



CAPITAL MANAGEMENT, INC.

## Form ADV

Brochure Part 2A

### Item 1 – Cover Page

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This Brochure provides information about the qualifications and business practices of CWH Capital Management, Inc. dba Hart Capital Management, Inc. (hereafter referred to as “HCM”). If you have any questions about the contents of this Brochure, please contact Erin Olsen at 509-444-7007 or [Erin@hartcap.com](mailto:Erin@hartcap.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.

“HCM” 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 “HCM” is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

“HCM”'s previous annual update to Form ADV Part 2A was completed on March 21, 2019. There have been no material changes since the last ADV Part 2A update.

In the past, we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. According to new SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information at any time, without charge.

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## Item 4 – Advisory Services

“HCM” is an independent, fee-only advisor serving the investment management and financial planning needs of individuals, corporations, retirement plans (including 401-k, IRA, Sep-IRA, Roth-IRA, pensions, and profit-sharing plans), foundations and endowments. “HCM” has been serving the needs of investors throughout the Inland Northwest since 1998. Craig W. Hart is the Company’s founder and principal shareholder.

With offices in both Spokane, Washington and Coeur d’Alene, Idaho, “HCM” serves many different types of clients, all of whom are seeking professional investment oversight or counsel of varying capacities.

With respect to individuals, corporations, endowments and foundations, and certain defined contribution and defined benefit plans seeking continual investment oversight of their portfolio, “HCM” provides discretionary oversight of its clients’ portfolios. Portfolios are crafted to each client’s specific investment needs and risk tolerance. While client portfolios are unique to each of their specific mandates, account composition within the same risk profile may parallel, and therefore closely approximate other clients in the same risk profile. In certain circumstances, “HCM” will offer investment services to its clients on a non-discretionary basis. As well, in certain circumstances, “HCM” will honor restrictions on certain individual securities and industries and other types of security classes.

With respect to corporate retirement plans in which participants self-manage their respective accounts, “HCM” may provide investment selection of the mutual funds or exchange-traded funds (ETF’s) that are offered to the plan participants. As a further service, “HCM” may offer investment and financial planning advice for the individual participants within the plan.

As of December 31, 2019, “HCM”’s assets under advisement were \$433,597,511. Discretionary assets under management were \$394,927,629, and non-discretionary assets under management were \$38,669,882.

## Item 5 – Fees and Compensation

“HCM” generally bills its fees quarterly, in advance, unless the contract specifically states otherwise. Clients authorize the selected custodian to debit these fees from client accounts, although, on occasion, clients may elect to be billed directly for such fees.

Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter for fund deposits or withdrawals that exceed \$50,000. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

“HCM”’s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. More information regarding brokerage relationships can be found in Item 12- Brokerage Practices. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties, such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer, and electronic

fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees, and commissions are exclusive of and in addition to "HCM"s fee, and "HCM" shall not receive any portion of these commissions, fees, and costs.

Compensation to be provided to "HCM" varies and, on occasion, is negotiable, but typically consists of the following components. For accounts that "HCM" provides continual discretionary investment selection and oversight, annual management fees are as follows:

First \$500,000	1.25%
Next \$500,000	1.000%
Next \$4,000,000	0.625%
Amount in excess of \$5,000,000	0.500%

Such fees are payable in quarterly installments at the beginning of each calendar quarter, based on the net market value of the account at the beginning of the quarter.

"HCM" believes that its fees are competitive with those fees charged by other investment advisers for comparable services; comparable services may, however, be available from other sources for lower fees than those charged by "HCM."

Clients whose assets are invested in shares of mutual funds pay two levels of advisory fees for the management of their assets, directly to "HCM" and indirectly through the management fees assessed on the funds making up their portfolio.

"HCM" generally requires a minimum of \$250,000 to open an individually managed account but reserves the right to waive this minimum.

Except as may be otherwise negotiated in particular cases, a client may terminate an individually managed account by giving 30 days' written notice. All prepaid but unearned advisory fees are refunded to the client upon termination of the account.

For client accounts where "HCM" is hired by the retirement plan sponsor to provide certain investment advisory and consulting services to a Group Retirement Plan, annual management fees, while negotiable, are as follows:

First \$1,000,000	0.500%
Next \$4,000,000	0.300%
Above \$5,000,000	0.150%

Except as may be otherwise negotiated in particular cases, a group retirement plan client may terminate the relationship by giving 90 days' written notice. All prepaid, but unearned, advisory fees are refunded to the client upon termination of the account.

“HCM” may charge a fee of \$600-\$10,000 for its financial planning services, depending on the scope of the specific financial plan. Importantly, “HCM” will waive the fee for those who become clients with ongoing discretionary accounts.

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

“HCM” does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Item 7 – Types of Clients**

“HCM” provides portfolio management services to individuals, 401(k) plans, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, private investment funds, trust programs, and other U.S. institutions. Our minimum account size is \$250,000, but we reserve the right to make exceptions to this minimum.

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

“HCM”’s investment strategy for its discretionary investment accounts is grounded in the virtues of “value” and absolute return across the spectrum of investable asset classes. With respect to the Growth component of clients’ investment allocation, “HCM” tactically allocates assets across various asset classes with an emphasis on optimal risk/reward metrics. For the Income component of clients’ investment allocation, “HCM” employs a flexible strategy designed to minimize credit risk and interest rate risk with primary emphasis on income.

Concerning the types of investments deployed in its strategy, “HCM” will generally incorporate mutual funds and ETF’s for client accounts with less than \$200,000 in an asset class. For the Growth component of client accounts, in addition to mutual funds and ETF’s, individual stocks may be deployed for accounts exceeding \$200,000 in that asset class.

In its individual security investment strategy, “HCM” uses a time tested, value-oriented strategy utilizing a sequence of analysis starting with initial discovery, followed by income statement, balance sheet, and cash flow analysis, then fundamental industry and company analysis. Finally, and most critically, valuation analysis completes the process.

Nearly all the companies we purchase demonstrate similar characteristics when we select them; they have attractive pricing with a favorable risk/reward profile, and their business is fundamentally sound. Often securities are priced lower due to temporary investor concerns driven by short-term problems.

Our investment discipline incorporates a “sell target” for our equity investments. We define the selling price based on what we believe is a fully priced value for our company. By incorporating this discipline, we endeavor to dampen portfolio volatility by redeploying fully valued securities into those that are undervalued.

With respect to its client’s assets dedicated to Growth, “HCM” may incorporate a defensive strategy during adverse market conditions that include reducing equity risk exposure by increasing

cash/money market weighting, and/or increasing weighting to non-equity assets or securities that move inversely or with historically low correlation to equity markets.

With respect to the Dividend Income component of clients' investable allocation, "HCM" allocates assets across various asset classes with an emphasis on balancing stable growing cash flow through dividend payments with share price appreciation. Each individual equity position has demonstrated long-term dividend growth, revenue growth, a strong balance sheet, and stable dividends during economic softening. These positions are primarily based in the United States, and client portfolios are expected to be fully invested throughout the cycle to maximize dividend income.

For corporate retirement plans in which participants exclusively self-manage their respective accounts, and "HCM" is charged with providing investment selection of the mutual funds or ETF's within the plan offerings, the following strategy is employed. "HCM" utilizes its independent model to screen for best in class performance and lowest quartile operating expense, typically with primary emphasis on performance and secondary emphasis on expense. "HCM" additionally seeks to provide investment diversity across optimal asset classes for plan participants. "HCM"'s selection process is limited to "no-load" mutual funds and ETF's.

### **Risk of Loss**

Investing in securities involves a risk of loss. "HCM" does not offer any products or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices, or investment products.

### **Common Stock Risk**

Common stocks are susceptible to market fluctuations and volatile increases and decreases in value as investors' confidence in and perceptions of their issuers change. Investments in common stocks are subject to the risk that in the event of a company's liquidation, the holders of preferred stock and creditors will be paid in full before any payments to holders of common stock.

### **Value Investing Risk**

Value stocks can perform differently from the market as a whole and other types of stocks. Value investments are subject to the risk that the broad market may not recognize their intrinsic value.

### **Fixed Income Risk**

Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay the principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities.

## **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 your evaluation of "HCM" or the integrity of "HCM"'s management. "HCM" has no information applicable to this Item.

## Item 10 – Other Financial Industry Activities and Affiliations

“HCM” is not a registered broker-dealer, nor does it have an application pending to become broker-dealer. No employee of “HCM” is registered with a broker-dealer nor is a representative of a broker-dealer.

## Item 11 – Code of Ethics

“HCM” has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor-mongering, restrictions on the acceptance of significant gifts, and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at “HCM” must acknowledge the terms of the Code of Ethics annually, or as amended.

“HCM” anticipates that, in appropriate circumstances, consistent with clients’ investment objectives, it will cause accounts over which “HCM” has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which “HCM,” its affiliates, and/or clients, directly or indirectly, have a position of interest. “HCM”’s employees and persons associated with “HCM” are required to follow “HCM”’s Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of “HCM” and its affiliates may trade for their accounts in securities which are recommended to and/or purchased for “HCM”’s clients. The design of the Code of Ethics is to assure that the personal securities transactions, activities and interests of the employees of “HCM” will not interfere with (1) making decisions in the best interest of advisory clients and (II) implementing such decisions while, at the same time, allowing employees to invest for their accounts. Under the Code, certain classes of securities have the designation of exempt transactions, based upon a determination that these would materially not interfere with the best interest of “HCM”’s clients. Also, the Code requires pre-clearance of many transactions and restricts trading close to the time of client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading has continual oversight under the Code of Ethics to reasonably prevent conflicts of interest between “HCM” and its clients.

Certain affiliated accounts may trade in the same securities with clients on an aggregated basis when consistent with “HCM”’s obligation of best execution.

In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. “HCM” will retain records of the trade order (specifying each participating account) and its allocation, which will be completed before the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade, and partially filled orders will be allocated on a pro-rata basis. Any exceptions will be explained on the trade order ticket.

“HCM”’s clients, or prospective clients may request a copy of the firm’s Code of Ethics by contacting Erin Olsen, Chief Compliance Officer.

It is “HCM”’s policy that the firm may, on occasion, affect a principal or agency cross securities



transactions for client accounts. “HCM” may also, on occasion, cross trades between client accounts. “HCM” does not engage in principal transactions between its accounts and any advisory client.

## Item 12 – Brokerage Practices

### Soft Dollar Transactions

As permitted by the Securities Exchange Act of 1934, as amended, “HCM” may engage in the long-standing investment management industry practice of paying higher commissions to brokers who provide brokerage and research services (“research services”) than to brokers who do not provide such research services, if such higher commissions are deemed reasonable to the value of brokerage and research services provided. The research services are then used in its investment decision-making processes.

These types of transactions are commonly known as “soft dollar transactions.” “HCM” does not actively participate in these soft dollar transactions. However, “HCM” may consider participating more actively in this practice in the future if it deems it to be in the best interest of “HCM” clients.

Three different types of research services are typically acquired through these transactions:

1. Proprietary research services offered by the broker executing a trade
2. Other research services offered by third parties through the executing broker
3. Proprietary or third party research services obtained through client commission arrangements (as discussed below)

“HCM” also may receive soft dollars on riskless principal transactions in accordance with applicable regulatory requirements.

“HCM” may also obtain research services through soft dollar transactions including, but not limited to:

- Economic, industry, or company research reports or investment recommendations
- Subscriptions to certain financial publications or research data compilations
- Compilations of securities prices, earnings, dividends, and similar data
- Certain computerized databases, quotation services, research, or analytical computer software and services
- Certain trade-related services
- Services of economic and other consultants concerning markets, industries, securities, economic factors and trends, and portfolio strategy

Research services so received enable “HCM” to supplement its research and analysis used in connection with providing advice to its clients as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities, the furnishing to clients of analyses and reports and the effecting of securities transactions, and performing functions incidental to it (such as clearance and settlement) on behalf of clients.

To the extent that “HCM” may use client transactions to obtain research services that “HCM” could otherwise purchase for cash, “HCM” may have an incentive to place more orders or pay higher

commissions than would otherwise be the case. However, “HCM” monitors this potential conflict of interest by continually monitoring soft dollar commissions paid and the number of trades placed with each broker.

Soft dollar transactions are not effected pursuant to any binding agreement or understanding with any broker regarding a specific dollar amount of commissions to be paid to that broker. However, “HCM” can, in some instances, request a particular broker to provide a specific research service, which may be proprietary to that firm or produced by a third party and made available by that firm. In such instances, the broker, in agreeing to provide the research service, frequently will indicate to “HCM” a specific or minimum amount of commissions, which it expects to receive because of its provision of the particular research service.

Although “HCM” does not agree to direct a specific or minimum commission amount to a firm in that circumstance, “HCM” does maintain an internal procedure to identify those brokers who provide it with research services and the value of such research services, and endeavors to direct sufficient commissions to ensure the continued receipt of research services “HCM” feels are useful in managing client accounts.

### **The Custodian and Brokers We Use**

“HCM” does not maintain custody of your assets that we manage. Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, Member SIPC, as the qualified custodian.

We are independently owned and operated and have no affiliation with Schwab. Schwab will hold your assets in a brokerage account, and upon our instruction, buy and sell securities. While we recommend that you use Schwab as a custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. Even though your account is at Schwab, we can still use other brokers to execute trades for your account.

### **How We Select Brokers/Custodians**

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- The breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETF's], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services

- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see “Products and Services Available to Us From Schwab”)

### **Your Brokerage and Custody Costs**

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions<sup>1</sup> or other fees on trades that it executes or that settle into your Schwab account. For each trade that we execute by a different broker-dealer, Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee; the securities bought or the funds from the securities sold will then deposit (settle) into your Schwab account.

Those potential fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, to minimize your trading costs, we have Schwab execute most trades for your account.

We have determined that having Schwab execute most trades is consistent with our duty to seek the “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “How We Select Brokers/Custodians”).

### **Products and Services Available to Us From Schwab**

Schwab Advisor Services™ is Schwab’s business division that serves independent investment advisory firms like us. They provide our clients and us with access to its institutional brokerage— trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while others help us manage and grow our business. Schwab’s support services generally are available on an unsolicited basis (we don’t have to request them) and at no charge to us as long as our clients collectively maintain a minimum level of assets. Following is a more detailed description of Schwab’s support services:

### **Services That Benefit You**

Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access, or that would require a significantly higher minimum initial investment by our clients. Schwab’s services described in this paragraph generally benefit you and your account.

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<sup>1</sup> At the end of 2019, Schwab moved to \$0 commissions, except for the following transactions: large block, restricted stock, trades placed directly on a foreign exchange, transaction-fee mutual funds, futures, or fixed income investments.

## Services That May Not Directly Benefit You

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab.

In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate the payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

## Services That Generally Benefit Only Us

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment for our personnel.

## Our Interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a minimum level of assets in accounts at Schwab. The minimum level of assets may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How We Select Brokers/Custodians") and not Schwab's services that benefit only us.

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

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

### **Trade Agreement**

“HCM” may aggregate securities sale and purchase orders for a client with similar orders being made contemporaneously for other accounts. In such an event, the average price of all securities purchased or sold in such transactions may be determined, and a client may be charged or credited, as the case may be, the average transaction price. As a result, however, the price may be less favorable to the client than it would be if similar transactions were not being executed concurrently for other accounts.

### **Client-Directed Brokerage**

If a client directs “HCM” to use a specific broker and “HCM” has not negotiated the terms and conditions (including, but not limited to, commission rates) relating to the services provided by such broker, “HCM” does not have any responsibility for obtaining for the client from any such broker the best prices or particular commission rates with or through any such broker. The client may not obtain rates as low as it might otherwise obtain if “HCM” had the discretion to select broker-dealers other than those chosen by the client.

### **Item 13 – Review of Accounts**

“HCM”’s investment committee continuously monitors all assets deemed “managed” and owned by its discretionary clients.

“HCM”’s relationship manager reviews the portfolio performance and activity for all accounts on a monthly or more frequent basis. The reviews are performed by the relationship manager who performs basic management services for all accounts. In addition, at least one other individual is entrusted with reviewing client portfolios and performance.

Individual clients receive monthly brokerage statements from their respective custodians. All clients receive quarterly performance results and a general newsletter from “HCM.”

## Item 14 – Client Referrals and Other Compensation

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

“HCM” pays Schwab a Participation Fee on all referred client’s accounts that are maintained in custody at Schwab and a Non-Schwab custody Fee on all accounts that are maintained at, or transferred to another custodian.

The Participation Fee paid by “HCM” is a percentage of the value of the assets in the client’s account. “HCM” pays Schwab the Participation Fee for so long as the referred client’s account remains in custody at Schwab. The Participation Fee is billed to “HCM” quarterly and may be increased, decreased, or waived by Schwab from time to time. The Participation Fee is paid by “HCM” and not by the client. “HCM” has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs “HCM” charges clients with similar portfolios who were not referred through the Service.

“HCM” generally pays Schwab a Non-Schwab Custody Fee if custody of an account referred by Schwab is not maintained by, or assets in the account are transferred from, Schwab, unless the client is solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The non-Schwab Custody Fee is higher than the Participation Fees “HCM” generally would pay to Schwab in a single year. Thus, “HCM” has an incentive to recommend that client accounts referred by Schwab be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees are based on assets in accounts of “HCM”’s clients who were referred by Schwab and those referred clients’ family members living in the same household.

Thus, “HCM” has incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab.

## Item 15 – Custody

Pursuant to the Investment Advisers Act of 1940, HCM 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 HCM’s Investment Advisory Services. Additionally, certain clients have, and may in the future, sign a Standing Letter of Authorization (SLOA) that gives HCM 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 HCM from the surprise audit rules if certain conditions (in addition to steps 1 through 3 above) are met. Those conditions are as follows:

When debiting fees from client accounts, HCM must receive written authorization from clients permitting advisory fees to be deducted from the client's account.

In the case of SLOAs, HCM 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

Schwab or TD Ameritrade maintain actual custody of your assets. Clients will receive account statements directly from their 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 HCM with any questions.

### **Item 16 – Investment Discretion**

“HCM” usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, “HCM” observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, “HCM”'s authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to “HCM” in writing.

### **Item 17 – Voting Client Securities**

Clients may obtain a copy of “HCM”'s complete proxy voting policies and procedures upon request. They may also obtain information from “HCM” about how “HCM” voted any proxies on behalf of their account(s). “HCM” has developed the following Proxy Voting Guidelines to ensure that proxies for which we have been delegated voting authority are voted consistently and in the best interest of our clients.

Delegation of proxy voting to “HCM” is at the sole discretion of client. The client must contact their broker/custodian to instruct re-direction of proxy materials.

These guidelines are not rigid policy positions, nor are they intended to address all potential voting issues. We will consider each matter on a case-by-case basis and may vote in a manner different from that stated in these guidelines where we believe it in the best interest of our clients.

The President, Craig Hart, or designee, is responsible for voting all shareholder proxies received into the office. He, or his designee, will vote in a timely manner and in the best interest of clients. Given the size and nature of “HCM”’s business, it is rare when a conflict of interest arises. Furthermore, by consistently applying the guidelines across proxy proposals, potential conflicts of interest are minimized. However, in the event that a conflict of interest is identified, Craig Hart will immediately notify another member of the firm’s Research Team who will then use the company’s Proxy Voting Guidelines to determine a vote.

“HCM” will maintain, by chronological order, a copy of all proxies voted. Clients may obtain a record upon request.

These guidelines will be reviewed and updated on an annual basis by “HCM” management. “HCM” may change our guidelines in response to general corporate governance practices, without providing prior notice of these changes to clients. The most recent copy of our Proxy Voting Policies and Guidelines may be obtained upon request.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about “HCM”’s financial condition. “HCM” has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.