

**Part 2A of Form ADV: Firm Brochure**



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ADDITIONAL INFORMATION ABOUT HOURGLASS CAPITAL, LLC IS AVAILABLE ON 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. HOURGLASS' CRD NUMBER IS 147754.

## **Item 2    Material Changes**

The prior Hourglass Capital, LLC ADV Part 2A was dated March 29, 2018.

In 2018 the following Hourglass Private Investment Funds were closed following their final liquidation and distributions:

- Hourglass Master Fund, LP: Hourglass was the managing general partner for Hourglass Master Fund, LP, a Cayman Islands exempted limited partnership (the "Master Fund").
- Hourglass Partners, LP: Hourglass was the managing general partner for Hourglass Partners, LP, a Texas limited partnership (the "Onshore Fund").
- Hourglass Offshore Partners, LP: a limited partnership organized under the laws of the Cayman Islands (the "Offshore Fund").
- Hourglass Offshore Management, Inc.: an affiliate of Hourglass, this was the general partner for the Offshore Fund.

The following sections of the ADV Part 2A have been updated to remove references to the now closed Private Investment Funds:

Item 4 Advisory Business

Item 13 Review of Accounts

Item 15 Custody

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## **Item 4 Advisory Business**

### **FIRM DESCRIPTION**

Hourglass Capital, LLC, ("Hourglass") a Texas limited liability company and private investment advisory firm, was formed in 1989, and is located in Houston, Texas. Hourglass provides investment management services to separately managed accounts.

### **PRINCIPAL OWNERS**

Listed below is Hourglass' principal owner (e.g., individuals and/or entities controlling 25% or more of Hourglass):

- Kenneth A. Moffet, Principal, Board of Member Managers

### **TYPES OF ADVISORY SERVICES**

#### **Separately Managed Accounts**

Hourglass provides continuous advice for separately managed account clients based on the specific investment needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, Hourglass develops a client's investment policy and creates and manages a portfolio based on that policy. The terms of the client-advisor relationship and services to be provided are defined in Hourglass' Investment Management Agreement.

Hourglass manages the majority of individual advisory accounts on a discretionary basis, where Hourglass has the authority to decide which securities and the amounts to purchase and sell for the client. Account supervision is guided by the client's stated objectives (e.g., capital appreciation, growth, income). Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors. Hourglass has a small number of client accounts managed on a non-discretionary basis. Non-discretionary accounts include cash only accounts, and accounts where Hourglass does not have full discretion in the management and investment process and trades solely on client directives.

Hourglass' 3 portfolio managers are members of the Investment Committee. The portfolio manager responsible for establishing a client relationship will be assigned as the client manager and reviewer. The number of accounts managed and reviewed by each Hourglass portfolio manager will vary. Portfolio managers review their clients' account activity for consistency and investment policy compliance at least quarterly.

#### **Consulting Services**

Hourglass provides consulting services based on the specific needs of the client. Services typically involve periodic review of existing investments held by the client, and recommendations based on that review. Hourglass has no investment, trading, brokerage, or custodial authority over consulting client's investments. The terms of the client-consultant relationship and services to be provided are defined in Hourglass' Investment Consulting Agreement.

## INVESTMENT SECURITY TYPES

Hourglass' Investment Committee research and recommendations are not limited to any specific product or service and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Corporate debt securities (other than commercial paper)
- Certificates of deposit
- Municipal securities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Options contracts on commodities

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, risk tolerance, liquidity and suitability.

## ASSETS UNDER MANAGEMENT

As of December 31, 2018, Hourglass had \$437,990,000 in total regulatory assets under management: \$406,716,000 actively management on a discretionary basis, and \$31,274,000 on a non-discretionary basis.

## Item 5 Fees and Compensation

### DESCRIPTION OF COMPENSATION AND BASIC FEE SCHEDULE

#### Separately Managed Accounts

*Management Fees:* Hourglass management fees for separately managed accounts are based upon a percentage of assets under management; rates generally begin at 1.00% per year. The annualized basic fee schedule is as follows:

<u>Assets Under Management</u>	<u>Percentage</u>
First \$10 million	1.00% per annum
Next \$40 million	.85% per annum
Amounts above \$50 million	.70% per annum

The fee is calculated using the market value of all cash and investments held in the account. A portion of the account may be invested in money market funds, mutual funds, exchange traded funds, or unit

investment trusts, resulting in a double fee on these investments. The fee is billed at the end of the service period - usually the end of the calendar quarter. If an account is managed for less than a quarter, the fee is calculated and reduced on a pro-rata basis.

On a case-by-case basis, Hourglass 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 performance-based fee, or may be solely limited to a management fee or a performance-based fee. The terms and conditions of the fee structure are mutually agreed upon and identified in the written Investment Management Agreement between Hourglass and the client.

*Performance-Based Fees:* Hourglass may charge a performance-based fee (also known as an incentive fee) on a separately managed account in addition to or in place of a management fee. Performance-based fees are typically calculated as a percentage of the total account performance, net of the Hourglass management fees. This net performance includes unrealized gains in the client's account; as such, Hourglass may receive increased compensation with regard to these unrealized gains. The performance-base fee is typically calculated annually at the end of the defined service period.

The fees charged for this service will be determined by the client's individual circumstances and will never exceed 25% of the account's net performance. The actual fees and terms are disclosed to the client before entering into this type of arrangement in the written Investment Management Agreement between Hourglass and the client.

The client needs to understand the proposed method of compensation and its risks prior to entering into the contract. Accordingly, clients paying performance-based fees are directed to the "Performance-Based Fees" section (Item 6) below for more comprehensive disclosures, including potential conflicts of interest resulting from this type of fee arrangement.

To be charged a performance-based fee on a separately managed account, a client must either demonstrate a net worth of at least \$2,000,000 (excluding their primary residence) or must have at least \$1,000,000 in assets under management with Hourglass. Hourglass may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

PERFORMANCE-BASED FEES WILL ONLY BE CHARGED IN ACCORDANCE WITH THE PROVISIONS OF REG. 205-3 OF THE INVESTMENT ADVISERS ACT OF 1940.

Clients with a performance-based fee who elect to terminate their contracts will be charged on the performance of the account for the measuring period as of the termination date, pro-rated from the date on which the performance-based fee was last assessed.

*Limited Negotiability of Advisory Fees:* Although Hourglass has established the aforementioned fee schedule(s), it retains the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client assets to be placed under management, anticipated future additional assets, related accounts, portfolio style, account composition, and reporting requirements, among other factors. The specific annual fee schedule is identified in the written Investment Management Agreement between Hourglass and each client.

*Termination of the Advisory Relationship:* A separately managed account client agreement may be

canceled at any time, by either party, for any reason upon receipt of 30 days written notice.

***Mutual Fund Fees:*** All fees paid to Hourglass for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs (exchange traded funds) to their shareholders. These fees and expenses are described in each mutual fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the mutual 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 Hourglass' services. In that case, the client would not receive the services provided by Hourglass 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 mutual fund and Hourglass' fees to fully understand the total amount of fees to be paid by the client.

***Additional Fees and Expenses:*** In addition to Hourglass fees, clients are also responsible for the fees and expenses charged by custodians and broker dealers, including, but not limited to transaction charges in the client account. See the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

***Advisory Fees in General:*** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

***Prepayment of Fees:*** Hourglass does not require or permit prepayment of fees in advance of services rendered. All fees charged are calculated at the end of the service period (usually the end of a calendar quarter).

#### **Consulting Services**

***Consulting Fees:*** Hourglass advisory consulting fees are based on a fixed rate amount for a specific period of time (i.e. annual, quarterly). Consulting rates are determined based on the scope of the services to be provided. The consulting fee rates and structure are mutually agreed upon and identified in the written Investment Consulting Agreement between Hourglass and the client.

## **Item 6 Performance-Based Fees**

### **Separately Managed Accounts**

As disclosed in Item 5 of this Brochure, Hourglass receives a performance-based fee from some separately managed accounts. Such a performance-based fee is calculated based on a share of capital gains on or capital appreciation of the assets of the client. To qualify for a performance-based fee arrangement, a client must either demonstrate a net worth of at least \$2,000,000 (excluding their primary residence) or must have at least \$1,000,000 in assets under management when entering into an Investment Management Agreement with Hourglass.

Hourglass manages clients who do not pay performance-based fees alongside clients that do pay performance-based fees. Such side-by-side management could motivate Hourglass to favor accounts for which it receives the performance-based fee. Hourglass attempts to address this conflict by adhering to the client's investment objectives and policies.

## **Item 7 Types of Clients**

Hourglass currently provides investment advisory services to the following types of clients in separately managed accounts:

- Individuals (other than high net worth individuals)
- Trusts and Estates
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above

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

### **METHODS OF ANALYSIS AND THE RISKS**

Hourglass' analysis may include, and is not limited to, fundamental, technical, qualitative, and mutual fund and/or exchange-traded fund analysis, as described below:

*Fundamental Analysis.* Hourglass attempts 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.

*Technical Analysis.* Hourglass analyzes past market movements and applies that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company; this presents a risk that a poorly-managed or financially unsound company may underperform regardless of market movement.

*Qualitative Analysis.* Hourglass subjectively evaluates non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predicts changes to share price based on that data. Risk using qualitative analysis is that subjective judgment may prove incorrect.

*Mutual Fund and/or Exchange Traded Funds ("ETF") Analysis.* Hourglass looks at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. Hourglass looks at the market price versus the net asset value (NAV) of the mutual fund or ETF. Hourglass monitors the mutual fund or ETF in an attempt to determine if they are continuing to follow their stated investment strategy. A risk of mutual fund and ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A mutual fund or ETF manager who has been successful may not be able to replicate that success in the future. In addition, as Hourglass does not control the underlying investments in a mutual fund or ETF, there is also a risk that a mutual



fund or ETF manager may deviate from the stated investment mandate or strategy, which could make the holding(s) less suitable for the client's portfolio.

*Risks for all forms of analysis.* Hourglass security analysis methods rely on the assumption that the companies whose securities Hourglass 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 Hourglass is alert to indications that data may be incorrect, there is always a risk that its analysis may be compromised by inaccurate or misleading information.

## **INVESTMENT STRATEGIES AND THE RISKS**

Hourglass uses the following strategies in managing client accounts, provided that they are appropriate and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

*Long-term purchases.* Hourglass purchases securities with the idea of holding them in the client's account for a year or longer when:

- Hourglass believes the securities to be currently undervalued, and/or
- Hourglass believes the fundamental factors for the security will maintain or improve in the coming years.

A risk in a long-term purchase strategy is that by holding the security for this length of time, Hourglass may not take advantage of short-term gains that could be profitable to a client. If Hourglass' predictions are incorrect, a security may decline sharply in value before the decision is made to sell.

*Short-term purchases.* When utilizing this strategy, Hourglass purchases securities with the idea of selling them within a relatively short time (typically a year or less). Hourglass does this in an attempt to take advantage of publicly known coming events that could result in a favorable price swing in the securities purchased.

A short-term purchase strategy poses risks should the anticipated price swing not materialize; Hourglass is then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss.

In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains for the client.

*Short sales.* A short sale is generally the sale of a stock that the client does not own. Hourglass sells short when it believes the price of the stock will fall. If the price drops, Hourglass can buy the stock back at the lower price and make a profit. If the price of the stock rises and it's bought back at the higher price, the client will incur a loss. When a client sells short in its account, its custodian/broker loans the client account the stock. The stock borrowed comes from either the broker's own inventory, the margin account of another unrelated brokerage client, or another brokerage firm. As with buying stock on margin, the account is subject to the custodian/broker's margin rules.

Short selling results in some unique risks:

- *Losses can be infinite.* A short sale loses when the stock price rises, and a stock is not limited (theoretically) in how high up it can go. For example, if a client shorts 100 shares at \$50 each,

hoping to make a profit, but the shares increase to \$75 per share, there is a loss of \$2,500. On the other hand, the price of a stock cannot fall below \$0, which limits the client's potential upside or total maximum gain.

- *Short squeezes can wring out profits.* As the stock prices increase, a short seller's loss also increases; the short seller may rush to purchase the stock to cover its short positions. This increase in demand, in turn, further drives the stock price up, which can increase the client's loss on the transaction.
- *Timing.* Even if Hourglass is correct in determining that the price of a stock will decline, there is the risk of incorrectly determining when the decline will take place, e.g., being right too soon. If a company is overvalued, it could conceivably take some time for the price to come down; during which the client is vulnerable to the custodian/broker interest and margin calls, etc.
- *Inflation.* History has shown that over the long term, most stocks appreciate. Even if a company is minimally profitable over time, inflation should drive its share price up somewhat. Short selling may not be appropriate in times of inflation for that very reason, as prices may adjust upwards regardless of the value of the stock.

*Margin transactions.* For clients utilizing account margin, Hourglass will purchase stock for the client account with money borrowed from the client account's custodian/broker. Borrowing on margin allows the client to purchase more stock than would otherwise be allowed with just the available cash in the client's account, as well as allowing Hourglass to purchase stock without selling other account positions (e.g., raising cash in the client account).

A risk in margin trading is that, in volatile markets, securities prices can fall very quickly. If the value of the securities in a client's account minus what the client owes the custodian/broker falls below a certain level, the custodian/broker will issue a "margin call", and the client will be required to sell positions in the security purchased on margin or add more cash to its account. In some circumstances, the client may lose more money than originally invested.

*Option writing.* Hourglass 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 a security (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 security.

The two types of options are "calls" and "puts":

- A "call" is the right to buy a security at a certain price within a specific period of time. Hourglass will buy a "call" if it predicts that the security will increase substantially before the option expires.
- A "put" is the right to sell a security at a certain price within a specific period of time. Hourglass will buy a "put" if it predicts that the price of the security will fall before the option expires.

Hourglass uses options to speculate on the possibility of a sharp price swing. Hourglass also uses options to "hedge" a purchase of the underlying security; in other words, Hourglass will use an option purchase to limit the potential upside and downside of a security purchased in a client's account.

Hourglass uses "covered calls", in which it sells an option on security owned in a client's account. In

this strategy, the client receives a fee for making the option available; and the 3rd party purchasing the option has the right to buy the security from the client at an agreed-upon price.

Hourglass uses a "spreading strategy", in which it purchases two or more option contracts (e.g. a call option bought and a call option sold) for the same underlying security. This effectively puts the client on both sides of the market, but with the ability to vary price, time, and other factors on the option contracts.

A risk of covered calls is that the option buyer does not have to exercise the option, so that if Hourglass wants to sell the stock prior to the end of the option agreement, it has to buy the option back for a possible loss.

A risk of the spreading strategy is the limited ability to fully profit from a price swing.

*Special Situation Companies.* Hourglass may invest in securities of issuers in weak financial condition, experiencing poor operating results, having substantial financial needs or negative net worth, facing special competitive or product obsolescence problems, or that are involved in bankruptcy or reorganization proceedings. Investments of this type involve substantial financial business risks that can result in substantial or total losses. Among the problems involved in assessing and making investments in troubled issuers is that it may be difficult to obtain information as to the condition of such issuer. The market prices of the securities of such issuers are also subject to abrupt and erratic market movements and above average price volatility and the spread between the bid and asked prices of such securities may be greater than normally expected. It may take a number of years for the market prices of such securities to reflect their intrinsic values.

*Distressed Securities.* Certain client assets may be invested in distressed securities. Investments in distressed securities involve acquiring securities of companies that are experiencing significant financial difficulties and of companies that are, or appear likely to become, bankrupt or involved in a debt restructuring or other major capital transaction. Consequently, there is a high degree of risk associated with these investments because such companies may never recover and the value of such investments may be lost.

*Debt Securities.* Certain clients' assets may be invested in unrated or low-grade debt securities that are subject to greater risk of loss of principal and interest than higher-rated debt securities. Hourglass may invest in debt securities that rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured by substantially all of that issuer's assets. Hourglass may also invest in debt securities that are not protected by financial covenants or limitations on additional indebtedness.

*Distressed Debt Securities.* Certain clients' assets may be invested in distressed debt securities. Distressed debt securities are subject to bankruptcy proceedings or are in default or are at imminent risk of being in default. Distressed debt securities are speculative and involve substantial risk. Generally, Hourglass will invest in distressed debt securities when it believes they offer significant potential for higher returns or can be exchanged for other securities (e.g., equity securities) that offer this potential. However, there can be no assurance that the issuer will make an exchange offer or adopt a plan of reorganization. Clients generally will not receive interest payments on the distressed debt securities and may incur costs to protect their investment. In addition, principal may not be repaid. Distressed debt securities and any securities received in an exchange may be difficult to sell

and may be subject to restrictions on resale. At times distressed debt obligations may not produce income and may require clients to bear certain extraordinary expenses (including legal, accounting, valuation and transaction expenses) in order to protect and recover the investment. Therefore, the ability to achieve returns may be diminished. Consequently, there is a high degree of risk associated with these investments because such companies may never recover and the value of such investments may be lost.

*Concentration.* Hourglass may concentrate investments in a limited number of investments. If such an investment performs poorly, this concentration could cause a proportionately greater loss than if a larger number of investments were made, and if such proportionately greater loss occurs, it may adversely impact the overall return on investment realized by our clients.

*Off-Balance Sheet Risk.* In the normal course of business, Hourglass may invest in securities with off-balance sheet risk, such as option contracts sold short. An off-balance sheet risk occurs if the security exposes the investor to an accounting and economic loss in excess of the investor's recognized asset carrying value in the security; or if the ultimate liability associated with the security has the potential to exceed the amount that the investor recognizes as a liability. Additionally, in the normal course of business, Hourglass may purchase long positions in option contracts that do not have off-balance sheet-risk. The risk that such securities expose the investor to, does not exceed the investor's recognized asset carrying value.

## **RISK OF LOSS**

*There can be no assurance that clients will achieve their investment objectives or that Hourglass investment strategies will be successful. Hourglass investment strategies involve a substantial degree of risk, including risk of complete loss. Nothing in this brochure is intended to imply, and no one is or will be authorized to represent, that Hourglass investment strategies are low risk or risk free.*

*Hourglass investment strategies are appropriate only for clients who fully understand and are capable of bearing the risks of investment. The various risks outlined below are not the only risks associated with Hourglass investment strategies and processes and may not necessarily apply to each client.*

*With respect to the Funds, the following risks are qualified in their entirety by the risks set forth in the applicable offering documents.*

*Investment Risks in General.* Investments, by their nature, may involve a high degree of financial risk. In making investments, Hourglass also may utilize investment techniques that create additional risks, including the use of a substantial amount of leverage and a highly concentrated portfolio. Hourglass also may invest, from time to time, in workouts, junior securities positions and illiquid securities. Further, some client assets may be invested in derivative instruments. Such investments may expose client assets to the risks of material financial loss. There can be no assurance that the investments selected will perform in a manner that is consistent with any market index or comparable portfolio.

*Market Volatility.* The profitability of investments substantially depends upon Hourglass correctly assessing the future price movements of stocks, bonds, options on stocks, real estate and other securities and the movements of interest rates. Hourglass cannot guarantee that it will be successful in accurately predicting price and interest rate movements.

*Investment Activities.* Investment activities may involve a high degree of risk. The performance of any investment is subject to numerous factors which are not within Hourglass' control and/or cannot be predicted. Such factors include a wide range of economic, political, competitive and other conditions that may affect investments in general or specific industries or companies. In recent years, the securities markets have become increasingly volatile, which may adversely affect our ability to realize profits. As a result of our investing activities, it is possible that our financial performance may fluctuate substantially from period to period.

THESE RISK FACTORS DO NOT CLAIM TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS ASSOCIATED WITH HOURGLASS' INVESTMENT ANALYSIS AND INVESTMENT STRATEGIES, OR WITH INVESTING IN GENERAL.

## **Item 9 Disciplinary Information**

Hourglass is required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of its advisory business or the integrity of its management. This disclosure would include any criminal or civil action (domestic or foreign), any administrative proceeding before the SEC, or a proceeding by a self-regulatory organization (SRO).

Pertaining to FINRA-DR CASE NO. 09-06230, Kenneth A. Moffet was a party to an arbitration complaint while employed at Morgan Stanley Smith Barney. The customer of Morgan Stanley Smith Barney made allegations of unauthorized trading in the arbitration complaint, but these allegations were not leveled against Mr. Moffet and his only connection to that action was his role as a supervisor of the group in which the incident occurred. Additionally, Mr. Moffet was never served with any papers in this matter, was not required to participate in any part of the arbitration action and was not involved in the settlement agreement. Further, the customer noted that they had no objection to Mr. Moffet's removal from the matter, although the steps to accomplish that removal were not formally completed. Mr. Moffet moved to Hourglass Capital, LLC in May 2008, approximately one month after the arbitration was initiated; soon after the customer left Morgan Stanley Smith Barney and retained Hourglass Capital, LLC and Mr. Moffet for investment management services which are ongoing. The complaint was settled on May 25, 2011.

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

Hourglass and its related persons are not engaged in other financial industry activities and have no other industry affiliations.

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

### **CODE OF ETHICS**

Hourglass has adopted a Code of Ethics, which sets forth standards of business conduct required of all Hourglass employees. The Code of Ethics is primarily designed to educate employees about Hourglass' duty of loyalty, fairness and good faith toward its clients, encourage employees to comply with applicable laws, prevent the misuse of material non-public information and address conflicts of

interest that arise from personal trading by Hourglass employees. The Code of Ethics includes policies and procedures for the review of quarterly employee securities transactions reports, as well as duplicate third-party trade confirmations and/or brokerage statements for personal employee accounts. Such reports and statements are submitted to Hourglass' Chief Compliance Officer ("CCO") for review. The Code of Ethics requires prior approval of any employee's acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. The Code of Ethics also includes oversight, enforcement and recordkeeping provisions. Hourglass will furnish a copy of its Code of Ethics to clients and prospective clients upon request. To request a copy, email [dgardner@hourglasscapital.com](mailto:dgardner@hourglasscapital.com), or call 713-936-0445.

## **PARTICIPATION IN CLIENT TRANSACTIONS**

Neither Hourglass nor any affiliate act as Principal in client account transactions.

## **PERSONAL EMPLOYEE TRADING**

Hourglass employees and related persons may buy or sell securities for their personal accounts which are also purchased for, or recommended to, Hourglass clients. Hourglass employees may not purchase or sell any security prior to a transaction being implemented for a client account. Employee accounts managed by Hourglass can trade alongside clients in a cumulative block trade without the requirement of pre-clearance; all other Hourglass employee accounts trades must be pre-cleared by an Hourglass Principal. Employees must also receive prior approval of any acquisition of securities in a limited offering (e.g. private placement) or an initial public offering. Employees must submit quarterly reports containing information on their securities trades during the previous quarter to the CCO, as well as providing the CCO with initial and annual employee securities holdings reports.

## **Item 12 Brokerage Practices**

*Soft Dollars:* Hourglass will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will benefit Hourglass clients. Research services may or may not be useful in servicing all Hourglass clients.

Consistent with obtaining best execution for clients, Hourglass may direct brokerage transactions for clients' portfolios to brokers ("soft dollar" brokers) who provide research and execution services to Hourglass and, indirectly, to Hourglass clients. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment Hourglass' own internal research and investment strategy capabilities. This may be done at Hourglass' discretion without prior agreement or understanding by the client. Client commissions paid to a "soft dollar" broker can earn "soft dollars" for Hourglass, whereby Hourglass can obtain or purchase research and broker execution products for the management of all Hourglass client accounts. Research services obtained through the use of "soft dollars" may be internally developed by the soft dollar broker or by third-parties which are paid directly by the soft dollar broker on behalf of Hourglass. Hourglass does not attempt to put a specific dollar value on the services received or to allocate the relative costs or benefits of those services among clients, believing that the research received will help Hourglass fulfill its duty to all Hourglass clients. Hourglass may not use each particular research service however, to service each

Hourglass client account. As a result, an Hourglass client may pay commissions that are used, in part, to purchase research services that are not used to benefit its specific client account.

Certain items obtained with "soft dollars" may not be used exclusively for either broker execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and Hourglass makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage are paid by Hourglass to the "soft dollar" broker in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

When Hourglass uses client brokerage commissions to obtain research or brokerage services, it receives a benefit to the extent that Hourglass does not have to produce such products internally or compensate third-parties with its own money for the delivery of such services.

Within the last fiscal year, Hourglass has obtained the following products and services on a "soft-dollar" basis:

- quotation services and trading platforms with related exchange fees
- trade execution software and applications
- narrowly marketed economic, technical and statistical research
- trade clearance and settlement services
- portfolio management tools
- performance and risk evaluation services for pre and post trade analytics
- narrowly marketed investment related publications and periodicals.

*Block Trades:* Hourglass will "block trade" where possible and when advantageous to clients. "Block trades" permit the trading of aggregate blocks of securities from multiple client accounts; transaction costs are shared equally and/or on a pro-rated basis between all accounts included in any such block. "Block trading" may allow Hourglass to execute equity trades in a timelier, more equitable manner, at an average share price. The allocation of shares to various client accounts is determined prior to Hourglass placing the "block trade".

*Directed client accounts:* Hourglass will typically aggregate trades among clients whose accounts are custodied and traded at a directed broker (e.g. Charles Schwab). If Hourglass is placing a trade for the same security in multiple client accounts custodied at Charles Schwab, the client trades will be aggregated and the Hourglass clients at Charles Schwab will receive the same average price per share on that "block trade".

*Non-directed client accounts:* A non-directed client account allows Hourglass to choose the executing broker on a trade-by-trade basis. These client accounts are usually custodied at banks and trust companies. Hourglass will typically aggregate these client trades and create a single trade order to place with the Hourglass chosen executing broker: an average price per share is charged to all participating clients.

Hourglass "block trading" procedures are as follows:

- When placing a "block trade" that includes both directed and non-directed client accounts, Hourglass randomly selects the order of placing each ticket (directed or non-directed).
- The Hourglass portfolio manager preparing the "block trade" order must reasonably believe that the order aggregation will benefit, and will enable Hourglass 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 execution. Best execution includes the duty to seek the best quality of execution, as well as the best net price.
- Prior to entry of an aggregate order, a written ticket order is completed identifying each participating client and its proposed allocation upon execution.
- If a ticket 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 on that ticket order in accordance with the initial order or other written statement of allocation. Adjustments to this pro rata allocation may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. 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 ticket charges in smaller accounts.
- Each client that participates in the aggregated order do so at the average price for all separate transactions made to fill the order.
- Hourglass' 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, each account.
- Funds and securities for aggregated orders are clearly identified on Hourglass' records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.

*Hourglass Recommended Custodian:* Hourglass recommends, but does not require, that separate account 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' securities and to effect trades for their accounts. Although Hourglass recommends that clients establish accounts at Schwab, it is the client's sole decision to custody assets with Schwab. Hourglass is independently owned and operated and not affiliated with Schwab.

Schwab provides Hourglass 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 as long as a total of at least \$10 million of the adviser's clients' securities are maintained in accounts at Schwab. These services are not contingent upon Hourglass committing to Schwab any specific amount of business (other than the \$10 million minimum mentioned above). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.



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

Schwab also makes available to Hourglass other products and services that benefit Hourglass that may not directly benefit client accounts. Many of these products and services may be used to service all or some substantial number of Hourglass client accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist Hourglass in managing and administering client accounts include software and other technology that:

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

Schwab also offers Hourglass other services:

- regulatory compliance, legal and business consulting;
- soft dollar agreement as described above whereby Schwab agrees to pay for various independent third party Section 28(e) expenses;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to Hourglass. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Hourglass. Schwab may also provide other benefits such as educational events for Hourglass personnel. In evaluating whether to recommend Hourglass clients custody their assets at Schwab, Hourglass may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab.

## **Item 13 Review of Accounts**

### **Separately Managed Accounts**

*Reviews:* While the underlying securities held in Hourglass client accounts are continually monitored, the client specific accounts and reports are reviewed at least quarterly. 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, market conditions, and the political or economic environment.

Client accounts are reviewed by Hourglass' portfolio managers. Typically the portfolio manager responsible for establishing a client relationship will be assigned as portfolio manager and reviewer; therefore, the number of client accounts managed and reviewed by each portfolio manager will vary.

*Portfolio Managers:*

Kenneth A. Moffet  
John H. Moffet  
Andrew T. Anton

*Reports:* In addition to the monthly statements and trade confirmations that clients receive from their custodian/broker-dealer, Hourglass provides written quarterly reports summarizing account performance, transactions and position holdings.

Consulting Services

*Reviews:* A client's consulting investments are typically reviewed at the calendar quarter end, with a reporting to the client. Hourglass' consulting services are currently performed by Andrew T. Anton.

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

Currently Hourglass has no active client referral agreements with any individual or consulting firm.

It is Hourglass' policy not to accept, nor allow its related persons to accept, any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services provided to Hourglass clients.

## **Item 15 Custody**

Separately Managed Accounts

The term custody typically refers to having possession or having access to client funds or securities.

- Actual custody is physical possession of client funds or securities, such as storing client stock certificates and cash, or Hourglass directly accepting client funds, instead of client direct transfers to the client custodian/broker account. Hourglass is not the actual custodian for separately managed accounts - client assets are held with qualified custodians.
- Constructive custody is access to client funds or securities without physical possession.

Standing Letters of Authorization (SLOA)

Per the SEC Hourglass is deemed to have constructive custody if a client has established a SLOA in their account held with a qualified custodian. The SLOA gives Hourglass authority to transfer funds (to and/or from) the client account to another account, which may or may not be in the client's identical name.

The client SLOA arrangements require that:

- the client instructions be in writing, with full information provided for the contra account named in the SLOA
- the qualified custodian verifies the written SLOA information
- the client can terminate or alter the SLOA instructions to the qualified custodian at any time
- Hourglass has no authority or ability to alter the SLOA instructions
- the qualified custodian confirms the SLOA instructions with the client when initially established and reconfirms the instructions thereafter annually.
- Hourglass documents that it is not related to a 3<sup>rd</sup> party SLOA recipients.

While Hourglass, as part of its client services, assists in the processing of account SLOA transactions, we recognize that the protection and safeguarding of client assets is paramount. All client requests for SLOA transactions are verbally confirmed by Hourglass prior to processing; lastly Hourglass documents all SLOA transactions in the client's records.

### Investment Management Fees

Hourglass directly deducts its fees from client accounts, if so authorized by a client (see Item 5 "Fees and Compensation"). Clients receive an invoice showing the calculation of their quarterly fee – the invoice also indicates that the fee will be paid directly from the client's account.

As part of the client billing process, the client's custodian is advised of the fee amount to deduct from the client's account. On a monthly basis the custodian sends to the client an account statement showing all transactions within the account during the reporting period; here the client will see the Hourglass fee deducted directly from the account.

Because the custodian does not calculate the amount of the 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. A copy of the Hourglass bill is included in the client's quarterly Hourglass report for their review. Hourglass urge its clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current. Clients should contact Hourglass directly if they believe that there is an error in their statement.

### Consulting Services

Hourglass does not have actual or constructive custody for clients with consulting services. For consulting clients, Hourglass serves in an advisory capacity only with no direct access or discretion of the client's custodial/brokerage accounts.

## **Item 16 Investment Discretion**

### **DISCRETIONARY AUTHORITY**

Clients generally hire Hourglass to provide discretionary investment management services, which gives Hourglass the power and authority to determine the types of financial instruments to be bought or sold, as well as the amount to be bought or sold on behalf of the separately managed client accounts.

## **LIMITED POWER OF ATTORNEY**

### **Separately Managed Accounts**

Account clients generally grant Hourglass a limited or special power of attorney to conduct authorized trading on their behalf. This authority is documented in the Hourglass Investment Management Agreement and in the custodian/broker documents for a client's account.

### **Consulting Services**

Consulting clients do not grant discretionary authority or any limited power of attorney over their investments to Hourglass.

## **Item 17 Voting Client Securities**

Hourglass votes proxies for separately managed account clients; however, clients have the right to vote their proxies. Clients can exercise this right by instructing Hourglass in writing to not vote proxies in their account, or to contact their custodian/broker and arrange to vote their account proxies.

Hourglass will vote proxies in the best interests of clients and will resolve any conflicts of interest in accordance with its established written policies and procedures. Hourglass will retain all proxy voting books and records for the required period of time including: a copy of each proxy statement received, a record of each vote cast, and a copy of any document created by Hourglass that was material to making a decision on how to vote proxies. Clients may contact Hourglass to obtain a copy of its proxy voting policies and procedures. Clients may also request information on how proxies for their specific shares were voted. Hourglass does not vote proxies for consulting clients.

## **Item 18 Financial Information**

Hourglass does not have any financial impairment that prevents it from meeting contractual commitments to clients. A balance sheet is not required to be provided in this Brochure as Hourglass does not require or permit prepayment of fees in advance of services rendered.