



# HARBOR CAPITAL MANAGEMENT, INC

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## Disclosure Brochure – Form ADV Part 2A

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*This brochure provides information about the qualifications and business practices of Harbor Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (704) 377-6945 or by email at: [info@harborcapitalmgmt.com](mailto:info@harborcapitalmgmt.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 Harbor Capital Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration does not imply a certain level of skill or training. Harbor Capital Management, Inc.'s CRD number is: 106722.*

Version Date: 03/10/2021

## Item 2: Material Changes

There are no material changes in this brochure from the last annual updating amendment on March 20, 2020 of Harbor Capital Management, Inc. Material changes relate to Harbor Capital Management, Inc.'s policies, practices or conflicts of interests.

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## Item 4: Advisory Business

HCM has been in business as an SEC registered investment adviser since 1991 and is principally owned by its President and Founder, C. Mack Washam. To date, the Firm and its team of advisers operate out of its main office in Charlotte, North Carolina, as well as branch offices in Dallas, Texas, Sarasota, Florida, and Mooresville, North Carolina.

HCM offers a range of investment advisory services, which include investment management and financial planning. As of December 31, 2020, HCM had \$294,127,725 in total assets under management. Of this amount, \$224,420,822 was managed on a discretionary basis and \$69,706,903 was managed on a non-discretionary basis. Prior to rendering any of the foregoing advisory services, clients are required to enter into a written agreement with HCM setting forth the relevant terms and conditions of the advisory relationship (the “*Agreement*”).

While this brochure generally describes the business of HCM, certain sections also discuss the activities of its *Supervised Persons*, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on HCM’s behalf and is subject to the Firm’s supervision or control.

### **Investment Management Services**

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HCM manages client investment portfolios on a discretionary basis primarily by allocating assets among actively-managed global stock and bond mutual funds. HCM may recommend a custom investment allocation, its Enhanced Tactical Allocation strategy, or both. These are discussed in detail in Item 8 below. HCM may also provide advice with regard to various types of legacy holdings (e.g., individual debt and equity securities), as well as certain investment products that are not maintained at their primary custodian, such as variable annuity contracts. In the latter situation, HCM directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product’s provider. HCM does not limit its advice to any specific investments.

HCM tailors its advisory services to accommodate the needs of its individual clients and, on a continuous basis, seeks to ensure that its clients’ portfolios are managed in a manner consistent with their specific investment profiles. HCM consults with clients on an initial and ongoing basis to determine their specific risk tolerance, time horizon, liquidity constraints and other factors relevant to the management of their portfolios. Clients are advised to promptly notify HCM if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if HCM determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm’s management efforts.

HCM does not serve as the sponsor or manager to a wrap fee program (i.e., an investment program where advisory and brokerage services are bundled together under a single fee). Where appropriate, HCM may,

however, recommend that certain clients participate in various investment programs (“*Independent Investment Programs*”) sponsored and/or managed by other registered investment advisers (“*Independent Managers*”).

### **Financial Planning Services**

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HCM offers a broad variety of financial planning services designed specifically to address the needs of each individual client and may include, without limitation, any combination of the following functions:

- Business Planning
- Cash Flow Forecasting
- Asset Allocation
- Individual Retirement Planning
- Estate Planning
- Financial Reporting
- Insurance Planning
- Charitable Giving
- Risk Management
- Distribution Planning
- Lifestyle Analysis
- Cash Management

In performing these services, HCM is not required to verify any information received from the client or from the client’s other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. HCM may recommend its own services or the services of other professionals to implement its recommendations.

A potential conflict of interest exists if HCM recommends clients engage the Firm for additional fee-based services, such as insurance or portfolio management. Clients are under no obligation to act upon any of the recommendations made by HCM under a financial planning engagement or to engage the services of any suggested professional, including HCM itself. Clients retain absolute discretion over all such implementation decisions. Clients are advised that it remains their responsibility to promptly notify HCM if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising HCM’s previous recommendations and/or services.

### **Pension Consulting**

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HCM will act as a 3(21) or 3(38) fiduciary for pension plans covered under ERISA.

As a 3(21) fiduciary, HCM may provide the following services:

- Creation of an Investment Policy Statement
- Review and analysis of investment options available to plan participants
- Assistance with plan enrollment
- Education of plan participants

As a 3(38) fiduciary, HCM would exercise discretion over the investment of plan assets.

## Item 5: Fees and Compensation

HCM offers advisory services for a fee based upon assets under the Firm's management. HCM offers financial planning services based upon fixed and/or hourly fees. Additionally, certain of HCM's *Supervised Persons*, in their individual capacities, may offer securities brokerage services and insurance products under a separate commission-based arrangement.

### Investment Management Fees

For traditional investment management engagements, HCM generally charges an annual asset-based fee (the "Advisory Fee") in accordance with the following blended fee schedule:

Total Assets	Annual Fee
First \$1,000,000	1.00%
Next \$2,000,000	0.75%
Next \$2,000,000	0.50%
Above \$5,000,000	0.25%

The Advisory Fee is prorated and charged quarterly in advance, based upon the market value of the assets being managed by HCM on the last day of the previous quarter.

In addition, for accounts managed pursuant to the Firm's enhanced tactical allocation strategies, as described in Item 8, HCM charges a separate quarterly fee of 0.25% (the "Management Fee") in addition to the standard Advisory Fee set forth above. This Management Fee is charged quarterly in arrears, based upon the market value of the account on the last day of the previous quarter. This additional layer of fees is attributable to certain third-party research, trading expenses and additional management oversight associated with the underlying strategy, which are incurred directly by the Firm. Clients are advised that this fee arrangement presents a potential conflict of interest in that there exists a financial incentive for HCM to direct assets to the enhanced tactical allocation.

For the initial term of an engagement, fees are calculated on a pro rata basis. If assets are deposited into or withdrawn from an account after the inception of a billing period, the fees payable with respect to such assets are not adjusted to reflect the interim change in portfolio value. In the event the Agreement is terminated, the fees for the final billing period are prorated through the effective date of the termination.

HCM's annual fee is exclusive of and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. HCM does not, however, receive any portion of these commissions, fees and costs. There may be a minimum fee to be disclosed in the advisory contract with the client. This minimum fee in certain circumstances may exceed the stated advisory fee of the contract.

## **Financial Planning Fees**

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HCM may charge a fixed fee and/or hourly fee to provide clients with stand-alone financial planning services. These fees are largely determined by the scope and complexity of the agreed upon services, but generally range from \$2,250 to \$4,500 on a fixed fee basis and up to \$150 on an hourly fee basis.

The specific terms and fee structure are negotiated in advance and set forth in an engagement letter with HCM. Generally, HCM requires one-half of the financial planning or consulting fee payable upon execution of the engagement letter and the balance due at the time the financial plan is delivered or the underlying services are rendered to completion. Depending on the arrangement, if the client engages HCM for additional investment advisory services, HCM may offset all or a portion of its fees for those services based upon the amount paid for the financial planning services.

## **Fee Discretion**

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HCM, in its sole discretion, may negotiate to charge a lesser fee based upon certain criteria, such as a client's association with a preferred affinity group, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, preexisting client relationship, account retention and *pro bono* activities.

## **Additional Fees and Expenses**

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In addition to the fee paid to HCM, clients may also incur certain charges imposed by other third parties, such as broker-dealers, *Independent Managers*, custodians, trust companies, banks and other financial institutions (collectively "*Financial Institutions*"). These additional charges may include securities brokerage commissions, transaction fees, custodial fees, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), 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.

## **Fee Debit**

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The Firm's Agreement and the separate agreement with any *Financial Institutions* generally authorize HCM to debit its clients' accounts for the amount of the advisory/management fees and to directly remit those fees to HCM. Any *Financial Institutions* recommended by HCM have agreed to send statements to clients not less than quarterly indicating all amounts disbursed from the account, including the amount paid directly to HCM. Alternatively, clients may, in certain circumstances, request to have HCM send them an invoice for direct payment.

## **Account Additions and Withdrawals**

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Clients may make additions to and withdrawals from their account at any time, subject to HCM's right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to

liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to HCM, subject to the usual and customary securities settlement procedures. However, HCM designs its portfolios as long-term investments and the unanticipated sale of assets may impair the achievement of a client's investment objectives. HCM may consult with its clients about the options and implications of selling securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (i.e., short-term redemption fees) and/or tax ramifications.

### **Commissions or Sales Charges for Recommendations of Insurance Products**

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Clients can engage certain persons associated with HCM (but not the Firm directly) to recommend products under a commission-based arrangement. A client is under no obligation to engage such persons and may choose brokers or agents not associated with HCM to perform similar services on their behalf.

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

HCM does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

## **Item 7: Types of Clients**

HCM provides its services to individuals, high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### **Minimum Account Size**

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As a condition for starting and maintaining a traditional investment management relationship, HCM generally imposes a minimum portfolio size of \$250,000. Whereas, the minimum initial investment required by HCM to open an enhanced tactical allocation account is \$125,000.

The Firm, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client relationships, account retention, and *pro bono* activities. HCM only accepts clients with less than the minimum portfolio size if, in the sole opinion of the firm, the smaller portfolio size will not result in a substantial increase of investment risk beyond the client's identified risk tolerance. HCM may aggregate related accounts to meet the minimum portfolio size.

### **Minimum Annual Fee**

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HCM generally imposes a minimum annual fee of \$2,500 for traditional investment management engagements. This minimum fee may have the effect of making HCM's services cost prohibitive for



certain clients with smaller investment portfolios. HCM, in its sole discretion, may waive its minimum annual fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, preexisting client relationships, account retention, and *pro bono* activities.

## Item 8: Methods of Analysis, Investment Strategies, & Risk of Loss

### Methods of Analysis

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HCM generally utilizes a combination of fundamental and technical methods of analysis.

Fundamental analysis involves an evaluation of the fundamental financial condition and competitive position of a particular fund or issuer. For HCM, this process typically involves an analysis of a fund's management team, investment strategies, style drift, past performance, reputation and financial strength in relation to the asset class concentrations and risk exposures of the Firm's model asset allocations. A substantial risk in relying upon fundamental analysis is that while the overall health and position of a company may be good, evolving market conditions may negatively impact the security.

Technical analysis involves the examination of past market data rather than specific issuer information in determining the recommendations made to clients. Technical analysis may involve the use of mathematical based indicators and charts, such as moving averages and price correlations, to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. A substantial risk in relying upon technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that HCM will be able to accurately predict such a reoccurrence. An additional risk is that trends may be short-lived, creating potential for opportunity costs and short-term losses.

### Investment Strategies

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#### *Traditional Discretionary Account Strategies*

This strategy invests across a selection of securities representing a range of asset classes, managers and investment styles. Blending in this way, the firm aims to emphasize return potential while managing risk and providing more consistent returns. At the foundation of these account strategies is strategic asset allocation – a key determinant of portfolio risk and return over time. Investing in a mix of asset classes that demonstrate low correlations with one another can help produce desirable returns with acceptable levels of risk. After determining the appropriate asset allocation, HCM recommends a portfolio of no-load mutual funds and/or exchange traded funds that provide exposure to both a variety of management styles and of specialist money managers. These may also include passive, index-based or factor-based strategies.

In addition, HCM may incorporate tactical investment mutual funds and processes, including trend following strategies that seek to adjust the recommended strategic allocations based on market indicators.

This process does not attempt to predict short-term market swings nor does it necessarily seek to avoid market “corrections”, defined as periods of market decline of around 10%, which occur frequently during normal market cycles.

These strategies are available to meet a variety of client objectives and risk profiles. They range from conservative income-oriented portfolios, which typically include more bond exposure, to more aggressive equity-oriented strategies at the other end of the risk spectrum. As with most investments, these strategies involve the risk of loss of capital, and no assurances are made that the strategies will be able to accomplish their objectives.

#### *Enhanced Tactical Allocation Strategies*

This strategy seeks to actively rotate account holdings to asset classes or sectors that appear to be in current uptrends and avoid markets that may be temporarily underperforming. At the core of this strategy are a series of price-based quantitative models. These models utilize mathematical algorithms that seek to find the optimal analysis period (i.e., the number of days to consider before making a buy/sell recommendation) and holding period (i.e., how long to hold a fund once it is purchased) from a selected set of no-load mutual funds or exchange traded funds. Each model ranks the available funds on a daily basis. A higher-ranking fund indicates the potential to produce a profitable round-trip trade if that fund is purchased and held for the minimum holding period. Models are diversified in three ways: by asset classes, analysis periods, and holding periods.

These strategies are available to meet a variety of client objectives and risk profiles ranging from more conservative to more growth-oriented. As with most investments, these strategies involve risk of loss of capital and no assurances are made that the strategies will be able to accomplish their objectives.

### **Risks of Loss**

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#### *General Risk of Loss*

**Investing involves risk, including the potential loss of principal, and investors should be guided accordingly.**

#### *Market Risks*

HCM’s recommendations involve market risk. There can be no assurance that the Firm’s recommendations will be able to achieve clients’ investment objectives.

#### *Mutual Funds and Exchange-Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund’s underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per-share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their *pro rata* NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

#### *Management through Similarly Managed "Model" Accounts*

HCM manages certain accounts through the use of similarly managed "model" portfolios, whereby the Firm allocates all or a portion of its clients' assets among various mutual funds and/or securities on a discretionary basis using one or more of its investment strategies. In managing assets through the use of models, the Firm remains in compliance with the safe harbor provisions of Rule 3a-4 of the Investment Company Act of 1940.

The strategy used to manage a model portfolio may involve an above average portfolio turnover that could negatively impact clients' net after-tax gains. While the Firm seeks to ensure that clients' assets are managed in a manner consistent with their individual financial situations and investment objectives, securities transactions effected pursuant to a model investment strategy are usually done without regard to a client's individual tax ramifications. Clients should contact HCM if they experience a change in their financial situation or if they want to impose reasonable restrictions on the management of their accounts.

### Item 9: Disciplinary Information

HCM has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management.

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

#### **Registered Representative of a Broker-Dealer**

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Neither HCM nor its representatives are affiliated with a broker-dealer.

## **Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

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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.

## **Licensed Insurance Activities**

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HCM is a duly licensed insurance agency and a certain of the Firm's *Supervised Persons* are also insurance agents. A conflict of interest exists to the extent the Firm recommends the purchase of insurance products where HCM and/or its *Supervised Persons* receive insurance commissions or other additional compensation as a result. Commission arrangements vary by product and are regulated by state insurance departments. As such, these arrangements are not disclosed in this document. Clients are not required to use HCM or employees in their capacity as insurance agents.

## **Qualified Plan Consulting and Administration**

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M. Henry Deal, an investment adviser representative of HCM, owns Corporate Plans & Services a full service retirement plan consulting and third party administrator. A conflict of interest exists to the extent that Harbor Capital may recommend the services of Corporate Plans & Services to its pension plan clients where M. Henry deal may earn fees for these services. Harbor Capital seeks to ensure that all recommendations are made in the best interests of clients regardless of any additional compensation earned. Clients are not required to utilize Corporate Plans & Services.

## **Relationship with Trust Company**

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Two of the Firm's officers, C. Mack Washam and John A. Capets, each own a nominal minority interest in the holding company of National Advisors Trust Company, FSB ("*NATC*"), a federally chartered trust company. From time-to-time, HCM may recommend clients utilize the trust services of *NATC* as an alternative to traditional custody and trust service providers. HCM does not, however, receive any portion of the servicing fees paid to *NATC* as a result such a recommendation. Additionally, while Messrs. Washam and Capets may be entitled to dividend payments by virtue of their respective shareholder interests, to date no such distributions have occurred.

## **Item 11: Code of Ethics**

HCM and persons associated with HCM ("*Associated Persons*") are permitted to buy or sell securities that it also recommends to clients consistent with HCM's policies and procedures.

HCM has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). HCM's *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public

information by HCM or any of its associated persons. The *Code of Ethics* also requires that certain of HCM's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

When HCM is engaging in or considering a transaction in any security on behalf of a client, no *Access Person* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the *Access Person* is completed as part of a batch trade (as defined below in Item 12) with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

This *Code of Ethics* has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by *Access Persons* to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated above.

Clients and prospective clients may contact HCM to request a copy of its *Code of Ethics*.

## Item 12: Brokerage Practices

### **Recommendation of Financial Institutions**

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HCM generally recommends that investment management clients utilize the brokerage, clearing and custodial services of TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC, an unaffiliated SEC-registered broker-dealer and FINRA member. It may also recommend the third-party trust services of NATC.

HCM participates in the institutional advisor program (the "Program") offered by TD Ameritrade. The Program offers to independent investment adviser firms, such as HCM, services that include custody of securities, trade execution, clearance and settlement of transactions. HCM receives some benefits from TD Ameritrade through its participation in the program. (Please refer to the disclosure under Item 14 below.)

HCM may only implement its investment management recommendations after the client has arranged for and furnished HCM with all information and authorization regarding accounts held at their respective financial institutions. Factors which HCM considers in recommending *NATC*, and/or *TD Ameritrade* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *NATC*, and/or *TD Ameritrade* may enable HCM to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *NATC*, and/or *TD Ameritrade* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by HCM's clients comply with HCM's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where HCM determines that the commissions are 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 *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. HCM seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom HCM and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. HCM periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

### **Brokerage for Client Referrals**

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Generally, HCM does not recommend multiple broker-dealers to its clients. As such, HCM does not specifically consider whether the Firm or a related person receives client referrals from a broker-dealer or third party. However, HCM does participate in the Program mentioned above whereby it may receive client referrals from TD Ameritrade. (Please refer the disclosure under Item 14 below.)

### **Directed Brokerage**

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In an effort to achieve best execution, HCM generally does not permit its clients to direct brokerage to a particular *Financial Institution*, which may otherwise cause clients to pay higher commissions than they would if transactions were executed through a *Financial Institution* recommended by HCM.

### **Trade Aggregation**

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Transactions for each client generally will be effected independently, unless HCM decides to purchase or sell the same securities for several clients at approximately the same time. HCM may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among HCM's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. In this

situation, transactions will generally be averaged as to price and allocated among HCM's clients pro rata to the purchase and sale orders placed for each client on any given day.

To the extent that HCM determines to aggregate client orders for the purchase or sale of securities, including securities in which HCM's *Supervised Persons* may invest, HCM generally does so in accordance with applicable rules and regulations. HCM does not receive any additional compensation or remuneration as a result of the aggregation. In the event that HCM determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include:

- When only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates;
- Allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts;
- If an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed);
- With respect to sale allocations, allocations may be given to accounts low in cash;
- In cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, HCM may exclude the account(s) from the allocation and the transactions may be executed on a pro rata basis among the remaining accounts; or
- In cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist HCM in its investment decision-making process. Such research generally will be used to service all of HCM's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefits of such investment research products and/or services poses a conflict of interest because HCM does not have to produce or pay for the products or services.

### **Commissions or Sales Charges for Recommendations of Securities**

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HCM does not receive commissions, sales charges, 12b-1 fees, shareholder service fees or any other compensation for recommendations of securities.

## **Software and Support Provided by Financial Institutions**

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HCM may receive from *NATC*, and/or *TD Ameritrade*, without cost to HCM, computer software and related systems support, which allow HCM to better monitor client accounts maintained at *NATC*, and/or *TD Ameritrade*. HCM may receive the software and related support without cost because HCM renders investment management services to clients that maintain assets at *NATC*, and/or *TD Ameritrade*. The software and related systems support may benefit HCM, but not its clients directly. In fulfilling its duties to its clients, HCM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that HCM's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence HCM's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

There is no direct link between HCM's participation in TD Ameritrade's institutional customer program and the investment advice it gives to its clients, although HCM receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. Additionally, HCM may receive the following benefits from TD Ameritrade through its registered investment adviser division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Adviser participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information. The Firm also has the ability to deduct advisory fees directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to the Firm by third party vendors. TD Ameritrade may fund business consulting and professional services received by HCM's related persons.

Some of the products and services made available by TD Ameritrade through the program may benefit HCM but not its client. These products or services may assist HCM in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help HCM manage and further develop its business enterprise. The benefits received by HCM's participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

## **Item 13: Review of Accounts**

### **Account Reviews**

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HCM's account strategies are monitored by its Investment Committee, which meets periodically to review the Firm's portfolio allocations. This committee is comprised of Harold Brown, John A. Capets, Rand Gordon, Cliff Porter, and C. Mack Washam. Individual client accounts are also subject to review by senior investment advisers at any time via HCM's portfolio accounting systems. In addition, each adviser is provided a complete set of statements for clients under his or her purview to review on a



quarterly basis and more frequently as needed. This report includes current holdings, individual security performance data and account level data from inception of the account through the current quarter.

Reviews may be triggered by material market, economic or political events, by changes in client's financial situations (such as retirement, termination of employment, physical move, or inheritance), or by client request.

For those clients to whom HCM provides financial planning services, reviews are conducted by one or more of the Firm's advisers on an "as needed" basis. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with HCM and to keep HCM informed of any changes thereto. HCM contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in their financial situations and/or investment objectives.

### **Account Statements and Reports**

Clients are provided with transaction confirmation notices and regular summary account statements directly from the *Financial Institutions* where their assets are held in custody. From time-to-time or as otherwise requested, investment management clients may also receive written or electronic reports from HCM and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with those they receive from HCM or an outside service provider.

Those clients to whom HCM provides financial planning services receive reports from HCM summarizing its analysis and conclusions as requested by the client or as otherwise agreed to in writing by HCM.

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

### **Client Referrals**

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In accordance with applicable laws, rules and regulations, HCM may compensate certain third-party solicitors for client referrals, including TD Ameritrade through its participation in the AdvisorDirect program. Solicitors are compensated by sharing in the management fee collected by HCM from the solicited clients. The management fee paid by the client does not increase because the client was obtained through a solicitor. The referred client will always receive a disclosure document that contains specific details regarding the arrangement and a copy of HCM's Form ADV Part 2A. HCM will always comply with Rule 206(4)-3 "Solicitors Rule".

All third-party solicitors who are not affiliated with HCM also provide clients with a copy of a separate solicitor's disclosure statement containing the terms and conditions (including compensation) of the referral arrangement. The solicitor may have a conflict of interest in referring clients to HCM. HCM will

ensure solicitors are properly registered in all necessary jurisdictions and will not utilize the services of unregistered solicitors in any jurisdictions requiring solicitor registration.

**TD Ameritrade AdvisorDirect Program.** In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, HCM may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with HCM and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise Advisor and has no responsibility for Advisor's management of client portfolios or Advisor's other advice or services. Advisor pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to Advisor ("Solicitation Fee"). Advisor will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by Advisor from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired Advisor on the recommendation of such referred client. Advisor will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

Advisor's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, Advisor may have an incentive to recommend to clients that the assets under management by Advisor be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. Advisor's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

### **Other Economic Benefits**

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HCM may receive an economic benefit from the *Financial Institutions* that provide service(s) to the firm's advisory clients in the form of due diligence trips. This type of relationship presents a potential conflict of interest, as addressed in Item 12 above.

As disclosed under Item 12 above, Advisor participates in TD Ameritrade's institutional customer program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Advisor's participation in the program and the investment advice it gives to its Clients, although Advisor receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities

transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist Advisor in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Advisor endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

Advisor has received from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include portfolio accounting (Schwab Performance Technologies), mutual fund due diligence (Fi360), and customer relationship management systems (Redtail).

TD Ameritrade provided the Additional Services to Advisor in its sole discretion and at its own expense, and Advisor does not pay any fees to TD Ameritrade for the Additional Services. Advisor and TD Ameritrade entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services. Advisor's receipt of the Additional Services raises potential conflicts of interest. The Additional Services Addendum has expired and HCM no longer participates in Additional Services.

## Item 15: Custody

HCM is deemed to have custody over a client's assets when it is authorized to directly debit a client's account for payment of the Firm's Advisory Fee. In accordance with applicable custody rules, the *Financial Institutions* recommended by HCM have agreed to send statements to clients, not less than quarterly, indicating all amounts paid to HCM and/or the *Independent Managers* engaged to manage their accounts.

As discussed in Item 13, HCM and/or a third party vendor may also send periodic reports to clients. Clients are advised to carefully review the statements and confirmations sent directly by the *Financial Institutions* and to compare them with any reports received from HCM or an outside service provider.

In addition, HCM is deemed to have custody over a client's assets when it is authorized to transfer such assets subject to a Standing Letter of Authorization (SLOA). HCM will operate under the terms of an SLOA when it reasonably believes that such transfers are to like-ownership accounts including like-registration accounts or accounts registered under the same tax identification number(s) as the account advised by HCM. Specifically, we accept that a distribution from an owner's Individual Retirement Account (IRA) to a checking account registered in the owner's name, even if it is a joint account with another individual, is acceptable under the terms of an SLOA subject to the provisions discussed below. For all other distributions to third-parties, HCM will not operate under the terms of an SLOA. As such, these transfers will require a separate written authorization from the account owner.

An SLOA will be acceptable to HCM as long as it complies with the following provisions:

- The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
- The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
- The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
- The client has the ability to terminate or change the instruction to the client's qualified custodian.
- The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
- The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser. Accordingly, HCM does not maintain any relationships with any third-party recipients of clients' funds, and no such third-parties share the same address as HCM.
- The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

## Item 16: Investment Discretion

Clients generally grant HCM the authority to exercise discretion on their behalf. HCM is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. The Firm is given this authority through a power-of-attorney

included in the *Agreement* between HCM and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold).

Specifically, HCM takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold; and
- When transactions are made.

## Item 17: Voting Client Securities (Proxy Voting)

HCM may accept the authority to vote a client's securities (i.e., proxies) on their behalf. When HCM accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully described in HCM's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in HCM's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact HCM to request information about how HCM voted proxies for that client's securities or to get a copy of HCM's Proxy Voting Policies and Procedures.

A brief summary of HCM's Proxy Voting Policies and Procedures is as follows:

- HCM has formed a Proxy Voting Committee which is responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee generally votes proxies according to HCM's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, HCM devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct HCM's vote on a particular solicitation but can revoke HCM's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that HCM maintains with persons having an interest in the outcome of certain votes, HCM

takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

## Item 18: Financial Information

HCM is not required to disclose any financial information pursuant to this Item due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.

### **END OF DISCLOSURE BROCHURE**

If you have any questions, please contact us at (704) 377-6945.