risk to the customer must be made clear.

**Insider Information:** All employees are prohibited from trading, for themselves, HII, or any client, in any security while in possession of material, non-public (inside) information concerning that security or its issuer.

**Appropriateness of Investments:** HII employees shall, when making an investment recommendation or taking an investment action for a specific portfolio or client, consider its appropriateness and suitability for such portfolio or client. In considering such matters, the employee shall take into account (1) the client's investment objectives and restrictions, (2) the needs and circumstances of the client, (3) the basic characteristics of the investment involved, and (4) the basic characteristics of the total portfolio.

**Material Financial Interest:** HII does not trade securities for clients in which HII or any of its related persons has a material financial interest.

**Employee Trading Policy:** Under our Code of Ethics, HII employees may personally invest in securities held in our client's accounts. This could present a conflict of interest in that HII employees could buy or sell such securities at times that adversely affect the price received by clients for similar trades. In the event that an employee wishes to trade the same security that has been traded for clients on a specific day, the employee must obtain permission to do so from the Chief Compliance Officer and will be required to execute that trade for his/her personal account(s) at the end of the trading day on which the approval is given. HII employees may also buy or sell specific securities for their own accounts based on personal investment considerations aside from company or industry fundamentals that we do not deem appropriate to buy or sell for clients.

HII's Board of Directors has approved the Code of Ethics and has appointed Forrest Hill as the Chief Compliance Officer. Clients and prospective clients may obtain a copy of our Code of Ethics by contacting Mr. Hill at (800) 788-0154 or by email at [forrest@harringtoninvestments.com](mailto:forrest@harringtoninvestments.com).

## **Item 12: Brokerage Practices**

In selecting a broker/dealer to effect portfolio transactions for our clients, HII has taken into consideration not only the available prices and rates of brokerage commissions, but other relevant factors that better improve our ability to serve our clients. These factors include:

- the execution capabilities of the brokers and/or dealers
- the research provided by the broker/dealer (including economic forecasts, investment strategy advice, fundamental and technical advice on individual

securities, valuation advice and market analysis), which are expected to enhance HII's general portfolio management capabilities

- the level of difficulty in executing online trades
- the quality of the operational facilities and service department
- the expertise of the bond department
- the financial strength and stability of the broker-dealer
- the efficiency of fee and trade error resolution for our clients
- the broker-dealers' willingness to execute related or unrelated difficult transactions in the future
- the broker-dealers' online access to computerized data regarding client accounts
- other matters involved in the receipt of quality brokerage services

Consistent with the foregoing points, we have entered into an investment manager service agreement with Schwab Institutional, a division of Charles Schwab & Co., Inc. (Schwab). Under this arrangement, Schwab provides HII products and services designed specifically for investment managers and their clientele, including, without limitation, product and account services, an electronic securities trading platform, secure online coverage of detailed client account information, and access to a broad range of independent research and information services. Schwab also provides HII's clients with monthly account statements, transaction confirmations, reports and other "back-office" and technical support. Because of this arrangement, HII generally has the ability to place client orders at discounted commission rates. As a result, we place the majority of client orders with Schwab.

**Research and Other Soft Dollar Benefits:** Unless the client requests a specific broker, HII generally has complete discretion over the selection of the broker to be used for client securities transactions and the commission rates to be paid. In selecting a broker for any transaction or series of transactions, we may consider a number of factors, including, for example, net price, clearance, settlement, reputation, financial strength and stability, efficiency of execution and error resolution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, special execution, offering to us on-line access to computerized data regarding clients' accounts and other matters involved in the receipt of brokerage services generally.

*Benefit from using client brokerage commissions to obtain research or other products and services:* Though we generally do not establish such relationships and except as otherwise expressly agreed with a client, we reserve the right to purchase from a broker or allow a broker to pay for certain research, products or services, including proprietary (*i.e.*, created or developed by the brokerage firm) or third-party research services,

economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, costs of research conferences, general reports, certain periodical subscription fees, consultations, performance measurement data, on-line pricing, charges for news wire and market data services, quotation services, certain computer software, and the like (a “soft dollar” relationship).

*Incentive to select or recommend a broker-dealer:* If we do engage in soft dollar relationships, our relationships with brokerage firms that provide soft dollar services to us would influence our judgment in allocating brokerage business and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not. We would have incentives to select a brokerage firm based on our interest in receiving the research or other products or services rather than on our clients’ interest in receiving the most favorable execution. These conflicts of interest would be particularly influential to the extent that we use soft dollars to pay expenses we would otherwise be required to pay ourselves.

*Causing clients to pay commissions higher than those charged by other broker dealers in return for soft dollar benefits:* If we do enter into one or more soft dollar relationships, we may pay a brokerage commission in excess of that which another broker/dealer might charge for effecting the same transaction in recognition of the value of the brokerage, research and other services and soft dollar relationships. In such a case, however, we would determine in good faith that such commission is reasonable in relation to the value of brokerage, research and other services and soft dollar relationships provided by such broker/dealer, viewed in terms of either the specific transaction or our overall responsibilities to the portfolios over which we exercise investment authority. However, an account may pay higher brokerage commissions than are otherwise available or may pay more brokerage commissions based on account trading activity. In addition, some clients may direct us to use a broker that does not provide soft dollar benefits to us. Nevertheless, the research and other benefits resulting from the brokerage relationship would benefit all accounts managed by us or our operations as a whole as we would not necessarily allocate soft dollar benefits only to those accounts that generated the soft dollar benefits or even proportionally to those that do.

*Products and Services HII acquired with client brokerage commissions over the past fiscal year:* We did not acquire any products or services with client brokerage commissions during our last fiscal year ending July 30, 2011.

**Brokerage for Client Referrals:** If we do enter into one or more soft dollar relationships, we may select a broker or dealer to execute transactions in recognition of that broker's or dealer's referral of clients, or in anticipation of future referrals. As with

soft dollar payments for research or other services or products, in some cases the transaction compensation paid in connection with such a selection might be higher than that obtainable from another broker-dealer who did not provide (or undertake to provide) referrals. However, HII will always seek "best execution."

We did not direct any client transactions to a particular broker-dealer in return for a client referral during our last fiscal year ending June 30, 2011.

**Directed Brokerage:** If a client directs HII to use a specific broker other than Schwab, we will not negotiate the terms and conditions (including, but not limited to, commission rates) relating to the services provided by such broker. If a client directs us to use a specific broker, we will not have negotiated the terms and conditions (including, but not limited to, commission rates) relating to the services provided by such broker. The client may not obtain rates as low as it might otherwise obtain if we had discretion to select brokers other than those chosen by the client. The client may not participate in aggregate securities transactions, as described below, and may trade after such aggregate transactions and receive less favorable execution in terms of price or transaction costs. In short, a client's directing of brokerage could cost the client more money. We disclaim any responsibility for obtaining for the client from any such broker the best prices or particular commission rates with or through any such broker.

**Aggregation of Securities Transactions:** HII may aggregate orders of more than one client if it is determined that aggregation is in the best interests of the clients. Trade aggregation is usually sought to obtain lower commissions and costs or a better transaction price. When orders are aggregated, the price paid by each account is the average price of the order. Transaction costs are allocated to each client on a pro-rata basis, based upon the ratio of the amount of particular issue of securities allocated to the account to the overall amount of that issue purchased.

HII may not aggregate securities orders for particular client accounts in cases where it believes that aggregation is inconsistent with the investment objectives and guidelines for the client accounts participating in the trade. In such cases, these clients may receive less favorable execution in terms of price or transaction costs. It is HII policy that non-aggregated trades are not prioritized in any manner that favors one group of similarly situated clients over another.

## Item 13: Review of Accounts

John Harrington, President and CEO, assisted by portfolio managers Forrest Hill and Virginia Cao, review each client account on a semi-annual basis. Mr. Harrington reviews all trades made in client accounts on a monthly basis. Each portfolio manager reviews

his or her assigned client accounts on a weekly basis or more frequently if prompted by specified price movements, market conditions or other developments. Mr. Harrington assigns client accounts to portfolio managers based upon a number of factors, including but not limited to seniority, expertise with specific client portfolio objectives, work load and client preferences.

The valuations of all securities in client portfolios are provided by the custodian (Schwab). These values can be accessed by clients in real time online at [www.Schwab.com](http://www.Schwab.com). HII reconciles the cash positions of each client account at Schwab with the cash records maintained in HII's portfolio management system on a monthly basis. HII reconciles the total valuation of each client account with the account values maintained in HII's portfolio management system on a monthly basis.

HII provides clients with a written performance report for their account at the end of each quarter. Annually, Schwab provides HII clients with an end of the year written capital gains report for tax purposes. Schwab also provides clients with a 1099 showing all taxable interest payments from stock dividends, bond payments, CDs, and other sources of taxable income.

John Harrington or one of HII's portfolio managers is available at least twice each calendar year to review, preferably in person with each client, the client's investment objective and goals. More frequent meetings will be held at the request of clients. Upon a client's written request, HII will consult with a client's accountants or tax preparers to coordinate these objectives and goals with the client's tax planning.

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

Though it is not currently our practice, we reserve the right from time to time to employ solicitors to whom we may pay cash or a portion of the advisory fees paid by clients referred to us by those solicitors. In such cases, this practice will be disclosed in writing to each client solicited by the solicitor in compliance with the other requirements of Rule 206(4)-3 under the Advisers Act.

#### **Item 15: Custody**

Clients will receive monthly statements from Schwab that shows the securities held in their account at the end of the month, all trades made during the month, and all dividend and interest payments. HII provides clients with quarterly statements that show all securities held in their account at the end of the quarter, as well as the financial performance of the account for the quarter and the year. HII urges clients to carefully review Schwab's statements and compare these official custodial records to the account

statements provided by HII. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

HII has the right to deduct fees from client accounts to pay for their advisory services. According to SEC rules, advisory firms that are allowed to deduct fees are considered to have limited custody of client assets and as such are required to make sure their clients receive a monthly account statement from the broker where their assets are held. To comply with this ruling, HII checks an alert webpage set up by Schwab, showing which clients have received statements. HII also checks to see that statements are available online for clients to access.

### **Item 16: Investment Discretion**

HII usually receives discretionary authority from the client in the form of a Limited Power of Attorney (LPOA) at the outset of an advisory relationship, giving us the power to select the securities to be bought and sold in the account. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment and social objectives for the particular client account.

When selecting securities and determining amounts to purchase, HII observes the investment policies, risk tolerance, and any other limitations or restrictions placed on the accounts by the clients for which it advises.

Because we engage in an investment advisory business and manage more than one account, there may be conflicts of interest over our time devoted to managing any one account and the allocation of investment opportunities among all accounts managed by us. We attempt to resolve all such conflicts in a manner that is generally fair to all of our clients. We may give advice and take action with respect to any of our clients that may differ from advice given or the timing or nature of action taken with respect to any particular client so long as it is our policy, to the extent practicable, to allocate investment opportunities over a period of time on a fair and equitable basis relative to other clients. We are not obligated to acquire for any account any security that we or our employees may acquire for our or their own accounts or for the account of any other client, if in our absolute discretion, it is not practical or desirable to acquire a position in such security for that account.

### **Item 17: Voting Client Securities**

HII will vote all proxies in advisory accounts unless the client reserves the right to vote his/her securities. Proxies over which HII has voting authority shall be voted in a

manner consistent with HII's social and economic criteria and the best economic interest of the client. A *Summary of Proxy Voting Guidelines* is published on the Advisor's web site at [www.harringtoninvestments.com](http://www.harringtoninvestments.com).

The following is a summary of the guidelines used by HII to vote client proxies.

**1. Director Related Issues:** HII will generally vote for any shareholder proposal that favors independence of directors, and allows for maximum control, by shareholders (as opposed to management), of the composition and tenure of the Board of Directors.

**2. Auditors:** HII will generally vote to allow shareholders to elect the auditors of a corporation. HII will generally vote against the ratification of existing auditors.

**3. Executive and Director Compensation:** HII will always vote for increased disclosure of compensation and against any shareholder proposal that favors highly compensated executive and upper level management personnel at the expense of lower paid personnel. This category would include option grants, stock-based incentive plans, golden parachutes, and ESOPs.

**4. Social and Environmental Proposals:** HII will vote for proposals to add women and minorities to boards, and the inclusion of language in EEO statements barring discrimination on the basis of sexual orientation. HII will vote in favor of shareholder proposals to implement human rights standards and workplace codes of conduct both in the United States and abroad. Shareholder proposals seeking greater disclosure on environmental practices will be supported, including the adoption of the CERES Principles. HII will vote for shareholder proposals to label products that contain genetically modified organisms ("GMO"), and/or to phase out the use of GMOs.

**5. Capital Structure:** HII evaluates capital structure issues on a case by case basis, but generally votes in favor of proposals that strengthen the company's balance sheet and encourage market liquidity.

**6. Voting Structure:** HII generally votes in favor of the adoption of cumulative voting and confidential voting, including the use of independent tabulators and inspectors.

**7. Proxy Contest Defenses / Takeover Defenses:** HII will vote against any proposal to prohibit shareholder ability to call special meetings and for proposals that seek to remove anti-takeover provisions. HII will favor proposals that allow shareholders equal access to information and are generally shareholder-friendly.

**8. Mergers and Corporate Restructurings:** HII will vote on a case by case basis, using best judgment to determine whether the proposed merger / restructuring / re-organization is in the best interests of the shareholders and employees of the corporation.

A client may instruct us by phone or in writing if the client wants to direct our vote in a particular proxy solicitation.

If a material conflict of interest over proxy voting arises between us and a client, we will vote all proxies in accordance with the policy described above. If we determine that this policy does not adequately address the conflict of interest, we will notify the client of the conflict and request that the client consent to our intended response to the proxy solicitation. If the client consents to our intended response or fails to respond to the notice within a reasonable period of time specified in the notice, we will vote the proxy as described above. If the client objects to our intended response, we will vote the proxy as directed by the client.

A client can obtain a copy of our proxy voting policy and a record of votes cast by us on behalf of that client by contacting Virginia Cao at (800) 788-0154 or [virginia@harringtoninvestments.com](mailto:virginia@harringtoninvestments.com).

## **Item 18: Financial Information**

HII has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its clients, and has not been the subject of a bankruptcy proceeding.

## **Item 19: Requirements for State Registered Advisers**

This item is not applicable to us.



## ADV Part 2B Brochure Supplement

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### **Item 1: Cover Page**

#### **John Harrington, PhD**

Harrington Investments, Inc.  
1001 2<sup>nd</sup> Street, Suite 325  
Napa, California 94559

T: 707-252-6166  
F: 707-257-7923

[www.harringtoninvestments.com](http://www.harringtoninvestments.com)

June 30, 2014

This brochure supplement provides information about John Harrington that supplements the Harrington Investments, Inc. Form ADV Part 2A Brochure. You should have received a copy of that brochure. Please contact Monica Nelson at 707-252-6166 or by email at [monica@harringtoninvestments.com](mailto:monica@harringtoninvestments.com) if you did not receive our Brochure or if you have any questions about the contents of the supplement.

## **Item 2: Educational Background and Business Experience**

John Harrington is the President and CEO of Harrington Investments, Inc. (HII) since 1982. Mr. Harrington received his B.A., Political Science, from Sonoma State University in 1970, his M.A., Humanities, from Dominican University in 2006, and his PhD, Philosophy, from The Australian National University (ANU). He has studied graduate economics at Sacramento State University, University of California Los Angeles, and the University of York, England.

## **Item 3: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item.

## **Item 4: Other Business Activities**

John Harrington is a managing member of HLM, LLC, which is the manager of Community Commercial Ventures, LLC (CCV, LLC), a company formed to purchase, develop, operate, and sell commercial real estate in San Francisco and Oakland, California areas.

## **Item 5: Additional Compensation**

No information is applicable to this Item.

## **Item 6: Supervision**

As President and CEO of HII, John Harrington is not directly supervised by other persons. Mr. Harrington is subject to HII's compliance program policies and procedures, including HII's Code of Ethics. Mr. Harrington's advisory activities as a portfolio manager of HII clients are monitored by HII's Chief Compliance Officer for conformance with the client's investment objectives, policies and restrictions.

## **Item 7: Requirements for State-Registered Advisers**

This Item is not applicable to Mr. Harrington.



## ADV Part 2B Brochure Supplement

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### **Item 1: Cover Page**

#### **Forrest Hill, PhD**

Harrington Investments, Inc.  
1001 2<sup>nd</sup> Street, Suite 325  
Napa, California 94559

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## **Item 2: Educational Background and Business Experience**

Forrest Hill is the Senior Portfolio Manager and Chief Compliance Officer at Harrington Investments, Inc. (HII). Dr. Hill received his B.S. in Biology, from the University of Massachusetts in 1993, his M.S. in Genetics, from the University of Massachusetts in 1995, and his Ph.D. in Biological Oceanography, from the Massachusetts Institute of Technology in 2000. He also pursued post-doctoral studies in mathematical ecology at the University of California, Davis in 2001 – 2002. He is currently a candidate for CFP® certification at the Boston Institute of Finance. Dr. Hill worked for the Camejo Group, a socially responsible investment firm in Oakland CA, in 2004 – 2007. He has been the Senior Portfolio Manager at Harrington Investments since 2007.

## **Item 3: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item.

## **Item 4: Other Business Activities**

No information is applicable to this Item.

## **Item 5: Additional Compensation**

No information is applicable to this Item.

## **Item 6: Supervision**

Forrest Hill's supervisor is John Harrington, the President and CEO of HII, (707) 252-6166, [john@harringtoninvestments.com](mailto:john@harringtoninvestments.com). Dr. Hill is subject to HII's compliance program policies and procedures, including HII's Code of Ethics. Dr. Hill's advisory activities as a portfolio manager of HII, including his portfolio decisions, are monitored by John Harrington for conformance with the client's investment objectives, policies and restrictions.

## **Item 7: Requirements for State-Registered Advisers**

This Item is not applicable to Dr. Hill.



## ADV Part 2B Brochure Supplement

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### **Item 1: Cover Page**

#### **Virginia Cao Janos**

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## **Item 2: Educational Background and Business Experience**

Virginia Cao Janos is a Portfolio Manager at Harrington Investments specializing in ESG investment research, security analysis, and shareholder advocacy. Virginia has over 7 years of investment industry experience. Prior to joining Harrington Investments, Virginia worked for TIAA-CREF under the Asset Management team performing equity research and portfolio analysis. She earned a B.S. in Business Administration with an emphasis in Finance from San Diego State University. Virginia is an active volunteer with the Catalyst Foundation, a nonprofit humanitarian organization that works to improve the lives of orphaned and abandoned Vietnamese children.

## **Item 3: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item.

## **Item 4: Other Business Activities**

No information is applicable to this Item.

## **Item 5: Additional Compensation**

No information is applicable to this Item.

## **Item 6: Supervision**

Virginia Cao Janos' supervisor is John Harrington, the President and CEO of HII, (707) 252- 6166, [john@harringtoninvestments.com](mailto:john@harringtoninvestments.com). Ms. Cao is subject to HII's compliance program policies and procedures, including HII's Code of Ethics. Ms. Cao Janos' advisory activities as a portfolio manager of HII, including his portfolio decisions, are monitored by John Harrington and Forrest Hill, the firm's Chief Compliance Officer for conformance with the client's investment objectives, policies and restrictions.

## **Item 7: Requirements for State-Registered Advisers**

This Item is not applicable to Ms. Cao Janos.