



HS Management Partners, LLC  
640 Fifth Avenue, 18th Floor  
New York, N.Y. 10019  
(212) 888-0060  
[www.hsmanage.com](http://www.hsmanage.com)

March 20, 2024

This Brochure (Form ADV Part 2A) provides information about the qualifications and business practices of **HS Management Partners, LLC** (referred to in this document as “HSMP”). If you have any questions about the contents of this Brochure, please contact Douglas Kamin, Chief Compliance Officer of HSMP, at (212) 888-0060. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

HSMP is an investment adviser registered with the SEC. Registration of an investment adviser does not imply any certain level of skill or training.

Additional information about HSMP also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by our full name or by a unique identifying number, known as a CRD number. The CRD number for HSMP is 145480.

## Item 2 — Material Changes

When we use “HSMP” or “Firm” or “we” or “us” or “our” in this Brochure, we are referring to HS Management Partners, LLC.

HSMP’s last annual update to the Brochure was dated March 31, 2023. Since that update, we have no material changes to report. We do have other changes that have been made to the Brochure, which we do not deem to be material:

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## Item 4 — Advisory Business

When we use “HSMP” or “Firm” or “we” or “us” or “our” in this Brochure, we are referring to HS Management Partners, LLC. HSMP is a long-only investment management firm that invests solely in publicly traded equities. Harry Segalas (Managing Partner & Chief Investment Officer) established HSMP in June 2007. David Altman (Partner & Director of Research), and Greg Nejme (Partner, President & Investment Strategist), joined the Firm as partners shortly thereafter. Our three partners independently capitalized the Firm, and Mr. Segalas and Mr. Altman each owns over 25% of the Firm, but no individual partner owns a majority stake. HSMP is structured as a limited liability company governed under Delaware law and is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) (SEC registration does not imply any certain level of skill or training). Our sole office location is in New York City at the address indicated on the cover page. We are an independent investment adviser, are not affiliated with any other investment adviser, and do not have any parent or subsidiary.

We provide investment advice only with respect to one equity investment strategy: HSMP Concentrated Quality Growth Equity. Our investment advice is limited to equity securities of publicly traded, domestic and foreign companies, in the form of domestic common stocks, foreign ordinary shares, and ADRs, traded on exchanges or over-the-counter markets. We apply a focused, bottom-up, fundamentals-first approach to portfolio management. Core to our approach is an emphasis on (1) the quality of the business and its fundamental basis, (2) the business’s underlying earnings/cash flow growth potential, and (3) the stock valuation. We believe that active management adds value and take an incremental approach to trading our discretionary client accounts. Provided our three investment principles are satisfied, we do not set limits by industry or sector weightings and our portfolio can be significantly concentrated by sector and/or industry. We are benchmark agnostic, not index influenced—we do not seek to mimic any market index.

We provide advisory services on a discretionary basis. We make the investment decisions and trade the accounts without advance consultation with clients—we do not manage accounts on a non-discretionary basis. Our clients include high net worth individuals (including family offices), charitable organizations (including endowments and foundations), Registered Investment Companies (“RICs”), some ERISA plans, and unrelated/third-party funds. HSMP does not provide tailored investment advisory services to the individual investors in the RIC.

We aim to build a concentrated portfolio of generally 20 to 25 companies that we believe possess the characteristics we value: a good, quality business with a sound fundamental basis; a positive, albeit reasonably attainable, long-term, future earnings/cash flow growth potential; and an attractive stock valuation. Absent client restrictions, we generally implement our investment strategy in client accounts through our standard, investment portfolio guidelines. Client portfolios are invested primarily in domestic companies, but we can also invest up to 30% of the total portfolio value in foreign companies, although we are usually below that limit. Portfolio positions by company are normally capped at 8% of total portfolio value without limit by industry or sector weightings, and client accounts commonly have over 50% exposure to the consumer discretionary, consumer staples and/or technology sectors. We seek to be fully invested and clients determine and direct the sweep options for their own accounts. Cash is typically limited to 5% of total portfolio value and client accounts regularly have a less than 1% residual cash position after a trading day. Our annual portfolio turnover rate (comprised of new names and incremental changes to existing positions) has generally ranged between 65% to 95% measured in dollars but has been higher than 110% in certain market conditions, notably in times of heightened volatility.

Clients can request reasonable restrictions on the management of their accounts. We reserve the right to reject or close a client account for any reason including requests to impose restrictions. HSMP reserves the right, in its sole discretion, to determine whether restrictions would negatively impact the performance of the management of our strategy or prove overly burdensome to the Firm's management efforts. In cases where client restrictions apply that HSMP has accepted,

the account in question may or may not qualify for composite inclusion over a given measurement interval.

We seek to invest our discretionary clients, in the same names and in the same or similar percentage weights with the goal of minimizing dispersion across accounts over time. The holdings and performance of a discretionary account can deviate from our composite or from other discretionary client accounts.

We advise clients solely as to the portion of their assets for which we have been given discretionary management in accordance with our investment strategy. We do not take into consideration clients' assets or investments outside of those assigned to our management. Further, we do not advise clients on their overall financial plan and do not provide tax advice. Clients, and as applicable their consultants or investment advisers, should ultimately determine whether our investment strategy is appropriate for a client's overall asset allocation, tax strategy, and financial outlook upon evaluating our strategy and its implementation, and the associated investment risks.

### ERISA Recommendations

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 accounts that we manage or provide investment advice, because the assets increase our assets under management and, in turn, our advisory fees.

HSMP does not participate in, or offer, wrap fee programs.

### Assets

As of December 31, 2023, HSMP managed or provided investment recommendations for the following assets. These are our regulatory assets under management as reported in Item 5.F. of our Form ADV Part 1A:

#### U.S. Dollar Amount

Assets under Management—Discretionary	\$ 2,367,827,228
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Discretionary client accounts can have unsupervised assets in certain cases. Unsupervised assets are those for which we do not provide advisory services. We do not charge an advisory fee on unsupervised assets, nor include them in the account assets under management and account performance.

Clients can withdraw assets from their accounts at their discretion. Discretionary clients can direct a withdrawal request to us or directly to their custodians. However, considering that we tend to be almost fully invested and generally keep very low cash balances in client accounts, clients should be mindful that withdrawals can bring unintended operational

consequences such as an overdraft. Accordingly, and unless we agree otherwise with a client, when a client directs the account custodian to remove assets from the account, the client shall provide us with prompt written notice of such removal and will be bound by all transactions we do on behalf of the account on or prior to when we acknowledge receipt of said notice in writing. In addition, and unless we agree otherwise with a client, when a client asks that we raise cash in his/her/its account for withdrawal, the client shall submit such request to us in writing and the request is not effective until we acknowledge receipt of it in writing. Raised cash remains in client accounts as unsupervised assets until clients arrange with their custodians the transfer of said cash out of their accounts. Clients should be mindful that when we sell securities in their accounts to raise cash to satisfy a withdrawal request, we place the trade orders with an eye to making the cash available and the price obtained will depend on the then-current market conditions, so prices can be lower than what we would deem advisable under the circumstances.

## Item 5 — Fees and Compensation

We charge our clients an investment advisory fee based on an account's assets under management in the case of our discretionary clients. Fees are structured with tiered rates that have the effect of applying different rates to different portions of the account's assets, so that both the effective annual blended and actual fee rates decrease (or increase) as assets in the account increase (or decrease).

### *Investment Advisory Fees*

The following is our current standard fee schedule for our clients (other investment advisers charge the same, similar, higher or lower fees):

<u>\$10 Million Minimum Account Size or more</u>	
Assets Under Management Annual (%) Fee	
Account Size Bracket/Threshold	Percentage to be applied
First \$25 million	0.90%
Next \$25 million	0.70%
Additional amounts over \$50 million	0.50%
<u>Accounts Less Than \$10 Million</u>	
The annual advisory fee for accounts below \$10 million is the greater of 1.00% of the account's assets under management or \$10,000.	

We negotiate our advisory fees and can offer a fee schedule lower than the one above (for example, for accounts that open with at least \$100 million in assets under management, we charge 0.55% on the first \$100 million and 0.50% for additional amounts over \$100 million). In negotiating our fees, based on several factors, on a case-by-case basis and at our sole discretion. Charging advisory fees based on account value provides us with an incentive to encourage clients to increase their account assets. Generally, the more assets in a client account, the more the client will pay us in fees; however, our employees are not compensated based directly on client contributions or referrals.

For purposes of calculating the fee or determining the applicable fee schedule we typically aggregate accounts of the same client and of the same family, and generally aggregate accounts of clients with close corporate or institutional ties among them.

Under specific circumstances, we have agreed in very few instances to a so-called "most-favored nation" clause in a client's investment advisory agreement (this clause generally refers to triggering a lower fee based on certain conditions) and

have also agreed in very few instances to waive or reduce a portion of a client's advisory fee, based primarily on the relationship and assets under management of a client with us. We do not charge advisory fees for the accounts of our employees, including our partners, their spouses and children. Charging different fee rates provides us with the incentive to favor clients that pay us the most in fees; we aim to mitigate this conflict through our trading and allocation practices, which aim to minimize client dispersion to the extent possible and endeavor to treat accounts fairly over time without regard to the fees they pay us or other benefits that might flow to us.

We bill our advisory fees quarterly in arrears unless otherwise agreed with a client, and adjust and prorate our fees, as applicable, where changes to the account occur mid-billing cycle. For example, we adjust and/or prorate fees for our clients' deposits and withdrawals during the billing period. We also adjust and/or prorate fees for accounts opened or closed during the corresponding billing period to reflect the number of days that the account was under our management. For purposes of fee calculation, the market value of an account's assets under management is generally determined on the last business day of each calendar quarter or on the date an account is terminated, as valued in our internal portfolio accounting system (our valuation can differ from a client's custodian valuation). When operationally feasible and in our sole discretion, we accommodate clients who prefer a different method of calculating their account value for billing purposes, such as when a client requests that the billing be based on the client's custodian's market value, or on an average of each month-end value during the billing period.

Clients can elect to either receive our fee invoice for payment upon receipt or authorize us to directly instruct their custodian to pay our fees (direct debit). Direct debit is only available to clients that custody their assets under our management at qualified custodians that permit this arrangement. If a client authorizes direct debit, we send the client's custodian our invoice for payment or a simple instruction to pay our fees without the invoice details. If direct debit is not authorized by a client, we send the client, or a third party designated by the client, a fee invoice generally due within twenty calendar days upon receipt. Clients should review their statements for the accuracy of our fees when we directly debit accounts.

#### *Fees and Expenses in Addition to our Investment Advisory Fees*

In addition to the investment advisory fees that our clients pay to us, clients will incur and are responsible for other fees and costs. Some of these fees and costs are paid from the accounts under our management and are connected to the implementation of our strategy and our trading practices. Others depend completely on clients' separate arrangements with third parties, and clients should direct inquiries related to said costs to the corresponding party. Our advisory fees are exclusive of, and in addition to, any fees, costs and expenses charged by broker-dealers, custodians, consultants, money market mutual funds, and other third parties—all of which will reduce clients' return, if any, in their investments.

Examples of costs that are paid from the client accounts we manage and that are connected to the implementation of our strategy and our trading practices are trade commissions paid to broker-dealers for executing trades in client accounts, and conversion/exchange fees paid to broker-dealers and/or involved third parties to convert ADRs to ordinary shares or vice versa. Examples of costs that depend completely on clients' separate arrangements with third parties include custodial fees that custodians generally charge clients for opening and maintaining an account, trade-away fees that some custodians charge clients from their accounts when we trade client accounts with broker-dealers unaffiliated with the corresponding custodian, fees that consultants and financial advisers charge clients for their services, and fees that custodians, money market mutual funds, and other third parties, charge clients generally from their account for automatically "sweeping" the uninvested cash that is in a client account at the end of each trading day into money market mutual funds or other cash management vehicles.

Except for the soft-dollar benefits we receive from trading in some client accounts, we do not derive any financial benefit from such other fees, costs, and expenses (please refer to Item 12 for additional information regarding our trading practices, including best execution and soft-dollar benefits). It should also be noted that we have access to proprietary and/or third-party research reports from Schwab by virtue of having clients, including our employees, partners, and their families, that custody their accounts we manage there and not based on soft-dollar commissions (please refer to Item 15 for additional information regarding accounts that custody with Schwab).

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

HSMP does not charge performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets in client accounts).

## **Item 7 — Types of Clients**

We manage advisory accounts for non-taxable and taxable accounts on a discretionary basis primarily for high-net-worth individuals (including family offices), charitable organizations (including endowments and foundations) and some ERISA plans. We also manage discretionary advisory accounts for unrelated/third-party pooled investment vehicles (including those formed by families to manage their wealth, private funds, and offshore funds) and act as a sub-adviser to a registered investment company.

HSMP reserves the right to accept or reject accounts of any size or type. We do not have specific requirements for opening or maintaining an account for our management, and consider factors such as account size and type, and client restrictions on a case-by-case basis.

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

### *Methods of Analysis and Investment Strategy*

HSMP has one sole investment strategy: HSMP Concentrated Quality Growth Equity. HSMP applies a focused, bottom-up, fundamentals-first approach to quality growth equity portfolio management. Core to our approach is an emphasis on the quality of the business and its fundamental basis, its underlying earnings/cash flow growth potential, and its stock valuation. Cash is not a major component of our investment strategy, and we aim to keep our clients' capital nearly fully invested. We seek to identify companies that we believe have a solid business model and aim to detect the key factors that we think are unique and important to a company's attainment of projected earnings and cash flow potential while remaining attentive to valuation. Central to our philosophy is the view that growth and value are both important considerations, and in our stock selection process, we try to marry what we deem to be attainable growth characteristics to what we deem to be an attractive valuation—we largely ignore categorizations separating growth from value. Provided our quality criteria are satisfied, and if we find the valuation attractive, we take a multi-dimensional approach to portfolio construction: across the growth continuum (from more established, to variable, to more rapid growth businesses), up and down the market capitalization scale (large, medium, and small cap companies), and around the globe. Although we have found that the companies that satisfy our investment criteria tend to operate in select industries, we do not set limits by industry or sector weightings. We are benchmark agnostic and not index influenced—we do not try to mimic or follow any market benchmark or index.

Suitable investment candidates for us typically include companies that we believe possess strong management teams, attractive business models, enduring competitive advantages, broad geographic platforms, the ability to remain relevant



and adapt to meet customer needs in different market conditions, financial health, high free cash flow characteristics, and/or strong, albeit reasonably attainable, earnings and cash flow prospects. In addition to established, leading companies that we have known for many years, we seek to identify “up and coming” candidates that we think meet our quality criteria and have an attractive valuation. Examples include businesses that in our opinion have substantial assets and promising new leadership, companies that we believe have been freed of legacy issues, franchises moving from niche markets to mainstream, and/or companies with exciting new products and/or services or with offerings that we deem capable of maintaining their relevance to customers over time. We analyze company business models and evaluate their long-term potential by accessing Wall Street research (such as reports and publications regarding companies, industries, markets, and the economy, and other sell-side analyst research), industry contacts, company management, and publicly available information (such as company earnings calls, press releases, and SEC filings), among other research. The process can also encompass participating in industry conferences and events or calls organized by broker-dealers including participation of experts in certain fields or industries, company management, government representatives, and other invitees. Research can be received in the form of written reports, periodicals, investment seminars, software, and meetings, calls or discussions, among other events. We do not use expert networks.

An idea with attractive investment potential can be placed on our Focus List, which consists of a limited number of companies (generally 50 to 60 companies), including companies in which we invest and companies that we are considering for investment. Our Focus List helps us track and compare existing and potential investment candidates based on certain metrics considered by our investment team, and it is from this List that we select the companies that can be included in client portfolios. If we believe that a company’s fundamentals appear strong and supported by our qualitative and quantitative analysis, and if we find the valuation of its shares attractive, we can decide to initiate a position in the stock. Three primary considerations influence our decision to fully or partially sell a stock position: if there is a loss of confidence in a company’s business model or its ability to realize the anticipated growth and earnings/cash flows; if a stock looks richly priced based on our valuation tools and growth assumptions; or if a better alternative investment opportunity is identified. A change in company fundamentals that we deem detrimental typically results in a liquidation of the shares, whereas sales prompted by valuation considerations and/or a better investment opportunity can be incremental in nature. We believe that active management adds value.

The investment team works in a cohesive and collaborative manner, and Harry Segalas, as our Chief Investment Officer (“CIO”) and our sole Portfolio Manager, makes all final portfolio decisions.

#### *Risk of Loss*

Investing in equity securities involves significant risks that clients should be prepared to bear, including the risk of loss of the original amount invested. The following are some material risks, not all risks, applicable to our investment strategy and advisory business, listed alphabetically. We urge clients and prospective clients to carefully evaluate these risks.

- **Active Management Risk.** Active management is key to our investment strategy, and we take an incremental trading approach. This increases trading, which in turn increases trading commissions and/or other transaction costs, fees and expenses that will reduce client returns/performance. Portfolio turnover can also result in short-term capital gains, which can reduce the after-tax return for taxable clients.
- **Catastrophic Events, Civil Disturbances, Health Crises, Wars, Natural Disasters, Terrorist Attacks, Environmental Calamities, and Acts of God Risk.** All these events can significantly disrupt not only the economy and market conditions, but also exchanges, trading, our vendors’ services, the performance of the companies in which we invest and their competitors, and our ability to carry out our investment advisory business, as well as making our employees, vendors

and market participants more susceptible to cyberattacks.

- **Concentration Risk.** Our investment strategy involves a high concentration in certain market sectors, industries, geographic regions, and number of issuers. A concentrated portfolio is subject to greater risk of loss and market impact than a more diversified account. A decrease in the market value of a company in which we invest will negatively impact the performance of the overall portfolio more than if we invested in a larger number of issuers. Similarly, an event that impacts the sectors in which our portfolio tends to be concentrated can likely negatively impact client performance more than if we invested in other sectors or built a diversified portfolio.

- **Consumer Discretionary, Consumer Staples and Technology Sectors Risk.** Our discretionary client portfolios we recommend are concentrated in these sectors, which are highly sensitive to rising inflation, increased interest rates, pandemics, wars, and other events that impact consumer confidence and behavior. The consumer discretionary and the technology sectors are especially tied to the strength of the economy and consumer spending and preferences; these sectors rely heavily on business cycles and market conditions. In addition, companies in these sectors can be particularly impacted by supply chain issues, labor shortages, rising input costs, and online sales. Furthermore, participants in these sectors tend to be well-established companies with many resources, making these sectors highly competitive and therefore more difficult for companies to succeed in them. Moreover, the technology industry is very sensitive to rapid and often unforeseeable innovation and product obsolescence.

- **Cybersecurity and Other Technology Risk.** Like most investment advisers, we rely heavily on technology to perform our functions and also share sensitive, confidential information (such as clients' personal data and/or holdings, and Firm proprietary data) with client consultants, investment advisers and custodians, as well as with other third-party service providers such as broker-dealers, software providers, network administrators, and other parties we engage in the client service, operations, legal/compliance, marketing, and Firm accounting areas, among other. Thus, client and Firm sensitive, confidential data on our network or on the networks of third parties with whom we have shared data are vulnerable to inadvertent disclosure and nefarious cyberattacks aiming to expose or exploit the data. Furthermore, our trade processing, portfolio accounting, client servicing, and other essential operational tasks can be subjected not only to cyberattacks, but also to other events such as power failures, internet unavailability and cellphone outages. All of this can result in an inability to access our systems and/or financial losses and reputational damage, as well as legal and regulatory ramifications, to us. It can also bring financial losses and other unwanted consequences to our clients if their sensitive, personal, confidential data is compromised. While we have taken what we believe to be reasonable precautions to maintain our ability to conduct our business, and to protect the functionality of our networks and the confidentiality of our client and Firm data, in the presence of such disruptive events, no measures can eliminate cybersecurity or technology risks. It should be noted that not only our Firm and our vendors can be subject to a disruptive event, in fact, the companies in which we invest our discretionary accounts are also susceptible to cybersecurity risks, which can negatively impact their business operations and stock value in the event of a cybersecurity related incident. It should be further noted that cybersecurity risks have increased significantly in the current environment of the Russian invasion of Ukraine.

- **Equity Securities Risk.** We invest in equity securities, which involves several risks. For example, their value can decrease, potentially dramatically, in response to many factors (including general economic conditions, inflation, changes in interest rates, fluctuations in foreign currencies, and national or international political, social, governmental, tax, legal, regulatory and economic events, as well as natural disasters, environmental calamities, terrorist attacks, wars, and health crises such as epidemics or pandemics) that can negatively impact the economy in general or a particular company's financial situation, result in poor performance of some companies in certain geographical regions or economic sectors or industries, and/or adversely affect the stock market in general or overall market sentiment. In addition, U.S.

and non-U.S. stock markets have experienced periods of substantial price volatility in the past, the present, and can do so again in the future (including a recession in the U.S. economy). Also, even under favorable market and industry conditions, a company's performance can be negatively impacted by internal factors, such as poor execution by company management, a cybersecurity attack or data breach, and a change in the demand for its products or services. Furthermore, we typically invest in common stock, which in the event of liquidation, have rights over company's assets only after the rights of debt holders and preferred stockholders have been satisfied. Moreover, considering that we do not try to mimic or follow any market-benchmark sector weights, the portfolio we construct can underperform any specific market benchmark or index. Additionally, there are times when the market favors investment styles different from ours, such as momentum or pure core growth or value strategies, or industry sectors different from those in which we typically invest. Besides, we can misinterpret general market or company specific conditions when we make an investment decision; if our assessment of the prospects of a company's earnings, or our judgment of how other investors will value the company is wrong, the price of the company's stock can fall, even significantly, or come short from the value we placed on it or the price we paid when we invested in the company's shares.

- **Foreign Security Risk.** Our discretionary client portfolios generally include foreign companies. Investing in foreign companies exposes clients to political, social, economic, legal and currency factors or other issues relevant to the corresponding foreign countries or regions; and this risk can be heightened depending on the circumstances, such as in the case of European companies due to events like Brexit, LIBOR (London Inter-Bank Offered Rate) elimination or replacement, pandemics, and terrorist attacks and wars including the ongoing Russian-Ukraine war. In addition, foreign companies are not subject to the same accounting, auditing and financial reporting standard or public disclosure requirements as U.S. companies. Furthermore, investing in foreign securities either through American Depository Receipts or ordinary shares exposes clients to foreign currency exchange rate fluctuations, and clients can incur additional costs in conversion rates to facilitate trades or settlements in U.S. dollars. We do not employ a hedging strategy to mitigate foreign security or exchange rate fluctuations risks.

- **General Economic and Market Conditions Risk.** The success of our Firm and the companies in which we invest will be affected by general economic and market conditions, such as inflation, interest rate fluctuations, a recession, the availability of credit, economic uncertainty, changes in laws, supply chain issues, labor shortages, trade barriers, currency exchange controls, energy and commodity prices, national and international political circumstances (including government intervention in financial markets, wars, and terrorist acts), natural disasters such as environmental calamities, and regional, national and global health crises. These factors can affect the level and volatility of securities prices and the liquidity of our investments, all of which can negatively impact client account performance and result in losses.

- **Inflation, Recession, Currency, and Interest Rate Risks.** Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates, and more so in the event of a recession of the U.S. economy. Inflation causes the value of future dollars to be worth less and generally leads to higher interest rates, which negatively impact equity markets. The liquidity and trading value of currencies can be affected by global economic factors, such as inflation, interest rates, recessions, and trade balances among countries, as well as pandemics, environmental disasters, wars, and other events including the actions of sovereign governments and central banks.

- **Legal, Tax, and Regulatory Risk.** We are a registered investment adviser regulated by the SEC. As a regulated entity, changes in laws or regulations can impact our ability to operate our business. In addition, legal, tax and regulatory developments can adversely affect the companies in which we invest or the regulatory or tax treatment of client gains.

- **Low Cash Balances Risk.** Our investment strategy generally involves maintaining very low levels of cash (including cash equivalents selected by the client or the client's custodian) in client accounts, meaning client accounts are

typically nearly fully invested. Therefore, client portfolios will likely be more impacted by market fluctuations than portfolios that are less invested and keep more cash available. In addition, client withdrawals of cash from an account will most likely require the sale of securities which can be at a time when prices are not favorable.

- **Market Capitalization Risk.** Although we typically invest in large capitalization companies, we have demonstrated a willingness to go down the capitalization scale. When moving down the capitalization scale, stock liquidity risk can significantly increase as the market for the stock can shrink and the stock price can decline, particularly in turbulent markets. In addition, small and mid-capitalization companies tend to be more volatile or vulnerable to adverse company specific or general economic conditions than large capitalization companies.

- **Reliance on Key Personnel Risk.** Our CIO and sole Portfolio Manager is considered a key person with respect to our investment strategy. Although other experienced Firm-partner members of the investment team can make investment decisions, the unforeseen absence of our CIO can impair our ability to successfully implement our investment strategy.

## **Item 9 — Disciplinary Information**

HSMP and our management persons have not been involved in any legal or disciplinary action that would require disclosure under this Item 9.

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

Neither HSMP nor any of its management persons is registered or has an application pending to register as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of these entities. HSMP has no affiliated entities, and our management persons are not affiliated with any financial institution including banks and broker-dealers. We do not recommend or select other investment advisers for our clients.

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

### *Code of Ethics and Personal Trading*

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for persons associated with our firm. Our goal is to protect your interests and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All persons associated with our firm are expected to adhere strictly to these guidelines. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, nonpublic information about you or your account holdings by persons associated with our firm.

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.

*Participation or Interest in Client Transactions*

Neither our firm nor any persons associated with our firm has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in 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.

Employees are not permitted to purchase, in their personal accounts not managed by HSMP, securities that appear on our Focus List.

**Item 12 — Brokerage Practices***Principal and Agency Cross Transactions*

The Company does not engage in principal or agency cross transactions.

*Best Execution*

HSMP's discretionary investment authority includes selecting executing broker-dealers and negotiating commission rates for transactions in client accounts; however, clients are responsible for selecting a custodian with which to custody their assets. Our Best Execution Committee ("Committee") approves, reviews, and removes broker-dealers from our Approved Broker-Dealer List ("List") (the list of broker-dealers that the Committee has approved for trading), ranks the broker-dealers on the List and establishes and adjusts our annual commission brokerage budget, and generally assesses the overall quality of execution our clients receive. The Committee meets quarterly and more often as needed.

When evaluating broker-dealers for inclusion in or removal from the List, and when ranking them and establishing or adjusting our annual commission brokerage budget for each approved broker-dealer, the Committee considers various factors. These factors include the overall quality of the soft-dollar research or brokerage products, or services provided, execution efficiency, commission rate, promptness and accuracy of their back-office operations in terms of clearance, settlement and support, and financial stability of the broker-dealers based on their reported public information.

Not all factors are contemplated to the same degree or have the same influence. In fact, the Committee will give soft-dollar research or brokerage products or services the highest weight if it believes that all other factors are competitive and that the amount of client commission paid is reasonable in light of the value of the soft-dollar products or services provided. Furthermore, when placing trade orders, our trader is guided by our commission brokerage budget and considers other relevant factors in the particular circumstances at hand, such as our trading procedures, the size of the order, the type of security, and market conditions.

### *Soft Dollars*

In return for the trade commissions that our clients pay, broker-dealers typically provide to us certain research products and services and can also provide to us certain brokerage products and services, both proprietary (created or developed by the broker-dealer) and third-party (created or developed by a third-party other than the corresponding broker-dealer), that we consider valuable in our investment decision-making or trade execution responsibilities. This type of arrangement is referred to as soft dollars because we pay using client commissions instead of the Firm's own money. HSMP therefore benefits from client commissions because it does not have to produce or pay for the research and brokerage products or services that it obtains with soft dollars. This creates a conflict of interest. Clients pay per-share commission rates higher when we use soft dollars than those trades for which we do not use soft dollars.

Broker-dealers from whom we obtain proprietary research or brokerage products, or services typically set a target commission dollar amount, to be reached by our general trading volume, that will grant us access to a certain level of soft-dollar benefits, without specifically unbundling the portion of the trade commissions assigned to execution from the portion of the trade commissions assigned to soft-dollar payments. Indeed, it is the target dollar amount set by a given broker-dealer along with our anticipated trading activity that our Best Execution Committee uses as the primary basis to determine if, in our judgment, the corresponding commission rate is reasonable in light of the value of the soft-dollar products or services provided. We also enter into commission sharing arrangements with certain broker-dealers with whom we execute transactions to obtain third-party research or brokerage products or services. Through these arrangements, the executing broker-dealer sets aside and pools a portion of its trade commissions to pay (at our direction and approval) the corresponding third party, which can include other broker-dealers.

All the products and services that we receive with soft dollars are eligible under the safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934. Examples of the soft dollar research we receive include: eligible reports and publications regarding companies, industries, markets, and the economy; analysis and forecasts; research-oriented computer software; attendance at seminars, conferences, and events or calls organized by broker-dealers with whom we trade and including participation of experts in certain fields or industries, company management, government representatives, and other invitees; and discussions with sell-side research analysts and company management—research can be received in the form of written reports, periodicals, investment seminars, software, and meetings, calls or discussions, among other events (we do not use expert networks). Examples of the soft dollar brokerage we can receive include trade execution software that assists us in effecting securities transactions and performing functions incidental to trade execution. We do not use client commissions to pay for services or products related to the administration of the Firm.

If a product or service is used for mixed purposes (meaning some components are used for soft-dollar eligible products and services, but some components are used for other non-eligible purposes), we face a conflict of interest to the extent we have an economic incentive to use the product or service for non-eligible purposes even though it is paid for with soft dollars. However, we make a good faith, reasonable allocation according to its use and considering which portion of the product or service is eligible to be paid with soft dollars and which portion must be paid with the Firm's own resources, and we evaluate any needed adjustments to the allocation determination as part of our Best Execution Committee as the Committee deems appropriate. We only enter into commission sharing arrangements that comply with Section 28(e) safe harbor and applicable guidance thereunder.

We apply the benefits of the soft-dollar products and services we receive to the formulation and implementation of our investment strategy. Thus, we believe that our use of soft dollars generally and over time benefits all clients overall without regard for the amount of commissions attributable to a single client account. In fact, some clients do not contribute to



soft-dollar payments in part or at all although they benefit from the soft-dollar benefits we obtain with other clients' trading. For example, we do not trade for our model portfolio arrangements and so they do not contribute to soft dollar payments. In addition, we do not obtain soft-dollar research or brokerage products or services from either the portion of the trade orders in discretionary client accounts that we place according to a client commission recapture instruction, or from all the trades we place in discretionary client accounts fully subject to directed brokerage—which includes not only client accounts but also the accounts of our partners, employees and their family members that custody at Charles Schwab & Co. ("Schwab") and trade exclusively with Schwab under a Directed Brokerage Arrangement. We do not seek to allocate soft-dollar benefits to client accounts proportionately to the soft-dollar credits that each account generates.

Considering that not all accounts generate the same amount of soft dollars and that certain accounts, as noted in the paragraph above, do not contribute to soft-dollar payments although they benefit from the soft-dollar products and services we obtain, we have an incentive to cause clients who contribute to soft-dollar payments to engage in more securities transactions than would otherwise be optimal for them in order to generate a larger amount of commissions. Moreover, given that we obtain soft-dollar products and services using clients' commissions, we have an incentive to select broker-dealers based on the soft-dollar benefits they provide to us, rather than selecting those broker-dealers who provide lower cost execution to our clients. To alleviate these conflicts of interest, we only accept soft-dollar benefits in accordance with the Section 28(e) safe harbor and make a good faith determination that the commissions paid by clients are reasonable in relation to the value of the soft-dollar products and services we receive. That is, before placing a broker-dealer on our Approved Broker-Dealer List and establishing or adjusting our annual commission brokerage budget, we determine through our best execution analysis that the compensation paid, or to be paid, to that broker-dealer is reasonable in relation to the value of all the soft-dollar products and services they provide to us directly or through a third-party provider.

#### *Trading, Aggregation, and Allocation of Client Orders*

When taking into consideration client restrictions, we typically seek to invest our discretionary clients in the same names and in the same or similar percentage weights with the goal of minimizing dispersion across accounts over time. However, this is not always possible as, in addition to client restrictions, the implementation of our investment strategy for our discretionary clients depends on several factors, including account type and size, timing and market conditions at an account's inception and subsequent contributions and withdrawals, timing and terms of trade execution orders, and a client's directed brokerage and commission recapture instructions.

Our CIO is the portfolio manager and makes final investment decisions for our discretionary trade orders and investment strategy. In the absence of our CIO, other Partners on the investment team can make investment decisions on behalf of clients. We consider some discrete orders to be non-discretionary such as when a client instructs us to fully liquidate the account or in the few cases where we agree to take a client's instructions to sell a specific tax lot of certain securities for tax purposes.

Our trade order instructions specify the client or trading group to which an order refers, and typically indicate the target percentage weight for the particular security rather than the number of shares. We use trading groups to facilitate trading, and our main trading groups are across the board (all accounts we trade belong to this group), non-taxable and taxable (to place accounts in the non-taxable or taxable trading groups, we use the tax status of an account as reported to us by the client or consultant, but we do not provide tax advice nor are a tax-efficient focused adviser), and restricted (based on some client restrictions)—not all trading groups trade with the same frequency. Actual participation in an order depends on several factors, even within the same trading group, such as client restrictions, directed brokerage/commission recapture, existing percentage weighting for the traded security and cash available in each account, as well as our imposed

per-order share minimums (typically ranging anywhere from 5 to 100 shares) and our share rounding convention, depending on the stock price. In fact, small accounts generally do not participate in trade orders to the same extent as large accounts given the factors just mentioned, particularly their size and available cash, and that they generally do not meet our per-order share minimums.

When placing trade orders, our trader is guided by our commission brokerage budget and also considers, at our trader's discretion, other relevant factors in the particular circumstances at hand, such as our trading procedures, the size of the order, the type of security, and market conditions. Typically and to the extent possible at the discretion of our trader, once our trader selects a broker-dealer to buy and/or sell a particular stock, our trader will then seek to execute all additional trading (buys, sales, and buys and sales) in that stock on that trading day on the chosen side with the originally selected broker-dealer (our trader can choose to direct only buys, or only sales, or both buys and sells, on one, or more, or all of the company names being traded, to the same broker-dealer on any given trading day). We believe that this practice generally helps us facilitate client allocation and average pricing at the end of the trading day and lessens the possibility of errors in settlements with custodians.

We generally combine orders from multiple client accounts and/or trading groups, and aggregate trades. We believe that trade aggregation generally allows us to execute trades more efficiently. Due to the nature of how we sequence trading, orders executed outside the aggregation may receive less favorable execution prices than aggregated trades. It is possible that trades executed outside the aggregation pay a higher commission if the broker-dealer we used for those trades charges a higher commission than the broker-dealer we used for aggregated trades.

As part of our trader's discretion to work trade orders, our trader determines the sequencing of trade order placements keeping in mind that clients should be treated equitably and fairly over time and that no client account should be systematically disadvantaged over time. When directed brokerage or commission recapture orders cannot be aggregated with other trades they typically get entered with the corresponding broker-dealer after the aggregated trade(s). In an attempt to prevent favoring one directed brokerage or commission recapture client over another, we use a randomly generated weekly rotation to determine the trade order among broker-dealers for the client directed brokerage and the client commission recapture accounts.

We allocate shares among the aggregated accounts on a pro-rata basis, so that each such account receives the same average price and shares the transaction costs also on a pro-rata basis.

Although most of our orders are allocated on a pro-rata basis, there are instances when pro-rata allocation is not feasible. For example, in cases when an order is partially filled, we try to allocate pro-rata by adjusting the target percentage weight of the order. If residual shares remain, we generally increase the allocation for those participating accounts whose percentage weight (using the new adjusted target percentage) will not be significantly impacted.

#### *Directed Brokerage/Commission Recapture*

In some instances, discretionary clients can restrict our ability to select broker-dealers by directing us to execute some or all trade orders in their accounts at the broker-dealers that the clients select (this is called directed brokerage, and when done for purposes of rebating commissions, it is known as commission recapture). We allow commission recapture on a case-by-case basis and on a set percentage of the trade orders for a client's account considering several factors, such as the account size, whether the client's chosen broker-dealer is part of our Approved Broker-Dealer List, whether we believe that it is operationally feasible, and whether we determine that it will not hamper the implementation of our investment strategy. We allow directed brokerage to apply to all orders for accounts that custody at Schwab (see below). Directed



brokerage and commission recapture instructions must be in writing and we reserve the right to accept them or reject them at any time and for any reason.

When clients direct us to use a specific broker-dealer, our ability to seek best execution for these client orders is likely to be hindered and can cost these clients more money, particularly when we cannot aggregate their trades with our other clients' orders. For example, when our other clients' orders are placed with an executing broker-dealer different from a client's directed brokerage or commission recapture broker-dealer, we will not be able to aggregate said client's orders with those of our other clients. Furthermore, when we cannot aggregate orders for a directed brokerage or commission recapture client with that of our other clients, we will initiate the directed brokerage or commission recapture clients' orders after the aggregated orders for our other clients have begun to be placed by the corresponding broker-dealer(s). As a result of our trade sequencing, the directed brokerage or commission recapture clients can receive less favorable execution prices than the aggregated trades. In addition, it is possible that the directed brokerage or commission recapture clients pay a higher commission if the broker-dealer we used for them charges a higher commission than the broker-dealer we used for the aggregated trades. In an attempt to prevent favoring one directed brokerage or commission recapture client over another, we use a randomly generated weekly rotation to determine the trade order among broker-dealers for the client directed brokerage and the client commission recapture accounts.

We have access to proprietary and/or third-party research reports from Schwab by virtue of having clients that custody there assets with Schwab and not based on soft dollar commissions.

#### *IPOs*

We do not typically participate in initial public offerings (IPOs). If we were to participate in an IPO, we will generally follow our allocation procedures described above, unless we determine that it is appropriate to make modifications. Only those accounts that have indicated in writing their eligibility will participate in an IPO.

#### *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.

### **Item 13 — Review of Accounts**

Members of our team review discretionary client accounts continuously and periodically to verify certain aspects of the implementation of our investment strategy. Furthermore, we review account performance versus the Firm's composite regularly, and address significant variations as applicable.

We typically provide discretionary clients with quarterly written reports summarizing account performance and portfolio holdings. More frequent reports are sent to clients at their request. Our report of portfolio holdings urges clients to carefully review and compare their HSMP positions to their custodian statements.

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

We do not have any oral or written arrangement to directly or indirectly compensate any person for client referrals. Except for the research and brokerage products and services mentioned in Item 12 (soft dollars) and for the research available from Schwab, we do not receive any direct or indirect compensation from any person, other than clients, for providing

advisory services to clients.

### **Item 15 — Custody**

Clients determine their own custodian arrangements and enter into separate agreements with their custodians for custody services over the client accounts we manage. HSMP does not maintain physical custody of client funds or securities, but in certain circumstances, it can legally be deemed to have custody of client assets. This is the case, for example, when our discretionary clients grant us authorization to directly instruct their custodians to pay our advisory fees. We require clients for whom we are deemed to have custody to maintain their accounts at qualified custodians—generally U.S. based banks and registered broker-dealers. Qualified custodians send clients an account statement at least quarterly, and for those clients for whom we are deemed to have custody, we seek to confirm annually with their qualified custodians that they are sending clients their custodian statements at least quarterly. Clients should carefully review the account statements they receive from their custodians. The account statements we provide to our discretionary clients are not their custodian statements and we urge clients to compare their custodian statements against the statements they receive from us.

Custodians sometimes offer clients the ability to write checks against their accounts. Check writing by clients can present operational difficulties and unintended consequences, such as an overdraft, particularly considering that we tend to be almost fully invested and generally keep low cash balances in client accounts. Accordingly, we do not accept check writing on behalf of any client account.

We do not recommend custodians to our clients or prospective clients. In cases when they request our help in establishing a custody account for our management, we may help them set up a custodian account with Schwab. HSMP is not affiliated with Schwab. Clients must make their own determination as to the appropriateness of Schwab in their particular situation. If they decide to custody at Schwab, they will enter into a separate custodian agreement with Schwab, and Schwab will act as custodian and will likely also act as broker-dealer for the account. We have access to proprietary and/or third-party research reports from Schwab by virtue of having clients, including our employees, partners, and their families, that custody their accounts we manage there and not based on soft-dollar commissions. This represents a potential conflict of interest in that it provides an incentive for us to help clients set up an account with Schwab; however, we do not obtain soft dollars from accounts custodied at Schwab that have directed brokerage arrangements and we do not recommend custodians (including Schwab) to clients.

It should be noted that HSMP does not accept disbursement authority beyond that needed for trading and settlement delivery versus payment, and to direct debit our investment advisory fees. Clients should carefully review their custodian arrangements so that they do not inadvertently grant us authority beyond this even if HSMP would not act on such broad authorization.

### **Item 16 — Investment Discretion**

HSMP provides investment advisory services on a discretionary basis. Discretionary clients execute an investment advisory agreement granting us discretion to manage their accounts; in these cases, we make the investment decisions and trade the accounts without consulting with clients. Although the vast majority of our trade orders are discretionary, we consider some discrete orders to be non-discretionary such as when a client instructs us to fully liquidate the account or in the few cases where we agree to take a client's instructions to sell a specific tax lot of certain securities for tax purposes.

We manage discretionary client accounts in accordance with agreed-upon investment guidelines and client restrictions.

In addition, discretionary clients can in some instances restrict our ability to select broker-dealers by directing us to execute some or all trade orders in their accounts at the broker-dealers that the clients select.

### **Item 17 — Voting Client Securities**

Discretionary clients can delegate their proxy voting authority to HSMP in their investment advisory agreement with us or can choose to retain their voting authority, in which case we do not vote their proxies. Clients can place restrictions on our voting authority or instruct us to vote a proxy in a certain way. Such restrictions or instructions must be clear and reasonable, be received in writing and in a timely fashion, and not be unduly burdensome to our operational processes.

When delegated authority to vote proxies, we will generally vote proxies the same way for each client. In addition, absent client restrictions or instructions, we will vote proxies in the best economic interest of our clients. Considering that we invest in companies which we deem to have strong management teams that aim to maximize shareholder value, we generally vote proxies in favor of company management's recommendations (when we refer to company management, we mean the Board of Directors of the corresponding company). However, if upon analyzing the proxy materials and given the circumstances at hand, we determine that it is in our client's best interest to vote against management, we will do so.

If we believe that voting a proxy will limit our ability to sell a stock, such as when foreign shares are blocked from selling for a designated period after casting a vote, we typically do not vote these shares as we think that maintaining our ability to sell a position generally outweighs the benefit of voting. Also, we do not vote shares for which we do not receive all proxy information, and upon inquiring with the custodian or any other responsible party as applicable, we do not receive the information in a timely manner. When clients participate in stock loan programs, it is possible that we may not be able to vote proxies for loaned shares as we are not a party to the stock loan program and do not recall shares for voting. We typically do not vote foreign shares when we determine that doing so is not operationally feasible because, for example, proxy information is not available in English, or authentication by the consul office is needed, or a local power of attorney should be granted. We only vote proxy for securities that are held in client accounts; if the security is no longer held in client accounts at the time we would have otherwise voted, we do not vote.

Clients who did not delegate their proxy voting authority to HSMP receive their proxy materials directly from their custodians or the company's proxy agent. In the event we inadvertently receive proxy materials for these clients, we forward the materials to the client. In such circumstances, we are not responsible for any adverse impact to a client if proxy materials are not received timely in advance of a scheduled vote. Although we can discuss proxies with clients as a general matter, we do not advise clients about particular solicitations when they have chosen to vote their own proxies.

If we determine that there is a conflict of interest between us and clients or between clients, we will continue to follow our existing proxy voting guidelines. We believe that following our guidelines helps us maintain our voting impartiality, and our Proxy Voting Committee evaluates our voting decisions. If we determine that there is a material conflict, our Proxy Voting Committee will determine the appropriate action, and may seek an independent third-party voting recommendation or disclose the conflict and ask clients for voting direction.

Clients can request information on how we voted their shares and can a copy of our proxy voting policy. These requests should be directed in writing to our client service team at our address listed on the cover page of this Brochure. We use a third party's platform to assist us administratively in the proxy voting process.

*Class Actions and Other Legal Matters*

We believe that clients and their legal advisers are best suited to make determinations regarding client participation in class actions, bankruptcies, settlements, and other legal matters, as making such determinations depend on the merits of the legal case and the assessment of clients' particular circumstances. Accordingly, HSMP does not generally take responsibility for class actions or legal matters concerning past or current holdings in client accounts. When we receive written notice of a class action or other legal matter relating to stocks in our client portfolios, we generally forward the notices to clients or let custodians proceed with the processing and filing of proofs of claims based on custodians' internal procedures.

**Item 18 — Financial Information**

HSMP does not require prepayment of more than \$1,200 in fees per client, six months or more in advance. The Firm has never been the subject of a bankruptcy petition, or any other circumstance that would require disclosure under this item.