

HOBERT & SVOBODA, INC.

WEALTH MANAGEMENT

INVESTMENT ADVISOR BROCHURE

Form ADV Part 2A

March 7, 2013

This Brochure (2A) provides information about the qualifications and business practices of Hobert & Svoboda, Inc. (H&S). If you have any questions about the contents of this Brochure, please contact us at (800) WLTH MGT (9584-648) or by email - info@hspdm.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.

Hobert & Svoboda, Inc. 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 Hobert & Svoboda, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

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**At Hobert & Svoboda, Inc.,
we are committed to adding value through personalized objective advice
provided proactively.**

H&S

Item 2 - Material Changes

Annual Update

Since our last annual update of February 13, 2012, Hobert & Svoboda, Inc. (H&S) has made amendments to our Form ADV Part 2A as follows:

- Item 4. Advisory Business:
H&S updated assets under management; added explanatory description(s) to the Portfolio Design and Management (PDM) "Description of Model Portfolios" and also added descriptive commentary of "Retirement Plan Investment Advisory Services."
- Item 8. Portfolio Objective Determination, PDM, Methods of Analysis - Investment Strategies and Risk of Loss:
H&S added and clarified descriptive information on Methods of Analysis – Investment Strategies.

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Item 4 - Advisory Business

Description of Advisory Firm

Hobert & Svoboda, Inc. (H&S) is a SEC registered investment advisor firm located in Brookfield, WI. It was incorporated in 1982. The principal owners are Leonard T. Hobert and William J. Svoboda. The firm specializes in offering customized individually managed accounts through its Portfolio Design and Management Services (PDM) and also, retirement plan investment advisory services.

Portfolio Design and Management Services (PDM)

Throughout history, a major factor affecting one's quality of life has been his ability to acquire and manage financial resources. As H&S assists its clients in the management of their wealth, our philosophy is that every client is entitled to honest, professional, and personalized service, and has the right to have his/her financial goals heard and understood - it is a responsibility taken quite seriously. Integrity, vision, and experience are some of the firm's characteristics that benefit our clients.

While portfolio optimization does not guarantee future results or that portfolio losses will not occur, it does provide a pro-active investment approach to money management which is capable of responding in a timely fashion to changes in investment objectives and market trends.

We believe that each client's situation is unique due to different risk/reward parameters, liquidity and income needs, and time horizons over which they measure performance. Therefore, each client's portfolio must reflect these differences. In developing proprietary models ranging from "Conservative" to "High Growth," each portfolio is designed and then managed to provide an optimum return relative to pre-established volatility parameters. This approach affords each client the opportunity to select a portfolio or portfolios with historical risk/return parameters that match their financial goals and objectives. When appropriate, H&S may employ "active management" styles whereby the advisor moves into individual funds to take part in market advances and then attempts to move to the safety of a money market fund, short-term bonds/treasuries, and/or specialized funds (such as inverse-funds) when markets decline. H&S will assess market conditions and decide which financial vehicles, assets and strategies to utilize while attempting to meet the client's investment objectives.

PDM Model Description of Portfolios*

CONSERVATIVE INCOME I PORTFOLIO (CGI).

The investment objective of the portfolio is to preserve capital while achieving modest growth in value over the long-term. The return objective over a five-year period is a "time weighted" annual compound rate of return of 1% above inflation. The risk objective is to limit the loss in portfolio value to 1% over any moving four quarter period. *The portfolio typically consists of funds that invest in government and high grade corporate bonds, in proportions deemed appropriate for the Portfolio by H&S. Based upon the judgment of H&S, a significant portion or all of the Portfolio may be invested in cash equivalent securities.*

CONSERVATIVE GROWTH PORTFOLIOS (CGII, CGIII).

The investment objective of the Conservative portfolios is to preserve capital while achieving modest growth in value over the long-term. The return objective over a five year period is a "time

weighted" annual compound rate of return of 2% to 4% above inflation. The risk objective is to limit the loss in portfolio value to between 6% and 11% over any moving four quarter period. *The portfolios typically consist of funds that invest in both stocks and bonds but are weighted towards bonds in proportions deemed appropriate for the Portfolio by H&S. Based upon the judgment of H&S, a significant portion or all of the Portfolio may be invested in cash equivalent and/or inverse equity funds.*

MODERATE GROWTH PORTFOLIOS (MGI, MGII, MGIII).

The investment objective of the Moderate portfolios is to provide growth in value that is consistent with prudent investment risk over the long-term. The return objective over a five year period is a "time weighted" annual compound rate of return of 5% to 7% above inflation. The risk objective is to limit the loss in portfolio value to between 12% and 20% over any moving four quarter period. *The portfolios consist of funds that invest in both stocks and bonds but are weighted toward stocks in proportions deemed appropriate for the Portfolio by H&S. Based upon the judgment of H&S, a significant portion or all of the Portfolio may be invested in cash equivalent and/or inverse equity funds.*

HIGH GROWTH PORTFOLIOS (HG, HG Domestic, HG Int'l).

The investment objective of the High Growth portfolios is to maximize growth in value over the long term. The return objective over a five year period is a "time weighted" annual compound rate of return of 8% above inflation. The risk objective is to limit the loss in portfolio value to between 21% and 25% (High Growth International – loss is portfolio value between 21% and 35%) over any moving four quarter period. *The portfolios are comprised of funds that invest primarily in stocks and, thus, will experience greater volatility than the Conservative and Moderate portfolios. Based upon the judgment of H&S, a significant portion or all of the Portfolio may be invested in cash equivalent and/or inverse equity funds.*

(*) There is no assurance that the structuring of portfolios using the PDM System will result in positive or negative returns falling within the parameters described above. Actual returns or losses may be significantly higher or lower than the percentages shown.

Retirement Plan Investment Advisory Services

H&S offers levels of advisory services to retirement plans and to the participants of such plans (client). The services are designed to assist plan sponsors, plan trustees and investment committees in meeting their management and fiduciary obligations to Participants under the Employee Retirement Income Securities Act ("ERISA").

H&S represent that it is duly registered as an investment advisor under the Investment Advisor's Act of 1940. H&S also represent that if the Investment Account hereunder is subject to the Employee Retirement Income Securities Act of 1974 ("ERISA"), H&S acknowledges that it is an investment manager within the meaning of Section 3(38) of ERISA and that it is a fiduciary within the meaning of Section 3(21) of ERISA with respect to the assets in the Investment Account. As a fiduciary with respect to the assets of the Investment Account, H&S represents that it will exercise its investment authority hereunder in accordance with the fiduciary standards set forth in ERISA.

The client has independently determined that in accordance with Section 402(c)(3) of ERISA the retention of H&S by client satisfies all requirements of section 404(a)(1) of ERISA, specifically including the "prudent man" standards of section 404(a)(1)(B) and the "diversification" standard of section 404(a)(1)(C), and will not be prohibited under any of the provisions of section 406 of ERISA or section 4975(c)(1) of the Internal Revenue Code of 1986, as amended. The undersigned

authorized signatory for client has requested and received all information from H&S that the undersigned, after due inquiry, considered relevant to such determinations. In determining that the requirements of section 404(a)(1) are satisfied, the client has taken into account that there is a risk of a loss of the client's account. Taking into account this and all other factors relating to retention of H&S by client, client has concluded that the retention of H&S by client constitutes an appropriate part of client's overall investment program;

H&S advises client about mutual funds and other investment categories which are consistent with the investment categories allowable under the plan and Investment Policy Statement. H&S will meet with representatives of plan, at intervals mutually acceptable to client and H&S, to discuss plan's investment performance. H&S agrees to conduct informational/educational group meetings with plan participants at initial installation of the Plan, and periodically thereafter as mutually agreed upon regarding; general investment concepts; investment objectives and performance of selected investments; investment allocations and strategies available to meet various investment objectives. The participants are responsible for any individual investment selection under the plan.

Assets under Management

As of December 31, 2012, Hobert & Svoboda Inc. manages approximately \$147,565,683 in assets; including retirement plans, individual, and other types of accounts.

Types of Securities

Hobert & Svoboda, Inc. believes that diversification is one of the keys to achieving long term investment success. PDM provides this diversification through the allocation of assets among various investments which may include, but not limited to, mutual funds, exchange-traded funds ("ETFs"), and inverse funds.

Under normal circumstances, fixed income securities include, but are not limited to, U.S. government, U.S. corporate, world bond funds; H&S may use other fixed income instruments to diversify a portfolio when applicable.

Equity asset classes include, but are not limited to, large cap, mid cap, small cap and international funds. In certain market conditions, H&S may include the use "inverse funds," which aim to produce the inverse daily performance of the target index each day. They seek to increase in value when the market declines and decrease in value when the market rises. Investments are made across a wide range of markets and strategies. Clients should carefully read the prospectus, statement of additional information and periodic shareholder reports for further details on specific risks associated with investing in any of these securities.

While also specializing in the area of retirement accounts, H&S may offer other securities to help diversify a portfolio for its plan participants.

Item 5 – Fees and Compensation

Fees for Portfolio Design and Management (PDM) Advisory Services

The specific manner in which quarterly fees are charged by H&S varies by the Advisory program chosen. For H&S accounts, the specific manner in which fees are calculated are outlined in the client's H&S PDM Agreement. H&S will bill its fees on a calendar-quarterly basis; after services are provided, in accordance with the contract's schedule of fees as shown on "Addendum A:"

PDM Advisory Services (Agreement: Addendum A)

Fees For Services (1)

<u>Total Value of Portfolio (\$)</u>	<u>Based on Total Portfolio Value</u>
0 - 500,000	1.00%
500,001 - 1,000,000	0.75%
1,000,001 - 2,000,000	0.60%
2,000,001 - 10,000,000	0.45%

1. Fees more than \$10,000,000 negotiated based on size and type of account.

All fees will be based on the total value of assets in client's portfolio at the end of the quarter. One quarter of the annual fee will be deducted from the account in the month following each quarter end. All fees are subject to negotiation; fees may be reduced from the standard fee schedule for charitable organizations and foundations.

Quarterly fees are directly debited from the client accounts with client written authorization. If the client requests fees to be invoiced directly to client, they are due within thirty days of the invoice date. If H&S does not receive your fee within 45 days of the invoice date, client authorizes H&S to deduct the fees from the client's account. The fee schedule on "Addendum A" may be modified by H&S upon written notice to the client.

Accounts that are initiated during the calendar quarter will be charged a prorated fee. If the client terminates an account without the first 3 months of the account opening, the customary first quarter fee will be deducted from the account's assets for services rendered up to the date of termination. A client may terminate a PDM Agreement in writing at any time for any reason. Upon termination clients are obligated to compensate H&S in cash for the balance of fees due. For currently managed PDM accounts, if client withdraws a total of \$100,000 or more (or a substantial portion of the account's value) during the calendar quarter, H&S will access a prorated quarterly fee on the amount withdrawn.

H&S requires a minimum account of \$100,000 for PDM advisory services, although this may be negotiable under certain circumstances. H&S may group certain related client accounts for the purpose of achieving the minimum account size. The minimum annual fee per account is \$1,000 (this may vary if accounts are grouped together).

Fees for Retirement Plan Investment Advisory Services

In providing retirement plan investment advisory services, the “schedule of fees” is referenced below. All fees are subject to negotiation; as well as being based on a number of factors; including, but not limited to, asset size of plan and the participant base. The fee is payable quarterly and coordinated with the plan trustee(s) and the plan’s third party administrator.

<u>Retirement Plan Investment Advisory Services</u>	
<u>Total Value of</u>	<u>Amt of Annual Fee Based on</u>
<u>Portfolio (\$)</u>	<u>Total Portfolio Value</u>
0 - 2,000,000	0.75%
2,000,001- 3,000,000	0.65%
3,000,001- 5,000,000	0.60%
5,000,001- 10,000,000	0.50%
10,000,001- 12,500,000	0.40%
12,500,001- 14,000,000	0.35%
14,000,001- 16,000,000	0.25%
16,000,001 +	0.15%

Each bracket is billed at the rate shown; fee structure is cumulative, not retroactive.

Fees and Other Important Considerations

Hobert & Svoboda, Inc.’s advisory fees are exclusive of transaction fees (for example, ETFs), and other related costs and expenses which could be incurred by the client. When clients open a new account with H&S, clients should be aware that in the event that mutual funds or other securities are liquidated initially to fund an H&S account to be managed, or sold thereafter while managing the account, substantial costs could be incurred. For example, securities with a low cost basis sold at a higher market value could result in substantial taxable capital gains. Also, to the extent that certain mutual fund classes are sold, such as “B Class” shares, deferred sales charges could occur with the liquidation.

H&S also advises you to carefully review your custody agreement with your custodian as there may be custodian fees and other service fees charged to you by your custodian. Currently, discretionary managed accounts are custodied at Charles Schwab & Co., Inc. (Schwab). Schwab (and any other custodian) may impose certain charges when opening a new account, closing your account, wire transfers and other fees and taxes on brokerage accounts and security transactions.

Mutual funds and exchange traded funds and/or other investment vehicles also charge internal management fees, which are disclosed in a fund’s prospectus. While the mutual funds that H&S generally purchase from Schwab are no-load, no-transaction fee funds, Schwab may impose a “Contingent Redemption Fee (CRF)” which is a fee that is deducted when the fund is sold within a certain time period (usually 7 to 180 days). While CRF fees are minimal, they normally are connected to fund asset classes that have higher market volatility (i.e. high yield bond, small cap and foreign funds). Clients should be aware that in addition to H&S’s advisory fee, each mutual fund also has internal fees; a management fee (normally called an expense ratio) and/or a 12b1 fee (marketing fee). These fees will reduce the net asset value of the fund’s shares. In general, mutual funds and exchange traded funds (ETFs) charge internal management fees, and are disclosed in a fund’s prospectus.

Clients should be aware that in order to purchase certain mutual funds, a minimum investment amount may be required by the mutual fund and Schwab's fund agreement. These minimum purchase amounts often require a minimum portfolio value large enough to cover the minimum purchase amounts.

Such charges, fees and commissions are exclusive of and in addition to Hobert & Svoboda's PDM advisory fee, and Hobert & Svoboda Inc. shall not receive any portion of these commissions, fees, and costs.

Item 6 – Performance-Based Fees and Side-By-Side Management

Neither Hobert & Svoboda, Inc. nor any of its Supervised Persons (employees) accepts performance-based fees (fees based on a share of capital gains or on capital appreciation of assets of a client). H&S does not use a performance-based fee structure.

Item 7 – Types of Clients

Hobert & Svoboda, Inc. provides wealth management advisory services to corporate pension and profit-sharing plans as well as individual, trusts and estates and charitable organizations,

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Hobert & Svoboda, Inc. follows a disciplined research and evaluation process to determine appropriate investments for each model portfolio based on its target allocation. Along with this approach, H&S has the expertise and analytical tools from fund families and a wide range of investment managers.

Portfolio Objective Determination

The cornerstone of PDM is a process that recognizes the importance of each client's specific objectives and investment profile. The optimization process takes into account three major variables:

- ◆ The market volatility of each asset class including severity and duration of down periods and recovery periods for each asset class after a down period.
- ◆ The relationship between each asset class and every other asset class in terms of market behavior.
- ◆ The extent to which a particular investor is willing to incur risk; risk being defined as the probability of loss over any moving four quarter period.

The conservative, moderate, or high growth model portfolio best suited for each client is determined by identifying the client's risk/return objectives, and the time horizon for measuring results. This is done with the help of an Investment Strategy Questionnaire and a personal interview. The goals and objectives for each client are documented in our client relationship management system. Investment policy statements (IPS) are created that reflect the stated goals

and objectives. Clients may not impose restrictions on investing in certain securities or types of securities.

PDM Methods of Analysis and Investment Strategies

H&S's methods of analysis include, charting analysis, fundamental analysis, technical analysis and cyclical analysis as well as technical research from financial newspapers and subscription materials prepared by technical and stock market analysts. Other sources of information include: Wall Street Journal, Bloomberg, Morningstar, and Charles Schwab research and market analysis.

PDM's investment strategies are usually put into action by a select core group of no-load, no transaction mutual funds or ETFs. In selecting mutual funds and/or ETFs for a client's portfolio, H&S looks for good managers with distinct investment styles and uses a number of outside services to perform its initial due diligence. The quantitative screening of each Morningstar fund category significantly reduces the number of potential investments. From there, the qualitative standards are applied to create our preferred fund lineup as well as building a strong "backup" of secondary fund choices should our preferred funds close to new investors or fall in our ranking system for any reason.

Investment selections in each asset class are evaluated based upon performance versus objective over various time periods and are expected to perform in the top tier(s) for their category. Quantitative factors used in the screening process include, but are not limited to; returns versus peer funds (1,3,5 Yr total returns), volatility measures, return to risk measures (Sharpe Ratio), expense ratio and portfolio turnover. Evaluation of qualitative factors includes; management qualifications, tenure and consistency of investment philosophy/style, investment process/decision making procedures, style consistency and portfolio or sector concentration.

We also evaluate other internal factors such as consistency of returns and the fund demonstrating consistent performance over market cycles versus episodic returns. Performance of each portfolio and the underlying funds are regularly monitored to assess that the investments continue to meet H&S's criteria. After a fund or ETF is placed in the client's portfolio, we continue to monitor it on a regular basis to make certain it continues to meet our criteria.

Risk of Loss

Our investment approach constantly keeps the risk of loss in mind. There is no assurance that the no-load mutual funds/ETFs will perform in any particular manner. Past performance of any mutual fund, ETF or asset class is not a guarantee of future performance. Clients should carefully read the prospectus of each mutual fund/ETF before they invest. Further, depending on the different type of investments, there may be varying degrees of risk:

- *Market Risk:* The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances.
- *Interest-rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- *Inflation Risk:* When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- *Foreign Risk:* Investments in overseas markets (international securities) have special risks, including currency fluctuation and political risks, and such investments may be

more volatile than that of a U.S. only investment. The risks are generally intensified for investments in emerging markets.

- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- *Political and Legislative Risk:* Companies face a complex set of laws and circumstances in each country in which they operate. The political and legal environment can change rapidly and without warning, with significant impact, especially for companies operating outside of the U.S. or those companies who conduct a substantial amount of their business outside of the U.S.
- *Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- *Liquidity Risk:* Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- *Management Risk:* Your investments also vary with the success and failure of H&S investment strategies, research, analysis and determination of market conditions and of portfolio securities. If our strategies do not produce the expected returns, the value of your investments will decrease.

Item 9 – Disciplinary Information

HoBERT & Svoboda, Inc. has no legal or disciplinary events that are material to a client's or perspective client's evaluation of our advisory business or the integrity of our management.

Item 10 – Other Financial Industry Activities and Affiliations

Use of Discretion and Selection of Brokers and Other Compensation

When providing advice to PDM clients, each client grants H&S trading discretion to purchase and sell mutual funds and other securities in the client's account. Discretion allows the firm to purchase and sell securities in a client's account whenever it deems appropriate to do so. Should a trading error occur, it is H&S's policy to credit the client's account with any gain that stems from the error.

H&S recommends that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab), a registered broker dealer, Member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. H&S is independently owned and operated and not affiliated with Schwab. Schwab provides H&S with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Clients with Schwab Institutional have their account assets protected by insurance. The Securities Investor Protection Corporation (SIPC) provides up to \$500,000 per investor, with a limit of

\$100,000 for claims of cash balances. In addition, Schwab provides through Lloyd's of London excess protection above this amount up to \$150 million per client for securities.

H&S is not affiliated with Charles Schwab & Company, Inc. Services provided by Schwab to H&S do not increase transaction fees or commissions of H&S's clients. In the event of a trading error, Schwab's trading policy is to absorb the trading gain or loss if it is under \$100. If the gain is over \$100, Schwab will credit the client's account. If the loss is over \$100, Schwab will charge the loss to H&S.

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

Hobert & Svoboda, Inc. has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things.

Hobert & Svoboda, Inc. anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which H&S has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which H&S, its affiliates and/or clients, directly or indirectly, have a position of interest. H&S's employees and persons associated with H&S are required to follow H&S's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of H&S and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for H&S's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of H&S will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of H&S's clients. In addition, the Code restricts trading in close proximity to client trading activity. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between H&S and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with H&S's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. H&S will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

It is H&S's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. H&S will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an

affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

H&S employees must acknowledge the terms of the Code of Ethics at least annually. Any individual not in compliance with the Code of Ethics may be subject to termination. H&S's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Jean Piech, Chief Compliance Officer.

Item 12 – Brokerage Practices

Selecting Brokerage Firms

For PDM client investment advisory accounts, H&S recommends that clients establish an account at Charles Schwab & Co., Inc. (Schwab), a registered broker dealer, Member SIPC. The Custodian was suggested based on Schwab's domination in the mutual fund/ETFs marketplace and its significant investment research tools.

For Retirement plans, H&S serves as investment adviser and uses an array of custodians to reflect the corporate and plan participant's needs; these including Schwab Trust (a division of Charles Schwab & Co., Inc.), Fidelity Investments and other qualified platforms.

Soft Dollars

Charles Schwab & Co., Inc. makes available to H&S other products and services that benefit H&S but may not benefit its clients' accounts. Some of these other products and services assist H&S in managing and administering clients' accounts. Other products and services include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of H&S's fees from its clients' accounts, and assist with back-office functions, recordkeeping and client reporting.

Many of these services generally may be used to service all or a substantial number of H&S's accounts, including accounts not maintained at Schwab Institutional. Schwab Institutional also makes available to H&S other services intended to help H&S manage and further develop its business enterprise. Schwab's services may include (but are not limited to) consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to H&S by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to H&S.

While as a fiduciary, H&S endeavors to act in its clients' best interests, H&S's requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to H&S of the availability of some of the foregoing products and services and not solely on the nature, cost or

quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

Item 13 – Review of Accounts

Account Reviews

Each PDM portfolio is closely reviewed and assets are periodically reallocated to maintain the optimum risk/reward balance. Such reviews are performed by each client's H&S representative. Annually, clients are asked to review their investment objective through a "suitability" review to insure an on-going oversight of their account.

H&S provides each client receiving PDM services with an easy to understand quarterly report detailing the performance of his/her investment portfolio. In addition to H&S' easy to read quarterly Portfolio Performance Report, the firm's sophisticated portfolio management software enables us to provide our clients with a wide variety of portfolio management reports. While the calendar is the main triggering factor, account reviews are also conducted due to a client request, due to a change in client circumstances, account holdings or investment objectives or due to unusual market activity or economic conditions.

H&S, as a Retirement Plan Investment Advisor, is in full cooperation with the company and the plan trustees to receive detailed report activity and reviews as directed by management and the plan administrator.

PDM Account Reporting

Each month, the custodian provides clients with an account statement for each client account, which may include individual holdings, cost basis information, deposits and withdrawals, and income and dividends. In addition, the custodian provides clients with trade confirmation for each position bought and sold.

H&S urges you to carefully review such statements and compare such official custodian records to the H&S account statements that we provide you. Our statement may vary from custodial statements based on accounting procedures, reporting dates, and/or valuation methodologies of certain securities.

Item 14 – Client Referrals and Other Compensation

Other Compensation

For additional discussion on other compensation received by H&S, please refer to Item 5, "Fees and Compensation" and Item 10, "Other Financial Industry Activities and Affiliations".

Client Referrals, Payments to Third Parties

H&S may from time to time compensate third parties for referring clients to H&S. Such referral fees are only paid pursuant to a written agreement with the referrer and are fully disclosed to the client in advance of H&S providing its services. Referral fees are paid to the referrer from the published fees collected by H&S and do not increase costs to the client.

H&S has also received client referrals from Charles Schwab & Co., Inc. ("Schwab") through H&S's participation in the Schwab Advisor Network (the "Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with H&S. Schwab does not supervise H&S and has no responsibility for H&S's management of clients' portfolios or H&S's other advice or services. H&S pays Schwab fees to receive client referrals through the Service. H&S's participation in the Service may raise the potential conflicts of interest described below.

H&S pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by H&S is a percentage of the fees the client owes to H&S or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. H&S pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to H&S quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by H&S and not by the client. H&S has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs H&S charges clients with similar portfolios who were not referred through the Service.

The Participation Fee will be based on assets in accounts of H&S's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, H&S will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit H&S's fees directly from the accounts.

For accounts of H&S's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from H&S's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance, and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker dealers' fees. Thus, H&S may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. H&S nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for H&S's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Item 15 – Custody

PDM Client Custody – Fee Debiting

Hobert & Svoboda, Inc. has one form of custody in that clients may authorize H&S (in the PDM Agreement) to have advisory fees deducted from the client's account at the broker dealer, bank or other qualified custodian. The custodian is advised in writing of the limitation of H&S access to the account. The custodian sends a statement (either through the mail or paperless through the internet) directly to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to H&S.

While H&S will assist clients in establishing and maintaining accounts at the custodian, H&S does not take physical custody of client funds or securities. H&S shall have no responsibility or liability with respect to custodial arrangements or the acts, omissions or other conduct of the custodian.

Account Statements

All assets are held at qualified custodians, which mean the custodians provide account statements directly to clients at their address of record at least quarterly.

As described in Item 13, "Review of Accounts", clients receive at least quarterly statements from the custodian that holds and maintains client's investment assets. Clients are urged to carefully review such statements and compare official custodian records to the account statements or other reports that H&S provides. H&S statements may vary from custodian statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

Discretionary Authority for Trading

Hobert & Svoboda, Inc. accepts discretionary authority from the client at the outset of an advisory relationship. This authority, as defined in the PDM Agreement, allows H&S to select the identity and amount of securities to be bought and sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

Limited Power of Attorney

Through the PDM Agreement, H&S may accept limited power of attorney to act on a discretionary basis on behalf of clients. A limited power of attorney allows H&S to execute trades on behalf of clients.

When such limited powers exist between H&S and the client, H&S has the authority to determine, without obtaining specific client consent, both the amount and type of securities to be bought to satisfy client account objectives. Additionally, H&S may accept any reasonable limitation or restriction to such authority on the account placed by the client. All limitations and restrictions placed on accounts must be presented to H&S in writing.

Item 17 – Voting Client Securities

As a matter of firm policy and practice, Hobert & Svoboda, Inc. does not have any authority to and does not vote proxies on behalf of advisory clients. All proxies are sent directly to the client. Clients are instructed to read through the information provided with the proxy-voting documents and make a determination based on the information provided. Clients have the ultimate responsibility for making all proxy-voting decisions.

H&S does not render advice to or take any actions on behalf of clients with respect to any legal proceedings, including bankruptcies and shareholder litigation. Clients retain the responsibility for

receiving and voting proxies and any legal proceedings for securities maintained in their portfolios; clients receive these corporate actions directly from either custodians or transfer agents.

Item 18 – Financial Information

Hobert & Svoboda, Inc. has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Client Privacy Policy Notice

We are committed to the privacy of your information and will use strict standards to safeguard it. When you employ Hobert & Svoboda, Inc. as your investment advisor, you entrust us not only with your assets, but also with your personal financial data. We consider all information to be private and confidential, and we will hold ourselves to the highest standard of trust and fiduciary duty in its safekeeping. Protecting your privacy is important to us. We want our clients to understand what information we collect and how we use it.

We collect only information that is needed to serve you and administer our business. In the process of serving you, we become stewards of certain “nonpublic personal information” – information about you that is not available publicly. The clients’ information we collect and store generally consists of the following:

- Information you provide directly or indirectly to us on applications or other forms, correspondence or through conversations (such as your name, social security number, home or business address, an e-mail address, phone number, assets, income, date of birth, occupation, etc.)
- Information related to your transactions with us (such as your account numbers, account balances, transaction details and other financial information)
- Information we receive from third parties such as broker statements, custodial statements and trade confirmations

We limit the collection and use of information about our clients to that which is necessary to administer our business and serve our clients.

In order to protect client privacy, we carefully control the way in which any information about clients is shared. We do not disclose information about our clients or former clients to anyone, except as necessary in the management of your account and as permitted or required by law. We are permitted by law to disclose some or all of the information we collect as described above to other advisers, custodians, brokers, administrators or any firms that assist us in maintaining and supporting the financial products and services provided to you. For example, custodians may need information to process security transactions for your account.

We are committed to the privacy and security of your nonpublic personal information and will use strict security standards to safeguard it. Our employees are held accountable for adhering to strict policies and procedures to prevent any misuse of your nonpublic personal information. Employees are bound by this privacy policy and are educated and trained annually on the implementation of our security principles and practices. Our strict policies for protecting client information apply equally to current and former clients.

Information Security Program - Hobert & Svoboda, Inc. maintains an information security program to reduce the risk that your personal and confidential information may be breached and to ensure

that your information is not placed at unreasonable risk. We have implemented security standards and processes - including, electronic and procedural safeguards - to ensure that access to customer information is limited to employees and registered investment representatives. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment; all of which are verified through testing and an annual security scan to maintain the network security of Hobert & Svoboda, Inc.