

# Harbor Investment Advisory, LLC

## Form ADV Part 2A Firm Brochure

March 31, 2021

2330 West Joppa Road, Suite 160  
Lutherville, Maryland 21093  
Tel: 410-659-8900  
Fax: 410-659-8899  
[www.HarborLLC.com](http://www.HarborLLC.com)

---

This brochure ("Brochure") provides information about the qualifications and business practices of Harbor Investment Advisory, LLC ("Harbor"). If you have any questions about the contents of this Brochure, please contact William C. Schady, Chief Compliance Officer at 1-410-659-8900 and/or [wschady@harborllc.com](mailto:wschady@harborllc.com). Harbor Investment Advisory, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Harbor Investment Advisory, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with, registered, and required to be registered, as investment adviser representatives of Harbor Investment Advisory, LLC.

## ITEM 2: MATERIAL CHANGES

The following material changes have been made to this Brochure since our last delivery and posting of the Brochure on the SEC's public disclosure website on May 20, 2020:

ITEM 4: Harbor has updated the descriptions of the various Advisory programs, including to reflect the removal of the Lockwood Separately Managed Account program as a service provider.

ITEM 5: Harbor has updated the fee descriptions related to the various Advisory programs and utilization of Envestnet as a service provider.

ITEM 14: Harbor has updated the use of third parties for referrals of Advisory Clients.

Harbor makes ongoing and routine changes to this Brochure to improve and clarify the descriptions of our business practices and compliance policies in response to the evolving firm and regulatory practices. Any grammatical and/or format changes are not deemed material and therefore are not disclosed in this section. We encourage you to review this Brochure in its entirety.

## ITEM 3: TABLE OF CONTENTS

ITEM 1: Cover Page .....	1
ITEM 2: Material Changes .....	2
ITEM 3: Table of Contents .....	3
ITEM 4: Advisory Business .....	4
ITEM 5: Fees and Compensation .....	6
ITEM 6: Performance-Based Fees and Side-by-Side Management .....	9
ITEM 7: Types of Clients .....	9
ITEM 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	9
ITEM 9: Disciplinary Information .....	11
ITEM 10: Other Financial Industry Activities and Affiliations.....	11
ITEM 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	11
ITEM 12: Brokerage Practices .....	12
ITEM 13: Review of Accounts .....	13
ITEM 14: Client Referrals and Other Compensations .....	13
ITEM 15: Custody .....	14
ITEM 16: Investment Discretion .....	14
ITEM 17: Voting Client Securities .....	14
ITEM 18: Financial Information .....	14
OTHER INFORMATION .....	14

## ITEM 4: ADVISORY BUSINESS

### **Description of Harbor**

Harbor Investment Advisory, LLC (“Harbor”, “our” and/or “we”) is an investment adviser and broker-dealer providing investment advisory and brokerage services to our clients (“Client”, “you”, and/or “your”). The firm is registered with the United States Securities and Exchange Commission (“SEC”), and various states, and is a member of FINRA and SIPC. Harbor has been registered since 2010 and is 100% owned by Harbor Investment Management, LLC.

It is important to understand that investment advisory services and brokerage services are separate and distinct from each other and each is governed by different laws and by separate arrangements that we have with our Clients. The specific services or investment strategies that we provide and our legal duties to you in each arrangement are described in detail in our applicable agreements between you and Harbor.

In its capacity as an investment adviser, Harbor provides investment advisory services (“Advisory Services” or “Advisory Programs”) to its advisory Clients across a broad range of asset classes, strategies, and investments, which are described in this Brochure. Separately, Harbor provides wrap fee programs where the Client pays Harbor a single, bundled, or wrap fee for investment advice, transaction services, administrative expenses and other fees and expenses, which are described in the Harbor Form ADV Part 2A Appendix 1 Wrap Fee Program Brochure (“Wrap Fee Brochure”).

In its capacity as a broker-dealer, Harbor also offers brokerage account services (“Brokerage Services”) that allows you to invest through a commission or transaction-based account, and that may be more appropriate than investing through Advisory Services, if you do not want ongoing investment advice or management of your account, but instead desire only periodic or on-demand recommendations. By utilizing Brokerage Services, Harbor will make recommendations which are suitable for your account based on information you provide, but we will not necessarily monitor your account unless we have specifically agreed to provide you with that service. Brokerage Services are separate from, and are not described in this Brochure.

### **Asset Information**

As of December 31, 2020, Harbor had Assets Under Management (“AUM”) and Assets Under Advisement (“AUA”) of approximately:

Assets Under Management*:	
Discretionary:	\$1,681,800,000
Non-Discretionary:	<u>\$2,019,200,000</u>
Total AUM:	\$3,701,000,000
Assets Under Advisement**:	\$1,983,600,000
Total Assets:	\$5,684,600,000

\* AUM refers to assets which are reported as regulatory AUM in Item 5.F. of Form ADV Part 1A.

\*\* AUA refers to assets held in Clients’ brokerage accounts, which are **not** treated as regulatory AUM.

### **Advisory Services**

Working with a registered investment adviser representative (“Financial Advisor”), investment advice and portfolio management services are provided on a continuing basis, which includes managing Client assets among cash, stocks, mutual funds, exchange traded funds (“ETFs”), bonds, and other securities (collectively “Assets”). Our advice and services are also based on your stated investment objectives for your investment portfolio account (“Account”). We will execute investment recommendations in accordance with information gathered in the Harbor New Account Form, the Harbor Master Advisory Agreement (“Advisory Agreement”),

and other documents which describe the investment objectives of our Clients and a description of their Assets, earnings, tax status, acceptable levels of investment risk, imposed investment restrictions, and other information. Based on this information Harbor will provide a variety of investment related services including, but not limited to:

- Provide ongoing managed Advisory Services pursuant to the Advisory Agreement,
- Assisting Clients in determining investment objectives and establishing an investment implementation strategy,
- Performing due diligence on third-party asset managers ("Portfolio Manager") and individual securities,
- Performing agency brokerage transactions for the Account effected by Harbor in its capacity as introducing broker and executed by Pershing LLC ("Pershing"); and
- Performing administrative services including, but not limited to, the processing of deposits and withdrawals from the Account pursuant to the Client's instruction.

## **Investnet Services**

Harbor offers certain Advisory Services through an integrated third-party service and technology provider, Investnet Portfolio Services, Inc., Investnet Asset Management, Inc., and/or their affiliates (collectively, "Investnet") for various administrative, investment advisory, investment management, model portfolio management, overlay management, tax overlay services, Environmental, Social and Governance ("ESG") overlay services, investment and manager due diligence, research, reporting, trade implementation, compliance monitoring, operational support, and/or other services. Investnet is not a tax advisor nor does it provide any tax advice; Client should consult with Client's tax consultant prior to investing in the tax overlay service. The Advisory Program selected by the Client is defined in the Advisory Agreement and the Investnet Statement of Investment Selection ("SIS") agreement, when applicable. Certain fees payable to Investnet will be charged to your Account, which are further defined in the Advisory Fee Section of the Advisory Agreement, when applicable. For a complete description of Investnet services, please refer to the Investnet Form ADV Part 2A and Form Part 2A Appendix 1, which is available [here](#), or upon request and free of charge.

## **Advisory Programs**

Harbor and its Financial Advisor offer several different Advisory Programs and Services depending on the investment objectives of the Client, which are described as follows:

### **Harbor Manager Select ("Manager Select")**

In the Manager Select program, your Financial Advisor assists you with limited due diligence to assist you in selecting and engaging one or more individual Portfolio Managers in a manner consistent with your investment objectives without discretion. Client selects and engages Portfolio Managers, on a "dual contract" basis, to provide investment management services including the investment and re-investment of the Assets in your Account. Services provided and applicable fees charged by the Portfolio Managers are governed under a separate agreement maintained directly between Client and the Portfolio Managers.

### **Harbor Investment Consulting ("Harbor Consulting")**

The Harbor Consulting program is an investment management, consulting and reporting service, where your Financial Advisor assists you to determine the allocation of your Assets and to manage the Assets in your Account, and Assets held outside of your Account with third-party Custodians or other broker-dealers, in a manner consistent with your investment objectives, on a non-discretionary basis. For Assets you have specifically identified for investment, Harbor will assist you in evaluating the investments and/or Portfolio Managers with you being responsible for the final decision on the selection of all investments, Portfolio Managers, and other Assets. Harbor will not affect any transactions on your behalf at third-party Custodians or broker-dealers, and Client is responsible for

separately making arrangements with outside parties regarding commissions, charges, trails and other fees and account services.

## Retirement Plan Services

Harbor offers Discretionary Investment Management Services, Non-Discretionary Investment Management Services and/or Retirement Plan Consulting Services to employer sponsored retirement plans and their participants. Depending on the type of plan, and the specific arrangement with the Sponsor, Harbor may provide one or more of these services.

## Financial Planning Services (“Financial Planning”)

Harbor offers Financial Planning which may be comprehensive or limited in scope depending on a Client's particular needs. The financial plan may include, but is not limited to, review and prioritization of the Client's goals and objectives, development of a net worth statement, cash flow summary and insurance analysis, review of investment holdings, and development of an investment management strategy. A financial plan may also include financial projections and analysis, in addition to education funding, retirement and estate planning analyses. The scope of the Financial Planning, including fees, proposed length of the engagement and a description of any conflicts of interest are defined in a letter of engagement which is executed in advance between the Client and Harbor.

## Wrap Fee Programs

Harbor sponsors five wrap fee programs to include the Harbor Advisor Discretionary, the Harbor Advisor Non-Discretionary, the Harbor Separately Managed Account, the Harbor Unified Managed Account, and the Harbor Fund Strategist Program. These programs are described in detail in Harbor's Form ADV Part 2A Appendix 1 Wrap Fee Program Brochure.

## ITEM 5: FEES AND COMPENSATIONS

Harbor is compensated through an annualized asset-based fee (“Advisory Fee”), which will be paid monthly or quarterly in arrears, as indicated in the table below. The amounts and specific manner that fees are charged is memorialized in our agreement with the Client. Although many fees are individually negotiated, the range of Harbor's Advisory fees are described below:

Harbor Program	Fee Range *	When Charged
Harbor Manager Select	0.25% - 2.00%	Monthly in Arrears
Harbor Investment Consulting	0.25% - 1.50%	Monthly in Arrears
Retirement Plan Services	Flat Fee, Hourly Fee, and/or Fee on Assets	Monthly or Quarterly in Arrears
Financial Planning Services	Flat Fee, Hourly Fee, and/or Fee on Assets	Varies by Engagement Letter

\* Computed as a percentage of assets under management in the Account including any margin debit in the Account.

Advisory Fees are deducted from your Account within twenty (20) business days of the end of the period for which the fees are incurred. The Advisory Fee for the initial monthly period shall be charged pro rata from the funding date of the Account based on the number of days services were provided, and the value of the Assets held in the Account at the end of the initial monthly period. Upon termination of an Account, any earned, unpaid Advisory Fees will be due and payable.

In addition to the Advisory Fee, Clients will incur, directly or indirectly, other fees and expenses for investments made for the Client. Harbor refers some Clients to providers of investment offerings for which Harbor and/or its employees receive selling and/or placement compensation, in addition to the Advisory Fee, which are credited back to the Client or used to reduce the Client's Advisory Fee. Harbor does not, in its capacity as introducing broker for Advisory Clients' Accounts, charge brokerage commissions on transactions placed in

Advisory Accounts. Custody fees imposed on IRA accounts are waived for Advisory Accounts. Other administrative fees charged for wire transfers and check writing services are not included in the Advisory Fee.

By investing with certain third-party money managers and/or by making direct investments, Client will incur fees, brokerage commissions, transaction fees, manager's fees, custody fees, and other related costs and expenses. Such third-party charges, fees and commissions are exclusive of and in addition to Harbor's Advisory Fee.

Additionally, Clients will indirectly incur certain fees and expenses for investments made for the Account in mutual funds, ETFs, money market funds, and other Assets. The fees and expenses are paid by the fund and are borne by all fund shareholders owning the same class of share. The fees and expenses can include, but are not limited to, mutual fund servicing fees, sub-accounting fees, management fees, custody, portfolio transaction execution costs, administration fees, distribution fees, and shareholder servicing fees. Fees and expenses charged by these securities are deducted from each fund's net asset value and as such, are an indirect expense of the Client. These types of investments can be purchased directly without being managed by Harbor pursuant to this Agreement, which may cost you more or less.

Harbor receives mutual fund distribution and servicing fees from certain mutual fund companies, depending on the class of shares held. Harbor credits to the Client, or applies it to reduce the Client's Advisory fee, all payments received from any fund on account of Client's advisory holdings. Clients should be aware that when we place a transaction on your behalf, we attempt to place Clients in the most cost-effective share class available at that time. The lowest cost share class typically carries a mutual fund "surcharge" of \$10 per trade, charged by Harbor's custodian to Harbor. If incurred, this charge is passed through to the Client. Since fund companies can add new share classes at any time, without offering or executing an automatic exchange from existing share classes of the same fund, it is possible that the class originally selected may no longer be the most cost-effective class available. As set forth below, Harbor offers all Clients an annual review of their account and holdings and the share class selections are among the topics that will be covered in the review. For a complete description of the fees and expenses related to each investment, Client should review the prospectus for the respective mutual fund, ETF, money market fund, and other Assets.

For fixed income securities transactions, Client will indirectly incur certain fees and expenses for transactions effected through a broker-dealer other than Pershing from the commission or mark-up/down that is included in the net purchase price or sale proceeds of the security. Harbor does not receive any portion of these fees or expenses, so they will not be credited back to Client's investment Account or used to reduce the Client's Advisory Fee.

A Client's Advisory Account can hold certain Assets that are not supervised by Harbor and are not charged an advisory fee. Harbor acts only as broker-dealer, and not as an investment adviser, with respect to these non-managed securities. In the event of a transaction on these non-managed assets, the Client will not incur a brokerage commission or mark-up/down.

Transactions in any securities effected through Harbor for the Accounts of Clients that are employee benefits plans subject to Employee Retirement Income Security Act of 1974, as amended ("ERISA") will be completed in compliance with Exemption 86-128 of ERISA. The foregoing regulatory requirements generally provide, among other things, that advance written authorization must be obtained from each Client with respect to the utilization of Harbor as a broker-dealer to effect transactions for its account and that periodic reports of such transactions be furnished to its Clients. All fees and expenses will reduce the Client's investment return.

## **Fees and Compensation**

### **Harbor Advisor Fee**

As compensation to Harbor, Client shall pay Harbor an advisor fee ("Advisor Fee") as set forth in the Advisory Agreement. The Advisor Fee includes payment for; (i) investment advisory services provided by Harbor, (ii) brokerage commissions on all agency transactions for the Client Account effected by Harbor in its capacity as introducing broker-dealer and executed by Pershing, except for those transactions ordered directly by Client and those processed after notice of Advisory Agreement termination is provided and except for transactions involving non-managed assets, (iii) as applicable, custodial and clearing services with respect to the securities brokerage account, (iv) administrative services such as computing, charging and collection of Account fees, including fees for services provided, (v) administrative services such as the processing of deposits and withdrawals from the Account pursuant to the Client's instruction, (vi) the issuance of monthly and/or quarterly account statements, and (vii) other services as agreed. Harbor may charge other Clients different fees, which may be higher or lower than the fees charged with respect to the Client's Accounts for similar services. Harbor may amend its fees upon thirty (30) days advance written notice of the change.

### **Investnet Platform Fee**

As compensation to Investnet and depending on the Advisory Program, Client will incur fees when applicable for overlay management, for underlying Portfolio Managers, for services defined in the Master Advisory Agreement, and for platform access (collectively, the "Platform Fee") and other costs associated with transactions executed other than at Pershing, unless Harbor specifically notifies Client to the contrary. These fees are imposed directly by Investnet and are separate from Harbor's Advisor Fee. The Platform Fee is set forth in the Advisory Agreement and is further defined in the Investnet Statement of Investment Selection ("SIS") agreement. The Platform Fee is invoiced to Harbor by Investnet and is charged to Client's Account(s). Client should refer to Investnet's and/or the Portfolio Manager's Form ADVs for information about their fee calculation methodologies.

### **Client Fee**

The combined total of the Advisor Fee and the Platform Fee (collectively the "Client Fee") will be charged to the Client Account. Client agrees to pay the Client Fee monthly, in arrears, based on the value of the Assets under management in the Account at the end of each monthly period. The Client Fee for the initial monthly period shall be charged pro rata from the funding date of the Account based on the number of days services were provided, and the value of the Assets held in the Account at the end of the initial monthly period. The term "month" as used here means a calendar month.

### **Account Requirements**

Minimum Account size is dictated by the program in which a Client is participating as described in the chart below. Exceptions to the minimum account size are made at the discretion of the manager and/or Harbor depending on the circumstances of the relationship and manner in which Assets are allocated by Account type and title.

Harbor Program	Minimum Account Size
Harbor Manager Select	\$1,000,000
Harbor Investment Consulting	\$100,000
Retirement Plan Services	No Minimum Account Size
Financial Planning Services	No Minimum Account Size



## ***Type of Compensation***

Based on the investment services provided, Harbor is compensated by:

- A percentage of assets under management,
- Fixed fees (other than subscription fees),
- Commissions (when Harbor is acting only as broker-dealer and not as investment adviser with respect to the specific assets).

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Harbor does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the Assets), nor does it provide side-by-side management.

## **ITEM 7: TYPES OF CLIENTS**

Clients include ultra-high net worth and high net worth individuals, their families, family offices and related entities such as trusts, estates, private foundations, as well as pension, profit sharing and other retirement plans, charitable organizations, corporations and other business entities. Clients receive ongoing personalized investment advice and guidance from their Harbor Financial Advisor.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Harbor utilizes a combination of quantitative and qualitative analytical tools to support investment recommendations for its Clients. Investment strategies are defined based on the Client's investment objectives, time horizon, liquidity needs and risk tolerance. Our Financial Advisors discuss with Clients that investing in securities involves certain risks and a potential for loss, which allows for Clients to understand the risks associated with investment portfolios. Investing in securities involves risk of loss that Clients should be prepared to bear.

## ***Sources of Information***

The main sources of information that we use to analyze investments includes:

- Research materials prepared by others
- Corporate rating services
- Timing services
- Annual reports, prospectuses, filings with the SEC
- Company press releases
- Financial newspapers and magazines
- Investment Manager Database Services

## ***Investment Strategies***

We work with our Clients to identify an appropriate asset allocation to achieve their investment objectives. Asset allocation requires an understanding of Client specific issues and consideration of the economic and capital market environment. Our investment management approach reflects a focus that seeks consistent, risk-adjusted returns. We adhere to a philosophy of evaluating the global landscape of information and investment opportunities. In constructing portfolios, we perform due diligence on a variety of offerings such as individual securities, professional money managers, index funds, and alternative investments.

## ***Recommendation of Portfolio Managers***

Harbor can engage the services of third-party managers in the form of mutual funds, ETFs, and other independent money managers. Before recommending third-party portfolio managers to our Clients, we perform due diligence on the manager and strategy by considering factors such as the clarity of the manager's definition of its investment strategy, the manager's investment selection process, whether the manager discloses a sell discipline or downside protection, the manager's historical adherence to the stated investment style, the quality and depth of the management team, the manager's firm ownership, the manager's policy with respect to closing portfolios based on size, the manager's type of Client base, the manager's regulatory

compliance record, the transparency of the investments used for the strategy, the manager's research capabilities, the risk-adjusted returns, performance attribution, portfolio composition, fees and statistical measures. The selection, retention or dismissal of a manager is based on our ongoing due diligence assessment.

When determining which managers to recommend or engage for a Client, the Harbor Financial Advisor generally designs a portfolio for the Client based on the Client's financial situation and needs, and then identifies the specific managers/strategies that are appropriate for each element of the planned portfolio, with an overall goal of identifying a portfolio allocation that seeks returns reflective of the Client's risk tolerance, time horizon and other needs.

### ***Investment Strategy Risk and Risk of Loss***

Harbor does not guarantee the future performance of any Client Account, investment decision or strategy. Future results may vary substantially from past performance and no investment strategy can guarantee profit or protection from loss. Returns on investments can be volatile and an investor may lose all or a portion of the amount invested. Clients must consider specific risks associated with various investment management strategies and products. You should consult with your Financial Advisor for more details regarding the specific risks associated with the investments in your Account. Some general investment risks are described below.

#### **Market Risk**

There are risks associated with investing in securities. Market movements are difficult to predict and are influenced by a number of factors, including general economic conditions, government fiscal and monetary policies, changing supply and demand relationships, international political and economic events, catastrophic acts of nature, epidemics or pandemics, company-specific factors, and the inherent volatility of the marketplace.

#### **Lack of Diversification**

Portfolio investments could be concentrated in certain securities and/or asset classes and diversification could be limited. There are no limits with respect to position sizes.

#### **Liquidity**

Generally, we invest Client Assets primarily in securities that are liquid at the time of purchase, but there is no guarantee that there will be a market for any given security in the future. Securities could become less liquid during the holding period.

#### **Cash and Cash Equivalents**

Accounts may maintain significant cash positions from time to time and the Client will pay the Advisory Fee based on the net asset value of the Account, including cash and cash equivalents. Holding cash and cash equivalents generally does not result in significant (or any) return to the Client.

#### **Taxes**

Any transactions initiated to the Client's Account may cause the Client to incur tax consequences.

#### **Leverage and Margin**

We may use leverage in investing. One way that we use leverage is by investing in leveraged products, including leveraged ETFs or structured products. These products carry higher expenses than traditional ETFs. Greater leverage will magnify results, whether positive or negative. Greater leverage carries greater risk. Details about costs and risks are set forth in the prospectus for the fund or product.

Another way that we use leverage is by purchasing securities on margin. The use of short-term margin borrowings entails additional risks and costs. For example, should the securities pledged to

a broker to secure a margin loan decline in value, a “margin call” may be issued pursuant to which additional Assets would be required to be deposited with the broker or the broker would affect a mandatory liquidation of the pledged securities to compensate for the decline in value. We might not be able to liquidate Assets quickly enough to pay off the margin debt and the Accounts may therefore also suffer additional significant losses as a result of the default. Please see the Margin Risk Disclosure for additional information on the risks of using margin.

### **Interest Rate Fluctuation**

The prices of securities in which a Client may invest may be sensitive to interest rate fluctuations. Unexpected fluctuations in interest rates could cause the corresponding prices of the long and short positions to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs of borrowed securities and leveraged investments.

### **Utilization of Alternative Investments**

Alternative investment products, including hedge funds, commodities, hedged equity, private equity, and managed futures, involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager.

## **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 Harbor or the integrity of Harbor’s management. There have not been any material legal, or disciplinary events involving the Advisory business of Harbor or its management personnel.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Harbor is registered as a broker-dealer under the Securities and Exchange Act of 1934 and state jurisdictions, and is a member firm of the Financial Industry Regulatory Authority (FINRA).

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Harbor 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, the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Harbor must acknowledge the terms of the Code of Ethics annually, or as amended.

Harbor anticipates that, in appropriate circumstances, consistent with Clients’ investment objectives, it will cause Accounts over which Harbor has authority to effect and will recommend to investment advisory Clients or prospective Clients, the purchase or sale of securities in which Harbor, its affiliates and/or Clients, directly or indirectly, have a position of interest. Harbor’s employees and persons associated with Harbor are required to follow Harbor’s Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Harbor and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Harbor’s Clients. The Code of Ethics is designed to assure that the personal securities transactions, activities, and interests of the employees of Harbor will not interfere with (i) making decisions in the best interest of advisory Clients and (ii) implementing those decisions while, at the same time, allowing employees to invest for their own accounts. Generally, the Code of Ethics requires prior written approval for

personal securities transactions placed for all employee and employee-related accounts. 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 inadvertently benefit from market activity by a Client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics and is designed to reasonably prevent conflicts of interest between Harbor and its Clients. Harbor's Clients or prospective Clients may request a copy of the firm's Code of Ethics by contacting William C. Schady, Chief Compliance Officer.

## **ITEM 12: BROKERAGE PRACTICES**

### ***General***

When Clients direct Harbor to execute all or a portion of their transactions effected on their behalf with a third-party broker, Harbor does not negotiate commission rates on behalf of its Clients unless specifically directed to do so. Harbor does not determine whether commission rates charged by a broker selected by its Clients are the lowest available. For trades not directed to Harbor by the advisory Client, Harbor will use its best efforts to obtain execution on the best terms reasonably available. As noted above, Harbor does not charge commissions on transactions involving Assets that are managed by Harbor. In other circumstances, however, Harbor may, in compliance with Section 28(e) of the Securities Exchange Act of 1934, receive commissions in excess of the amount of commissions other broker-dealers would have charged; commission amounts are disclosed to the Client on the transaction confirmation sent to the Client.

Transaction rates for trades executed through Harbor may not always be as favorable as those that could be obtained if transactions were executed through another broker-dealer. Although Harbor does not receive transaction-based compensation for transactions executed on managed Assets in Advisory Accounts, the fact that Harbor's Clients are likely to use Harbor's clearing firm to execute transactions presents a potential conflict of interest in that Harbor receives other benefits, such as more favorable pricing on services, based on the volume of transactions introduced to the clearing broker-dealer.

### ***Third-Party Broker-Dealers***

In selecting a broker-dealer other than Harbor's clearing firm to execute transactions, we will, consistent with our obligations to obtain best price and best execution for our Clients, take into consideration relevant factors like:

- Price,
- Broker's or dealer's facilities, reliability and financial responsibility,
- The ability of the broker or dealer to effect transactions, particularly with regard to such aspects as timing, order size, and execution of orders,
- Any other factors we consider to be relevant. Subject to the requirements of Section 28 (e) of the Securities Exchange Act of 1934, as amended, we are permitted to pay a broker a commission in excess of that which another broker might charge in recognition of the value of research and execution provided.

### ***Client Directed***

Clients may instruct us to direct all or a portion of the securities transactions for the Client's Account to a specified broker-dealer. We will treat the Client direction as a decision by the Client to retain the discretion that otherwise we would have in selecting a broker-dealer to effect transactions and in negotiating transaction fees generally for the Client's Account. The Client who directs us to use a specific broker-dealer may pay higher or lower transaction fees such as commissions, mark-ups, mark-downs, dealer spreads, credits or otherwise, and may receive less or more favorable execution services than if the Client did not direct transactions to a particular broker-dealer. If Harbor is not otherwise directed in writing to execute trades through a particular broker-dealer, Harbor will execute, as a broker, all purchases and/or sales on behalf of a Client's Account through Pershing.

## **Step Out Trades**

When utilizing the Envestnet platform, Envestnet generally routes trades directly to the custodian of record. Occasionally, in order to obtain best execution and minimize market impact, certain thinly traded securities, illiquid or ETF trades, for example, can be “stepped-out” in order to gain best execution and minimize market impact. In some instances, stepped-out trades are executed by the other firm without any additional commission or markup or markdown, but in other instances, the executing firm may impose a commission or a markup or markdown on the trade. If trades are placed with a firm that imposes a commission or equivalent fee on the trade, including a commission that may be embedded in the price of the security, the Client will incur trading costs in addition to the Client Fee the Client pays to Harbor. On an annualized-basis, the number of step-out trades conducted by Envestnet equates to approximately 2% of total order flow. Actual step-out percentages may vary dependent on the third-party Manager products chosen by the Financial Advisor and the securities held in the particular model. In other words, Clients will usually pay a commission in addition to the wrap fee for stepped-out trades.

## **Block Trades**

We may enter aggregated trade orders (“Block Trade”) in a given security for groups of Clients that are bunched or aggregated. When entering Block Trades, we generally determine the full allocation to each participating Account at the time the orders are placed. When execution of the order is completed in a single trading day, the Block Trade is average priced and allocated in full to the Accounts that were part of the Block Trade. When execution of the order is not completed in a single day (“Partial Fill”), the Account allocation of shares purchased or sold in the Block Trade is provided to the broker-dealer using one of several fair and equitable methods of allocation, generally at the end of the day’s trading. The allocation of a Partial Fill will be done in a fair and equitable manner using various allocation methods at the average price for the day. Any given Account may receive a better or worse price than if its trading had been accomplished separately. Any allocation procedures administered are not intended to operate to favor or disfavor any Accounts.

## **Soft Dollar Arrangements**

Harbor does not engage in any soft dollar arrangements.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **Account Review**

Each Client is offered at least an annual Account review with their Financial Advisor. Additional reviews may be triggered by material market, economic or political events, or by Client request to communicate changes in Clients’ financial situations (such as retirement, termination of employment, physical move, or inheritance).

### **Account Statements**

Clients will receive written Account statements from the qualified custodian that holds and maintains Client’s investment Accounts on a monthly or quarterly basis. Harbor may provide additional Account reports that are supplemental to your custodian’s Account statements, but your custodial statements are the official record of Account holdings, activity, and tax information. Our custom reports may vary from custodial statements based on accounting procedures and reporting formats. We urge you to compare our custom reports with the custodial statements and to notify us promptly of any discrepancy.

### **Trade Errors**

Though Harbor will attempt to correct trading errors as soon as they are discovered, Harbor is not responsible for poor executions or trading errors committed by the brokers with whom it transacts, or by Harbor itself unless the error resulted from Harbor’s negligence, fraud or willful misconduct.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Harbor has entered into arrangements pursuant to which it compensates third-parties by a flat fee for Client referrals. The flat fee is paid regardless of whether the referral results in the engagement of Harbor to provide Advisory Services. The cost of any referral fees is borne entirely by Harbor or the Harbor Financial Advisor

and not by any referred Client.

Harbor receives mutual fund distribution and servicing fees from certain mutual fund companies, depending on the class of shares held. Harbor will credit to the Client, or apply to reduce the Client's Advisory fee, all payments received from any fund on behalf of Client's managed advisory Assets. Clients will receive the selected mutual fund and money market fund prospectus, which provides a complete description of the fees and expenses related to each investment. Clients should read these documents carefully.

## **ITEM 15: CUSTODY**

Harbor has entered into an agreement with Pershing to execute securities purchase and sale orders and to perform and provide custodial and clearance services for Client Accounts. In addition, Clients may maintain Accounts with a brokerage firm or bank custodian of their choosing. Clients will receive written Account statements from the qualified custodian that holds and maintains Client's investment Accounts on a monthly or quarterly basis. Harbor may provide additional Account reports that are supplemental to your custodian's Account statements. The custodial statements are the official record of Account holdings, activity, and tax information.

## **ITEM 16: INVESTMENT DISCRETION**

In its capacity as an investment adviser, Harbor offers discretionary investment management to determine the type and quantity of securities to be bought or sold and specific Portfolio Managers to be selected. In all cases, such discretion is to be exercised in a manner consistent with the stated investment objectives for the applicable Client Account. For all discretionary authority, Client grants Harbor limited trading authorization with respect to Client Account and appoints Harbor as agents on Client's behalf and attorney in fact to buy, sell or otherwise transact in securities in Client's Account.

For all non-discretionary programs selected by the Client, Harbor may purchase, sell, exchange, convert, and trade the securities and other investments for the Account at Client's risk, after receiving permission from the Client to do so.

Harbor is not authorized to withdraw or to transfer any Assets out of the Account either in the name of Client or otherwise without the written permission of Client, other than for Advisory fees due to Harbor and Envestnet.

## **ITEM 17: VOTING CLIENT SECURITIES**

Harbor does not take any action or render any advice with respect to the voting of proxies solicited by, or with respect to, the issuers of any securities held in an Account. Clients retain responsibility for proxy voting and will receive proxies and other solicitations directly from their custodian and may contact Harbor with any questions related to the instructions.

## **ITEM 18: FINANCIAL INFORMATION**

In this Item, we are required to disclose that Harbor is unaware of any financial condition that impairs its ability to meet contractual and fiduciary commitments to Clients and has not been the subject of any bankruptcy proceedings. Additionally, Harbor is not required to include a balance sheet for our most recent year end, because we do not require or solicit more than \$1,200 in fees per Client, six months or more in advance.

## **OTHER INFORMATION**

### ***Business Continuity Plan***

Harbor has a Business Continuity Plan that addresses how the firm will respond to events that may disrupt its business. If the main telephone line is inactive, the emergency number is 410-340-1225. If the emergency line is down, please contact our clearing firm, Pershing LLC, at 201-413-3635. We have a plan to ensure that we can resume operations as quickly as possible after a business disruption. Our Business Continuity Plan covers data backup and recovery, mission critical systems, financial and operational assessments, alternative

communications, alternate business locations, regulatory reporting and the assurance of prompt access to funds and securities for our Clients. Additional details regarding the firm's Business Continuity Plan are available upon request.

***Privacy Notice to Customers***

We do not disclose nonpublic personal information about our individual Clients or former Clients except as permitted by law. We restrict access to nonpublic personal information about you (that we may obtain from your Account and your transactions) to those employees who need to know that information to provide products or services to you or to alert you to new, enhanced or improved products or services we provide. We maintain physical, electronic and procedural safeguards that comply with federal standards to safeguard your nonpublic personal information.