



*Form ADV Part 2A: Firm Brochure*

*August 19, 2020*

*This Brochure provides information about the qualifications and business practices of Hoisington Investment Management Company ("HIMCo"). If you have any questions about the contents of this Brochure, please contact us at (512) 327-7200 or (800) 922-2755. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.*

*Additional information about Hoisington Investment Management Company also is available on the SEC's website at **[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**. You can search this site by name or a unique identifying number, known as a CRD number. Our firm's CRD number is 107710.*

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## **Item 2 - Material Changes**

*This section of the Brochure helps you to quickly identify material changes from the last annual update. Since the last annual update on March 30, 2020, the following material changes are included in this amendment:*

There are no material changes.

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## **Item 4 - Advisory Business**

### ***The Firm & Principal Owners***

Hoisington Investment Management Company (“HIMCo”) is an independent investment adviser registered under the Investment Advisers Act of 1940. Registration does not imply a certain level of skill or training. Its principal place of business is in Austin, Texas. HIMCo has been providing fixed income investment management services since 1980. The firm was founded by Van R. Hoisington and is operated and managed by:

- Van R. Hoisington, Chief Executive Officer
- Van R. Hoisington Jr. (“V.R.”), President and Chief Operating Officer
- David M. Hoisington, Executive Vice President and Chief Compliance Officer

Van R. Hoisington Jr. and David Hoisington are principal owners.

There are no subsidiary companies or affiliates.

### ***We offer our clients the following types of advisory services:***

#### **Portfolio Management**

##### **1. Separately Managed Accounts**

We manage customized fixed income portfolios for separate accounts on a discretionary basis. Portfolio assets are limited to U.S. Treasury securities and cash equivalents. U.S. Treasury securities include:

- U.S. Treasury bonds, bills and notes
- Treasury zero coupon bonds (“STRIPS”)
- Treasury Inflation Protected Securities (“TIPS”)
- Treasury floating rate notes (“FRNS”)
- Repurchase agreements collateralized by Treasuries

We are able to tailor advisory services to the individual needs of clients. For example, certain clients have specific income requirements. We accommodate such income needs by investing only in coupon bearing securities.

We provide continuous and regular management services under a written Investment Advisory Agreement (“Agreement”) that is cancellable by the client within five business days of execution without penalty or fees, thereafter, by either party upon thirty days’ written notice. We provide investment management services for mainly institutional clients: pension and profit-sharing plans; 401(k) plans; charitable organizations; state or municipal government retirement plans; pooled investment vehicles; insurance companies and other corporations or partnerships.

Occasionally, we will accept high net worth individual clients. We require that all new accounts have a value of at least one million dollars.

## 2. Sub-adviser Relationships

*Mutual Fund* - Since 1996, we have been the sub-adviser for the Wasatch-Hoisington U.S. Treasury Fund (ticker symbol, WHOSX). We sub-advise WHOSX (the “Fund”) through a sub-advisory agreement with Wasatch Advisors, Inc., a non-affiliated federally registered investment adviser. Wasatch Advisors, Inc. is the investment adviser to the Fund. More information on this fund can be obtained by calling (800) 551-1700 or at [www.wasatchglobal.com](http://www.wasatchglobal.com).

*Private Funds* - We also have sub-adviser relationships with two private funds on a discretionary basis.

*Other Investment Adviser* – Another investment advisory firm, which also serves as a pension consulting firm, has engaged us on behalf of two pension funds which we manage on a discretionary basis.

## 3. Wrap Fee Programs

We act as a portfolio manager for two accounts where we are listed as being a portfolio manager for a wrap fee program. There is no difference in the way we manage wrap accounts compared to other accounts, and our investment management fee schedule is the same, whether applied to wrap accounts or other account types. We have a separate agreement directly with each client. There are no additional trade-away fees for wrap fee accounts compared to non-wrap accounts because we trade only in U.S. Treasuries. Trades in U.S. Treasuries do not incur brokerage commissions.

As of December 31, 2019, the Firm had assets under management of \$5,016,000,000, all of which are managed on a discretionary basis.

## Item 5 - Fees and Compensation

### *Fee Schedule*

The firm charges advisory fees for discretionary account management based on a percentage of the market value of the account's assets at the end of each quarter. We charge fees for new clients under the following fee schedule:

<u>Assets Under Management</u>	<u>Annual Rate</u>
First \$10 million	.45%
Next \$40 million	.35%
Next \$50 million	.25%
Next \$400 million	.15%
Amounts above \$500 million	.05%

The minimum quarterly fee is \$5,625 and the minimum account size is \$1 million. The quarterly fee is calculated as  $\frac{1}{4}$  of the annual rate. Fees are prorated (using the actual number of days in the quarter) if we have served as investment manager for less than the full calendar quarter and for any contributions to or withdrawals from the account during the quarter. Fees are payable by each client quarterly, in arrears, based upon the ending market value ("EMV") of the account, including cash and accrued interest, at the end of each calendar quarter. For billing purposes, the value of the account is the value as reflected in our performance measurement and investment accounting system. There is the possibility that there will be differences between the account value on the client's custodial statement and the account value in our investment accounting system due to different pricing services used and minor variances in accrued income calculations.

Although HIMCo has established the aforementioned fee schedule, we retain the discretion to negotiate alternative fees on a limited client-by-client basis. Related accounts may be combined in order to calculate the fee charged. Because we have a long history with many of our clients, some clients have older fee schedules. Breakpoints for tiers and fee rates have been revised over time. Existing clients pay the fee specified in their advisory agreement. Some clients require us to use the custodial balance for billing. We pull this value on the first or second business day after month end, so this value may differ from that shown on the custodian's statement due to later postings as of a date within the month. Some clients remove accrued interest from quarter end EMV. These differences mean that some clients are paying different rates than others and are receiving the same level of service. We do not differentiate the service we provide based on the fee schedule.

The fee that we receive for serving as the sub-adviser to the Wasatch-Hoisington U.S. Treasury Fund is currently equal to 0.25% of the Fund's average daily net assets, less one-half of the quarterly shareholder servicing fees. Sub-adviser fees for the private funds

and the other investment advisers are according to our standard fee schedule as shown above.

Wrap accounts are billed separately, just like non-wrap accounts. The program sponsor does not pay us any part of the compensation paid to the sponsor. Wrap account clients should look at the Wrap Fee Brochure from the sponsoring entity for disclosure of the sponsor's fee.

### ***Payment of Fees***

Accounts are billed each calendar quarter in arrears. Payment is requested within 30 days of receipt of the invoice. Payment may be made by check, wire transfer or electronic funds transfer.

Typically, we bill clients directly for fees incurred. However, some clients have requested that we instruct the custodian to deduct funds from their account to pay our fees. If directed by the client, we will send our invoice to the account custodian. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period including the deduction of our management fee. Clients should contact us directly if they believe that there may be an error in their fee calculation.

The fee we receive as the sub-adviser to the Wasatch-Hoisington U.S. Treasury Fund is paid monthly, in arrears, pursuant to the Sub-Advisory Agreement with Wasatch Advisors, Inc.

Wrap accounts pay two fees: one to the sponsor and a separate fee to us. The sponsor of the wrap program remits our fees to us.

### ***Other Fees & Expenses***

#### ***Additional Fees and Expenses***

In addition to our advisory fees, clients often incur certain charges imposed by third parties, such as custodians, banks and other financial institutions. We do not receive any of these fees, either directly or indirectly. These additional fees include, among other things:

- Mark-ups and mark-downs (e.g. dealer spreads)
- Custodial fees
- Wire transfer and electronic fund processing fees

In addition, clients direct their custodian to invest cash in a sweep or other interest-bearing account such as a money market fund, which may be managed by an affiliated

company of the custodian. These short-term investments of cash may incur management and distribution expenses payable to the custodian or its affiliates. Money market funds' fees and costs are described in the relevant money market fund prospectus and will not be deducted from the fee that clients pay to us for advisory services.

Due to the fact that we trade only in U.S. Treasuries, there are no brokerage commissions incurred when trades are executed.

### ***Prepaid Fees***

We do not collect any prepaid fees. Clients are invoiced quarterly, in arrears.

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

We do not accept or charge any performance-based fees (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

## **Item 7 - Types of Clients**

We provide advisory services to the following types of clients:

- Pension and profit-sharing plans (both public and private, including ERISA plans)
- Charitable organizations
- Insurance companies
- Investment companies
- Pooled investment vehicles (other than investment companies)
- Corporations or other businesses
- Trusts and partnerships
- High net worth individuals

The minimum amount necessary to enter into an agreement for portfolio advisory services is \$1 million and the minimum quarterly fee is \$5,625.

The minimum investment to open an account for the Wasatch-Hoisington U.S. Treasury Fund is \$2,000.



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

### ***Methods of Analysis***

The Strategic Investment Committee (the “SIC”) conducts HIMCo’s portfolio management process. Five employees serve on the SIC and are registered as Investment Adviser Representatives of the Firm. More information about the members of the SIC may be found in our Brochure Supplements.

In managing Treasury securities, the SIC is interested in macroeconomic, top-down analysis. The majority of HIMCo’s research is conducted internally. The research is designed to identify the long-term trends in real growth and inflation. Substantial academic research indicates that inflation is the key determinant of long-term Treasury bond yields. All members of the SIC are involved in the research process. As a result of this effort, we analyze research coming out of major educational institutions, as well as private and public think tanks. We augment the internal research by purchasing research and data from external suppliers.

### ***Investment Strategy***

Our investment strategy is twofold. During periods of a rising inflationary environment, portfolios are typically invested in short-duration Treasuries or cash equivalents to avoid the principal loss associated with falling Treasury bond prices that would result from any increase in yields. Alternatively, during episodes of a falling inflationary environment, portfolios are typically invested in longer-duration Treasury securities in order to capture the capital gains that are associated with rising bond prices that would result from any decrease in yields.

We will and have customized the investment strategy in Treasuries for certain clients.

### ***Risk of Loss***

U.S. Treasury securities, used to finance the federal government debt, are considered to have the bond market’s lowest credit risk because they are guaranteed by the U.S. government’s “full faith and credit”. Full faith and credit means that the U.S. government is committed to pay interest as it is due, and principal back to the investor at maturity. However, if interest rates move adversely to HIMCo’s position, there is a risk of loss of principal if Treasury securities are sold below the purchase price. Clients should understand that in this circumstance there would be a loss of principal that the client should be prepared to bear. There can be no assurance that we will be able to predict interest rate movements and, therefore, price movements.

**All investments carry some degree of risk that will affect the value of the investment and its investment performance. Investing in Treasuries, as with any security, involves the risk of loss and clients should be prepared to bear potential losses.**

Risks investors face when investing in Treasuries include the following:

- **Credit Risk:** Credit risk is the risk that the issuer of a debt security will fail to repay principal and interest when due. U.S. Treasury securities are backed by the full faith and credit of the U.S. government and are viewed as carrying minimal credit risk.
- **Interest Rate Risk:** Interest rate risk is the risk that a debt security's value will decline due to an increase in market interest rates. While U.S. Treasury securities provide a stable stream of income, their prices will still fluctuate with changes in interest rates. For example, when yields on existing bonds rise, their value declines. When interest rates change, the value of longer-duration debt securities usually change more than the value of shorter duration debt securities.
- **Market Risk:** The price of a U.S. Treasury security may move dramatically in reaction to tangible and intangible events or conditions. For example, political and/or economic conditions may trigger market events, as well as social conditions. Potential government fiscal policy initiatives and the resulting market reaction to those initiatives and affect interest rates.
- **Effective Duration Risk:** Effective duration calculates the expected price change for a fixed income security when the yield of the security changes by 100 bps. For example, if the yield increased by 100 bps, a fixed income security with an effective duration of five years would experience a decline in price of approximately 5%. Conversely, if the yield decreased by 100 bps, the price of a fixed income security with an effective duration of five years would increase by approximately 5%. Higher duration means higher price sensitivity to yield changes. The market price changes of a zero-coupon fixed income security, which does not pay periodic interest payments, is generally more volatile than the market price changes of a security of similar maturity that does pay interest periodically because its duration equals its maturity.
- **Reinvestment Risk:** Primarily related to fixed income securities, 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).
- **Inflation Risk:** When 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.

- **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 known as exchange rate risk. This risk applies to our non-U.S. clients.

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of HIMCo or HIMCo's management.

Neither our firm nor our management personnel have any reportable disciplinary events to disclose.

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

Neither our Firm nor any management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Neither our Firm nor any management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser or an associated person of the foregoing entities.

We are the sub-adviser to the Wasatch-Hoisington U.S. Treasury Fund. Wasatch Advisors, Inc., the adviser to the Fund, is not a related party.

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

### ***Code of Ethics***

We have adopted a Code of Ethics ("Code") pursuant to Rule 204A-1 under the Advisers Act that sets the standards by which all of our employees must adhere. As a fiduciary, we have a duty of care, loyalty, honesty and good faith to our clients.

Our Code of Ethics ("Code") outlines the Standards of Business Conduct regarding issues such as confidentiality; communications with clients and others; compliance with laws, rules and regulations; fiduciary appointments; gifts and entertainment; and conflicts of interest.

Our Code includes policies and procedures for the reporting of quarterly securities transactions, as well as initial and annual holdings reports that must be submitted by our firm's access persons. Among other things, all access persons are required to obtain prior

approval for any acquisition of securities in a limited or private offering or an initial public offering.

Further, our Code includes a policy regarding the use of material non-public information. All employees are reminded that such information may not be used in a personal or professional capacity.

Each director, officer and employee is expected to comply at all times with all the policies and procedures in our Code of Ethics and to report to the Chief Compliance Officer any suspected or observed violation of these policies and procedures.

Our Code of Ethics is distributed to all employees of HIMCo whenever revisions are made or no less frequently than annually, at which time all employees are required to provide a written acknowledgement and attestation of their intent to abide by HIMCo's Code provisions.

We will provide a copy of our Code of Ethics to any client or prospective client upon request.

### ***Interest in Client Transactions & Personal Trading***

The SEC mandates that persons associated with SEC registered firms must monitor employee's activity in certain "covered securities". Covered securities include any stock, bond, future, investment contract, option, limited partnership, hedge fund, etc. Employees are required to report trading in the above listed covered securities and trading in the Wasatch-Hoisington U.S. Treasury Fund. U.S. Treasury securities are specifically exempted from the definition of covered securities and are not reportable.

At any time, the security positions in the personal accounts of our employees may differ, or be similar to, the recommendations promulgated to clients. This does not create a conflict of interest, as the U.S. Treasury market is so deep and broad that it cannot be manipulated by individual trading.

## **Item 12 - Brokerage Practices**

The U.S. Treasury market is one of the world's most liquid debt markets. This means the market is one where the pricing, execution and settling of a trade is very efficient and inexpensive due, partly, to very tight bid/ask prices.

Under our Investment Advisory Agreement, we accept discretionary authority to determine what securities should be purchased or sold and the amount to be purchased or sold for each client. We also accept discretionary authority regarding the broker-dealer

to be used. The discretionary authority given to us is limited by any special restrictions placed upon the account by the client but is otherwise unrestricted.

It is HIMCo's policy to seek best execution (i.e. prompt and reliable execution at the most favorable prices obtainable under the prevailing market conditions) in all trades.

We select broker-dealers primarily on price and the quality of their execution capabilities, including: overall promptness of execution, accuracy of oral, hard copy and electronic execution verification, the ability and willingness to correct errors, and research, if any, provided by the broker-dealer. Generally, trades are executed using the Tradeweb electronic trading application. Through Tradeweb, we are able to approach multiple broker-dealers simultaneously and trade with best price as a priority. If Tradeweb is not utilized, then we contact broker-dealers who we know are capable of trading securities efficiently and are capable of handling transactions with privacy.

All bond trades are done on a net price basis with a broker-dealer. Explicit brokerage commissions are not paid. An over-the-counter market, such as the one for Treasuries, means that we can only buy securities at a price being offered in the market or sell them at a price that a broker-dealer is willing to pay.

The majority of broker-dealers used are primary broker-dealers. Occasionally, due to the large size of our Treasury positions and volatile intraday market conditions, it is necessary to execute trades in a manner that is not disruptive to overall markets to minimize potential harm to clients. Under these circumstances, it is often advantageous to trade with non-primary broker-dealers that we know are capable of trading securities efficiently and are capable of handling transactions with privacy to shield our trading activities from publicity and market knowledge. This may result in slightly sub-optimal pricing in the short run, but in our experience, it produces a better result overall for clients when taken in the context of changing large positions in the portfolio.

Occasionally, orders are given to various broker-dealers to fill trades over an extended time frame with a controlled price range (albeit, at wider spreads than a single trade). It is possible that not all accounts will receive identical prices if several broker-dealers are used simultaneously to help expedite the buying or selling of large positions, but extreme care is given to even the trading results in ensuing trades. Despite efforts to maintain exact evenness in price, it is most unlikely that all accounts will receive the same pricing. In fact, it is highly probable that some variance in prices paid or received between accounts will occur when trading large positions.

We have adopted policies and procedures for correcting errors. The policies and procedures require that all trade errors affecting a client's account be resolved promptly and fairly. The intent of the policy is to restore a client account to the appropriate financial position considering all relevant circumstances surrounding the error.

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

We do not enter into any third party or proprietary soft dollar arrangements where research is provided by a broker-dealer in exchange for an expectation of receiving a certain dollar amount of commissions.

We receive a range of economic research from broker-dealers, including studies on the economy, information on political developments, statistical information, market data, accounting and tax law interpretations and other information regarding matters that affect the economy and interest rates. We use this research in connection with our investment activities.

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

HIMCo does not enter into agreements with, or make commitments to, any broker-dealer that would bind HIMCo to compensate that broker-dealer, directly or indirectly, for client referrals through the placement of brokerage transactions.

### ***Directed Brokerage***

As a general practice, we do not permit our clients to direct brokerage. However, some clients may prohibit use of specific broker-dealers. Any brokerage request may have an adverse effect on HIMCo's ability to achieve best execution for such client. In addition, such requests may prevent the client from trade aggregation, which may allow more favorable execution.

### ***Trade Aggregation and Allocation***

We have a fiduciary duty, when placing orders for multiple accounts, to ensure that participating clients are treated fairly and equitably when aggregating and allocating securities transactions. When making a tactical asset reallocation, or investing a coupon payment, HIMCo will transact an aggregated trade for multiple clients. Under these circumstances, all trades are allocated on a pro-rata basis with each participating account receiving a percentage of the executed portion of the order based on each account's percentage of the original order. Each aggregated order is documented with the securities bought or sold for each client account.

It is HIMCo's policy not to aggregate client trades with trades for any employees.

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

### ***Account Reviews***

On a daily basis, we review transactions and cash flow activities that have occurred within each client's separately managed account. Members of the SIC review each client account on an ongoing basis. Members of the SIC include the CEO, President, Executive Vice Presidents and Senior Vice President. These reviews ensure that the portfolio is conforming to the client's investment guidelines and conforming to the general strategy established by the SIC. Each review considers yield, duration, performance and relative performance.

More frequent reviews may be triggered by changes in the market, political or economic environment. Clients may request reviews at any time.

### ***Account Reports and Statements***

We provide written monthly reports to clients that include: (1) a performance summary; (2) a portfolio valuation, and (3) a transaction schedule. Interim reports are provided at the request of the client.

In addition, clients receive monthly statements directly from their custodian. We urge clients to carefully review their custodial statements and compare them to the reports they receive from us. It is possible that our reports vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities, including calculation of accrued interest. If clients observe any discrepancies between our reports and their custodian's statements, they should contact us.

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

### ***Economic Benefits for Providing Services to Clients***

We are not the recipient of any economic benefits, such as sales awards or other prizes, from any third parties for providing investment advice to clients.

### ***Compensation to Individuals for Client Referrals***

We have no agreements with any person or firm to solicit clients.

## **Item 15 - Custody**

Custody is defined as holding, directly or indirectly, client funds or securities, or having any authority to obtain possession. HIMCo does not have custody of clients' cash (and cash equivalents) or securities. However, because certain clients have instructed the account custodian to deduct the investment management fee directly from their account, HIMCo is considered to have "deemed custody" of those clients' assets. This limited access is monitored by the client through receipt of account statements directly from the custodian. These account statements show the deduction of the management fees; therefore, clients should carefully review their custodial account statements and compare them with the month end reports received from HIMCo. If the client finds significant discrepancies, the custodian and HIMCo should be notified.

## **Item 16 – Investment Discretion**

Clients hire us to provide discretionary asset management services. We have full discretion to do the following without first obtaining approval from the client:

- Determine the securities to be bought or sold;
- Determine the amount of securities to be bought or sold;
- Determine the broker-dealer to be used for the purchase or sale; and
- Determine the timing of the purchase or sale.

We accept this authority when the client signs the written Investment Advisory Agreement, which includes a limited power of attorney. Some clients place a limitation on this authority by giving us written instructions. Such limitations are typically set forth in written Investment Guidelines. For example, clients may limit the duration and type of securities within the account. Clients may change or amend such instructions by again providing us with written instructions.

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

The accounts that we manage hold only U.S. Treasury securities, so there are no proxies to vote on those securities. We will not vote proxies on money market funds. Proxies on money market funds are the custodian's responsibility.

## **Item 18 - Financial Information**

We do not require or solicit prepayment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.



As an advisory firm that maintains discretionary authority for client accounts and has deemed custody for certain accounts, we are required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients; or, a bankruptcy within the last ten years.

HIMCo has no disclosure items in this section.

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

Because we are not a state-registered adviser and are not in the process of registering with any state, Item 19 does not apply.