

## **Firm Brochure**

(Part 2A of Form ADV)

### **Horiko Capital Management LLC**

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This brochure provides information about the qualifications and business practices of Horiko Capital Management LLC. If you have any questions about the contents of this brochure, please contact us at: 347-284-6751, or by email at: [info@horikocapital.com](mailto:info@horikocapital.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.

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

**MARCH 26, 2020**

## Material Changes

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### Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### Material Changes since the Last Update

N/A

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### Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 347-284-6751 or by email at: [info@horikocapital.com](mailto:info@horikocapital.com).

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# Advisory Business

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## **Firm Description**

HCM was established as a New York limited liability company in April 2000 and approved as a SEC registered investment adviser on October 6, 2017. HCM was formerly a New York State registered investment adviser. The Investment Adviser's principal business and occupation is to provide financial management and advisory services to individuals, corporations, and other institutional clients throughout the world.

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## **Principal Owners**

Hideji Horiko owns 99% of the HCM.

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## **Types of Advisory Services**

HCM serves as investment manager for 3 private investment funds. In particular, HCM provides investment advice to investment vehicles formed as a domestic entity (a limited partnership) and a foreign entity (a Cayman Island exempt company and Unit Trust). HCM also provides discretionary investment advice to other domestic and foreign institutional clients, including high net worth individuals. As investment manager, HCM offers investment advice and management in the following types of securities:

- US and Non-US Equity and equity related securities
- Event arbitrage activities involving US and Non-US companies
- Fixed and adjustable rate US Government and Agency bonds, US Treasury Notes and US Treasury Bills
- Debt Securities and instruments issued by US and Non-US corporations
- Futures contracts, foreign exchange commitments, leverage contracts, currencies
- Commodities and commodity interests

As of DECEMBER 31, 2019, HCM manages \$202,727,637 in assets for 3 investment vehicles and 1 high net worth individuals on a discretionary basis.

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## **Tailored Relationships**

The goals and objectives for each client are documented in the investment management agreement with each client. Investment policy statements are created that reflect the stated goals and objective. The investment management agreement may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

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## **Types of Agreements**

The following agreements define the typical client relationships.

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**Investment Management Agreement**

HCM provides discretionary investment advisory services as an investment manager for its clients pursuant to various investment management agreements, limited partnership agreements and operating agreements. HCM's investment management fees are determined by, among other factors, the strategy, the type of assets to be managed, the intensity of the analysis required, and the size of the pool of the assets. HCM may also provide financial planning services to its individual clients. The base annual fee schedule typically ranges between 1.0% and 3.0% of assets under management.

## **Fees and Compensation**

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**Description**

HCM bases its fees on a percentage of assets under management. Customary base fee schedule is as follows:

Assets	Fee (Annually)
\$100,000 - \$499,999	3.0%
\$500,000 - \$999,999	2.5%
\$1,000,000 - \$4,999,999	2.0%
\$5,000,000 - \$9,999,999	1.5%
\$10,000,000 +	1.0%

Investment Management Fees are negotiated with each client, and HCM may, in its sole discretion, waive a portion of its customary base fees. Investment Management fees are prorated for partial periods. Additionally, HCM may also receive fees resulting from early redemptions from certain funds which have a minimum investment period. These fees are up to 2%.

Investment Advice or consulting services may also be provided irrespective of AUM. Such advice is subject to a fee of up to \$500/hour PLUS expenses including reimbursable expenses.

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**Fee Billing**

Investment management fees are payable in arrears, daily, monthly, quarterly or annually depending on the type of account. Fees may be deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

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**Other Fees**

Custodians may charge transaction fees on purchases or sales of certain investment vehicles. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

HCM, in its sole discretion, may waive its customary base minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

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**Past Due Accounts and Termination of Agreement**

HCM reserves the right to stop work on any account that is more than 30 days overdue.

## **Performance-Based Fees**

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**Sharing of Capital Gains**

HCM may receive performance-based compensation in addition to investment management fees. Performance-based compensation is 20% and is paid annually or quarterly in arrears based on increases in an account's or investment vehicle's net asset value. Performance-based compensation is prorated for partial periods.

## **Types of Clients**

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**Description**

HCM's current investment management clients are either corporations, partnerships, high net worth individuals or accounts that have been established by a group of investors. For each such fund or account, HCM has been appointed investment manager pursuant to an investment management agreement or limited partnership agreement with each fund or account.

HCM may also provide financial planning services as part of its asset management to individual clients. Client relationships vary in scope and length of service.

**Account Minimums**

The minimum initial investment amount is \$100,000 USD although HCM has discretion to accept lesser amounts. HCM may also raise the minimum investment amount at any time, in its sole discretion.

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

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**Methods of Analysis and Investment Strategies**

The investment strategy of HCM is to invest primarily in common stocks of companies that HCM believes are undervalued in the securities markets. HCM's strategy also include investments in fixed income securities and from time to time, holding significant amounts of cash, money-market funds, U.S. Government

bonds, commercial paper or similar securities.

To select equity securities for the client, HCM seeks to identify companies that it understands well and that possess one or more of the following characteristics:

- Positive (or projected positive) revenue or profit trends;
- Healthy balance sheet, characterized by ample cash relative to debt, efficient working capital management, high or increasing liquidity, or other metrics that the Investment Adviser believes indicate the company's ability to withstand unexpected shocks, reinvest in the business, and improve its business prospects and circumstances;
- Strong free cash flow generation;
- Powerful and sustainable competitive advantages;
- Management team that: a) operates the business well and has a sound strategy to build it over time; b) allocates capital wisely to enhance shareholder value; and c) has high integrity; and
- Policies (e.g., compensation structures) that do not significantly dilute shareholders' ownership.

Most importantly, HCM seeks to identify companies whose stocks are trading, in the opinion of HCM, at a substantial discount to their intrinsic value. In determining discount to intrinsic value, HCM considers the following factors:

- Substantial discount from a price at which the securities of comparable businesses have been sold in arms' length transactions between parties judged to be competent businesspersons;
- Substantial discount to the value of the business determined by cash flow analysis and qualitative strengths; and/or
- Substantial discount from asset value based on the total value of the company's individual parts and assets, less the present value of its liabilities.

When selecting short candidates for inclusion in the client's portfolio, HCM's objective is to identify companies with one or more of the following characteristics:

- Prospects of at least 35% downside in valuation;
- Flawed business strategies and product positioning;
- Declining fundamentals;
- Unexpected changes in management;
- Accounting irregularities or aggressive practices.

HCM intends to take short positions in the stock of these companies following indications of problems in such company's fundamentals. HCM intends to cover these short positions when HCM believes the fundamentals have stopped deteriorating.

HCM also intends to invest in "special situations" to achieve its objective. A special situation arises when, in the opinion of HCM, securities of a company will,



within a reasonably estimated time, appreciate in value due to developments particularly or uniquely applicable to that company without regard to general business conditions or movements of the market as a whole. Such developments and situations include, but are not limited to, liquidations, reorganizations, recapitalizations or mergers. To identify companies and securities meeting the client's criteria, HCM generally employs fundamental analysis to determine the value of a company and its securities and then compares those results to current market values. Securities trading at significant discounts to perceived values are candidates for investment.

HCM's fixed income strategy includes investing in a wide range of securities including US corporate debt, non-US corporate debt, bank debt, US government and agency debt, short-term debt obligation of foreign governments and foreign money market instruments, convertible bonds and other convertible securities without regard to maturity or the rating of the issuer of the security, and in lower-rated securities believed mis-rated by the market. The strategy pursues a positive absolute return using investments in fixed income that focus on income, appreciation and capital preservation.

There can be no assurance that HCM will achieve its objectives.

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**Risk of Loss**

All investment programs have certain risks that are borne by the investor. Prospective clients should give careful consideration to the following risk factors in evaluating the merits and suitability of an investment. The following does not purport to be a comprehensive summary of all the risks associated with an investment. Rather, the following are only certain particular risks to which the investment is subject;

- **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.
- **Market Risk:** The price of a security, bond, or mutual fund 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. For example, political, economic and social conditions may trigger market events.
- **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.
- **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.

- **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.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **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.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Cyber Risk:** The information and technology systems of HCM and of key service providers to HCM and its clients may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, and hurricanes. If HCM's systems are compromised, become inoperable for extended periods of time, or cease to function properly, significant interruptions could occur in the operations of HCM or its client Accounts and may result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have NOT been involved in legal or disciplinary events related to past or present investment clients.

## Other Financial Industry Activities and Affiliations

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### Financial Industry Activities

Neither HCM nor its representatives are registered as, or have pending applications to become, a broker/dealer or a representative of a broker/dealer. Neither HCM nor its representatives are registered as or have pending applications to become either a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor or an associated person of the foregoing entities.

### Affiliations

HCM is a General Partner of a pooled investment vehicle. This is a conflict of interest. HCM earns management fees and performance fees as a General Partner. To mitigate this conflict of interest HCM acts as a fiduciary and makes investment recommendations in the best interests of the client. HCM also waives its advisory management fee as the client's registered investment adviser and only earns fees as the investment manager to the pooled investment vehicle.

HCM does not direct clients to third party money managers.

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

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### Code of Ethics

The employees of HCM have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

### Participation or Interest in Client Transactions and Personal Trading

From time to time, HCM may recommend securities that HCM is a General Partners of a pooled investment vehicle.

Employees of HCM may buy or sell securities that HCM recommends to, or trades for, clients. Such transactions are monitored by HCM and governed by CFA Institute's Code of Ethics and Standards of Professional Conduct. The Codes impose certain obligations regarding personal trading and establish internal monitoring procedures for HCM.

## Brokerage Practices

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### Selecting Brokerage Firms

HCM generally has investment discretion to place portfolio transactions and select brokers without the prior approval of clients. HCM seeks to obtain the

most favorable net results for clients including price, execution quality, services and commissions. Although HCM seeks competitive commission rates, it may at times pay commissions on behalf of clients which may be higher than those available from other brokers in order to achieve superior execution or services. HCM may enter into such transactions so long as it determines in good faith that the amount of commission paid was reasonable in relation to the value of the brokerage and research services provided by the broker. HCM does not have any affiliation with product sales firms. HCM does NOT receive Soft Dollar Benefits.

HCM maintains the ability to block trade purchases and sales across accounts. Block trades may be used if it is advantageous to client accounts in achieving best execution in a purchase or sale of a security. Block trading may not be utilized if it is determined that it will not result in best execution for client accounts.

HCM does not allow directed brokerage. HCM requires the use of the prime broker for execution of client transactions. Not all advisers require clients to use a specific custodian.

## **Review of Accounts**

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### **Periodic Reviews**

All accounts are reviewed continuously by one reviewer, Erik J. Doran, Chief Compliance Officer of HCM. Hideji Horiko, President & CEO of HCM bears the ultimate responsibility for capital commitment and risk management. All trades executed for an account will be reviewed and approved by the president. Computer systems have been created which enable HCM to continuously monitor the position and market risk of each account. Each fund also retains a public accounting firm that reviews pricing annually and in so doing must look at the monthly prices. The accounting firm independently verifies security prices in the portfolio either through broker quotes, internal models or through an outside pricing service.

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### **Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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### **Regular Reports**

Clients receive periodic communications on at least quarterly basis. The written updates may include a net worth statement, portfolio statement, tax related document (annually), and a summary of objectives and progress towards meeting those objectives.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

HCM has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

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### **Referrals Out**

HCM does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to it.

## **Custody**

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### **Account Statements**

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

HCM is the General Partner of a pooled investment vehicle. HCM follows the Rules of custody as required of pooled investment vehicles by having a financial statement audit conducted with copies of the financial statement audit provided to limited partners of the pooled investment vehicle.

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### **Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by HCM.

## **Investment Discretion**

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### **Discretionary Authority for Trading**

HCM accepts discretionary authority to manage securities accounts on behalf of clients. HCM has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. For each fund or account, HCM has been appointed investment manager pursuant to an investment management agreement or limited partnership agreement with each fund or account.

## **Voting Client Securities**

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### **Proxy Votes**

HCM does not vote proxies on securities. Clients are expected to vote their own proxies. When assistance on voting proxies is requested, HCM will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

## Financial Information

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### Financial Condition

HCM does NOT have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is NOT required to be provided because HCM does NOT serve as a custodian for client funds or securities, and does NOT require prepayment of fees of more than \$1200 per client, and six months or more in advance.

## Information Security Program

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### Information Security

HCM maintains an information security program to reduce the risk that your personal and confidential information may be breached.

### Privacy Notice

HCM is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be

maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

## Brochure Supplement (Part 2B of Form ADV)

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### **HIDEJI HORIKO, President and CEO**

Date of birth: 9/18/1965

Education: Kwansei Gakuin University - B.A. Economics (1988)

Stern School of Business, New York University - M.B.A. Finance (2000)

Business Background:

- President and CEO of HORIKO CAPITAL MANAGEMENT LLC, responsible for all financial and operational aspects. (2000-Present)
- Foreign Exchange Trader and Vice President of Bank of Tokyo-Mitsubishi, New York Branch (1988-1999).

Disciplinary Information: None

Other Business Activities: A member of the General Partner of a pooled investment vehicle.

Additional Compensation: None

Supervision:

HIDEJI HORIKO is the President & CEO of Horiko Capital Management LLC and has the responsibility for supervising supervised persons, himself included. HIDEJI HORIKO agreed to abide by HCM Employee Handbook and by CFA Institute's Code of Ethics and Standards of Professional Conduct

SUPERVISOR'S contact information:

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