

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



**HNP Capital, LLC**

Registered Investment Adviser

An affiliate of Five Star Bank

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**03/31/2020**

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

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

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

## **Item 2        Material Changes**

HNP Capital, LLC's Brochure dated July 15, 2019 is being amended with updates to the following items:

Item 4 – Advisory Business – has been updated to reflect HNP Capital LLC's regulatory assets under management as of December 31, 2019;

Item 10 – Other Financial Industry Activities and Affiliations – has been updated to remove Five Star Investment Services as an affiliate.

### **Item 3**                      **Table of Contents**

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## **Item 4**      **Advisory Business**

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

As of June 1, 2018, we are wholly owned by Financial Institutions, Inc. We were previously owned by John Piccirilli, Robert Hobaica and Nicholas Norvell. Messrs. Piccirilli, Hobaica and Norvell remain executive officers of the firm subsequent to the acquisition by Financial Institutions, Inc.

Our firm offers various investment advisory services to you.

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

We offer individualized investment advice to clients utilizing our firm’s asset management service. Additionally, we offer general investment advice to clients utilizing our firm’s financial planning and consulting services.

### **Asset Management Services**

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

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

HNP uses a core and explore asset allocation strategy utilizing ETFs, funds, stocks, and bonds with a target weighting of equities and fixed income based on the clients’ risk tolerance and time horizon.

- We diversify your portfolio across a broad range of asset classes and styles of investments.

- HNP will utilize a combination of ETFs, funds, and/or individual stocks of US, international, and emerging market stocks. HNP may also use alternative asset classes such as private real estate for accredited investors to add additional diversification to the portfolio.
- HNP may also overweight or underweight asset classes, asset styles or sectors within the portfolio. HNP utilizes a top down and bottom up analytical approach. HNP considers this the “explore” component of the portfolio
- HNP will work with the client to determine an appropriate risk tolerance, time horizon, and the circumstances of the client to assist with the appropriate portfolio.
- Each portfolio will have a target allocation of equities and/or fixed income based upon the investment objectives. These target allocations are central tendencies, and the asset allocation may shift to overweight equities or fixed income based on relative value. Otherwise, the central tendencies may change as the investor circumstances change. HNP encourages ongoing communications with clients to identify these investor changes.
- HNP’s fixed income portfolio management is custom-tailored service to meet the individualized needs and investment objectives of the client. Investments in fixed income may be utilized to provide income, inflation protection, or to balance portfolio risk.
- Investments across the fixed income markets include US Treasury, Agency, Corporate, Agency and Non-Agency Mortgage Backed Securities, Asset Backed Securities, Municipal, High Yield and International.

### **Financial Planning and Consulting**

We provide a variety of financial planning and consulting services to individuals, families and other clients regarding the management of their financial resources based upon an analysis of client’s current situation, goals, and objectives. Generally, such financial planning services will involve preparing a financial plan or rendering a financial consultation for clients based on the client’s financial goals and objectives. This planning or consulting may encompass one or more of the following areas: Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, Business and Personal Financial Planning.

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

We have also launched a new service called, “HNP 360.” This is intended for clients that would like ongoing financial planning in addition to the asset management services we provide. The

client will provide us with information as pertains to income, investments, taxes, insurance, estate plan and other pertinent information. We will discuss with the client its investment objectives, needs and goals. We will also work with the client's attorney, accountant or other professionals to create a comprehensive plan that will include ongoing cash flow analysis, estate planning, risk management and investment management.

We may recommend that our clients participate in wrap fee programs. In making such recommendation, we use similar considerations and review when we recommend our clients utilize the investment management services of sub-advisers. We may receive a management fee in addition to the wrap fee paid by the client.

## **Amount of Managed Assets**

As of 12/31/2019, our firm actively manages approximately \$461,867,947.86 on a discretionary basis and \$74,222,344.75 on a non-discretionary basis.

## **Item 5 Fees and Compensation**

Our annual fee for asset management services is based upon a percentage of assets under management.

Our fees are generally not negotiable but may vary based on the particular circumstances of each client. The fee schedule is as follows:

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

| <u>Assets Under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| First \$1,000,000              | 1.25% to 1.50%    |
| Over \$1,000,000               | up to 1.00%       |

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

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

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

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

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

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

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

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

\*\* The legend urges the client to compare information provided in their statements with those from the qualified custodian in account opening notices and subsequent statements sent to the client from the custodian

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

A portion, or all of your assets that we manage may be invested in stocks, mutual funds, ETFs, and/or fixed income. Each ETF or fund may charge an annual internal management fee as outlined in their prospectus. We do not receive any of these additional fees; however, these fees do represent an additional fee that you are paying above that being charged by us.

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

We charge on an hourly or flat fee basis for financial planning and consulting services. The total estimated fee, as well as the ultimate fee that we charge you, is based on the scope and complexity of our engagement with you. Our hourly fees are \$150 for financial advisors. Flat fees generally range from \$2,500 to \$10,000.

Fees for our HNP 360 service are 0.30% of a client's assets under management. This is in addition to asset management fees paid by the client as described above. However, a client will not pay more than 1.50% of assets under management on its first \$1.0 million.

We require a retainer of fifty-percent (50%) of the ultimate financial planning or consulting fee with the remainder of the fee directly billed to you and due to us within thirty (30) days of your financial plan being delivered or consultation rendered to you. In all cases, we will not require a retainer exceeding \$1,200 when services cannot be rendered within 6 (six) months.

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

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

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

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

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

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

- We generally impose an initial and ongoing minimum portfolio value of \$250,000.00. We may, in our sole discretion, accept clients with smaller portfolios based upon certain criteria. We only accept clients with less than the minimum portfolio size if, in our sole opinion, the smaller portfolio size will not cause a substantial increase in investment risk beyond the client identified risk tolerance.
- We generally charge a minimum fee of \$2,500 for written financial plans.
- We reserve the right to accept or decline a potential client for any reason.

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

### **Methods of Analysis**

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

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

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

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

### **Investment Strategies**

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



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

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

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

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

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

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

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

### **Risk of Loss**

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

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

Past performance of any security does not guarantee future results.

## **Item 9**      **Disciplinary Information**

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

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

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

We are affiliated with Five Star Bank ("FSB") through common control and ownership exercised by Financial Institutions, Inc. FSB offers traditional retail and business banking services including checking and savings accounts, lines of credit, home mortgages, personal loans, vehicle loans, business loans, credit and debit cards, certificates of deposit, individual retirement accounts and other personal and business banking services. At times, we will recommend that you use the personal and business banking services or products offered by FSB, if appropriate and suitable for your needs. Alternatively, FSB will recommend our advisory services to their banking clients, as appropriate. Our advisory fees are separate and distinct from the compensation paid to FSB for their banking services.

We are not registered as a broker-dealer, do not offer such services and are not affiliated with any registered broker-dealer. Our investment adviser representatives, however, may also be licensed as broker-dealer registered representatives and insurance agents. In those capacities they may sell securities for sales commissions as registered representative and sell insurance products for sales commissions as independent insurance agents. Some advice offered by the investment adviser representatives may involve investments in securities, including mutual funds and variable annuity products. The registered representative may be entitled to a portion of the brokerage commissions paid, as well as a share of any ongoing distribution or service (trail) fees from the sale of mutual funds. Prior to effecting any transactions, clients are required to enter into a separate account agreement with the broker-dealer for securities brokerage services. A conflict of interest may exist to the extent that the registered representative recommends the purchase of securities where they receive commissions or other additional compensation as a result of the recommendations. We have procedures in place to ensure that any recommendations made by its representatives are in the best interest of clients.

We are further affiliated with SDN Insurance Agency, LLC ("SDN") through common control and ownership exercised by Financial Institutions, Inc. SDN is an insurance agency offering insurance services and policies for property and casualty insurance, life insurance, and health insurance on behalf of various insurance carriers. At times, we will recommend that you use the insurance related services offered by SDN where the same may be appropriate and suitable for your needs. Alternatively, SDN will recommend our advisory services to their insurance services clients, as appropriate. Our advisory fees are separate and distinct from the compensation paid to SDN for their insurance related services. Referral arrangements with any affiliated entities present a conflict of interest for us because we (or our affiliate(s)) have a direct or indirect financial incentive to recommend an affiliated firm's services. While we believe that compensation and fees charged by the above affiliates to be competitive, such 17 compensation and fees may be higher than that charged by other firms providing the same or similar services. You are under no obligation to use the services of any firm we recommend, whether affiliated or otherwise, and may obtain comparable services and/or lower fees through other firms. Likewise, if you are referred to our firm by any of our affiliates, including, without limitation, FSB or SDN, you are under no obligation to engage us for services and may obtain comparable services and/or lower fees through other firms.

We are further affiliated with Courier Capital, LLC (“Courier Capital”) through common control and ownership exercised by Financial Institutions, Inc. Courier Capital is an SEC registered investment adviser with its principal office located in Buffalo, New York. HNP operates independently from Courier Capital and there is no material relationship or arrangement between HNP and Courier Capital (outside of the common ownership of Financial Institutions, Inc.) that would create a material conflict of interest for HNP’s clients.

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

### **Code of Ethics**

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

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

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

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

- Standards of Business Conduct
- Compliance with Federal Securities Law
- Review and/or Approval of Personal Securities Transactions of Certain Persons
- Ability to Purchase the Same Securities Recommended to or Owned by Firm Clients Subject to Approval
- Obligation to Report Violations and Enforcement of Sanctions Where Necessary
- Annual Employee Certification Required

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

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

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

## **Interest in Client Transactions**

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

## **Personal Trading**

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

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

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

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

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

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

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

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

## **Item 12 Brokerage Practices**

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

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

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

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

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

TD Ameritrade and Schwab charge brokerage commissions and transaction fees for effecting certain securities transactions for us. For example, transaction fees may be charged for certain no-load mutual funds, and commissions are charged for individual equity and debt securities transactions.

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

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

We may also receive additional services from TD Ameritrade and Schwab. Without this arrangement with them, we might be compelled to purchase the same or similar services at our own expense. As a result of receiving these services for no additional cost, we may

have an incentive to continue to use or expand the use of either firm's services. We examined this potential conflict of interest when we chose to enter into the relationship with them and have determined that the relationship is in the best interests of our clients and satisfies our client obligations, including our duty to seek best execution.

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

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

The reverse may be true as well. For example, you may receive benefits such as these without paying any brokerage commission if, for example, your account was maintained at Ameritrade and we received research from Schwab based on our relationship with them and another of our client's purchases transacted through Schwab. We do not seek to allocate soft dollar benefits proportionally to the accounts that may generate the benefits.

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

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

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

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

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

TD Ameritrade and Schwab as well as other large retail broker dealers may make available third- party vendors for some of the services rendered to us. These broker dealers may discount or waive fees they would otherwise charge for some of these services, or they

may pay all or a part of the fees of the third-party providing these services to our firm. These broker dealers may also provide benefits such as educational events or occasional business entertainment of our personnel.

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

### **Brokerage for Client Referrals**

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

### **Directed Brokerage**

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

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

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

If you should request that we utilize a specific broker dealer that is someone we do not utilize on a regular basis you should be aware that your choice may interfere with our ability to “batch” or combine your trades with other client trades. This may impact the price at which your security is bought or sold and may impact the commission cost you pay for your order.

### **Trade Aggregation and Allocation**

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

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

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

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

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

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

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

A retirement or ERISA plan client may direct all or part of its portfolio transactions for its account through a specific broker or dealer in order to obtain goods or services on behalf of the plan. Such direction is permitted provided that the goods and services provided are reasonable expenses of the plan incurred in the ordinary course of its business for which it otherwise would be obligated and empowered to pay. ERISA prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the plan. Consequently, we will request that plan sponsors who direct plan brokerage provide us with a letter documenting that this arrangement will be for the exclusive benefit of the plan.

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

### **Asset Management Services**

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

We review accounts on at least monthly basis for our clients subscribing to our firm's asset management service. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions,



and investment policies, if applicable. HNP Capital conducts internal reviews of all client accounts.

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

### ***Regular Reports***

We do not provide written reports to clients, unless asked to do so. Reports generated to clients take place when we meet with clients who subscribe to our firm's asset management service. This is provided typically on an annual basis or as requested by a client. Clients also have access to a web-portal to review their asset management accounts.

### **Financial Planning**

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

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

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

From time to time, we may enter into arrangements to pay third parties a referral fee. This will be fully disclosed to our clients in accordance with SEC rules and regulations.

## **Item 15 Custody**

Pursuant to the Investment Advisers Act of 1940, HNP is deemed to have "constructive custody" of client funds because the Firm has the authority and ability to debit its fees directly from the accounts of those clients receiving HNP's Investment Advisory Services. Additionally, certain clients have, and could in the future, sign a Standing Letter of Authorization (SLOA) that gives HNP the authority to transfer funds to a third-party as directed by the client in the SLOA. This is also deemed to give the Firm custody. Custody is defined as any legal or actual ability by the Firm to withdraw client funds or securities. Firms with deemed custody must take the following steps:

1. Ensure clients' managed assets are maintained by a qualified custodian;
2. Have a reasonable belief, after due inquiry, that the qualified custodian will deliver an account statement directly to the client at least quarterly;
3. Confirm that account statements from the custodian contain all transactions that took place in the client's account during the period covered and reflect the deduction of advisory fees; and
4. Obtain a surprise audit by an independent accountant on the clients' accounts for which the advisory firm is deemed to have custody.

However, the rules governing the direct debit of client fees and SLOAs exempts HNP from the surprise audit rules if certain conditions (in addition to steps 1 through 3 above) are met. Those conditions are as follows:

1. When debiting fees from client accounts, HNP must receive written authorization from clients permitting advisory fees to be deducted from the client's account.
2. In the case of SLOAs, HNP must: (i) confirm that the name and address of the third party is included in the SLOA, (ii) document that the third-party receiving the transfer is not related to the Firm, and (ii) ensure that certain requirements are being performed by the qualified custodian.

If client funds or securities are inadvertently received by our firm, they will be returned to the sender immediately, or as soon as practical

The custodian maintains actual custody of your assets. Clients will receive account statements directly from the custodian at least quarterly. They will be sent to the email or postal mailing address the client provided to the custodian. Clients should carefully review those statements promptly when received. Please contact HNP with any questions.

Please refer to *Item 10 - Other Financial Industry Activities and Affiliations* and *Item 12 - Brokerage Practices* for additional important disclosure information relating to our practices and relationships with custodians.

## **Item 16 Investment Discretion**

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

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

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

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell
- Determine the commission rate to be paid
- Determine the broker dealer to utilize

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

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

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

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

## **Item 17      Voting Client Securities**

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

## **Item 18      Financial Information**

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

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

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