

**HMI CAPITAL, LLC**  
**Part 2A of Form ADV: Firm Brochure**

555 California Street, Suite 4900  
San Francisco, CA 94104

[www.hmicapital.com](http://www.hmicapital.com)

Telephone: 415.391.9500  
Electronic Mail: [info@hmicapital.com](mailto:info@hmicapital.com)

April 2020

**This brochure provides information about the qualifications and business practices of HMI Capital, LLC. If you have any questions about the contents of this brochure, please contact us at 415.391.9500 or [info@hmicapital.com](mailto:info@hmicapital.com). The information in this brochure has not been approved or verified by the Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional Information about HMI Capital, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

## **MATERIAL CHANGES**

Since HMI's April 2019 Form ADV Part 2A amendment, HMI Capital, LLC appointed Morgan Stanley Fund Services as its fund administrator, effective February 1, 2020. Additionally, HMI Capital, LLC recategorized its research coverage into three industry sectors: Software, Internet and Media, and Financial Services. Prior to this change, HMI had categorized its research coverage into five industry sectors: Software, Tech-Enabled Services, Internet and Media Services, Infrastructure Systems and Services, and Financial Services. HMI Capital, LLC also made its first two investments in privately held companies in August 2019 and December 2019. In April 2020, Marco ("Mick") Hellman accepted a position on the Board of Directors of oOh!Media, Limited, an outdoor advertising business based in Australia. This investment is held by HMI's funds, HMI Capital Partners, L.P. and Merckx Capital Partners, L.P. This form has been updated to reflect the aforementioned changes.

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
ADVISORY BUSINESS.....	1
FEEs AND COMPENSATION .....	1
PERFORMANCE-BASED FEEs AND SIDE-BY-SIDE MANAGEMENT.....	3
TYPES OF CLIENTS.....	3
METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	3
DISCIPLINARY INFORMATION.....	5
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	6
CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	6
BROKERAGE PRACTICES .....	6
REVIEW OF ACCOUNTS .....	10
CLIENT REFERRALS AND OTHER COMPENSATION .....	10
CUSTODY .....	10
INVESTMENT DISCRETION.....	10
VOTING CLIENT SECURITIES .....	10
FINANCIAL INFORMATION .....	11

## **ADVISORY BUSINESS**

HMI Capital, LLC (“HMI” or “we”), a Delaware Limited Liability Company, began operations in November 2008. We currently provide discretionary investment advisory services to three private funds: HMI Capital Partners, L.P.; Merckx Capital Partners, L.P.; and HMI Capital Offshore Partners, L.P. (the “Funds”). HMI Capital Partners, L.P. and Merckx Capital Partners, L.P. are Delaware Limited Partnerships. HMI Capital Offshore Partners, L.P. is a Cayman Islands exempted Limited Partnership. We are the sole general partner and investment manager of each of the Funds. At this time, we do not manage assets for or provide investment advice to any clients other than the Funds, although we may do so in the future.

Our principal owners are Marco (“Mick”) Hellman, Emily M. Brakebill and Justin Nyweide.

In managing the Funds, we generally focus on value and distressed investing in public common equities and credit. We seek to hold a concentrated portfolio, currently focused on three industry sectors: Software, Internet and Media, and Financial Services. In 2019, we also invested in two private companies, as well as a limited number of initial public offerings. The Funds’ investors do not have the right to specify, restrict, or influence the Funds’ investment objectives or any investment or trading decisions. The Funds’ investment objectives and restrictions are contained in their distinct governing documents. The Funds are HMI’s “clients;” limited partners invested in the Funds are not HMI’s clients. HMI tailors its advisory services to the objectives and restrictions set forth in the Funds’ governing documents.

We do not participate in wrap fee programs.

As of December 31, 2019, HMI’s total regulatory assets under management were \$2,348,946,159. HMI does not manage assets on a nondiscretionary basis.

## **FEES AND COMPENSATION**

### ***Management Fees***

For the services we provide to each Fund, we are generally entitled to receive management fees (assessed as to each limited partner in the Fund) at an annualized rate that is subject to a “step down” based on the aggregate net value of the fee paying assets that we manage firm-wide and that ranges from 0.25% to 1.75% per annum. Management fees are payable in advance at the beginning of each calendar quarter, and the amount of the management fee assessed as to each limited partner is generally equal to one-fourth the annualized management fee rate times that limited partner’s capital account balance as of the first day of that quarter. While our management fees are not generally negotiable, we may vary the management fees as to particular limited partners by separate agreement, without notice to the other limited partners. HMI deducts management fees directly from the Funds’ assets.

Personnel of HMI may from time to time serve on the boards of directors of public and private companies, including those in which the Funds invest. In the case of HMI investments, HMI personnel are required to give any directors’ fees to HMI, which will offset the management fees paid by the Funds by the amount of the directors’ fees. In addition, it is HMI’s policy to give to the Funds any equity awards, stock options, warrants, or other non-cash compensation received by our personnel in connection with serving on the boards of directors of the companies in which we are invested.

Investors in each Fund should read governing documents for a full description of management fees.

### ***Incentive Allocations***

As the general partner of each Fund, we are also generally entitled to receive, as to each limited partner in the Fund, a special allocation (an “Incentive Allocation”) equal to a share of the net profit (including both realized and unrealized gains and losses) that would otherwise be allocated to that limited partner in each calendar year, subject to a “modified high water mark” procedure. In the absence of any losses, our Incentive Allocation

ranges from 15% to 17.5% of the annual profits otherwise allocable to each limited partner in a Fund.

Under the Funds' "modified" high water mark procedure, we are entitled to receive Incentive Allocations even as to profits that simply restore losses from earlier periods. We are, however, only entitled to receive Incentive Allocations as to such profits at a reduced rate that ranges from 7.50% to 8.75%. In addition, after a loss year, we are not entitled to receive Incentive Allocations at the "full" base rate until 250% of those losses are recovered (on a gross basis, before taking into account the effect of any incentive allocations in the interim); until then, we are only entitled to receive incentive allocations at one-half of the "full" rate.

The Funds make Incentive Allocations at the end of each calendar year and at other times when Fund investors are permitted to withdraw capital (but then only in proportion to the amount of capital withdrawn). Although the Incentive Allocation is generally not negotiable, we may vary the Incentive Allocation as to particular limited partners by separate agreement, without notice to the other limited partners. The Incentive Allocation is made to HMI's capital accounts within the Funds.

Investors should read governing documents for a full description of incentive allocations.

***Other Fees and Expenses.*** Each Fund generally pays all:

- brokerage commissions and other costs of executing and settling transactions involving Fund assets (including mark-ups and mark-downs), including costs and expenses associated with using a service provider unaffiliated with HMI to provide an outsourced trading desk function;
- all Fund bookkeeping and administrative expenses, including the costs of the annual audit and the preparation and distribution of financial, tax and other reports to partners, fees and costs of a third party administrator, and other accounting and legal expenses (including fees paid to HMI's counsel for services that benefit the Fund) and including expenses related to acting as the tax matters partner;
- expenses relating to meetings and consents of Fund partners;
- insurance, indemnification or litigation expenses of the Fund;
- any taxes, fees or other governmental charges levied against the Fund;
- expenses of liquidating the Fund, including all costs associated with the liquidating trust and the liquidator; and
- legal fees and expenses in connection to Fund documentation and amendments.

We may advance costs described above for a Fund and require the Fund to reimburse us.

HMI bears (i) any costs and expenses of providing the Funds with office space, furniture, fixtures, equipment, facilities, supplies and necessary ongoing overhead support services for the Funds' operations; (ii) the compensation of HMI's personnel, including fringe benefits; (iii) any taxes imposed by reason of the management fee paid to HMI; (iv) direct research costs (including travel) relating to due diligence of investments and portfolio companies; (v) expenses and costs relating to registration of the General Partner as an investment adviser with the U.S. Securities and Exchange Commission and any other applicable regulatory authority; and (vi) all other expenses that are not fund expenses described above.

We may cause the Funds to enter into arrangements with securities brokerage firms, including "prime brokers," who may provide a variety of services to the Funds, including custodial, clearing, lending and related services. Although the Funds may not pay for these services directly, the Funds may be considered to pay for them indirectly through: payments to the broker of commissions and other transaction costs; payments of financing charges related to margin borrowings and stock loans; and the brokers' ability to earn money on certain

balances the Funds maintain with them (subject to laws and regulations governing their activities). See “Brokerage Practices.”

***Prepayment of Fees.*** As noted above, the Funds pay management fees quarterly in advance. Fund investors are generally permitted to withdraw capital only at the end of a calendar year, at which time there generally will be no prepaid fees. We are not required to refund any portion of our management fee if a Fund allows an investor to withdraw as of a time other than a calendar year-end, however, we have agreed with the Funds to refund management fees under certain circumstances.

If we were to terminate our status as general partner of a Fund at a time other than as of the end of a quarter, we would refund to the Fund a portion of the management fee that was paid at the beginning of the termination quarter, prorated based on the number of days remaining in that quarter.

***Other Compensation.*** Neither we nor our personnel accept compensation for the sale of securities or other investment products.

Investors should consult the Funds’ governing documents for additional detail on fee and expense arrangements.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Funds allocate to us, as general partner, a portion of the appreciation in value of investors’ investments, as described above in “Fees and Compensation.” We do not manage any accounts that do not provide for performance-based incentive allocations. While we have the right to waive incentive allocations and fees as to particular investors in a Fund, we manage each Fund’s assets as an undivided pool, so any such waiver would not give rise to incentives to favor any particular account over another. Our potential to receive incentive allocations, and the fact that we will not have to refund any such allocations or fees if the Funds later experience losses, may, however, create an incentive for us to make investments that are riskier or more speculative than would otherwise be the case.

## **TYPES OF CLIENTS**

We currently provide investment advice only to the Funds. They are privately-offered investment funds that are not regulated under the U.S. Investment Company Act of 1940, as amended, because of Section 3(c)(7) of that act. Each Fund imposes minimum investor qualification standards and minimum investment requirements.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### ***Investment Objectives and Strategies***

Established during the 2008 – 2009 global financial crisis, HMI Capital, LLC seeks to invest in the highest-quality businesses when capital markets put pressure on their valuations. Taking a long-term perspective with a strong value orientation, HMI seeks the best opportunities globally, primarily in public equities and at times distressed credit. The firm holds a concentrated portfolio of approximately 10 – 12 deeply researched names in three distinct industry sectors: Software, Internet and Media, and Financial Services. Through this approach, HMI strives to deliver high risk-adjusted real returns over long timeframes with low probability of permanent loss of capital.

We are not limited to the strategy described above. We may invest in various types of securities beyond common stocks and options, including, but not limited to, preferred stock, convertible securities, bonds, notes, warrants, rights, “derivatives,” and money market instruments. We may also use margin borrowings and other leveraging techniques. There can be no assurance that the Funds’ objectives will be satisfied.

***Investing in securities involves a risk of loss that investors should be prepared to bear.***

## ***Material Risks of Our Strategy***

The following is a summary of some of the material risks associated with our investment activities. It does not attempt to describe all of the risks associated with those activities.

**Investment Selection; Reliance on Investment Committee.** We believe the primary risk of our investment strategy relates to investment selection – the risk that our techniques may, at least over certain periods, result in securities positions that decline in value or do not appreciate as much as alternatives. Our investment advice depends on the ability of our Investment Committee to develop and implement investment strategies to achieve our clients’ investment objectives. Our clients’ investment performance could be materially and adversely affected if any of the members of the Investment Committee were to die, become ill or disabled, or otherwise cease to be involved in active management of the Funds’ portfolios.

**General Economic and Market Conditions.** Our clients’ opportunities and investments may be negatively affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, developments in governmental regulation and national and international political circumstances.

**Non-U.S. Investments.** We may invest a substantial portion of our clients’ assets in securities of non-U.S. companies and/or securities denominated in currencies other than U.S. dollars. These could include securities issued by companies in, and traded in, so-called “emerging markets.” Non-U.S. investing, and investing in emerging markets in particular, will subject our clients to certain risks not typically associated with investing in securities in the U.S. Non-U.S. markets generally are not as developed or efficient as, and may be more volatile than, U.S. markets. In particular, there is generally less government supervision and regulation of non-U.S. exchanges, brokers and listed companies than there is in the United States. Further, as compared with trading volumes in U.S. markets, trading volumes in non-U.S. markets are usually lower and therefore are characterized by less liquidity and more rapid and erratic price fluctuations. Commissions for trades on non-U.S. stock exchanges are generally higher than negotiated commissions on U.S. exchanges, and custody expenses are generally higher as well. Settlement practices for transactions in non-U.S. markets may involve delays beyond periods customary in the United States, and our clients may be required to borrow funds or securities to satisfy their obligations arising out of other transactions. In addition, there could be more “failed settlements,” which can result in losses to our clients. Additionally, our clients’ investments may be denominated in non-U.S. currencies. A change in value of any such currency against the U.S. dollar will cause a corresponding change in the U.S. dollar value of our clients’ investments that are denominated in that currency. Those changes may affect our clients’ income and profitability.

**Small Capitalization Stocks.** We may invest a portion of our clients’ assets in stocks of companies with relatively small market capitalizations. While we believe these stocks can provide significant potential for appreciation, they can involve higher risks than investments in stocks of larger companies. For example, prices of small-capitalization and even some medium-capitalization stocks are often more volatile than prices of large-capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, “blue-chip” companies. In addition, thin trading in some small-capitalization stocks may make an investment in those stocks less liquid. Rapid sales of small-capitalization stocks could also depress their market value, reducing our clients’ profits, or increasing its losses, in the positions.

**Limited Liquidity of Some Investments.** HMI has invested in two private companies, and we may invest in securities that are relatively illiquid. These may include: (i) publicly traded securities for which the market is limited; (ii) publicly traded securities in which our clients’ positions are so large in relation to the trading market that our clients’ liquidity is less than other holders’; (iii) securities that are relatively liquid when acquired but that become illiquid after our clients invest; (iv) publicly traded securities acquired in private placements or in other circumstances that result in legal or contractual restrictions on our clients’ ability to sell them; and (v) investments for which no liquid trading market exists. We may not be able to liquidate illiquid investments on behalf of our clients if the need were to arise.

**Debt Instruments.** We may invest our clients' assets in debt or other fixed income securities and/or in other debt instruments, such as bank loans. It is likely that many of these debt instruments may be unrated. Whether or not rated, they may have speculative characteristics. Their issuers (borrowers), including sovereign issuers, may face significant ongoing uncertainties and exposure to adverse conditions that may undermine their ability to make timely payment of interest and principal. Debt instruments are dependent on the issuer's ability to pay interest and repay principal in accordance with the instrument's terms and involve major risk exposure to adverse conditions. An economic recession could severely disrupt the market for debt instruments and have an adverse impact on their market value. It is also likely that an economic downturn could adversely affect the ability of the issuers to pay principal and interest when due — *i.e.*, increase the risk of default for such securities.

**Valuation of Private Investments.** Due to the absence of readily available market valuations for private investments, the valuation is determined in good faith by the general partner. The Funds are not required to have such valuations independently determined. Despite HMI's efforts to acquire sufficient information to monitor private investments and make well-informed valuation determinations, members of HMI may only be able to obtain limited information at certain times. Prospective investors should be aware that as a result of these difficulties, as well as other uncertainties, any valuation of a private investment requires a significant degree of judgment exercised by the General Partner. Due to the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

**Concentration of Investments.** In managing our clients' portfolios, we expect to hold a relatively small number of positions, each representing a relatively large portion of our clients' capital. Further, a client may at times have a relatively large portion of their capital exposed to a particular industry, market sector, country, or geographic region. Losses in one or more large positions, or a downturn in an industry, market sector or geographic region in which our clients are concentrated, could materially adversely affect our clients' performance in a particular period and could have a materially adverse effect on our clients' overall financial performance.

**Use of Leverage.** Although HMI does not typically use leverage, we may employ leverage in managing our clients' accounts (subject to certain agreed - upon limits). Leverage increases both the possibilities for profit and the risk of loss. Borrowings (and in some cases guarantees of performance of client obligations) will typically be secured by our clients' securities and other assets.

**Side Letters.** HMI may provide certain investors or clients more frequent or detailed reports, special compensation arrangements and withdrawal or redemption rights that it does not provide to other investors or clients.

**Cybersecurity Risk.** The information and technology systems of HMI and of service providers to HMI and the Funds may be vulnerable to potential damage or interruption. HMI has implemented various measures designed to manage cybersecurity risks. However, the failure of these systems and/or of disaster recovery plans could cause interruptions in the operations of HMI or HMI's Fund accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

**Business Continuity and Disaster Recovery.** HMI's business operations may be vulnerable to disruption in the case of catastrophic events such as pandemics, fires, natural disaster, terrorist attacks or other circumstances resulting in property damage, network interruption and/or prolonged power outages. Although the Firm has implemented, or expects to implement, measures to manage risks relating to these types of events, there can be no assurances that all contingencies can be planned for. These risks of loss can be substantial and could have a material adverse effect on the Firm and investments therein.

### **DISCIPLINARY INFORMATION**

We have not been involved in any legal or disciplinary events since our inception that would be material to a



client's evaluation of our company or our personnel.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither we nor any of our employees are registered, or have an application pending to register, as a broker-dealer or registered representative of a broker-dealer, futures commission merchant, or commodity pool operator.

Mr. Marco Hellman serves as a member of the board of directors of Hall Capital Partners, LLC and as a member of the boards of directors of Osterweis Capital Management, Inc. and Osterweis Capital Management, LLC. These two firms are investment advisers registered with the SEC. Hall Capital Partners, LLC may recommend to its clients investments in the private funds managed by HMI. HMI does not believe that these activities pose a material conflict of interest with clients.

Mr. Sean Barrett currently serves on the nomination committee of Avanza Bank Holding AB, a current investment of HMI. HMI does not believe that this position poses a material conflict of interest with clients. Further, no compensation is provided for his services.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

**Code of Ethics.** We have adopted a Code of Ethics (the "Code") for the purpose of instructing our personnel about their ethical obligations and to provide rules for their personal securities transactions. The purpose of the Code is to prevent activities that may lead to, or give the appearance of, conflicts of interest, insider trading and other forms of prohibited or unethical business conduct.

The Code covers a range of topics that include: standards of business conduct; prohibitions against insider trading; personal securities transactions; gifts and entertainment; protecting the confidentiality of client information; service as an officer or director; compliance procedures; reporting violations and sanctions; records; and certification procedures. We will provide a copy of the Code to any client or prospective client upon request by writing to us at the address on the cover page of this brochure.

**Participation or Interest in Client Transactions and Personal Trading.** We have adopted a personal investment trading policy based on the following principles: (i) the interest of client accounts will at all times be placed first; (ii) all personal securities transactions will be conducted in such manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility; and (iii) employees must not take inappropriate advantage of their positions. Our personal trading policy requires that every employee must obtain approval from our Compliance Department before acquiring or selling for any personal account any covered securities. Additionally, our Compliance Department maintains a "restricted list" of certain securities. Employees are prohibited from purchasing or selling such securities during any period in which the securities are listed on the Restricted List. Moreover, employees are not permitted to invest in any company, whether or not the issuer of publicly-traded securities, while HMI is invested in such company or when the employee believes there is a reasonable chance we may want to make an investment in that company for a client in the future. We have policies and procedures in place to ensure that our employees are aware of the rules regarding material non-public information and insider trading.

## **BROKERAGE PRACTICES**

HMI has complete discretion in deciding what brokers, dealers, and other financial intermediaries and counterparties with which to execute or enter into portfolio transactions (collectively, "Transacting Parties"). HMI also has complete discretion to negotiate compensation arrangements and transaction terms with Transacting Parties. These arrangements may include not only paying commissions for transactions effected on any agency basis, but also compensation implicit in prices of transactions directly with Transacting Parties acting as principal (such as market-makers for over-the-counter securities) and dealers in fixed income securities and

derivatives. The following describes some noteworthy aspects of HMI's and the Funds' use of and relationships with Transacting Parties.

### **Selection Criteria, Generally**

In choosing Transacting Parties, we are not required to consider any particular criteria. We will seek "best execution" of our clients' securities transactions. However, what constitutes "best execution" and determining how to achieve it are inherently uncertain. In evaluating whether a Transacting Party will provide best execution, we will consider a range of factors. These include, among others:

- historical net prices (after markups, markdowns and other transaction-related compensation);
- the execution, clearance and settlement and error correction capabilities of the Transacting Party generally and in connection with securities of the type and in the amounts to be bought or sold;
- the Transacting Party's reliability and financial stability;
- the size of the transaction;
- any affiliations between HMI employees to avoid conflicts of interest;
- evaluate written description of the Transacting Parties business continuity and disaster recovery capabilities;
- the market for the security; and,
- as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the Transacting Party.

We are not required to select the Transacting Party that charges the lowest transaction cost, even if that Transacting Party can provide execution quality comparable to other Transacting Parties. Our clients should expect at times to pay more than the lowest transaction cost available in order to obtain for itself and/or HMI services and products other than the execution of securities transactions. In selecting a Transacting Party, we do not consider whether we receive or might receive client referrals from that Transacting Party.

### **Trade Errors**

It is HMI's policy that, absent a violation of HMI's standard of care, all benefits and burdens of a trade error will be borne by the relevant client. If HMI did violate its standard of care, it will promptly reimburse the client for the error. HMI will not directly or indirectly use soft dollars to correct trade errors.

### **"Soft Dollars"**

We may select Transacting Parties in recognition of the value of various services or products, beyond transaction execution, that they provide to our client, or to ourselves. Selecting a Transacting Party in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with "soft dollars."

*Conflict of Interest.* If we use "soft dollars" to obtain research or other products and services, we receive a benefit because we do not have to produce or pay for that research or those other products or services using cash from other sources. And, because many products and services that we may receive from Transacting Parties may provide general benefits to us, our interests in allocating our clients' securities transactional business may conflict with those of our clients. For example, we may have an incentive, in order to induce brokers and dealers to provide us with services or benefits to, among other things, cause a client to:

- pay higher commissions and other compensation than it would otherwise pay broker-dealers that do not provide soft dollar services or products;
- place more trades than would be optimal for a client's investment strategy;
- use broker-dealers that do not obtain for a client the best possible price on portfolio transactions; and
- use (and pay) broker-dealers in effect to act as intermediaries with other broker-dealers who actually execute transactions.

The extent of the conflicts of interest arising out of the use of soft dollars depends in large part on the nature and uses of the services and products acquired with soft dollars. We may or may not use other clients' soft dollars to pay for services and products a client pays for and, if we do, that use may not be in proportion to account size, transaction volume, or uses of those services and products.

*"Safe Harbor" under Section 28(e).* A federal statute, Section 28(e) of the Securities Exchange Act of 1934, as amended, recognizes the potential conflict of interest involved in the use by an investment manager (such as HMI) of soft dollars generated by securities transactions to pay for various expenses but provides a "safe harbor" from breach of fiduciary duty claims if certain conditions and requirements are met. Under the Section 28(e) safe harbor, soft dollars may be used to acquire "research" and "brokerage" services and products for which our clients would not otherwise be required to pay. Services or products generally constitute "research" under Section 28(e) if they constitute advice, analyses or reports any of which express reasoning or knowledge as to the value of investing in or trading securities, or as to issuers, industries, economic factors and trends, portfolio strategy or performance, but only to the extent we use them for lawful and appropriate assistance in making investment decisions for our clients. "Brokerage" services and products are those used to effect portfolio transactions or for functions that are incidental to effecting those transactions (such as clearance, settlement or short-term custody related to effecting clearing or settling transactions) or regulatorily required in connection with transactions. Using soft dollars to pay for services and products other than research and brokerage is not protected by the safe harbor, but does not necessarily constitute a violation of any law or fiduciary duty. Similarly, use of non-commission soft dollars or otherwise failing to satisfy procedural elements of the Section 28(e) safe harbor are not protected but are not necessarily prohibited. Nevertheless, we generally intend to use soft dollars only to acquire research and brokerage services within the Section 28(e) "safe harbor." Even where our use of soft dollars to acquire research and brokerage services and products is protected by Section 28(e), we will have a conflict of interest in connection with that use because we might otherwise have to pay cash for those services and products and we may have an incentive to use Transacting Parties who provide those services and products more than we otherwise would.

*Procedures.* Transacting Parties who provide soft dollar services or products may establish "credits" based on past transactional business, which may be used to pay or reimburse us for specified expenses. In some cases the process is less formal and a Transacting Party simply may suggest a level of future business that would fully compensate the Transacting Party for services or products it provides. Clients' actual transactional business with a Transacting Party may be less than the suggested level but can — and often will — exceed that level, and credits established may exceed the amounts used to acquire services and products. This may be in part because clients' investment activities generate aggregate commissions in excess of the levels of future business suggested by all Transacting Parties who provide services and products. And it may be in part because those Transacting Parties may also provide superior execution and may therefore be most appropriate for particular transactions. We may ask a Transacting Party who is executing a transaction for several accounts managed by us to "step out" of a portion of the transaction in favor of a Transacting Party who has provided or is willing to provide products or services for soft dollars. That is, the executing Transacting Party will allow a portion of the overall commissions or other compensation to be paid to the soft-dollar Transacting Party. This assists us in acquiring products and services with soft dollars while providing the benefits of aggregated transactions (as described in more detail below).

For the avoidance of doubt, HMI does not currently have soft dollar arrangements with any broker-dealers; however, HMI does receive research services, including access to conferences, from various brokers-dealers who execute trades on HMI's behalf. As described above, HMI seeks best execution when selecting all broker-dealers, including those who provide research services to HMI.

### **Cross Transactions**

We may (but are not obligated to) cause our clients to effect “cross” transactions (i.e., buy and sell securities from and to each other), subject to applicable law or regulation. We may do so if we believe that the cross transaction will be beneficial to both parties. Certain laws or regulations may prevent us from engaging in “cross” transactions that could be beneficial to our clients.

### **Aggregation of Orders**

We may (but are not required to) combine orders on behalf of our clients with orders for other accounts for which we have trading authority, or in which we have an economic interest. When we do so, we will generally allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. We believe combining orders in this way will, over time, be advantageous to all participants. However, the average price could be less advantageous to a particular client than if the client had been the only person or entity effecting the transaction or had completed its transaction before the other participants. Because we may also have an interest in particular clients, there may be circumstances in which a client's transactions may not, under certain laws and regulations, be combined with those of some of ours and our affiliates' other clients, and a client may obtain less advantageous execution than other clients.

### **Directed Brokerage; Prime Brokerage**

Although we do not have any “directed brokerage” arrangements with our clients, we may cause our clients to obtain custodial, clearing, lending and related services through what is known as a “prime brokerage” arrangement. By using brokerage firms for these functions, our clients may be able to avoid paying custodial fees that banks charge other institutional investors. Prime brokers are compensated through brokerage commissions, interest on credit balances, margin borrowings, and stock loans. A client might be thought of as “directing” us to place transactions with a prime broker in order to pay for the custodial, clearing, lending and related services the client obtains from the prime broker.

A prime broker may provide services to us and/or our affiliates, distinct from the custodial, clearing, lending and related services the prime broker provides our clients. These services may include, among other things, information technology, website hosting, portfolio management software license and support service, consulting services with respect to various aspects of our business and introducing us to prospective advisory clients and prospective investors in the investment funds we manage. They may be provided at lower than the market price for similar services or for no charge. A prime broker may also enter into financial transactions with us or our affiliates, and these transactions may be on terms more favorable than the terms available with other counterparties. These transactions might include lending money to us or our affiliates or investing in funds managed by us. To the extent we or our affiliates receive services from a prime broker at lower than market prices, or enter into transactions on terms better than terms available in the market, or collect fees from investments by a prime broker into our clients, because we are responsible for selecting the prime broker or negotiating the rates of compensation paid to the prime broker by our clients, conflicts may exist between our interests and those of our clients. In particular, we may have an incentive to cause a client to accept less favorable pricing for prime brokerage services (including interest and similar charges on margin borrowings and short positions) than might be available otherwise or to continue to use a prime broker when a client would not otherwise do so.

## **REVIEW OF ACCOUNTS**

HMI's Investment Team reviews each Fund's portfolio daily as part of its ongoing portfolio management activities. The Operations Team or its designee also conducts daily reviews of each Fund's portfolio. The Operations Team includes Emily Brakebill, Partner, Chief Operating Officer, Chief Compliance Officer, Jonathan Wu, Partner and Chief Financial Officer, and Lynn Hartman, Compliance and Operations Associate.

We do not provide formal reports to the Funds, as we are their sole general partner and investment manager. The Funds prepare annual financial statements that they cause to be audited by an independent certified public accounting firm and provides those statements to its investors. They also currently provide unaudited monthly account statements to investors.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Other than the previously described products and services that we receive from broker-dealers, we do not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients.

We do not directly or indirectly compensate any person for client referrals.

## **CUSTODY**

Although HMI does not maintain physical possession of client assets, HMI is deemed to have custody of client assets and is subject to Rule 206(4)-2 of the Advisers Act (the "Custody Rule"). However, we are not required to comply (or are deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund, because we comply with the provisions of the so-called "Pooled Vehicle Annual Audit Exemption." In accordance with that exemption, among other things, each Fund is subject to an audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and each Fund distributes its audited financial statements to all investors within 120 days after the end of its fiscal year.

## **INVESTMENT DISCRETION**

The Funds' agreements of limited partnership grant us complete discretion to manage the Funds' investment portfolios, without any specific limitations other than those described in the Funds' offering materials. See the description above in "Advisory Business" and "Methods of Analysis, Investment Strategies and Risk of Loss."

## **VOTING CLIENT SECURITIES**

We have established proxy voting policies and procedures (our "Proxy Voting Policy") designed to ensure that proxies are voted in the best interests of our clients. Justin Nyweide has the responsibility for the implementation and monitoring of our Proxy Voting Policy, including outlining our voting guidelines in our procedures. In voting proxies, we may consider the opinion of management and the effect on management, shareholder value and the issuer's business practices.

We will identify any conflicts that exist between our interests and the interests of our clients by reviewing our relationship with the issuer of each security to determine if we or any of our employees has any financial, business or personal relationship with the issuer. If a material conflict exists, Mick Hellman and Justin Nyweide will determine whether it is appropriate to disclose the conflict to the affected clients, to give the clients an opportunity to vote the proxies themselves, or to address the voting issue through other objective means.

As our only current clients are the Funds, the Funds limited partners have no meaningful ability to direct our vote in a particular solicitation.

In addition to proxy voting, we have the authority to direct Client participation in class actions and will determine whether Clients will participate in a recovery achieved through a class action or opt out of the class action and separately pursue their own remedy.

Clients may request a copy of our Proxy Voting Policy, as well as relevant proxy voting records, by making a written request to us at the address on the cover page of this brochure.

### **FINANCIAL INFORMATION**

We have never filed for bankruptcy and are not aware of any financial condition that is expected to affect our ability to manage client accounts.