

**Item 1: Cover Sheet**



**INFORMATIONAL BROCHURE**

**HOTALING INVESTMENT MANAGEMENT, LLC**

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**This brochure provides information about the qualifications and business practices of Hotaling Investment Management, LLC. If you have any questions about the contents of this brochure, please contact us at 610-688-0616. 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. Hotaling Investment Management, LLC is a registered investment adviser. Registration does not imply any certain level of skill or training.**

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

**Item 2:           Statement of Material Changes**

Hotaling Investment Management, LLC is required to include in this Item 2 any material changes to the Form ADV Part 2A since the last update. There have been no material changes since the last update in February 2014.

**Item 3: Table of Contents**

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## INFORMATIONAL BROCHURE

### HOTALING INVESTMENT MANAGEMENT, LLC

#### **Item 4: Advisory Business**

Hotaling Investment Management, LLC (“Hotaling”) has been in business since November 1, 2012. Bruce Hotaling is the firm’s only principal. Hotaling provides personalized investment management and financial planning services. The firm provides financial advice to individuals, trusts, foundations, endowments and corporations.

##### Investment Management

Hotaling requires each client to place at least \$500,000 with the firm. This minimum may be waived in the discretion of Hotaling.

Asset management services may be provided on either a “discretionary” or “non-discretionary” basis. When Hotaling is engaged to provide asset management services on a discretionary basis, Hotaling will monitor your accounts to ensure that they are meeting your asset allocation requirements. If any changes are needed to your investments, Hotaling will make the changes. These changes may involve selling a security or group of investments and buying others or keeping the proceeds in cash. You may at any time place restrictions on the types of investments Hotaling may use on your behalf, or on the allocations to each security type. You may receive at your request written or electronic confirmations from your account custodian after any changes are made to your account. You will also receive monthly statements from your account custodian. Clients engaging Hotaling on a discretionary basis will be asked to execute a Limited Power of Attorney (granting Hotaling the discretionary authority over the client accounts) as well as an Investment Management Agreement that outlines the responsibilities of both the client and Hotaling.

When a client engages Hotaling to provide investment management services on a non-discretionary basis, the accounts are monitored by Hotaling. The difference is that changes to your account will not be made until Hotaling has confirmed with you (either verbally or in writing) that the proposed change is acceptable to you.

##### Assets Under Management

As of March 31, 2014, Hotaling manages \$145,679,222 across 291 discretionary accounts. For certain clients and in limited circumstances, Hotaling may allow for a non-discretionary account. These instances are generally to separate certain client assets from the client’s main accounts, or are courtesy accounts.

##### Financial Planning

In most cases, clients will supply Hotaling information including income, investments, savings, insurance, age and other items that are helpful to the firm in assessing your financial goals. The information is typically provided during personal interviews and supplemented with written information. Once the information is received, Hotaling will discuss your financial needs and goals with you, and compare your current financial situation with the goals you state. Once these are compared, Hotaling will create a financial and/or investment plan to help you meet your goals.

The plan is intended to be a suggested blueprint of how to meet your goals. Not every plan will be the same for every client. Each is specific to the client who requested it. Because the plan is based on information supplied by you, it is very important that you accurately and completely communicate all relevant information. It is also important that you continually provide updates with any changes to your personal information so that necessary modifications to your plan can be made.

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

### **A. Fees Charged**

All clients will be required to execute a written agreement that will describe the type of services to be provided and the fees, among other items.

Financial planning is included with asset management services.

Generally, assessed fees vary from 1.75% to 0.55% per annum of the market value of a client's assets managed by Hotaling, and will generally fall into the following chart:

\$0	-	\$500,000	1.75%
\$500,000	-	\$1,000,000	1.50
\$1,000,000	-	\$2,500,000	1.25%
\$2,500,000	-	\$5,000,000	1.00%
\$5,000,000	-	\$10,000,000	0.85%
\$10,000,000	-	\$20,000,000	0.65%
\$20,000,000	-	\$30,000,000	0.55%

The fee range stated is a guide. Fees are negotiable, and may be higher or lower than this range, based on the nature of the account. Factors affecting fee percentages include the size of the account, complexity of asset structures, and other factors.

### **B. Fee Payment**

Investment advisory fees will be debited directly from each client's account. The advisory fee is paid quarterly, in advance, and the value used for the fee calculation is the account value as of the last market day of the previous quarter. This means that if your annual fee is 1.00%, then each quarter we will multiply the value of your account by 1.00% then divide by 4 to calculate our fee. Once the calculation is made, we will instruct your account custodian to deduct the fee from your account and remit it to Hotaling.

Clients whose fees are directly debited will provide written authorization to debit advisory fees from their accounts held by a qualified custodian chosen by the client. Each quarter, clients will receive a bill itemizing the fees to be debited, including the formula used to calculate the fee, the amount of assets the fee is based, and the time period covered by the fee. The invoice will also state that the fee was not independently calculated by the custodian. The client will also receive a statement from their account custodian showing all transactions in their account, including the fee.

C. Other Fees

There are a number of other fees that can be associated with holding and investing in securities. You will be responsible for fees including transaction fees for the purchase or sale of a mutual fund, or commissions for the purchase or sale of a stock or Closed End Fund. Expenses of a fund will not be included in management fees, as they are deducted from the value of the shares by the mutual fund manager. For complete discussion of expenses related to each mutual fund, you should read a copy of the prospectus issued by that fund. Hotaling can provide or direct you to a copy of the prospectus for any fund that we recommend to you.

Please make sure to read Item 12 of this informational brochure, where we discuss broker-dealer and custodial issues.

D. *Pro-rata* Fees

If you become a client during a quarter, you will pay a management fee for the number of days left in that quarter. If you terminate our relationship during a quarter, you will be entitled to a refund of any management fees for the remainder of the quarter. Once your notice of termination is received, we will refund the unearned fees to you in whatever way you direct (check, wire back to your account).

E. Compensation for the Sale of Securities.

To permit Hotaling clients to have access to as many investment solutions as possible, certain professionals of Hotaling are registered representatives of Purshe Kaplan Sterling Investments, Inc. ("PKS"), a FINRA member broker-dealer. The relationship with PKS allows these professionals to provide additional products to clients' portfolios that would not otherwise be available. Because PKS supervises the activities of these professionals as registered representatives of PKS, the relationship may be deemed material. However, PKS is not affiliated with Hotaling or considered a related party. PKS does not make investment decisions for client accounts. Registered representative status enables these professionals to receive customary commissions for the sales of various securities, including those he recommends to clients. Commissions charged for these products will not offset management fees owed to Hotaling.

Receipt of commissions for investment products that are recommended to clients gives rise to a conflict of interest for the representative, in that the individual who will receive the commissions is also the individual that is recommending that the client purchase a given product. The representative has an incentive to recommend investment products based on the compensation received, rather than the client's needs. This conflict is disclosed to clients verbally and in this brochure. Clients are advised that they may choose to implement any investment recommendation through another broker-dealer that is not affiliated with Hotaling. Hotaling attempts to mitigate this conflict by requiring that all investment recommendations have a sound basis for the recommendation, and by requiring employees to acknowledge their fiduciary responsibility toward each client.

**Item 6: Performance-Based Fees**

Hotaling will not charge performance based fees.

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

Clients advised may include individuals, trusts, foundations, endowments and corporations. Hotaling requires each client to place at least \$500,000 with the firm. This minimum may be waived in the discretion of Hotaling.

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

It is important for you to know and remember that all investments carry risks. Investing in securities involves risk of loss that clients should be prepared to bear.

At the onset of the client relationship, Hotaling will:

- 1) Interview the client and establish investment objectives, risk tolerance, investment horizon, income/distribution needs and any other constraints that may play a role in the client's investment parameters
- 2) Determine an appropriate asset allocation, including the general types of securities that would be appropriate to meet the client's needs.
- 3) Prepare a written investment policy outlining the above for the client, including a schedule for regular reviews.
- 4) If needed, Hotaling will prepare a transition plan from the client's current accounts to the accounts managed by Hotaling. It is important to remember that because market conditions can vary greatly, your asset allocation guidelines are not necessarily strict rules. Rather, Hotaling will review accounts individually, and may deviate from the guidelines as is deemed necessary.

Each client account is separately managed, and invested according to that client's investment objectives. Once Hotaling ascertains the objectives for each account, an asset allocation guideline is established. An asset allocation guideline is a percentage-based allocation among different types of assets (asset classes). For example, a client may have an asset allocation strategy that calls for 60% of the portfolio to be invested in equity securities and the remaining balance in fixed income. Another client may have an asset allocation of 75% in fixed income securities and the remainder equities. The percentages in each type that we recommend are based on the typical behavior of that asset class, individual securities we follow, current market conditions, the client's current financial situation, financial goals, and the timeline to get you to those goals. Because Hotaling develops an investment strategy based on your personal situation and financial goals, your asset allocation guidelines may be similar to or different from another client's.

Once the client's asset allocation guidelines are established, a selection of appropriate securities types are selected. The broad categories of securities Hotaling works with are: are individual stocks, municipal bonds, corporate bonds, REIT's (real estate investment trusts), MLP's (master limited partnerships), CEF's (closed-end mutual funds) and some equity and some fixed income open ended mutual funds. The stocks are generally utilized for growth. The primary goal is to increase the value of the client's assets through price appreciation. Municipal bonds and corporate bonds are the two primary security types Hotaling uses to generate income for client portfolios. REIT's and MLP's are generally used for income, and to diversify client portfolios. They are typically used in support of the primary asset types, stocks and bonds. Different asset types tend to behave differently in different market environments and there can be benefits to diversification. The CEF's are used for income as are the open-ended mutual funds.

Hotaling typically utilizes individual securities to configure a client account. In certain instances, mutual funds will be used to represent a specific asset class. All client accounts are managed by Hotaling, and are not managed by other money managers.

For the equity component of client portfolios, Hotaling utilizes its own proprietary stock models, which it uses to guide the stock positions in client portfolios. Each client account is coded to indicate the equity model it is attached to. Client accounts are only attached to one equity model. If a client wanted to take advantage of more than one equity model, Hotaling would suggest the client open a second account to accommodate the other equity model.

As a result of Hotaling's interviewing clients, Hotaling is often in a position to recommend the appropriate equity model for the client's needs. In other instances, client's may have a specific type of equity portfolio in mind, either due to their investment interest, their overall global asset allocation, or their expected risk and return guidelines. Some clients' equity allocation should be in stocks of companies that are perceived to be more stable, large companies. Other clients' equity allocations can be in smaller companies with greater growth potential (and potentially greater risk).

Specific securities are chosen based on a variety of factors, including relative valuation, expected growth, dividends, company management, and other comparative factors such as price to earnings ratios. Hotaling bases its conclusions on publicly available research, such as regulatory filings, press releases, purchased research, and proprietary screens and analysis. Hotaling also utilizes some quantitative analysis and from time to time utilizes technical analyses, which means that it will review the past behaviors of the security and the markets in which it trades for signals as to what might happen in the future.

Equities: Hotaling proprietary equity models:

Large Cap: A portfolio of stocks reflecting the largest, and historically more stable companies in the S&P 500. The model utilizes a GARP (growth at a reasonable price) strategy, and is intended to be generally conservatively positioned, to allow clients a balanced exposure to the equity markets with less risk than a portfolio defined by unique characteristics or with exposure to more emerging companies.

Mid-Cap Core: A grouping of 40-50 stocks intended to provide an element of growth potential to the equity allocation. Generally these are somewhat smaller companies (by market capitalization), at a stage in their life cycle where there are still significant opportunities for growth, but after the company has proven itself as a stable enterprise.

All-Cap: the equities in this model are a blend of the Large Cap and Mid-Cap equities, generally, but may also include other equities. The approach here is balanced: the right mix of large, established companies with medium-sized but growing companies can provide risk mitigation and still allow for appreciation.

Fixed Income: Hotaling utilizes traditional fixed income and proprietary models:

For the fixed income component of client portfolios, Hotaling predominantly utilizes individual municipal bonds (for appropriate taxable accounts) and corporate bonds (for tax deferred accounts and accounts where the client's tax situation allows). Hotaling utilizes fundamental research, ratings agency reports, research and data gleaned from on-line sources and other proprietary research to vet out and monitor bond portfolios.



**Municipal Bonds:** Tax free (State and Federal) when purchased by residents of the issuing state. For higher tax bracket investors, they are an important asset class. Individual bonds are generally chosen for their stability, liquidity, and accessibility.

**Corporate Bonds:** Core fixed income for accounts not tax sensitive and where steady income is a primary objective. Corporate bonds are categorized as fixed income securities, but this does not mean they are by definition secure investments with limited upside. Rather, some bonds may have growth potential combined with higher levels of risk or volatility. The construction of the portfolio is therefore paramount to the success of the model. A mixture of well-performing, secure debt is combined with potentially higher yield investments. This model is appropriate for clients investing over a long term, who are able to tolerate risk and volatility.

Hotaling also uses some CEF's and open-ended mutual funds to diversify and enhance the income generating qualities of its fixed income portfolios. These are generally used in support of the primary bond portfolio. Hotaling also utilizes research sources to analyze and qualitatively rank the CEF's and mutual funds being used.

Hotaling's CEF model (High Income Model) is a proprietary portfolio of closed end funds, chosen for their perceived ability to generate higher returns than an index fund. The specific CEF's chosen are allocated among several distinct sectors of the fixed income market, which Hotaling believes provides a level of diversification and balance to the portfolio. Because of the diversified nature of a CEF, combined with the construction of this model as a collection of CEFs, the portfolio is more diversified than a traditional bond portfolio.

Hotaling's open-ended mutual fund model (Income Model) is a proprietary portfolio of open-ended, fixed income mutual funds, allocated among several distinct sectors of the market. This fund is intended as a lower risk, lower return option.

**Other asset classes: REIT's and MLP's and options:**

The other primary asset classes Hotaling utilizes in its asset allocation recommendations are REIT's (real estate investment trusts) and MLP's (oil and gas master limited partnerships). These asset classes are attractive for income purposes, growth and often are effective in diversifying client portfolios. They can exhibit non-correlating behavior (price movement) which can counter the effect of market price moves on other asset classes. The primary use of REIT's and MLP's are as income producing investments, to improve and diversify the income generating capabilities of certain accounts, as appropriate.

For appropriate clients and under certain circumstances, Hotaling will write covered call options on stock positions, when the conditions warrant. Typically, options are written (sold) on 1) stock positions to be exited or, 2) long held or outsized positions. The technique is intended as a low risk income supplement to the traditional portfolio management services.

When a client first comes to Hotaling, the client's assets must be transitioned into Hotaling. This means potentially selling some investments in a client portfolio, either all at once or over time, and moving those assets in line with the agreed asset allocation guidelines. Hotaling's transition plans will involve the placement of each client's assets in one of its proprietary equity models, and appropriate fixed income (or fixed income model) ( and other asset classes) as the market conditions dictate. There may be times when it takes several months for a clients' assets to be fully invested, and in synch with the equity investment models.

A client may have different accounts in different models, which together represent the total allocation of the client's assets with Hotaling. All accounts in each model are managed on a *pari passu* basis. In other words, all accounts managed within each strategy are managed in a like manner, side by side with one another, and not individually considered. This does not mean that a client may not place reasonable restrictions on the management of their assets. In the event a client wanted to place a restriction, the restriction would be noted and any trades for the model that might violate the restriction would be stricken from that client's account.

As assets are transitioned from a client's prior advisers to Hotaling, there may be securities and other investments that do not fit within the asset allocation strategy selected for the client. Accordingly, these investments will need to be sold in order to reposition the portfolio into the asset allocation strategy selected by Hotaling. However, this transition process may take some time to accomplish. Some investments may not be unwound for a lengthy period of time for a variety of reasons that may include unwarranted low share prices, restrictions on trading, contractual restrictions on liquidity, or market-related liquidity concerns. In some cases, there may be securities or investments that are never able to be sold. In the event an investment in a client account is unable to be unwound for a period of time, Hotaling will monitor the investment as part of its services to the client. Hotaling may suggest that a given investment be moved to a separate account.

There are always risks to investing. **Clients should be aware that all investments carry various types of risk including the potential loss of principal that clients should be prepared to bear.** It is impossible to name all possible types of risks. Among the risks are the following:

- **Political Risks.** Most investments have a global component, even domestic stocks. Political events anywhere in the world may have unforeseen consequences to markets around the world.
- **General Market Risks.** Markets can, as a whole, go up or down on various news releases or for no understandable reason at all. This sometimes means that the price of specific securities could go up or down without real reason, and may take some time to recover any lost value. Adding additional securities does not help to minimize this risk since all securities may be affected by market fluctuations.
- **Currency Risk.** When investing in another country using another currency, the changes in the value of the currency can change the value of your security value in your portfolio.
- **Regulatory Risk.** Changes in laws and regulations from any government can change the value of a given company and its accompanying securities. Certain industries are more susceptible to government regulation. Changes in zoning, tax structure or laws impact the return on these investments.
- **Tax Risks Related to Short Term Trading:** Clients should note that Hotaling may engage in short-term trading transactions. These transactions may result in short term gains or losses for federal and state tax purposes, which may be taxed at a higher rate than long term strategies. Hotaling endeavors to invest client assets in a tax efficient manner, but all clients are advised to consult with their tax professionals regarding the transactions in client accounts.
- **Risks Related to Investment Term.** Securities do not follow a straight line up in value. All securities will have periods of time when the current price of the security is not an accurate measure of its value. If you require us to liquidate your portfolio during one of these periods, you will not realize as much value as you would have had the investment had the opportunity to regain its value.
- **Purchasing Power Risk.** Purchasing power risk is the risk that your investment's value will decline as the price of goods rises (inflation). The investment's value itself does not decline, but its relative value does, which is the same thing. Inflation can happen for a variety of complex reasons, including a growing economy and a rising money supply.
- **Business Risk.** This can be thought of as certainty or uncertainty of income. Management comes under business risk. Cyclical companies (like automobile companies) have more business risk because

of the less steady income stream. On the other hand, fast food chains tend to have steadier income streams and therefore, less business risk.

- **Financial Risk.** The amount of debt or leverage determines the financial risk of a company.
- **Default Risk.** This risk pertains to the ability of a company to service their debt. Ratings provided by several rating services help to identify those companies with more risk. Obligations of the U.S. government are said to be free of default risk.
- **Short Sales.** “Short sales” are a way to implement a trade in a security Hotaling feels is overvalued. In a “long” trade, the investor is hoping the security increases in price. Thus in a long trade, the amount of the investor’s loss (without margin) is the amount paid for the security. In a short sale, the investor is hoping the security decreases in price. However, unlike a long trade where the price of the security can only go from the purchase price to zero, in a short sale, the price of the security can go infinitely upwards. Thus in a short sale, the potential for loss is unlimited and unknown, where the potential for loss in a long trade is limited and knowable. Hotaling utilizes short sales only when the client’s risk tolerances permit.
- **Information Risk:** All investment professionals rely on research in order to make conclusions about investment options. This research is always a mix of both internal (proprietary) and external (provided by third parties) data and analyses. Even an adviser who says they rely solely on proprietary research must still collect data from third parties. This data, or outside research is chosen for its perceived reliability, but there is no guarantee that the data or research will be completely accurate. Failure in data accuracy or research will translate to a compromised ability by the adviser to reach satisfactory investment conclusions.
- **Risks Specific to the Use of Model Portfolios:** Each client’s assets will be invested according to their specific investment objectives, but the use of models to achieve the client’s goals brings a specific risk that a model portfolio may not meet the client’s objectives the same way a completely individualized portfolio might. While this can happen any time, it is most likely to occur when a client provides investment restrictions for their account which cause their account to not participate in every investment decision made for the model portfolios. Clients are encouraged to place restrictions on the investment of their assets if they wish, but should understand that the more restrictions are placed on the accounts, the more difficult it is for Hotaling, or any adviser, to meet their objectives. This is especially true when model portfolios are used, because the models are constructed using each security as an integral building block to the portfolio as a whole.

#### **Item 9:                   Disciplinary Information**

Neither the firm nor any of its employees nor principal has any disciplinary information to report.

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

##### **A. Broker-dealer**

Please refer to Item 5.E. where we discuss our relationship with PKS, a FINRA member broker-dealer.

##### **B. Futures Commission Merchant/Commodity Trading Advisor**

Neither the principal of Hotaling, nor any related persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

C. Relationship with Related Persons

This item is not applicable.

D. Recommendations of other Advisers

Hotaling does not utilize nor select other advisers or third party managers. All assets are managed by Hotaling management.

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

A. A copy of our Code of Ethics is available upon request. Our Code of Ethics includes discussions of our fiduciary duty to clients, political contributions, gifts, entertainment, and trading guidelines.

B. Not applicable. Hotaling does not recommend to clients that they invest in any security in which Hotaling or any principal thereof has any financial interest.

C. On occasion, an employee of Hotaling may purchase for his or her own account securities which are also recommended for clients. Our Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in one's own account. To avoid placing a trade before a client (in the case of a purchase) or after a client (in the case of a sale), all employee trades must be pre-cleared through the Compliance Officer. All employee trades must either take place in the same block as a client trade or sufficiently apart in time from the client trade so the employee receives no added benefit. Employee statements are reviewed to confirm compliance with the trading procedures.

D. On occasion, an employee of Hotaling may purchase for his or her own account securities which are also recommended for clients at the same time the clients purchase the securities. Our Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in one's own account. To avoid placing a trade before a client (in the case of a purchase) or after a client (in the case of a sale), all employee trades must be pre-cleared through the Compliance Officer. All employee trades must either take place in the same block as a client trade or sufficiently apart in time from the client trade so the employee receives no added benefit. Employee statements are reviewed to confirm compliance with the trading procedures.

**Item 12: Brokerage Practices**

A. Recommendation of Broker-Dealer

Hotaling recommends that investment accounts be held in custody by Schwab Advisor Services ("Schwab"), and in some cases, Purshe Kaplan Sterling Investments, Inc. ("PKS"). Schwab offers enhanced services to independent investment advisors. These services include custody of securities, trade execution platforms, and access to research not available to the general public. Hotaling may also offer certain clients trading services which gives Hotaling the ability to execute certain trades of client assets custodied at Schwab through PKS. Both Schwab and PKS are wholly independent from Hotaling.

It is expected that most, if not all, transactions in a given client account will be cleared through the custodian of that account in its capacity as a broker-dealer.

Hotaling recommends Schwab and/or PKS to its clients based on a variety of factors. These include, but are not limited to, commission costs. Schwab has what can be considered discounted commission rates. However, in choosing a broker-dealer or custodian to recommend, Hotaling is most concerned with the value the client receives for the cost paid, not just the cost. Schwab and PKS add value beyond commission cost. Other factors that may be considered in determining overall value include speed and accuracy of execution, availability of certain securities, financial strength, knowledge and experience of staff, research and service. Schwab also has arrangements with many mutual funds that enable Hotaling to purchase these mutual funds for client accounts at reduced transaction charges (as opposed to other broker-dealers). Hotaling re-evaluates the use of Schwab and PKS at least annually to determine if they are still the best value for our clients.

Schwab provides Hotaling with some non-cash benefits (not available to retail customers) in return for placing client assets with them or executing trades through them. Such non-cash benefits are referred to as "soft dollars". Currently, these benefits come in the form of investment research and sponsored attendance at various investment seminars. Hotaling may also receive such items as investment software, books and research reports. These products, services, or educational seminars are items that will play a role in determining how to invest client accounts. If there is any item that has a multi-use aspect, mixed between investment and non-investment purposes, Hotaling will determine a reasonable allocation of investment to non-investment use and soft dollars will be allocated only to the investment portion of the product (and Hotaling will pay the remaining cost). Hotaling receives a benefit from these services, as otherwise it would be compiling the same research. This may cause Hotaling, or another adviser, to want to place more client accounts with a broker-dealer/custodian such as Schwab, solely because of these added benefits. However, the value to all of its clients of these benefits is included in Hotaling's evaluation of custodians. Products and services received via soft dollars will generally be used for the benefit of all clients. However, it is possible that a given client's trades will generate soft dollars that acquire products and/or services that are not ultimately utilized for that same client's account. Soft dollars provide additional value, and are accordingly considered in determining which broker-dealer or custodian to utilize as part of our best execution analysis.

Schwab has provided a loan to Hotaling to assist its business operations, and the loan is guaranteed by Bruce T. Hotaling, principal of Hotaling. The terms of the loan require that management fees to Hotaling be paid to an account at Schwab for deduction of interest and principal payments on the loan before Hotaling may access such management fees. The loan agreement contains various representations and covenants by Hotaling, including, among others, that Hotaling will maintain at least \$96 million of end client net assets held at Schwab ("Assets Under Management at Schwab"), and that Hotaling will comply with all applicable laws, regulations, and agreements, and obtain all necessary licenses, consents and permits. Upon the occurrence and during the continuance of an event of default under the loan agreement, Schwab may terminate and/or accelerate the loan, which may have a material adverse effect on the Hotaling's ability to perform services for you.

Some of the products, services and other benefits provided by Schwab, including the loan noted above, benefit Hotaling and may not benefit Hotaling's client accounts. Hotaling's recommendation or requirement that a client place assets in Schwab's custody may be based in part on benefits Schwab provides to Hotaling, or Hotaling's agreement to maintain certain assets under management at Schwab, and not solely on the nature, cost or quality of custody and execution services provided by Schwab.

Hotaling does not consider whether Schwab, PKS or any other broker-dealer/custodian, refers clients to Hotaling as part of its evaluation of these broker-dealers.

**B. Aggregating Trades**

Commission costs per client may be lower on a particular trade if all clients in whose accounts the trade is to be made are executed at the same time. This is called aggregating trades. Instead of placing a number of trades for the same security for each account, we will, when appropriate, execute one trade for all accounts and then allocate the trades to each account after execution. If an aggregate trade is not fully executed, the securities will be allocated to client accounts on a *pro rata* basis, except where doing so would create an unintended adverse consequence (For example,  $\frac{1}{4}$  of a share, or a position in the account of less than 1%.)

**Item 13: Review of Accounts**

All accounts will be reviewed by a senior professional on at least an annual basis. However, it is expected that market conditions, changes in a particular client's account, or changes to a client's circumstances will trigger a review of accounts.

All clients will receive statements and confirmations of trades directly from Schwab.

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

A. Economic Benefit Provided by Third Parties for Advice Rendered to Client.

*Please refer to Item 12, where we discuss recommendation of Broker-Dealers.*

B. Compensation to Non-Advisory Personnel for Client Referrals.

Hotaling does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

**Item 15: Custody**

Hotaling deducts fees from client accounts, but would not have custody of client funds otherwise. Clients will receive statements directly from Schwab, and copies of all trade confirmations directly from Schwab.

Clients whose fees are directly debited will provide written authorization to debit advisory fees from their accounts held by a qualified custodian chosen by the client. Each quarter, clients will receive a bill itemizing the fees to be debited, including the formula used to calculate the fee, the amount of assets the fee is based, and the time period covered by the fee. The invoice will also state that the fee was not independently calculated by the custodian. The client will also receive a statement from their account custodian showing all transactions in their account, including the fee.

We encourage clients to carefully review the statements and confirmations sent to them by their custodian, and to compare the information on your quarterly report prepared by Hotaling against the information in the statements provided directly from Schwab. Please alert Hotaling of any discrepancies.

## **Item 16: Investment Discretion**

Asset management services may be provided on either a “discretionary” or “non-discretionary” basis. When Hotaling is engaged to provide asset management services on a discretionary basis, Hotaling will monitor your accounts to ensure that they are meeting your asset allocation requirements. If any changes are needed to your investments, Hotaling will make the changes. These changes may involve selling a security or group of investments and buying others or keeping the proceeds in cash. You may at any time place restrictions on the types of investments we may use on your behalf, or on the allocations to each security type. You may receive at your request written or electronic confirmations from your account custodian after any changes are made to your account. You will also receive monthly statements from your account custodian. Clients engaging Hotaling on a discretionary basis will be asked to execute a Limited Power of Attorney (granting Hotaling the discretionary authority over the client accounts) as well as an Investment Management Agreement that outlines the responsibilities of both the client and Hotaling.

When a client engages Hotaling to provide investment management services on a non-discretionary basis, the accounts are monitored by Hotaling. The difference is that changes to your account will not be made until Hotaling has confirmed with you (either verbally or in writing) that the proposed change is acceptable to you.

Hotaling generally recommends that clients utilize Schwab Advisor Services to act as the broker-dealer/custodian for their accounts. However, the client may use another broker-dealer if the client wishes to do so. Hotaling will not, however, direct trades through another broker-dealer aside from Schwab Advisor Services in exchange for any sort of fee-sharing or commission-splitting.

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

Copies of our Proxy Voting Policies are available upon request.

From time to time, shareholders of stocks, mutual funds, exchange traded funds or other securities may be permitted to vote on various types of corporate actions. Examples of these actions include mergers, tender offers, or board elections. Clients are required to vote proxies related to their investments, or to choose not to vote their proxies. Hotaling will not accept authority to vote client securities. Clients will receive their proxies directly from the custodian for the client account. Hotaling will not give clients advice on how to vote proxies.

## **Item 18: Financial Information**

Hotaling does not require the prepayment of fees more than six (6) months or more in advance and therefore has not provided a balance sheet with this brochure.

There are no material financial circumstances or conditions that would reasonably be expected to impair our ability to meet our contractual obligations to our clients.