

Form ADV Part 2A: Firm Brochure

**Marble Harbor Investment Counsel, LLC**

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**January 22, 2015**

**Item 1 - Cover Page**

This Brochure provides information about the qualifications and business practices of Marble Harbor Investment Counsel, LLC (hereinafter “Marble Harbor”). If you have any questions about the contents of this Brochure, please contact us at 617-956-6710 or [scoleman@marbleharboric.com](mailto:scoleman@marbleharboric.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Marble Harbor is registered as an investment adviser with the SEC. 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 Marble Harbor also is available via the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm’s CRD number is 138538.

The SEC’s web site also provides information about any persons affiliated with Marble Harbor who are registered, or are required to be registered, as investment adviser representatives of Marble Harbor.



## **Item 2 - Material Changes**

The purpose of this Item 2 is to inform you of any material changes to the disclosure in Marble Harbor's Brochure since its last annual update. A copy of this summary of material changes or Marble Harbor's complete Brochure will be delivered annually to each client. In addition to the annual update, we may provide you with a revised Brochure to inform you of certain material changes or new information as required by the SEC.

### **Material Changes Since the Last Update**

Marble Harbor's Brochure dated January 22, 2015 is an interim update of and non-annual amendment to our last annual update on March 27, 2014.

The following is a summary of a material change made to this Brochure since our last annual update:

Item 13 – As of December 31, 2014, Christopher M. White is no longer an investment counselor at Marble Harbor. Our list of investment counselors has been updated to reflect this change.

There have been no other material changes to this Brochure.

### **Availability of Full Brochure**

A copy of our Brochure may be requested, without charge, by contacting Suzanne C. Coleman, Chief Compliance Officer, at [scoleman@marbleharboric.com](mailto:scoleman@marbleharboric.com) or 617-956-6710.

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#### **Item 4 - Advisory Business**

Marble Harbor Investment Counsel, LLC, a Delaware limited liability company, was founded in November 2005 by Managing Member and Principal Owner, Paul R. Davis. We are 100% owned by active Members of the firm. Marble Harbor provides continuous investment advisory services to our clients based on their individual needs. We work closely with each client to become and remain familiar with the client's financial circumstances, investment objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background. In addition, we ask our clients to promptly notify us in writing of any material changes to their financial condition including but not limited to; investment objectives, risk tolerance, investment time horizon, net worth and annual income. Please see *Item 7-Types of Clients* for further information regarding our clients.

Typically Marble Harbor's Accounts receive discretionary investment advisory services but may be offered on a non-discretionary basis. Discretionary means you give us written authorization to make investment decisions on your behalf.

Account supervision is guided by the client's individual needs, stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations and risk tolerance. Typically, each client is required to enter into a written Investment Advisory Agreement (the "Advisory Agreement") with Marble Harbor that describes the overall terms of the relationship. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service and generally will include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Mutual fund shares
- Exchange-traded funds
- United States governmental securities
- Options contracts on securities
- Interests in partnerships investing in real estate
- Interests in partnerships investing in oil and gas interests

Because all of the above referenced investments involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity, suitability and eligibility. Investing in securities involves risk of loss that all clients should be prepared to bear.

We may also recommend to appropriate advisory clients:

- Investments in private placement offerings and/or limited investment partnerships i.e. hedge funds, venture capital partnerships; and/or
- Other pooled investment vehicles including those organized and sponsored by Marble Harbor.

Investments in these types of private investment vehicles:

- Are not registered with or regulated by the SEC.
- Are available only to clients that are deemed to be an “accredited investor” or a “qualified client” or a “qualified purchaser” in accordance with the requirements set forth in applicable laws, rules and regulations.
- Typically require investors to lock-up their assets for a period of time.
- May have limited or no liquidity.
- May involve different risks than investing in registered funds and other publicly offered and traded securities.
- Are only recommended when consistent with the client’s stated investment objectives, tolerance for risk, liquidity and suitability.
- Additional information about the fees related to such investments is included in the private offering documents provided to prospective investors.
- We rely on the evaluation and performance data provided directly from the private funds. Private funds are often delayed in providing us with this information, which will delay us in reporting this information to clients.

Please see *Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss* for further information regarding our investment strategies.

Marble Harbor is not a financial planner nor does it provide financial planning. We do not offer tax, insurance or legal advice, but will gladly work with a client’s tax, insurance, financial planning and/or legal advisor to discuss individual needs and develop investment recommendations.

Currently, Marble Harbor does not participate in any wrap fee programs.

#### Assets Under Management

Marble Harbor’s regulatory assets under management as of December 31, 2013:

Discretionary Basis:	\$502,768,106
Non-Discretionary Basis:	\$ 7,658,360

## Item 5 - Fees and Compensation

**Account Management Fees:** Marble Harbor's compensation is primarily based on an annual percentage of the market value of each client account's assets under management. We do not ask or require our clients to pay fees in advance. Typically, our investment advisory fees are computed and payable quarterly in arrears based on the quarter-end market value of the account.

Accounts initiated or terminated during a calendar quarter will be charged or credited a prorated fee based on the number of days of the quarter.

Unless otherwise specified in the client Advisory Agreement, our fees for investment advisory services are based on our standard fee schedule (see fee schedule below).

The standard annual fee schedule is as follows:

Assets Under Management	Annual Fee Rate
\$0-\$5,000,000	1.00 %
\$5,000,001-\$15,000,000	.75%
\$15,000,001-\$25,000,000	.60%
\$25,000,001-\$50,000,000	.50%
Over \$50,000,000	.40%

On a case-by-case basis, Marble Harbor determines an appropriate fee structure based on the size, complexity and investment objectives of the client's account. Fee arrangements may include a combination of a management fee and incentive fee, or may be solely limited to a management fee or an incentive fee. We may also charge a "flat" dollar fee. The terms and conditions of the fee structure are mutually agreed upon prior to entering into an Advisory Agreement.

Although we do not impose a minimum dollar value of assets under management for investment advisory accounts, we charge an annual minimum investment advisory fee of \$10,000 for each account (or group of related accounts).

**Payment of Fees:** The specific manner in which fees are charged by Marble Harbor is established in a client's Advisory Agreement. A client may elect to be billed directly via written invoice, or may authorize us to directly debit fees from their qualified custodial account.

If a client authorizes us to directly debit our advisory fees from its custodial account, it is the client's responsibility, not the custodian, to verify that our fees were calculated correctly. The deduction of our fees will be reflected in the account statement sent by the qualified custodian directly to the client. We provide a copy of the advice to the client for review.

Marble Harbor relies on the custodians that hold client securities and/or a reliable third party quotation service when determining the value of account assets. If the custodians and the pricing services can't provide a price, we will obtain a price on a best efforts basis.

**Private Fund Fees:** Marble Harbor may receive a performance-based compensation ("Incentive Fees") from clients that are deemed to be an "accredited investor" or "qualified client" or a

“qualified purchaser” in accordance with the requirements set forth in applicable laws, rules and regulations, who invest in our pooled investment vehicles (“Private Funds”).

The Incentive Fees are calculated based on a percentage of the net profits of the account(s) as indicated in the offering documents of the respective Private Funds.

Marble Harbor’s Incentive Fee is typically 20% of the net profits.

All incentive fees charged by Marble Harbor will be in compliance with Rule 205-3 of the Investment Advisers Act of 1940.

All discussions regarding the particular fee schedules, expenses and risks for the Private Funds are qualified in their respective private offering documentation.

Please see *Item 6 - Performance-Based Fees and Side-By-Side Management* and *Item 10 -Other Financial Industry Activities and Affiliations* for additional information regarding the Private Funds.

**Limited Negotiability of Advisory Fees:** Although Marble Harbor has established the above fee schedule, we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client’s account, assets to be placed under management, anticipated future additional assets, related accounts, portfolio style, account composition, reports, and among other factors. The specific annual fee schedule will be identified in our Advisory Agreement with each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

**Mutual Fund Fees:** All fees paid to Marble Harbor for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund’s prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client’s financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

**Additional Fees and Expenses:** Marble Harbor’s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as custodial fees, odd lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to Marble Harbor’s fee. Marble Harbor does not receive any portion of these commissions, fees and costs. For additional information, please see *Item 12 – Brokerage Practices*.

**Advisory Fees in General:** Although we believe our advisory fees are competitive, similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

**Limited Prepayment of Fees:** Under no circumstances do we require or solicit payment of fees in excess of \$1200 more than six months in advance of services rendered.

**Termination of the Advisory Relationship:** Typically, an Advisory Agreement may be canceled at any time, by either party, for any reason upon receipt of 60 days written notice. Compensation is not normally payable in advance. However, if such a client terminated its relationship with Marble Harbor, any prepaid, unearned compensation would be prorated to the date of the termination and promptly reimbursed. Marble Harbor does not impose any termination fees.

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

As previously disclosed in *Item 5 - Fees and Compensation*, our performance based-fee is limited to our Private Funds. We generally require that all investors in our Private Funds are “accredited investors” as defined in Regulation D under the Securities Act of 1933 or “qualified clients” as defined under the Investment Advisers Act of 1940 or “qualified purchasers” as defined under the Investment Company Act of 1940.

Such a performance-based fee is calculated based on a share of capital gains on or capital appreciation of the assets invested in the Private Fund.

Clients should be aware that a performance-based fee arrangement may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

Clients who invest in a Private Fund are not charged a management fee on the funds invested in a Private Fund. Only when there is a liquidity event (e.g. sale or IPO) is the Incentive Fee charged. This harmonizes our interests with the clients’ and negates the incentive to recommend investments not in the best interest of the client.

Marble Harbor has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

All Incentive Fees charged by Marble Harbor will be in compliance with Rule 205-3 of the Investment Advisers Act of 1940.

#### **Item 7 - Types of Clients**

Typically, Marble Harbor provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Trusts
- Endowments
- Estates
- Foundations
- Charitable organizations



- Corporations and other business entities
- Pooled investment vehicles

Please see *Item 5 - Fees and Compensation* for information regarding minimum account size.

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

### **Methods of Analysis**

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Fundamental Analysis.** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

**Risks for All Forms of Analysis.** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help us understand your tolerance for risk.

### **Investment Strategies**

We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations.

Portfolios of individual equities are constructed primarily of U.S.-based companies that have the ability to sustain their growth. We are cognizant of the risk in overpaying for better-quality companies and so endeavor to initiate purchases at attractive valuations.

The companies in which we invest vary in size but are predominantly mid- and larger-sized companies. Portfolios are fairly concentrated, generally consisting of fewer than 40 companies.

Turnover in portfolios is generally less than 25% per year, as Marble Harbor has a long-term investment horizon.

Portfolios are constructed taking into account the overall risk and investment profile of the client.

Clients retain individual ownership of all securities and maintain them at a qualified custodian.

With respect to fixed income investing, we generally construct portfolios of laddered bonds that are traded infrequently. By holding bonds to maturity, we avoid costly trading activity in inefficient bond markets. Bond maturities are usually ten years or less, and portfolios are constructed with securities that are judged by us to be high-quality credits. We have obtained W.B. Smith & Company, a consulting firm, which specializes in the evaluation and implementation of fixed income strategies to assist us with portfolio management and trading.

When appropriate to the needs of a client, we may recommend the use of trading (securities sold within 30 days), short sales, margin transactions or option writing. Because these investment strategies involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated tolerance for risk.

Long-term purchases. We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- We believe the securities to be currently undervalued, and/or
- We want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases. When utilizing this strategy, we may purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

Trading. We may purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

Short sales. We may borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, the client account realizes the profit.

Margin transactions. We may purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

Option writing. We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

Put writing. We may use put writing to either generate income or to attempt to purchase a security at a price lower than what is currently available in the market.

The two types of options are calls and puts:

- A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
- A put gives us the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We may use options to speculate on the possibility of a sharp price swing. We will also use options to “hedge” a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We may use “covered calls”, in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We may use a “spreading strategy”, in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

We may use other option strategies or combinations thereof, as appropriate.

Cash Balances. We generally invest client’s cash balances in money market funds.

### **Alternative Investments**

Only eligible clients may invest in alternative investments in pooled investment vehicles such as private equity or hedge funds. These types of investments generally have a higher level of risk due to their concentrated nature, lack of liquidity, and other reasons. Before investing in a private fund for a client, Marble Harbor will require the client to provide representations establishing that the client is an “accredited investor” or a “qualified client” or a “qualified purchaser”. Marble Harbor will rely on the accuracy of a client’s representations in making corresponding representations about the client. The client is responsible for promptly informing Marble Harbor should its representations become inaccurate.

### **Risk of Loss**

These investment strategies carry different levels of risk. Investing in securities involves risk of loss that a client should be prepared to bear. You may experience loss of principal (invested amount) and any profits that have been realized (securities that were not sold to “lock in” any profit). Markets can be volatile and prices of stocks, bonds, commodities and other investments can fluctuate substantially over any given time. Other factors such as economic conditions, government regulations, domestic and foreign political events, market sentiment, and technological and environmental issues also can affect the performance of your investments. We ask that you work with us to help understand your tolerance for risk.

### **Item 9 - Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client’s or prospective client’s evaluation of our advisory business or the integrity of our management.

We have determined that our firm and our management personnel have no reportable disciplinary events to disclose.

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

Marble Harbor is under common ownership and is the Manager of MHIC Venture Manager, LLC.

MHIC Venture Manager, LLC serves as the Manager of the following Private Funds: MHIC Devereux Partners, LLC, MHIC Glover Partners, LLC, MHIC Fort Sewall Partners, LLC, MHIC Surriage Partners, LLC and MHIC Ventures I, LLC.

Members of Marble Harbor may also be member(s) of our Private Funds.

As appropriate, our eligible clients may be solicited to invest in such Private Funds. Related persons of our firm do not receive investment advisory compensation in relation to these investments.

Because investment in these types of entities may involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

Related persons of our firm may spend as much as 5% of their time on these related activities.

If deemed constructive towards realizing the best investment outcome, Members of Marble Harbor may serve as a director of an underlying company in one or several of the Private Funds. We believe that our Code of Ethics and Inside Information Statement addresses the potential risk of such person obtaining material non-public information in his/her role as director of an underlying company.

No client is obligated to invest in such Private Funds or any other Marble Harbor sponsored investment vehicle.

The information contained in this Brochure does not constitute an offer to sell or the solicitation of an offer to invest in any of our Private Funds. Such an offer may be made only by means of the respective Private Fund's offering documents and only in those jurisdictions where permitted by law. Such offering documents contain information specific to the respective Private Funds, risks, fees and expenses, and among other things.

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

Marble Harbor has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. Our Code of Ethics describes the firm's fiduciary duties and responsibilities to clients, and sets forth our practice of supervising the personal securities transactions of supervised persons with access to client information.

Marble Harbor employees' may buy or sell securities for their personal accounts identical to or different than those recommended to clients. It is our expressed policy that no person employed by the firm shall prefer his or her own interest to that of any client or make personal investment decisions based on the investment decisions of our clients.

To supervise compliance with our Code of Ethics, we require that all employees direct their

broker(s) to supply to our Chief Compliance Officer duplicate confirmations and periodic account statements for each employee's personal account.

Employees are required to disclose all personal reportable security transactions on a quarterly basis, to submit a security holdings report on an annual basis, and to certify annually that they have read and understand our Code of Ethics. Periodic training sessions on the Code of Ethics are held for all employees.

Among other things, our Code of Ethics also requires employees to pre-clear their personal transactions in covered securities prior to execution, except as specifically exempted under the Code of Ethics. In addition, employees must obtain prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our Code of Ethics also provides for oversight, enforcement and recordkeeping provisions.

We desire that all individuals comply with all applicable Federal and State regulations governing our investment advisory practices.

Marble Harbor's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity. Any individual not in observance of the above may be subject to discipline.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. To request a copy, please contact Suzanne Coleman at (617) 956-6710 or write to Marble Harbor, 101 Federal Street, Suite 2505, Boston, MA 02110.

Marble Harbor is under common ownership and is the Managing Member of MHIC Venture Manager, LLC. MHIC Venture Manager, LLC serves as the Manager of the Private Funds noted in *Item 10* above.

The Manager has designated Marble Harbor as having primary responsibility for investment management and administrative matters, such as accounting, tax and periodic reporting, pertaining to the Private Funds. Marble Harbor and our members and employees will devote to the Private Funds as much time as we deem necessary and appropriate to manage the Private Funds' business. Marble Harbor is not restricted from forming additional investment vehicles, entering into other investment advisory relationships or engaging in other business activities, even though such activities may be in competition with the Private Funds and/or may involve substantial time and resources of our firm.

Potentially, such activities could be viewed as creating a conflict of interest in that the time and effort of our investment personnel and employees will not be devoted exclusively to the business of our advisory accounts, but could be allocated between the businesses of the Private Funds and other of our business activities.

Investments in the Private Funds may be recommended to advisory clients for whom private placements may be more suitable than would a separate advisory account managed by our firm.

The Private Funds are not required to register as an investment company under the Investment Company Act of 1940 in reliance upon an exemption available to funds whose securities are not publicly offered.

MHIC Venture Manager, LLC manages the Private Funds on a discretionary basis in accordance with the terms and conditions of the Private Funds' offering and organizational documents.

## **Item 12 - Brokerage Practices**

Marble Harbor executes client transactions through either a broker-dealer that we select or a broker-dealer designated by the client. Generally, in the absence of specific instructions to the contrary, Marble Harbor has complete discretion with respect to client accounts without any limitations on its authority. This discretion includes the authority to buy or sell securities for client accounts and establish and effect securities transactions through accounts with broker-dealers selected by Marble Harbor without prior notice to the client. Clients may direct Marble Harbor to use one or more particular broker-dealers in managing their accounts. Clients should be aware that directing brokerage to a particular broker-dealer may involve disadvantages. Please see *Client Directed Brokerage* discussion below.

### Soft Dollars Arrangements

Currently, Marble Harbor does not have any soft-dollar arrangements and does not receive any soft-dollar benefits. The term "soft dollar" generally refers to using brokerage commissions to pay for research services. If Marble Harbor uses soft dollars in the future, it will seek to comply with Section 28(e) of the Securities Exchange Act of 1934, which provides a "safe harbor" allowing investment advisers to choose brokers to execute client trades at a commission rate that is higher than lowest available.

### Client Directed Brokerage

A client may direct Marble Harbor to place trades primarily with a particular broker who has an existing relationship with or provides custodial or other services to a client. Prior to Marble Harbor accepting directed brokerage instructions from a client it must receive and approve written instructions from the client.

For directed brokerage clients, Marble Harbor will not have authority to negotiate commissions, aggregate orders, or obtain volume discounts and, therefore, best execution may not be achieved. Additionally, brokerage charges may be different from the commission rates charged to other clients and consequently designating a specific broker-dealer may cost the client more money. Marble Harbor expects the client to negotiate commission rate with the broker-dealer selected by the client that is appropriate to the kind of services the client requires. Marble Harbor will not have the ability to determine the nature and quality of the services a client obtains from his/her designated broker-dealer.

These potential disadvantages have to be weighed against potentially lower standard brokerage charges, the absence of a separate custodian fee and other services the broker may provide to the client.

### Best Execution

Marble Harbor uses its best efforts to obtain execution of securities transactions at prices that are advantageous to the client and a reasonable competitive commission rate. In choosing broker-dealers for execution of securities transactions, Marble Harbor considers various relevant factors, including without limitations, the size and type of the transactions, the nature and character of the market for the securities, the broker-dealer firm's financial stability, confidentiality, back office

stability, trading desk capacities, referrals, custody, settlement, familiarity with derivative securities strategies and the overall value and quality of the services offered by the broker-dealer firm.

#### Trade Aggregation and Allocation

Marble Harbor will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block.

Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. Marble Harbor will typically aggregate trades among clients whose accounts can be traded at a given broker, and generally will rotate or vary the order of brokers through which it places trades for clients on any particular day.

Marble Harbor's block trading policy and procedures are as follows:

- Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's Advisory Agreement with Marble Harbor, or our firm's order allocation policy.
- Our trader and/or investment counselor must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.
- Our trader and/or investment counselor must reasonably believe that the order aggregation will benefit, and will enable Marble Harbor to seek best execution for each client participating in the aggregated order. This requires a good faith judgment at the time the order is placed for the execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.
- Prior to entry of an aggregated order, our trader and/or investment counselor identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial order. However, adjustments to this pro rata allocation may be made to participating client accounts. Furthermore, adjustments to this pro rata allocation may be made to avoid having odd amounts of shares held in any client account, or to avoid excessive commission charges in smaller accounts.
- Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of shares traded for each client.
- If the order will be allocated in a manner other than that stated in the initial statement of allocation, a written explanation of the change must be provided to

and approved by the Chief Compliance Officer promptly, as practicable.

- Marble Harbor's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- Funds and securities for aggregated orders are clearly identified on Marble Harbor's records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.
- No client or account will be favored over another.

#### Trade Errors

We recognize that from time to time, errors may occur in the trading of securities. It is our policy of evaluate and correct errors promptly. We will incur the costs associated with correcting an error (or to pass the costs onto the broker or other party responsible for the error). We do not charge the cost from corrective actions to the client.

#### Custodian Selection

Clients retain individual ownership of all assets and maintain them with qualified custodians, such as a bank or broker-dealer to hold, maintain control of and be responsible for safeguarding the client's assets.

We may recommend one or more custodians to the client, but the ultimate responsibility to select a custodian rests with the client. Once the client has selected a custodian, we may facilitate the account opening process. Marble Harbor is independently owned and operated and not affiliated with any custodian or broker-dealer.

Marble Harbor may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although we recommend that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab.

Marble Harbor does not have a soft dollar agreement with Schwab. However, Schwab provides benefits as a result of Marble Harbor's relationship with Schwab Institutional. Schwab provides Marble Harbor with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the adviser's clients' assets are maintained in accounts at Schwab Institutional. These services are not contingent upon our firm committing to Schwab any specific amount of business (assets in custody or trading commissions).

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

Schwab Institutional also makes available to our firm other products and services that benefit Marble Harbor, but may not directly benefit our clients' accounts. Many of these products and



services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist us in maintaining and administering our clients' accounts, include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide pricing information and other market data; and facilitate payment of Marble Harbor's fees from its clients' accounts. In addition, these services may include educational events and publications that may benefit Marble Harbor.

Marble Harbor has an arrangement with National Financial Services LLC, and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity") through which Fidelity provides our firm with their "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like Marble Harbor in conducting business and in serving the best interests of our clients but that may also benefit us.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables Marble Harbor to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers.

Neither Schwab nor Fidelity or any other broker-dealer refers clients to Marble Harbor.

### **Item 13 - Review of Accounts**

Investment advisory accounts are monitored on a continuous basis. Reviews of these accounts are conducted at least quarterly by a client's investment counselor.

Our investment counselors are listed below:

- Paul R. Davis, Managing Member and Chief Investment Officer
- Suzanne C. Coleman, Member and Chief Compliance Officer
- Lawrence J. Harrington
- P. Eric Robb, Member
- Daniel J. Rosenblatt, Member

Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment. Specific client-imposed restrictions are reviewed periodically.

As the client's investment objectives, goals, needs or financial situation changes, the client must notify us promptly.

All Marble Harbor client accounts are maintained with a qualified custodian that provides monthly or quarterly account statements directly to the client and/or a selected independent representative as

instructed by the client. That statement is the official record of the client account and assets contained in it. Please also see *Item 15 - Custody*.

In addition, we will provide quarterly reports summarizing account balances and holdings, and market commentary. On an annual basis, we will provide reports on account performance.

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

Other than that already described in this Brochure, our firm does not receive any additional compensation from third parties for providing investment advice to its clients.

We currently do not engage paid unaffiliated solicitors for client referrals.

We pay referral fees to our members and employees (“affiliated solicitor”) for referring advisory clients within our firm. If a client is introduced to us by an affiliated solicitor, we may pay that affiliated solicitor an ongoing referral fee of a percentage of the referred client’s advisory fee paid to our firm during the advisory relationship.

Referral fees paid to an affiliated solicitor are contingent upon the client entering into an Advisory Agreement with our firm. Therefore, an affiliated solicitor has a financial incentive to recommend our firm to a prospective client for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services.

Since this situation represents a conflict of interest, we have established the following restrictions in order to ensure our fiduciary responsibilities:

- All such referral fees are paid in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements; and
- Any such referral fee will be paid solely from our investment management fee, and will not result in any additional charge to the client;
- If the client is introduced to us by an unaffiliated solicitor, the solicitor, at the time of the solicitation, will disclose the nature of his/her/its solicitor relationship and provide each prospective client with a copy of our Form ADV Part 2 Firm Brochure, together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between our firm and the solicitor, including the compensation to be received by the solicitor from us; and
- All referred clients will be carefully screened to ensure that our fees, services, and investment strategies are suitable to their investment needs and objectives.

## **Item 15 - Custody**

All Marble Harbor client accounts are maintained with a qualified custodian such as a bank or broker-dealer. Clients should receive at least quarterly statements directly from their qualified custodian detailing all assets and transactions in their accounts. We ask clients to promptly notify us if their custodian fails to provide them with statements.

We previously disclosed in *Item 5 - Fees and Compensation* that we may directly debit advisory fees from our clients' accounts, when so authorized by clients. As part of our billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. Because the custodian does not calculate the amount of our advisory fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive from their custodians, we also send account appraisals directly to our clients on a quarterly basis. We urge our clients to carefully review any statements or other reports that they receive from their custodian and compare them to the account appraisals provided by us. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

Under government regulations, we are deemed to have custody of your assets if you authorize us to instruct your custodian to deduct our advisory fees from your account and also if you authorize us to direct the disposition of your funds and securities. In addition, we are deemed to have custody because employees of Marble Harbor may sometimes serve as trustee to a trust client if mutually agreed upon by us and client. Further, as Manager of MHIC Venture Manager, LLC, we are deemed to have custody of assets of the Private Funds described above in *Item 10 - Other Financial Industry Activities and Affiliations*. Under such circumstances, we are deemed to have custody of accounts although account assets are not actually maintained by Marble Harbor.

Marble Harbor provides additional disclosure regarding custody of account assets in its Form ADV Part 1 filing with the SEC. Such accounts are subject to an annual surprise examination conducted by an independent public accountant.

## **Item 16 - Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary Advisory Agreement with our firm, and may limit this authority by giving us written investment guidelines and restrictions. Clients may also change/amend such limitations by once again providing us with written instructions.

## **Item 17 - Voting Client Securities**

Typically, clients give us discretion to vote proxies on securities held in their accounts. We have adopted policies and procedures reasonably designed to ensure that proxies are voted in the best interest of our clients. Alternatively, you always have the right to vote proxies yourself. You can exercise this right by instructing us in writing to not vote proxies in your account.

Proxy voting decisions will be made according to guidelines that we believe protect the economic interests of our clients while considering both short and long term implications.

Lawrence J. Harrington is responsible for day-to-day implementation of proxy voting and will bring any conflicts of interest to the attention of the Compliance Committee. In general, we may consider, but are not limited to:

- Whether adoption of the proxy proposal would have a positive or negative impact on the issuer's short-term or long-term value;
- Whether the issuer has already responded in some appropriate manner to the request embodied in a proxy proposal;
- Whether the proxy proposal itself is well framed and reasonable;
- Whether implementation of the proposal would achieve the objectives sought in the proposal; and
- Whether the issues presented would best be handled through government or issuer-specific action.

Additionally, we have adopted procedures to resolve cases where the firm or a supervised person of the firm has a material conflict of interest with a proxy proposal.

We have engaged Broadridge Investor Communication Solutions, an independent third party, to assist with the analysis, voting and record keeping of proxy ballots in accordance with general guidelines approved by Marble Harbor. Broadridge provides independent assessment and recommendations with regard to proxy items for securities held in clients' accounts.

Clients may obtain a copy of our Proxy Voting Policy and information about how we voted proxies related to their securities, free of charge, by contacting Lawrence J. Harrington at Marble Harbor Investment Counsel, 101 Federal Street, Suite 2505, Boston, MA 02110, or by calling 617-956-6710.

Unless we otherwise agree in writing, we will not take any action on behalf of client in any legal proceedings, including, but not limited to, bankruptcies or class actions, involving securities held in or formerly held in client's account or the issuers of those securities. Accordingly, we will not be responsible for responding to or forwarding to clients any class action settlement offers relating to securities currently or previously held in client account.

## **Item 18 - Financial Information**

We are required to provide you with certain financial information or disclosure about our financial condition. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients, and we have not been the subject of any bankruptcy petition or proceeding.