

**PART 2A OF FORM ADV: FIRM BROCHURE**



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**03/31/2014**

**This brochure provides information about the qualifications and business practices of HNP Capital LLC. If you have any questions about the contents of this brochure, please contact us at (585) 461-6085 or email at [nnorvell@hnp-capital.com](mailto:nnorvell@hnp-capital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**HNP Capital LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an adviser.**

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

## **Item 2      Material Changes**

In the past we have offered or delivered information about our qualifications and business practices on at least an annual basis. In the future, we will provide you with one or more of the following:

- An updated annual brochure that includes a summary of any material changes to the brochure during the course of the previous business year within 120 days of the close of our business fiscal year. Our business fiscal year end is December 31<sup>st</sup>.
- A summary of material changes within 120 days of the close of our business fiscal year that includes an offer to provide a copy of the full annual updated brochure and information on how you may obtain the brochure from us.
- An interim amendment to the brochure if new information in response to Item 9 of Part 2A regarding disciplinary information is available.
- An interim amendment resulting from any material change that could affect the relationship between you and us.

We will provide, *free of charge*, a new brochure any time at your request, or as may become necessary based on material changes.

You may request our brochure by contacting our office at 585-461-6085. Since our last annual amendment we:

- changed our address from 150 Allens Creek Road, Rochester, New York to 180 Office Park Way, Pittsford, New York 14534
- entered into a solicitors arrangement with a third party and an arrangement with an employer to provide financial planning services for its employees
- raised our minimum financial planning fees from \$750 to \$2,500

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## **Item 4      Advisory Business**

Our firm is a SEC-registered investment adviser with its principal place of business located in New York. The firm began conducting business in 2009.

There are three principal members owning more than 25% of our firm. The members are:

- John Raymond Piccirilli, Principal, 33.33%
- Robert Christopher Hobaica, Principal, 33.33%
- Nicholas Timothy Norvell, CFP®, Principal and CCO, 33.33%

HNP Capital LLC offers various investment advisory services to you.

As used in this brochure, the words “we,” “our” and “us” refer to HNP Capital LLC and the words “you”, “your” and “client” refer to you as either a client or prospective client of our firm.

We offer individualized investment advice to clients utilizing our firm’s Asset Management service. Additionally, we offer general investment advice to clients utilizing our firm’s Financial Planning and Consulting service.

### **Asset Management Services**

We emphasize continuous and regular account supervision. As part of our asset management service, we generally create a portfolio, consisting of exchange traded funds (“ETFs”), exchange traded notes (“ETNs”), mutual funds, individual stocks or bonds, and other public and private securities or investments. The client’s individual investment strategy is tailored to their specific needs and may include some or all of the previously mentioned securities. Each portfolio will be initially designed to meet a particular investment goal, which we determine to be suitable to the client’s circumstances. Once the appropriate portfolio has been determined, we review the portfolio on an ongoing basis and if necessary, rebalance the portfolio based upon the client’s individual needs, stated goals and objectives. We generally do not allow clients to impose restrictions on investing in specific securities or types of securities due to the level of difficulty this would entail in managing their account.

We may also recommend that clients utilize the investment management services of sub-advisers for particular types of investment strategies or markets. HNP has conducted due diligence on each sub-advisor. HNP will also continue to monitor our sub-advisor relationships and provide ongoing monitoring of our sub-advisor relationships.

HNP utilizes three primary investment styles in its asset management program. The first investment style involves the use of a mathematical formula applied across a tactical asset allocation portfolio. The second style uses traditional asset allocation including an academic, passive low cost approach with a target weighting of equities and fixed income based on the clients' risk tolerance and time horizon. The third employs ETF's, mutual funds and individual bonds in a fixed income strategy. Each of the mentioned strategies can be utilized in isolation or together in meeting a client’s objectives. Each of these approaches is outlined below:

## **Asset Management Styles**

### **Tactical Allocation**

HNP utilizes a proprietary strategy for its tactical portfolios to assist in managing your assets. The following is a very general overview of the use of the tactical management process.

- ☐ The basis of the tactical allocation strategy is the use of a long term moving average (i.e. 200 Day Moving Average) to provide an additional layer of risk management to a diversified portfolio of equity or equity-like assets. Assets included are US Equities, International Equities, Real Estate Investments Trusts (REITs), Commodities, Gold, and Cash. In addition, HNP may also use technical analysis to capture short term momentum for certain portfolios dependent on the clients' risk tolerance, etc. The tactical portfolio can be up to 100% invested or up to 100% in cash/equivalents.
- ☐ HNP and HNPCKX invest in index based ETFs, ETNs, or funds that are used to create a well-rounded, diversified portfolio. The adviser's technical analysis is used as a tool to enter or exit an asset class based purely on analyzing its price movement over a quarterly, semi-annual or longer term basis.

### **Asset Allocation**

- ☐ HNP's asset allocation strategies are a combination of equity and/or fixed income portfolios using a passive, low cost, long term approach to manage your assets with ETFs, ETNs, or Funds. We diversify your portfolio across a broad range of asset classes and styles of investments.
- ☐ HNP will utilize US Large Capitalization Indices, US Mid/Small Cap Indices, International indices, Emerging Market Indices, US Bond indices, and Foreign Bond indices. HNP may also use alternative asset classes such as real estate and commodities to add additional diversification to the portfolio.
- ☐ HNP may also "tilt" the portfolio in favor of value versus growth or vice versa using ETFs to accomplish our decisions.
- ☐ HNP will work with the client to determine an appropriate risk tolerance, time horizon, and circumstances to assist with the appropriate portfolio.
- ☐ Each portfolio will have a target allocation to equities and fixed income. These target allocations are expected to be held through all market cycles.

### **Fixed Income**

- ☐ HNP's fixed income portfolio management is custom-tailored service to meet the individualized needs and investment objectives of the client. We will identify the types of fixed income securities and the applicable amount to be purchased or sold once the portfolio is constructed, we will provide ongoing supervision of the fixed income portfolio. We will periodically review with client, changes in market conditions and client circumstances.

## **Financial Planning and Consulting**

We provide a variety of financial planning and consulting services to individuals, families and other clients. The management of their financial resources is based upon an analysis of

client's current situation, goals, and objectives. Generally, such financial planning services will involve preparing a financial plan or rendering a financial consultation for clients based on the client's financial goals and objectives. This planning or consulting may encompass one or more of the following areas: Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, Business and Personal Financial Planning.

Our written financial plans or financial consultations rendered to clients usually include general recommendations for a course of activity or specific actions to be taken by the clients. For example, recommendations may be made that the clients begin or revise investment programs, create or revise wills or trusts, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should also be noted that we refer clients to an accountant, attorney or other specialist, as necessary for non-advisory related services. For written financial planning engagements, we provide our clients with a written summary of their financial situation, observations, and recommendations. For financial consulting engagements, we usually do not provide our clients with a written summary of our observations and recommendations as the process is less formal than our planning service. Plans or consultations are typically completed within six (6) months of the client signing a contract with us, assuming that all the information and documents we request from the client are provided to us promptly. Implementation of the recommendations will be at the discretion of the client.

We do not currently offer wrap fee programs.

#### **Amount of Managed Assets**

As of 12/31/2013, our firm actively manages approximately \$123,800,000 on a discretionary basis and \$6,750,000 on a non-discretionary basis.

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

Our annual fee for Asset Management Services is based upon a percentage of assets under management.

Our fees are generally not negotiable. The fee schedule is as follows:

#### **Asset Management Fees and Calculation**

<u>Assets Under Management</u>	<u>Annual Fee</u>
First \$1,000,000	1.25%
Over \$1,000,000	1.00%

Your fee will be calculated on a quarterly basis and is paid in advance. To calculate the fee we take the value of all assets in your portfolio as of the last day of the preceding quarter. That amount is then multiplied by the fee percentage which results in an annualized fee.

The annualized fee is then divided by four to arrive at the quarterly fee you will be charged. The sample calculation of an investment management fee is as follows:

Assets under Management as of 12/31	=	\$1,000,000
Annual Fee Percentage	=	1%
Annualized Fee Amount	=	\$ 10,000
Quarterly Fee is one-fourth of Annual Fee	=	\$ 2,500

In the event our agreement with you begins at any time other than the first day of a calendar quarter, the fee for the initial period will be pro-rated based on the number of days in the quarter that the agreement is effective.

If our agreement is terminated for any reason by either of us, the fee shall be pro-rated for any portion of a quarter that the portfolio is being managed by us. This prorated period would include any notice required to be given in accordance with your investment management agreement.

Fees will be automatically deducted from your managed account\*. As part of this process, you understand and acknowledge the following:

- a) Your independent custodian sends statements at least quarterly to you showing all disbursements for your account, including the amount of the advisory fees paid to us;
- b) You provide authorization permitting us to be directly paid by these terms;
- c) If we send a copy of our invoice to you, we send a copy of our invoice to the independent custodian at the same time we send the invoice to you;
- d) If we send a copy of our invoice to you, our invoice includes a legend as required by paragraph (a)(2) of Rule 206(4)-2 under the Investment Advisers Act of 1940.\*\*

\* We generally do not offer direct billing as an option to our asset management clients.

\*\* The legend urges the client to compare information provided in their statements with those from the qualified custodian in account opening notices and subsequent statements sent to the client for whom the adviser opens custodial accounts with the qualified custodian.

The fee that you are being charged by us for the investment management of your assets is exclusive of, and in addition to, brokerage commissions, transaction fees, custodial fees, and any other related costs and expenses. We do not receive any portion of these commissions, fees, other costs and expenses.

A portion, or all of your assets that we manage may be invested in mutual funds or exchange traded funds. Each fund may charge an annual internal management fee as outlined in their prospectus. This management fee is deducted directly from the account balance you have invested in that specific fund. We do not receive any of these additional fees; however, these fees do represent an additional fee that you are paying above that being charged by us.

### **Financial Planning and Consulting Fees**

We charge on an hourly or flat fee for financial planning and consulting services. The total estimated fee, as well as the ultimate fee that we charge you, is based on the scope and complexity of our engagement with you. Our hourly fees are \$150. Flat fees generally range from \$2,500 to \$5,000.

We require a retainer of fifty-percent (50%) of the ultimate financial planning or consulting

fee with the remainder of the fee directly billed to you and due to us within thirty (30) days of your financial plan being delivered or consultation rendered to you. In all cases, we will not require a retainer exceeding \$1,200 when services cannot be rendered within 6 (six) months.

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

Our firm does not charge performance-based fees or engage in Side-By-Side Management.

## **Item 7 Types of Clients and Account Requirements**

Our firm provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)

Our requirements for opening and maintaining accounts or otherwise engaging us:

- We require a minimum account balance of \$250,000 for our asset management service. Generally, this minimum account balance requirement is not negotiable and would be required throughout the course of the client's relationship with our firm.
- We generally charge a minimum fee of \$2,500 for written financial plans.

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

### **Methods of Analysis**

We may use any one or more of the following methods of analysis in formulating our investment advice and/or managing your assets:

***Fundamental Analysis*** - We attempt to measure the markets by reviewing economic and financial factors (including the global economy, industry conditions, and financial conditions) to determine asset class weightings or our portfolios. Fundamental analysis does not attempt to time the market at market highs or lows.

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

***Charting*** - In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse. The risk associated with charting is that there is no guarantee that because past activity of a market or security behaved in a particular fashion that future activity of that same market or security will behave in the same manner.

### **Investment Strategies**



We may use a single strategy (tactical allocation) or multiple strategies (tactical and asset allocation) in managing your account(s). We review any strategy we may use for your account(s) to make sure that they are appropriate to your needs and are consistent with your investment objectives, risk tolerance, time horizons, and other considerations. The following are the primary types of investment strategies we may utilize in the management of your account(s).

***Long-term purchases*** - We purchase securities with the idea of holding them in your account for twelve (12) months or longer. Typically we employ this strategy when:

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

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

***Short-term purchases*** - When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time which is typically twelve (12) months or less. We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A risk in this strategy is that we sell a security before it has made the move upward that we anticipate, or that after we have sold the security it continues to move higher.

***Trading*** - When utilizing this strategy, we purchase securities with the idea of selling them within 30 days or less. We do this in an attempt to take advantage of conditions that we believe will result in rapid incremental gains.

***Cash Balances*** - We generally invest client's cash balances in money market funds, FDIC Insured Certificates of Deposit, high-grade commercial paper and/or government backed debt instruments. Ultimately, we try to achieve the highest return on our client's cash balances through relatively low-risk conservative investments. In most cases, at least a partial cash balance will be maintained in a money market account so that our firm may debit advisory fees for our services related to asset management service.

### **Risk of Loss**

Investments in most any type of securities involve the risk of loss. The types of risks that you may experience include;

- Loss of Principal Risk
- Interest Rate Risk
- Market Risk
- Inflation Risk
- Currency Risk
- Liquidity Risk
- Business Risk

- Financial Risk

Past performance of any security does not guarantee future results.

## **Item 9      Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to your evaluation of our advisory business or the integrity of our management personnel.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

The firm's investment adviser representatives are affiliated with another registered investment adviser, HNP Capital Fund Management Group, LLC. Clients of HNP Capital, LLC may be solicited to invest in the fund run by HNP Capital Fund Management Group, LLC.

As such, a conflict of interest could exist, as the solicitation to purchase the fund may create an incentive on our part based on the compensation the adviser and/or our supervised persons may earn and may not necessarily be in the best interests of the client. In order to mitigate this conflict we have a Code of Ethics in place and always put the interests of our clients before our own. HNP Capital LLC does not charge an asset management fee for any portion of any account invested in HNPCKX.

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

### **Code of Ethics**

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

We feel that our firm and its employees owe a duty of loyalty, fairness and good faith towards all of our clients, and have an obligation to adhere not only to the specific provisions of our Code of Ethics but to the general principles that guide the Code of Ethics.

The purpose of our Code of Ethics is to reinforce the fiduciary principles that govern the conduct of our firm and the actions of our advisory personnel. Each member of the firm is instructed to act in the best interests of all of our clients, to avoid any real or potential conflicts of interest, and to conduct their personal activities with the utmost of integrity.

Our Code of Ethics has been distributed to all members of the firm. The following is a summary of the policies contained in our Code of Ethics:

- Standards of Business Conduct
- Compliance with Federal Securities Law
- Review and/or Approval of Personal Securities Transactions of Certain Persons

- Ability to Purchase the Same Securities Recommended to or Owned by Firm Clients Subject to Approval
- Obligation to Report Violations and Enforcement of Sanctions Where Necessary
- Annual Employee Certification Required

Our Code of Ethics includes policies and procedures for the review of proposed transactions, quarterly securities reporting, initial and annual securities holdings reports that must be submitted by the firm's access persons, and restrictions on the acceptance of significant gifts and the reporting of gifts and business entertainment items incurred by our personnel. Our code also provides for oversight, enforcement and recordkeeping provisions.

Our Code of Ethics also prohibits the use of material non-public information. We do not believe that we have any particular access to non-public information; however, employees are reminded such information, if received, may not be used in any manner.

You may receive a free copy of our Code of Ethics by sending your request to [nnorvell@hnp-capital.com](mailto:nnorvell@hnp-capital.com), or by calling us at 585-461-6085.

### **Interest in Client Transactions**

Our firm does not participate in Principal Trades or in Agency Cross transactions. Principal transactions are those where our firm, acting on behalf of our own account, buys or sells a security to you or another client. An Agency Cross transaction is one in which our firm acts as a broker for both the buyer and seller of a security.

We do not recommend to you or other clients that you take a position in a security in which our firm, our employees, or our related persons has a material financial interest.

### **Personal Trading**

Our Code of Ethics is designed to ensure that the personal securities transactions by our employees, and the activities and interests of our employees will not interfere with:

- Making decisions in your best interests; and
- Implementing such decisions while, at the same time, allowing our employees to invest for their own accounts.

Our firm and employees of our firm may make recommendations for the purchase or sale of securities that we either may:

- Already have an interest in; or
- Subsequently may invest in

Our firm and our employees of the firm may buy or sell for their personal accounts securities identical to or different from those recommended to you. In addition, any related person(s) may have an interest or position in securities which may also be recommended to you or which you may already own.

As situations like these may represent actual or potential conflicts of interest to you, we have established the following policies and procedures as part of our Code of Ethics to ensure we comply with our regulatory obligations and to provide you, other clients, and

other potential clients, with full and fair disclosure of such conflicts or potential conflicts of interest:

- No principal or employee of our firm may put his or her own interest above the interest of your account(s).
- No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is based on information received because of his or her employment unless the information is available to the investing public.
- We may ban or otherwise require prior approval for any IPO or private placement investments by any employee or related persons of the firm.
- We maintain a list of what we consider to be “Covered” or “Reportable” securities holdings for our firm, our employees, and anyone associated with our firm that has access to our investment recommendations. This person is referred to as an “Access Person”.
- Any individual who violates any of the above restrictions may be subject to varying levels of disciplinary action including termination.

We will maintain all records regarding personal securities transactions as is detailed in Rule 204A-1 of the Investment Advisors Act of 1940.

## **Item 12 Brokerage Practices**

### **Research and Soft Dollar Benefits**

Our firm does not maintain any soft dollar arrangements or agreements with any broker-dealer. However, we do receive research and services from some broker-dealers that while not covered in a soft dollar agreement, nonetheless, may be a benefit to our firm.

Normally, if not directed to do otherwise by you, we will utilize TD Ameritrade Institutional (“TD Ameritrade”), Charles Schwab (“Schwab”), or Scottrade (“Scottrade”). TD Ameritrade, Schwab, or Scottrade are FINRA registered broker dealers and members of SIPC.

We have an arrangement with both above named entities through which by maintaining certain minimum levels of client assets we may receive “platform or institutional” brokerage services which can include:

- Execution of securities transactions;
- Custody services;
- Research;
- Access to mutual funds and other investments generally available only to institutional investors or individual investors with significantly higher minimum initial investment requirements;
- Administrative support; and
- Record-keeping and related services that are intended to support intermediaries like us in conducting business and in serving the best interests of our clients but that may also benefit us.

TD Ameritrade, Schwab, or Scottrade charge brokerage commissions and transaction fees for effecting certain securities transactions for us. For example, transaction fees may be charged for

certain no-load mutual funds, and commissions are charged for individual equity and debt securities transactions.

TD Ameritrade, Schwab, or Scottrade enable us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Both firms charge commission rates that are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by either firm may be higher or lower than those charged to you by other custodians and broker-dealers.

As part of our arrangement with both firms, they also make available to us, at no additional charge, certain research and brokerage services, including research services obtained by them directly from independent research companies. These research and brokerage services are used by our firm to manage accounts for which we have investment discretion.

We may also receive additional services. Without this arrangement with them, we might be compelled to purchase the same or similar services at our own expense.

As a result of receiving these services for no additional cost, we may have an incentive to continue to use or expand the use of either firm's services. We examined this potential conflict of interest when we chose to enter into the relationship with them and have determined that the relationship is in the best interests of our clients and satisfies our client obligations, including our duty to seek best execution.

You may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness.

Accordingly, while we will seek competitive rates, to the benefit of you and other clients, we may not necessarily obtain the lowest possible commission rates for your specific account transactions. Although the investment research products and services that may be obtained by us will generally be used to service all of our clients, a brokerage commission paid by you may be used to pay for research that is not used in managing your specific account.

The reverse may be true as well. You may receive benefits such as these without paying any brokerage commission if, for example, your account were maintained at Ameritrade and we received research from Schwab based on our relationship with them and another of our client's purchases transacted through Schwab.

HNP Capital LLC is not affiliated in any way with TD Ameritrade, Schwab, or Scottrade.

TD Ameritrade, Schwab, or Scottrade as well as other large retail broker dealers may also provide us products and services that assist us in managing and administering your account(s). This includes software and other technology that:

- Provides access to your account data including trade confirmations and account statements;

- Facilitates trade execution and allocation of aggregated trade orders for multiple client accounts;
- Provides research, pricing and other market data;
- Facilitates payment of our fees from client accounts; and
- Assists with back-office functions, recordkeeping, and client reporting.

We may also receive other services intended to help us manage and further develop our business enterprise. These services may include:

- Compliance, legal and business consulting;
- Publications and conferences on practice management and business planning;
- Access to employee benefits providers, human capital consultants, and insurance providers.

These brokerage firms may make available third- party vendors for some of the services rendered to us. These broker dealers may discount or waive fees they would otherwise charge for some of these services, or they may pay all or a part of the fees of the third-party providing these services to our firm. These broker dealers may also provide benefits such as educational events or occasional business entertainment of our personnel.

In evaluating whether to recommend that you custody your assets at one of these broker dealers, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider. Thus this decision is not based solely on the nature, cost or quality of custody and brokerage services provided by the broker dealer. This may create a potential conflict of interest.

### **Brokerage for Client Referrals**

Our firm does not receive or participate in any program whereby we receive client referrals in exchange for using any particular broker dealer.

### **Directed Brokerage**

You are under no obligation to use any particular broker dealer. We are regularly asked if we would recommend a particular broker dealer. Because we have an established relationship with Ameritrade and Schwab and we receive services as outlined in the section titled “Research and Soft Dollar Benefits”, and feel that these firms can provide our customers with high quality service, we oftentimes suggest them. However, you are free to use any broker dealer that you may choose.

If you allow us to choose the broker-dealer for your account, your investment management agreement with us will reflect that you are providing us with the authority to determine the broker-dealer to use. In addition, you will also be allowing us to choose the commission costs that will be charged to you for these transactions.

You may change your broker-dealer at any time, as well as amend or revoke discretionary authority at any time by providing us with written notice.

If you should request that we utilize a specific broker dealer that is someone we do not utilize on a regular basis you should be aware that your choice may interfere with our ability to

“batch” or combine your trades with other client trades. This may impact the price at which your security is bought or sold and may impact the commission cost you pay for your order.

### **Trade Aggregation and Allocation**

Transactions for each client account generally will be effected independently unless the firm decides to purchase or sell the same securities for multiple firm clients at approximately the same time and from the same brokerage firm.

At that point our firm may, **but is not obligated to**, combine or “batch” your orders with orders of other clients. In the event an employee of the advisor is seeking to sell the same security at the same time as that which is being contemplated for your account, if allowed and in keeping with our Code of Ethics, then where possible, we are obligated to combine or “batch” your order with the employee's order. In no event will an employee receive any preferential treatment over any account of yours or of other clients.

The process of combining these orders oftentimes allows us to negotiate more favorable commission rates. We also can allocate equitably among you, other clients, and employees the differences between prices, commissions, and other transaction costs that we and you may not have received had each order been placed independently. This allows you to receive the average price paid or received as well as to share in the purchase or sale pro-rata in the event that an order is only partially completed. Our firm will not receive any additional compensation as a result of aggregating these orders.

We also may choose not to aggregate orders except in the instance of an employee entering an order at the same time as your account, if allowed by our code of ethics. Reasons that we may not aggregate an order may include:

- Only a small percentage of an order is completed and thus the shares may be assigned to the account with the smallest order or position, or that is out of line with respect to a security or sector weightings.
- Allocations may be given to one account when that account has investment limitations which restrict it from purchasing other securities which are expected to produce similar investment results.
- If an account reaches an investment guideline limit and cannot participate in an allocation which may occur due to unforeseen changes in account assets after an order is placed.
- Sale allocations may be given to accounts that are low in cash.
- When a pro rata allocation would result in a de minimis allocation in one or more accounts.

In the case where a proportion of an order is filled in all accounts, shares may be allocated to one or more accounts on a random basis.

### **Special Considerations for ERISA Clients**

A retirement or ERISA plan client may direct all or part of its portfolio transactions for its account through a specific broker or dealer in order to obtain goods or services on behalf of the plan. Such direction is permitted provided that the goods and services provided are reasonable expenses of the plan incurred in the ordinary course of its business for which it

otherwise would be obligated and empowered to pay. ERISA prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the plan. Consequently, we will request that plan sponsors who direct plan brokerage provide us with a letter documenting that this arrangement will be for the exclusive benefit of the plan.

## **Item 13      Review of Accounts or Financial Plans**

### **Asset Management Services**

#### **Review of Account(s)**

We review accounts on at least a quarterly basis for our clients subscribing to our firm's Asset Management service. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. HNP Capital conducts reviews of all client accounts.

We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

#### **Regular Reports(s)**

We do not provide written reports to clients, unless asked to do so. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to our firm's Asset Management service.

### **Financial Planning**

Financial planning clients do not receive reviews of their written plans unless they take action to schedule a financial consultation with us. We do not provide ongoing services to financial planning clients, but are willing to meet with such clients upon their request to update their plan.

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

Other than as described in this Brochure, we do not receive any additional compensation from third parties for providing investment advice to our clients.

From time to time, we may enter into arrangements to pay third parties who may receive compensation for soliciting clients for the firm. This will be fully disclosed to our clients in accordance with SEC rules and regulations.

We have also entered into arrangements, and in the future may do so from time to time with employers to provide financial planning services for their employees as an employee benefit. Under such arrangement, the employer pays for the clients' financial planning fees. The arrangement is disclosed to the financial planning client. We review any potential conflicts of interest in accordance with the procedures described above in our Code of Ethics



## **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that we request that you direct your custodian to allow our firm to directly debit your management fees from your account(s). Again, the approval of the direct debit of fees is solely your choice. You have no obligation to allow us to do so, however, if you choose not to allow us to directly debit your account we may decline to accept the account.

Technically, SEC rules consider the action of direct debiting of fees to be considered maintaining custody. However, if this is the only manner in which we are considered to have custody and certain conditions are met, then we will not be subject to the requirements established for true custody of your assets.

If you agree to allow us to direct debit fees from your account(s) we will require authorization in writing from you. Each billing period we will notify your custodian of the amount of the fee to be deducted from your account(s). On at least a quarterly basis, the custodian is required to send to you and us a statement showing all transactions, including management fees disbursed from your account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted from your account, it is important for you to carefully review the custodial statements to verify the accuracy of the calculation, among other things. You should contact us directly if you believe there may be an error in your statement.

In addition to the periodic statements that you receive directly from your custodians, we also send or provide via electronic format, account statements directly to you on a quarterly basis.

**We urge you to carefully compare the information provided on these statements to the statements you receive from the custodian to ensure that all account transactions, including the debit of management fees, holdings and values are correct and current.**

Our firm does not have actual or constructive custody of any client account.

## **Item 16 Investment Discretion**

Generally, the large majority of our accounts are discretionary in nature. We will generally request that we be given discretionary authority from the outset of our advisory relationship so that we may provide discretionary asset management services for your accounts. You may deny such authority. If that authority is denied or revoked in the future we may, at our sole discretion, choose not to enter into, or to terminate any advisory relationship with you.

When you agree to give us discretionary authority we can place trades in your account without contacting you prior to each trade to obtain your permission.

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

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

- Determine the commission rate to be paid
- Determine the broker dealer to utilize

In all cases this discretion is to be used in a manner consistent with the stated investment objectives for your account.

When we select securities and determine the amounts of those securities to buy or sell we will observe the policies, limitations or restrictions which you may have given us to follow.

You give us discretionary authority when you sign a discretionary investment management agreement with our firm, and you may limit this authority by giving us written instructions in advance of entering into an agreement. You may also limit this authority at any time after entering into an agreement while that agreement remains in effect by once again providing us with written instructions. These limitations and other instructions will become a part of your permanent file.

This type of agreement only applies to our Asset Management clients. We do not take or exercise discretion with respect to our other clients.

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

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

### **Item 18      Financial Information**

Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

If we maintain discretionary authority for your account or are deemed to have actual or constructive custody of your assets or collect fees as described in the preceding paragraph we are required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations.

Our firm has no financial circumstances to report. Additionally, our firm has not been the subject of a bankruptcy proceeding at any time during the past ten years.