

## **Hudson Portfolio Management LLC**

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March 20, 2024

### **Form ADV Part 2 Brochure**

**This brochure provides information about the qualifications and business practices of Hudson Portfolio Management LLC (HPM), an investment advisor registered with U.S. Securities and Exchange Commission (SEC). Registration with the SEC or any state securities authority does not imply a certain level of skill or training.**

**This brochure has been prepared by HPM as required by the SEC. It is neither designed nor intended for promotional or advertising purposes. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**If you have any questions about the contents of this brochure, contact us at 845-424-4567. Additional information about Hudson Portfolio Management LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2 Material Changes**

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual updating amendment, dated March 17, 2023, we have no material changes to report.

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## **Item 4 Advisory Business**

*The following paragraphs describe our services and fees. Refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this brochure, the words "we," "our," "HPM" and "us" refer to Hudson Portfolio Management LLC and the words "you," "your," and "client" refer to you as either a client or prospective client of our firm.*

### **Description of Firm**

Hudson Portfolio Management LLC is a fee-only registered investment advisor based in Garrison, NY. We are organized as a limited liability company ("LLC") under the laws of the State of New York. We have been providing investment advisory services since the beginning of 2004. We manage client portfolios and provide related investment advice. The principal owner and managing member is Byron S. Stinson. ToyKen Yee is a Partner of our firm.

The sole business of Hudson Portfolio Management LLC (HPM) is the management of client portfolios and the provision of related investment advice. HPM does not sell products or services other than portfolio management and related investment advice to clients.

### **Portfolio Management Services**

Specifically, we offer discretionary portfolio management services to private individuals – including couples and families – and to related trusts, estates, family or small businesses, and charitable funds. We also provide such services to unrelated public non-profit or charitable organizations.

We try to structure portfolios to respond to specific client needs and objectives, and to reflect specific client circumstances such as risk tolerance, and liquidity and cash needs. We do not use target portfolios though it is possible that clients' portfolios may hold similar investment holdings.

If you participate in our discretionary portfolio management services, we require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow us to determine the specific securities and the amount of securities to be purchased or sold for your account, without seeking your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm and the appropriate brokerage account application and trading authorization forms.

In providing discretionary portfolio management services, we rarely accept client restrictions on the specific securities or the types of securities that may be held in your account. But in a very few cases, clients have requested that certain securities not be purchased or that certain holdings not be sold. If you wish to limit HPM's discretionary authority, you must provide us with a written list of securities not to be traded.

For certain clients, e.g., top executive of listed companies, investment bankers and certain attorneys, we may need to obtain "clearance" from the employer's compliance department before we can make certain purchases or sales.

### **Investment Advisory and Consulting Services**

We may also furnish investment advice through consultations that are not a part of the portfolio management services described above. These consulting services primarily involve advising clients on specific investments or investment-related topics outside of the portfolios we manage. HPM does not provide tax or any other non-investment financial advice.

## **Types of Investments**

We offer advice on equity securities, warrants, corporate debt securities (including commercial paper), certificates of deposit, municipal securities, mutual fund shares, United States government securities, options contracts on securities or commodities, money market funds, REITs, PIPEs, derivatives, structured notes, ETFs, interests in private partnerships and interests in publicly traded partnerships (PTP).

Additionally, we may advise you on various types of investments based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

## **IRA Rollover Recommendations**

For purposes of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, we are providing the following acknowledgment to you. When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

We benefit financially from the rollover of your assets from a retirement account to an account that we manage or provide investment advice, because the assets increase our assets under management and, in turn, our advisory fees. As a fiduciary, we only recommend a rollover when we believe it is in your best interest, which may occur because there are far greater investment opportunities in an unrestricted investment account compared with retirement plans in which the investment opportunities are restricted to a limited menus of mutual funds.

## **Wrap Fee Programs**

We are not the sponsor or manager of a wrap fee program.

## **Assets Under Management**

As of December 31, 2023, we provide continuous management services for \$145,766,400 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

### **Portfolio Management Services**

Our fee for portfolio management services is based on a percentage of the assets in your account and is set forth in the following annual fee schedule:

<b>Assets Under Management</b>	<b>Annual Fee</b>
Up to \$5,000,000	Fund Portfolios - 0.75%
	Individual Security Portfolios - 1.00%
	Liquidity Portfolios - 0.50%

Clients with portfolios of over \$5,000,000 may be entitled to a reduction in fee rate of 0.125% per year on the amount that exceeds \$5,000,000.

For each new client account, there is a \$4,000 minimum annual fee (\$1,000 per quarter). This minimum can be reduced or waived in exceptional circumstances, particularly where the portfolio is expected to have significant additions in the future. In addition, we have the right to terminate your account if it falls below a level that, in our sole opinion, makes it too small to manage effectively.

Our annual portfolio management fee is billed and payable quarterly in advance, based on the opening balance on the first business day of the calendar quarter.

If the portfolio management service is initiated at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis. This means that the management fee is payable in proportion to the number of days in the quarter for which you are a client. If over a quarter, there have been material additions or withdrawals to a portfolio, the fee billed after the subsequent valuation date will include a fee addition or a reduction for such additions or withdrawals. A material addition or withdrawal defined as net additions/withdrawals averaged over the quarter that exceed 2% of the prior quarter's closing market value. Our fees are not negotiable, but in certain unusual circumstances, we may, in our sole discretion, decide to partially reduce or waive a client's quarterly management fee.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable management fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee.

We will send you an invoice for the payment of our portfolio management fee. In most cases, our fee will be deducted directly from your account through the qualified custodian holding your portfolio provided you have given written authorization for such.

The qualified custodian will deliver an account statement to you usually monthly, but at least quarterly. These statements will show all disbursements from your account. You should review all statements for accuracy. If you find any inconsistent information between our quarterly invoice and the statement(s) you receive from the qualified custodian, call our main office number located on the cover page of this brochure.

If the portfolio management agreement is terminated, you will incur a pro-rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur management fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

By policy, HPM does not require a written agreement for services with its clients, though one is regularly used.

### **Investment Advisory and Consulting Services**

We charge either a fixed or an hourly fee for these consultations, which are outside of our discretionary management services. Our fixed fees range from \$150 to \$1,500 a quarter. Our hourly fee ranges between \$250 and \$750. Billing rates for these services depend on factors such as the complexity of the work and the staff involved. Our consulting fee is payable as invoiced, either on a periodic basis for ongoing services, or at the completion of a project.

### **Other Fees and Expenses**

In addition to the management fee paid to us, you may incur expenses for trading commissions, transaction fees or service fees charged by the broker/custodian. Your portfolio may also be invested in mutual funds, ETFs, closed-end funds, or similar investments that charge their own management or administrative expenses. We do not receive compensation from the broker/custodian, fund companies, nor other investment advisors.

In certain circumstances, client accounts may go on margin, typically because withdrawals exceed available cash in the portfolio. For the margin facility, you must have had provided authorization, usually done as part of the account application executed with your broker/custodian. The management fees are calculated based on the asset value of the account less the amount borrowed. The use of margin will result in interest charges in addition to all other fees and expenses associated with the security involved.

To fully understand the total cost you will incur, you should review all the fees charged by mutual, exchange-traded closed-end funds, as well as those charged by our firm and the broker/custodian of your account. For information on our brokerage practices, refer to the *Brokerage Practices* section of this brochure.

### **Termination of Services**

A client may terminate our portfolio management services at any time with 30 days' written notice. Unless otherwise instructed, upon receipt of such notice, no further buy-sell orders will be placed and open orders will be cancelled. Any unearned, pre-paid fees will be refunded.

If you terminate investment advisory services with us, where consulting fees are billable in arrears, you will be charged a prorated fee based on the services performed prior to the termination of the agreement.

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

We do not accept performance-based fees or participate in side-by-side management. Performance-based fees are fees that include a share of market appreciation or total return in a client's account. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Our fees are calculated as described in the *Fees and Compensation* section above and are not charged on the basis of a share of market appreciation or total return of the funds in your portfolio.

## **Item 7 Types of Clients**

HPM clients are primarily individuals, including couples or families. We also serve entities associated with such individuals and families; these include trusts and estates, donor-advised fund accounts and charitable foundation, and private small businesses. HPM clients also include a few public charitable or non-profit organizations.

HPM clients do not include banks or thrift institutions, investment companies, pension or profit sharing plans, public corporations, or business entities other than individual or family-owned businesses, including small partnerships. While HPM clients do not include pension or profit-sharing plans themselves, HPM provides discretionary portfolio management, or non-discretionary investment advisory or consultation services to the individual participants for their 401(k), profit sharing, SEP-IRA or similar individual retirement plan accounts.

HPM also provides investment supervisory or advisory services to individual or family business owners for investment accounts held by those businesses (corporations, limited liability companies, partnerships or sole proprietorships).

For each new client account, there is a \$4,000 minimum annual fee (\$1,000 per quarter). This minimum can be reduced or waived in exceptional circumstances, particularly where the portfolio is expected to have significant additions in the future. In addition, we have the right to terminate your account if it falls below a level that, in our sole opinion, makes it too small to manage effectively.

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

### **Our Methods of Analysis and Investment Strategies**

Our primary focus is the management of client portfolios. We rely largely on independent third parties for securities and other investment research, analysis and ratings. Our primary source of information is outside research, generally purchased from third parties such as Value Line or Morningstar, rather than internally generated research. We also use various corporate rating services associated with the third-party research. For example, the Value Line timeliness ranking (which is based on a number of factors, including earnings momentum) is a factor in our analysis of stocks.

We believe that asset allocation and broad diversification are fundamental to our basic investment strategy as a means of limiting risk consistent with your needs and objectives.

We are primarily a long-term investor, mostly making long-term purchases of equity and fixed-income securities, which are expected to be held at least a year. But on occasion, investments may be sold sooner due to either excessive price movement or revised outlook. We may also make short-term purchases, in which securities are sold within a year, and we may use trading, where securities are sold within 30 days, as investment strategies to manage our investment portfolios.

Occasionally, we may use short-term margin transactions, but only where permitted by clients. Margin use is typically more a case in which a client withdraws funds on margin. However, we also service clients who have specifically decided to use margin as a means to borrow funds, using their portfolio as collateral, to fund cash needs for other purposes.

In special situations, we may purchase options on an individual stock or index in an attempt to benefit from an increase or a decrease in the price of a stock or index. A put option may also be purchased to try to hedge or protect against a price fall in a specific security being held by a client. We may also write call options on stocks held in order to earn an option premium.

Where appropriate, we may invest in publicly traded or non-publicly traded investment vehicles such as limited partnerships, which would include hedge funds or managed futures funds.

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is not an indication of future performance.

### **Material Risks in Investment Strategies and Methods of Analysis**

All the investment strategies and methods of analysis discussed above do not insure against risk of loss. The following describes some of the material risks regarding investment strategies or methods of analysis considered by us:

- Fundamental Analysis involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value. The risk of



fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

- Cyclical Economic Analysis is a type of analysis that involves evaluating investment opportunities as impacted by economic trends. Economic/business cycles may not be predictable and may have many fluctuations between long-term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy. Therefore, the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.
- Modern Portfolio Theory is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully diversifying the proportions of various assets. Market risk is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification.
- Long Term Purchases are the purchases of securities with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year. Using a long-term purchase strategy generally assumes the financial markets will go up in the long term. But this may not be the case. There is also the risk that the segment of the market that the client is invested in or perhaps just a particular investment will go down over time even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost by "locking-up" assets that may be better utilized in the short-term in other investments.
- Short Term Purchases are the purchases of securities with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations. Using a short-term purchase strategy generally assumes that HPM can predict how financial markets will perform in the short term, which may be very difficult. There are many factors that can affect financial market performance in the short term (such as short-term interest rate changes, cyclical earnings announcements, etc.) but may have a smaller impact over longer periods of times.
- Margin Transactions are transactions in which an investor borrows money to purchase a security, and the security serves as collateral on the loan. If the value of the shares drops sufficiently, the investor will be required to either deposit more cash into the account or sell a portion of the stock in order to maintain the margin requirements of the account. This is known as a "margin call." An investor's overall risk includes the amount of money invested plus the amount that was loaned to him or her.
- Short-term Trading includes buying and selling securities frequently in an effort to capture significant market gains and avoid significant losses during a volatile market. HPM may use short-term trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing client account(s) when HPM determines that it is suitable, given a client's stated investment objectives and tolerance for risk. However, frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.
- Short Sales are securities transactions in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price, but if the price of the shares increase, the potential losses are unlimited.
- Options provide the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option (or writes an option), he or she

must deliver to the buyer a specified number of shares if the buyer exercises the option. The seller pays the buyer a premium (the market price of the option at a particular time) in exchange for writing the option. A "call" gives the buyer the right to buy an asset at a certain price within a specific period of time. A "put" gives the buyer the right to sell an asset at a certain price within a specific period of time.

Our strategies and investments may also have unique and significant tax implications. While we will consider the tax implications of the investment transaction being made, tax efficiency is not our primary consideration in the management of portfolios.

Following IRS regulations, custodians and broker-dealers report the cost basis of investments acquired in client accounts. The client's custodian will default to the FIFO (First-In First-Out) accounting method for calculating the cost basis of their investments, though HPM may decide to utilize specified lot identification. The client is responsible for contacting their tax advisor to determine the accounting method that is the right choice for them. If another accounting method is more advantageous, the client should provide written notice to HPM immediately. HPM will alert the account custodian of the individually selected accounting method. Decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Other Risk Considerations**

The following risks may not be all-inclusive but should be considered carefully by a prospective client before retaining our services:

**Liquidity Risk:** The risk of being unable to sell your investment at a fair price at a given time due to high volatility or lack of active liquid markets. You may receive a lower price or it may not be possible to sell the investment at all.

**Credit Risk:** Credit risk typically applies to debt investments such as corporate, municipal, and sovereign fixed income or bonds. A bond-issuing entity can experience a credit event that could impair or erase the value of an issuer's securities held by a client.

**Inflation and Interest Rate Risk:** Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of a client's future interest payments and principal. Inflation also generally leads to higher interest rates, which may cause the value of many types of fixed income investments to decline.

**Horizon and Longevity Risk:** The risk that your investment horizon is shortened because of an unforeseen event, for example, the loss of your job. This may force you to sell investments that you were expecting to hold for the long term. If you must sell at a time that the markets are down, you may lose money. Longevity Risk is the risk of outliving your savings. This risk is particularly relevant for people who are retired or are nearing retirement.

### **Primary Types of Investments and Material Risks**

On behalf of our clients, HPM invests in nearly all types of marketable securities, including equities, fixed-income securities and cash-equivalent investments. We have highlighted below major type of investments we employ.

HPM invests in both exchange-listed and over-the-counter securities. These investments include foreign issues, including securities issued by non-U.S. companies and foreign governments and their agencies.

HPM equity investments may include warrants and hybrid convertible securities. Among HPM fixed-income investments are U.S. (and foreign) government, municipal (tax-exempt), and corporate debt securities. HPM cash-equivalent investments may include money market funds, commercial paper and other short-term corporate debt securities and bank certificates of deposit.

While HPM primarily invests in individual securities, HPM also invests in both open-end and closed-end mutual funds, exchange-traded funds and similar investment company securities.

HPM may purchase options on an individual security or index. Options are complex investments and can be very risky, especially if the seller of an option does not own the underlying stock. In certain situations, the risk can be unlimited. For a buyer of options, it is possible to lose their entire investment when the options expire. HPM may purchase a put option as an attempt to protect or hedge against a price fall in a specific security being held by a client. If the specific security does not have put options available, HPM may decide to use a substitute option of a security that has similar characteristics. The substitute option may not perform in the same manner as a put option on the specific security.

HPM may write covered call options on a stock. In this situation, HPM forgoes the right to profit when the underlying stock rises above the strike price of the call option sold and continues to risk a loss due to a decline in the underlying stock.

HPM may invest in limited partnerships such as hedge funds. A limited partnership is a financial affiliation that includes at least one general partner and several limited partners. The general partner might not invest any capital but has management authority and unlimited liability. That is, the general partner runs the business and, in the event of bankruptcy, is responsible for all debts not paid or discharged. The limited partners have no management authority and confine their participation to their capital investment. That is, limited partners invest a certain amount of money and have nothing else to do with the business. However, their liability is limited to the amount of the investment. In the worst-case scenario for a limited partner, he/she loses what he/she invested. Profits are divided between general and limited partners according to an arrangement formed at the creation of the partnership.

In its portfolio management HPM does not invest in insurance products, such as variable life insurance or variable annuities. But HPM may provide nondiscretionary advice through consultations on such investments.

HPM currently does not invest directly in option contracts on commodities or in future contracts on either tangibles or intangibles. HPM, however, may invest in these in the future.

HPM's advisory and consulting services may cover employer-based equity grants, including restricted shares and options.

While HPM may utilize many investments as described above, HPM primarily utilizes stocks and bonds or funds that hold stocks and bonds. The following describes risks associated with these investments.

Investing in stocks involves the assumption of various risks including:

- Financial Risk is the risk that the companies HPM selects may perform poorly, thus affecting the price of the investment.
- Market Risk is the risk that the stock market will decline, concurrently decreasing the value of the securities HPM selects.
- Inflation Risk is the risk that the rate of price increases in the economy deteriorates the returns associated with the stock.
- Political and Governmental Risk is the risk that the value of investments may change with the introduction of new laws or regulations.

Investing in bonds involves the assumption of various risks including:

- Interest Rate Risk is the risk that the value of the bond investments HPM selects will fall if interest rates rise.
- Call Risk is the risk that bond investments will be called or purchased back from a client when conditions are favorable to the bond issuer and unfavorable to the client.
- Default Risk is the risk that the bond issuer may be unable to pay the contractual interest or principal on the bond in a timely manner or at all.
- Inflation Risk is the risk that the rate of price increases in the economy deteriorates the returns associated with the bond.

## **Item 9 Disciplinary Information**

We are required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of our advisory business or the integrity of our management. We do not have any required disclosures under this item.

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

We do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker;
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund);
3. other investment advisor or financial planner;
4. futures commission merchant, commodity pool operator, or commodity trading advisor;
5. banking or thrift institution;
6. lawyer or law firm;
7. insurance company or agency;
8. pension consultant;
9. real estate broker or dealer;
10. sponsor or syndicator of limited partnerships.

### **Affiliated Entities**

Byron Stinson, owner of our firm, is also the owner of Hudson Financial Group, Inc. ("HFG"). HFG provides general, broad-based, financial advice (and some related services, such as tax return preparation) to private individuals and families and related entities. HFG also provides certain recordkeeping, accounting, reporting, and analytical services to our firm. HFG does not provide investment advice on the merit of specific securities. In general, employees of HFG are also employed by our firm.

Mr. Stinson devotes approximately one-half of his business time to HFG matters. Similarly, ToyKen Yee, who is an employee and also Treasurer of HFG, devotes about half her business time to HFG matters.

Clients of our firm are usually also clients of HFG. Though it is not a requirement that our clients also be clients of HFG, a relationship with HFG helps us have a broader, fuller understanding of your financial circumstances and related needs and objectives.

Clients of our firm are under no obligation to use HFG services. Similarly, HFG clients are under no obligation to use our services.

**Other investment advisors**

HPM and its staff are not related or affiliated with any other investment advisors. HPM does not receive compensation from any advisors for recommending or selecting other investment advisors for clients. HPM also does not have any business relationships with other investment advisors that would create a conflict of interest.

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

We strive to comply with applicable laws and regulations governing our practices. Our formal Code of Ethics, which applies to all HPM and HFG employees, stresses unbiased advice, putting our client's interests first, safeguarding client confidentiality and commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. Persons associated with our firm are also required to report any violations of our Code of Ethics to our Compliance Officer.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

**Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities. We monitor the stock holdings of our employees and other related persons and require that all related persons obtain prior approval for all stock purchases and sales.

**Item 12 Brokerage Practices**

Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. In recognition of the value of the services the Custodian provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

HPM does not have authority to determine the broker or dealer used or the commission rates paid. But we are prepared to either suggest custodian-broker(s) to clients or otherwise help clients in the selection of custodians-brokers. Such recommendations or guidance is provided at the request of clients, and such requests are commonplace. However, it is the client, not HPM, who makes the selection of the client's broker.

In evaluating custodian-brokers that will hold your assets and execute transactions on terms that are, overall, the most favorable compared to other available providers and their services, we consider such factors as:

- Ease of placing trade orders and breadth of brokerage services.
- Quality and timeliness of periodic statements and reports.
- Competitiveness of price.
- Ease of access to client account information and records.
- Reputation, financial strength, and stability.

By policy HPM does not use security research provided by brokerage houses, investment banks or similar parties with obvious potential conflicts of interest, which may bias the research. The security research HPM uses is purchased separately from independent third parties or is otherwise freely available to the general public.

Other products and services that brokers may offer HPM (including seminars and conferences, expert conference calls and webcasts) are never factors in our evaluations and recommendations.

Currently, HPM utilizes the broker associated with the custodian that is selected by the client. Under this arrangement, HPM may be unable to achieve the most favorable execution of client transactions and clients may pay higher brokerage commissions than they might otherwise pay through another broker. Should a client wish to use multiple brokers, HPM will consider providing this option.

Currently all of the portfolios HPM manages are with the Institutional Division of Charles Schwab and Company (Schwab). HPM is not affiliated with Schwab and is not compensated by Schwab.

As an institutional client, HPM has access to Schwab's institutional trading and custody services, which are typically not available to Schwab's retail investors. Schwab also assists in managing and administering client accounts by providing software and technology to (i) provide access to client account data; (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) facilitate payment of HPM's management fees from its clients' accounts; (iv) provide pricing, research and market data and (iv) assist with recordkeeping and client reporting. Schwab also occasionally offers seminars, web-casts, conference calls, or publications/literature free of charge to HPM staff.

Schwab services are not contingent upon HPM committing to Schwab any specific amount of business or transactions. HPM receives no compensation for trading commissions earned by Schwab or other expenses charged to the client by Schwab.

#### **Brokerage for Client Referrals**

HPM does not receive client referrals from broker-dealers in exchange for cash or other compensation.

#### **Trade Aggregation**

In order to potentially obtain better access to securities, or better security prices, and to facilitate more uniform pricing among client orders, HPM normally aggregates client orders when similar transactions are advisable in multiple client accounts.

HPM staff and related person equity orders are not aggregated with client orders. In very rare instances, with some illiquid investments such as certain fixed income securities that require minimum lots, staff and related party orders may be aggregated with client orders provided there is no negative price impact on the client.

At this time, only HPM clients with accounts at Schwab can participate in trade aggregation.

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

#### **Reviews and the Reviewers of the Accounts**

Portfolios are reviewed on both regularly scheduled and special, ad hoc bases. Generally, portfolio cash positions are reviewed daily, asset allocations are reviewed biweekly and brokerage statements are reconciled monthly.

Each portfolio is assigned a "portfolio manager," who is responsible for approving all non-cash purchases and sales, and a "portfolio reviewer" (in some instances, the portfolio manager and portfolio reviewer are the same individual). The portfolio reviewer conducts full (holding-by-holding) reviews of each portfolio on a regular basis. The frequency of those reviews will vary from portfolio to portfolio and from time to time.

Reviews are conducted generally every 30-60 days and at least quarterly - except for relatively small and static portfolios. In some cases, certain portfolios may be reviewed every few days. Special or ad hoc reviews may be triggered by changes in client circumstances or investment objectives, unexpected large deposits or withdrawals, tax planning, or events in the financial markets.



Price changes are monitored daily. Analyst ratings and forecasts are generally updated weekly. More extensive updates (including current projected revenues and earnings) are done quarterly. Major changes in the price, outlook or analyst rating of a security can also trigger special reviews of portfolios holding that security or portfolios that require an increased allocation of an asset type.

At present, Byron Stinson and ToyKen Yee are the portfolio managers, who either conduct or oversee all full reviews and approve all equity or fixed-income investments. These full reviews focus first on asset allocation, secondly on diversification and thirdly on the individual holdings.

### **Nature and Frequency of Regular Reports to the Clients**

Clients receive monthly brokerage statements directly from the broker-custodian. Statements from custodians indicate all amounts disbursed from the account, including the amount of quarterly fee(s) paid from the portfolio(s) directly to us.

Each calendar quarter, we provide you with a written quarterly report, consisting of a quarterly Market Review, Portfolio Review(s) and a Billing Statement. The Market Review recaps the performance of the major global equity and fixed-income markets over the quarter just ended and often comments about our outlook for the coming quarter(s).

Each Portfolio Review has two sections. The accounting section shows how the portfolio market value has changed (increased or decreased) over both the quarter that just ended and year to date. The portfolio accounting section lists the aggregate deposits, withdrawals, interest and dividends received, and price appreciation (depreciation) over those periods, as well as the investment returns. The asset allocation and benchmarks section shows the quarter end asset allocation of the portfolios, as well as the asset allocation of that portfolio's Benchmark Portfolio and the hypothetical market return of that Benchmark Portfolio. You receive a separate Portfolio Review for each portfolio being managed.

The quarterly Billing Statement indicates the amount to be charged for managing each portfolio in the coming quarter and how those amounts were calculated.

(See the Fees and Compensation section of this brochure for further explanation on fees.)

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

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

We receive an economic benefit from **Charles Schwab & Co., Inc – Institutional** in the form of the support products and services that it makes available to all independent investment advisors whose clients maintain their accounts at Schwab. Refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with your account custodian.

## **Item 15 Custody**

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other qualified custodian. You will receive account statements from the qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

We will also provide statements to you reflecting the amount of the advisory fee deducted from your account. You should compare our statements with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement, or if you did not receive a statement from your custodian, contact us immediately at the telephone number on the cover page of this brochure.

## **Item 16 Investment Discretion**

Before we can buy or sell securities on your behalf, you must first sign the appropriate trading authorization forms.

For the portfolios we manage on a discretionary basis, we have authority to determine, without obtaining specific consent, the securities to be bought or sold and the amount of the securities to be bought or sold. Except for very rare instances, we do not in general permit clients to impose any restrictions on a grant of discretionary authority. Refer to the *Advisory Business* section in this brochure for more information on our discretionary management services.

It is also possible that we may need to obtain "clearance" from the compliance department of employers of certain clients before a purchase or a sale is made on behalf of that client.

If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

## **Item 17 Voting Client Securities**

HPM will not vote any proxies on behalf of any client unless requested in writing to do so by the client. When you provide HPM with the authority to vote its proxies, you relinquish the right to direct any particular solicitation. We will determine how to vote proxies based on our reasonable judgment of the vote most likely to produce favorable financial results for you. Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders. Generally, proxy votes will be cast against proposals having the opposite effect. However, we will consider both sides of each proxy issue. Unless we receive specific instructions from you we will not base votes on social considerations.

Except in the case of a conflict of interest as described below, we do not accept direction from you on voting a particular proxy.

Conflicts of interest between you and our firm, or a principal of our firm, regarding certain proxy issues could arise. If we determine that a material conflict of interest exists, we will take the necessary steps to resolve the conflict before voting the proxies. For example, we may disclose the existence and nature of the conflict to you and seek direction from you as to how to vote on a particular issue; we may abstain from voting, particularly if there are conflicting interests for you (for example, where your account(s) hold different securities in a competitive merger situation); or, we will take other necessary steps designed to ensure that a decision to vote is in your best interest and was not the product of the conflict.

We keep certain records required by applicable law in connection with our proxy voting activities. You may obtain information on how we voted proxies and/or obtain a full copy of our proxy voting policies and procedures by making a written or oral request to our firm.



For clients who do not provide HPM with authority to vote their proxies, will be directly mailed the proxies by their custodians.

## **Item 18 Financial Information**

Our firm does not have any financial condition or impairment that would prevent us from meeting our contractual commitments to you. We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and we do not require the prepayment of more than \$1,200 in fees six or more months in advance. Therefore, we are not required to include a financial statement with this brochure.

We have not filed a bankruptcy petition at any time.

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

We are a federally registered investment advisor; a response to this item is therefore unnecessary.

## **Item 20 Additional Information**

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

### **Class Action Lawsuits**

We will assist you, in conjunction with your legal counsel or other professionals, in filing claims with the claims administrator to participate in any settlement proceeds related to class action settlements involving a security held in your portfolio. We may also work with your legal counsel to determine whether you are eligible to participate in class action litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held in your portfolio.