

**Item 1: Cover Sheet**



**FORM ADV PART 2A**

**INFORMATIONAL BROCHURE**

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*This brochure provides information about the qualifications and business practices of Hotaling Investment Management, LLC. If you have any questions about the contents of this brochure, please contact Hotaling Investment Management, LLC at 610-688-0616. 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. Hotaling Investment Management, LLC is a registered investment adviser. Registration does not imply any certain level of skill or training. Additional information about Hotaling Investment Management, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

**Item 2:           Statement of Material Changes**

Hotaling Investment Management, LLC is required to include in this Item 2 any material changes to the Form ADV Part 2A since the last update. This ADV Part 2A is being submitted as part of the firm's annual updating amendment. There have been no material changes since the last update in March 2022.

**Item 3: Table of Contents**

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

Hotaling Investment Management, LLC (“Hotaling”) has been in business since November 1, 2012. Bruce Hotaling is the firm’s only principal. Hotaling provides personalized investment management and financial planning services. The firm provides financial advice to individuals, trusts, foundations, endowments, and corporations.

##### Investment Management

Hotaling requires each client to place at least \$500,000 with the firm. This minimum may be waived in the discretion of Hotaling.

Investment management services may be provided on either a “discretionary” or “non-discretionary” basis. When Hotaling is engaged to provide investment management services on a discretionary basis, Hotaling monitors an account to ensure that it meets the client’s asset allocation requirements. If any changes are needed to the investments, Hotaling makes the changes. These changes may involve selling a security or group of securities and buying others or keeping the proceeds in cash. Clients may, at any time, place restrictions on either the types of investments that Hotaling purchases on their behalf or on the allocations to each investment type. Clients may receive at their request written or electronic confirmations from the account custodian after any changes are made to an account. Clients also receive monthly statements from the account custodian. Clients engaging Hotaling on a discretionary basis are asked to execute a Limited Power of Attorney (granting Hotaling discretionary authority over a client account) as well as an Investment Management Agreement (IMA) that outlines the responsibilities of both Hotaling and the client.

When a client engages Hotaling to provide investment management services on a non-discretionary basis, the account is monitored by Hotaling. The difference between a discretionary account and a non-discretionary account is that, in a non-discretionary account, Hotaling does not make any changes to the account until it has confirmed with the client (either verbally or in writing) that the proposed changes are acceptable.

##### Assets Under Management

As of December 31, 2022, Hotaling managed approximately \$299,782,523 in assets all on a discretionary basis.

##### Financial Planning

When clients engage Hotaling, clients generally share financial information including income, investments, savings, insurance, and other items that are helpful to Hotaling in assessing the client’s unique situation, needs, and goals. With all of this information, Hotaling is able to provide the client with a financial and investment plan that it believes consists of the best possible ways to reach the client’s goals while satisfying all of their financial needs.

Every plan, like every client, is unique, and each plan is specific to the client who requested it. Because the plan is based on information provided by each client, it is very important that clients accurately and completely communicate all relevant information. It is also important that clients continually provide updates with any changes to their personal information so that Hotaling can

provide them with the necessary modifications to the plan.

## **Item 5: Fees and Compensation**

### **A. Fees Charged**

All clients are required to execute a written Investment Management Agreement (IMA) that describes the type of services to be provided and the fees, among other items.

Financial planning is included with investment management services.

Generally, assessed fees vary from 0.55% to 1.75% per annum of the market value of a client's assets managed by Hotaling according to the following schedule.

<u>Assets Under Management</u>			<u>Annual Fee</u>
\$0	-	\$500,000	1.75%
\$500,000	-	\$1,000,000	1.50%
\$1,000,000	-	\$2,500,000	1.25%
\$2,500,000	-	\$5,000,000	1.00%
\$5,000,000	-	\$10,000,000	0.85%
\$10,000,000	-	\$20,000,000	0.65%
\$20,000,000	-		0.55%

The fees stated above are a guide. Fees are negotiable and may be higher or lower than listed above based on the nature of the account. Fees are determined in the sole discretion of Hotaling based upon several factors including account size, complexity of assets, and individual client needs.

### **B. Fee Payment**

Investment advisory fees are debited directly from each account. The advisory fee is paid quarterly, in advance, and the value used for the fee calculation is the account value as of the last market day of the previous quarter. Therefore, if the annual fee is 1.00%, then each quarter, Hotaling multiplies the value of the account by 1.00% and divides by 4 to calculate the quarterly fee. The fee is then adjusted (on a time-pro-rated basis) for any deposits into or withdrawals out of the account. To the extent there is cash in the account, it is included in the account's value when calculating fees only if the cash is part of the investment strategy. Once the calculation is made, Hotaling instructs the account custodian to deduct the fee from the account and remit it to Hotaling.

Clients provide written authorization to debit advisory fees from their account held by a qualified custodian. Each quarter, clients receive a bill itemizing the fees to be debited, including the formula used to calculate the fee, the value of assets on which the fee is based, and the time period covered by the fee. Advisory fees are not independently calculated or verified by the custodian. The client also receives a statement from the account custodian showing all transactions in the account, including the fee debit.

### **C. Other Fees**

There are several other fees that can be associated with holding and investing in securities. Clients are responsible for fees including transaction fees for the purchase or sale of a mutual fund and

commissions for the purchase or sale of a stock or bond. Mutual fund expenses are not included in management fees because they are deducted from the value of the shares by the mutual fund manager. When selecting mutual funds that have multiple share classes for recommendation to clients, Hotaling will take into account the internal fees and expenses associated with each share class, and it is Hotaling policy to choose the lowest-cost share class, absent circumstances that dictate otherwise. For a complete discussion of expenses related to each mutual fund, clients should read a copy of the prospectus issued by that fund. Hotaling can provide a copy of the prospectus for any fund that it purchases and / or instruct a client on how to access the prospectus online.

Please refer to Item 12 of this informational brochure, which addresses broker-dealer and custodial issues.

**D. *Pro-rata Fees***

If a client retains Hotaling during a calendar a quarter, the client pays a management fee only for the days remaining in that quarter. Similarly, if a client terminates its relationship with Hotaling in the middle a quarter, the client is entitled to a refund of any management fees paid for the remainder of the quarter. When Hotaling receives notice of termination, it refunds the unearned fees to the client in the form of the client's choosing (e.g. check, bank wire, etc.).

**E. Compensation for the Sale of Securities**

This item is not applicable. Neither Hotaling nor its supervised persons accept any compensation for the sale of securities or other investment products, including commission, asset-based sales charges or service fees from the sale of mutual funds.

**Item 6: Performance-Based Fees**

Hotaling does not charge performance-based fees.

**Item 7: Types of Clients**

Hotaling clients include individuals, trusts, foundations, endowments, and corporations. Hotaling requires each client to place at least \$500,000 with the firm. This minimum may be waived in the discretion of Hotaling.

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

It is important for clients to know and remember that all investments carry risks. Investing in securities involves risk of loss, and clients should be prepared to bear such loss.

At the onset of the client relationship, Hotaling:

- 1) interviews the client and establishes investment objectives, risk tolerance, investment horizon, income/distribution needs, and any other constraints that may play a role in the client's investment parameters,
- 2) determines an asset allocation in consultation with the client appropriate to meet the client's needs, and

- 3) if needed, prepares a transition plan from the client's current account to the account to be managed by Hotaling.

It is important to remember that, because market conditions can vary greatly, asset allocation guidelines are not necessarily strict rules. Rather, Hotaling reviews each account individually over time and may deviate from the guidelines as it deems advisable.

Each client account is separately managed and invested according to the client's investment objectives for that account. Once Hotaling ascertains the objectives for each account, it establishes an asset allocation guideline, which is a percentage-based allocation among different asset classes. For example, a client may have an asset allocation strategy that calls for 60% of the portfolio to be invested in equity securities and the remaining balance in fixed income. Another client may have an asset allocation of 80% in fixed income securities and the remainder equities. The percentages in each asset class that Hotaling recommends are based on the typical behavior of that asset class, individual securities that Hotaling researches, current market conditions, the client's current financial situation, financial goals, and the timeline to reach those goals. Because Hotaling develops an investment strategy based on each client's unique situation and financial goals, each client's asset allocation guidelines may be similar to or different from those of another client.

Upon selecting an appropriate asset allocation for a client, Hotaling selects the appropriate securities within each asset class. Hotaling invests in several broad categories of securities, including individual stocks, municipal bonds, corporate bonds, REITs (real estate investment trusts), and both equity and fixed income open-ended mutual funds. Stocks are generally utilized for growth, where the primary goal is to increase the value of the client's investments through price appreciation. Hotaling primarily relies upon bonds (both municipal and corporate) to generate income for client portfolios. REITs are also generally used for income, though they also provide diversification to stocks and bonds.

Hotaling typically utilizes individual securities when investing a client account. In certain instances, it uses mutual funds for some asset classes. Hotaling manages each client account itself and does not utilize any third-party managers.

When selecting equity investments, Hotaling utilizes its own proprietary stock models (described below). Each client account is assigned to one core equity model, and if a client wants to take advantage of more than one of Hotaling's core equity models, then the client can separate assets into multiple accounts.

By meeting with new clients, Hotaling is able to recommend an appropriate core equity model to suit the client's needs. In some cases, clients seek a specific type of equity portfolio, either due to their investment interest, their overall global asset allocation, or their expected risk and return preferences. Some clients prefer equity allocations in stocks of companies that are perceived to be more stable, larger companies, while other clients prefer to invest in smaller companies with greater growth potential (and potentially greater risk).

Hotaling selects specific securities based on a variety of factors, including relative valuation, expected growth, dividends, company management, price-to-earnings ratios, and other factors. Hotaling bases its research and conclusions on publicly available information, such as regulatory filings and press releases, as well as purchased research and proprietary analysis. Hotaling also utilizes both quantitative analysis and technical analyses, the latter of which refers to reviewing the past behaviors of a security and the markets in which it trades for signals that might indicate what is likely to happen in the future.

Depending on a client's given circumstances, Hotaling may recommend that a client rollover retirement plan assets to an Individual Retirement Account (IRA) managed by us. As a result of a rollover, Hotaling may earn fees on those accounts. This presents a conflict of interest, as Hotaling has a financial incentive to recommend that a client roll over retirement assets into an IRA we will manage. This conflict is disclosed to clients verbally and in this brochure. Clients are also advised that they are under no obligation to implement the recommendation to roll over retirement plan assets. Hotaling attempts to mitigate this conflict by requiring that all investment recommendations have a sound basis for the recommendation, and by requiring employees to acknowledge their fiduciary responsibility toward each client. When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

## **Investment Models**

### **A. Equities**

#### **a. Core**

Hotaling offers its clients four different proprietary core equity models.

#### Large Cap

Hotaling's Large Cap Core Equity Model is a portfolio of approximately forty (40) stocks reflecting the larger and better-known companies in the U.S. These have historically been referred to as "blue chip" companies. Hotaling utilizes both a fundamental and a quantitative approach to selecting and managing the portfolio. Hotaling has historically focused on growth characteristics in its stock-selection process; although, when market conditions change, Hotaling typically pivots to more of a GARP (growth at a reasonable price) approach, which is intended to incorporate more value characteristics with an emphasis on dividends. The portfolio is benchmarked against the S&P 500, and sector weighed in accordance with Hotaling's macro view of the market.

#### Mid Cap

Hotaling's Mid Cap Core Equity Model is a portfolio of approximately forty (40) stocks intended to provide a greater element of growth potential to a client's equity allocation. Generally, the companies are smaller (by market capitalization) and at a stage in the life cycle of a company where there are still significant opportunities for growth. Hotaling utilizes a similar approach to stock selection, employing both fundamental and quantitative analysis in constructing the portfolio. The portfolio is also not constrained by typical growth or value characteristics, and takes shape in accordance with current market drivers. The portfolio is benchmarked against the S&P 400, and sector weighed in accordance with Hotaling's macro view of the market.

#### Opportunity

Hotaling's Opportunity Core Equity Model is a portfolio of approximately forty (40) stocks that blends large cap and mid cap stocks. The model is in a



category often referred to as multi-cap. It is not sector-constrained, meaning that sectors thought to be more favorable will be overweight, while those thought to be less favorable will be underweight or have no representation. The portfolio is benchmarked against the S&P 500.

Concentrated Hotaling's Concentrated Core Equity Model is a portfolio of approximately fifteen (15) stocks that blends large cap and mid cap equities. The model takes a more aggressive approach toward seeking capital growth and appreciation by holding fewer equity positions than other models, which is an approach that offers greater upside potential while also carrying greater risk through less diversification.

#### b. Supplement

In addition to its core equity models, Hotaling also offers its clients three different equity sleeves. Each of the sleeves can serve to supplement one of the core equity models.

Dividend Growth Hotaling's Dividend Growth Sleeve is designed to provide clients with equity investments with enhanced income through corporate dividends that Hotaling believes to be stable and growing. Hotaling performs fundamental analysis to target companies with continued growth of dividend yields. Hotaling also seeks diversity across all of the S&P 500's sectors within these investments.

Dividend Uncorrelated Hotaling's Dividend Uncorrelated Sleeve is designed to combine the benefits of both equity and fixed income investments. Specifically, it is designed to provide dividend income above what would be expected from an investment-grade fixed income portfolio while offering some of the same attributes of a fixed income portfolio. Hotaling selects stocks that provide a dividend yield that exceeds that of the US 10-year treasury, experience high correlation with fixed income investments (US 10-year and 30-year treasury yield), experience low correlation to traditional large cap equities (S&P 500), and have low volatility relative to their peers. Hotaling also seeks diversity across all of the S&P 500's sectors within these investments.

Real Estate Hotaling's Real Estate Sleeve is designed to provide clients with the benefits of investing in this alternative asset class. This asset class is attractive for both income and growth, and it is often also effective in diversifying client portfolios. It can exhibit non-correlating behavior (price movement), which can counter the effect of market price movement in other asset classes.

#### B. Fixed Income

Hotaling utilizes both individual bonds and proprietary fixed income mutual fund models. In both cases, Hotaling utilizes municipal bonds for taxable accounts belonging to clients in upper income tax brackets and corporate bonds for tax-deferred and taxable accounts when advantageous. Hotaling takes a value-oriented approach to selecting fixed income investments and utilizes fundamental research, ratings agency reports, and other proprietary research to invest and monitor bond portfolios.

Municipal Bonds Municipal bonds are tax-free at the federal level and additionally tax-free at the state and local levels when purchased by residents of the municipality in which they are issued. For higher tax bracket investors, municipal bonds generally offer tax savings greater than the difference in yield between the municipal bonds and otherwise comparable corporate

bonds. Hotaling selects municipal bonds based upon characteristics including ratings, insurance, liquidity, and accessibility.

#### Corporate Bonds

Hotaling utilizes corporate bonds to generate income in tax-deferred and some taxable accounts when steady income is a primary objective. Though corporate bonds are categorized as fixed income securities, this does not mean that they are, by definition, secure investments with limited upside. Rather, some bonds have growth potential combined with higher levels of risk or volatility. The construction of a fixed income portfolio is therefore paramount to the overall success of a client's investments in meeting their goals. A mixture of well-performing, stable debt combined with potentially higher-yield investments often strikes the desired balance. Corporate bonds are appropriate for clients investing over a long term who are able to tolerate risk and volatility in excess of municipal bonds.

Hotaling also uses some open-ended fixed income mutual funds to diversify and enhance the income-generating qualities of its fixed income portfolios. These are generally used in conjunction with a primary bond portfolio consisting of individual bonds. Hotaling utilizes several different research sources to analyze and qualitatively assess mutual funds.

Hotaling's open-ended mutual fund model is a proprietary portfolio of open-ended fixed income mutual funds, which are allocated among several distinct sectors of the fixed income market. This model is intended to provide a lower-risk alternative to holding individual bonds while generally producing lower returns.

When a client first engages Hotaling, the client's portfolio composition is likely different from such that Hotaling recommends. Therefore, Hotaling likely must sell some investments in the client's portfolio, either all at once or over time, and invest the proceeds in the agreed upon asset allocation. Hotaling's transition plans involve the placement of each client's assets in one of its proprietary core equity models, possibly one or more equity sleeve, and appropriate fixed income investments. Market conditions, the nature of any prior investments, and a client's tax circumstances can influence the pace and timing of the transition. It can take several months or more for a client's assets to be fully invested in Hotaling's proprietary models.

A client may have different accounts invested in different models, which together represent the total allocation of the client's assets with Hotaling. All model-based transactions in accounts are managed on a *pari passu* basis. In other words, all accounts managed within each strategy are managed in a like manner, side by side with one another, and not individually considered. This does not mean that a client may not place reasonable restrictions on the management of their assets. In the event a client wanted to place a restriction, the restriction would be noted and any trades for the model that might violate the restriction would be stricken from that client's account in favor of an alternative holding.

As assets are transitioned to Hotaling, there may be securities and other investments that do not fit within the asset allocation strategy selected for the client. Accordingly, these investments will need to be sold in order to reposition the portfolio into the asset allocation strategy selected by Hotaling. However, this transition process may take some time to accomplish. Some investments may not be unwound for a lengthy period of time for a variety of reasons that may include unwarranted low share prices, restrictions on trading, contractual restrictions on liquidity, or market-related liquidity concerns. In the event an investment in a client account is unable to be unwound for a period of time, Hotaling consults with clients on a case-by-case basis. If a client transitions mutual fund shares to Hotaling that are not the lowest-cost share class, and Hotaling is not recommending disposing of the security altogether, Hotaling will attempt to convert such mutual fund share classes

into the lowest-cost share classes the client is eligible for, taking into account any adverse tax consequences associated with such conversion.

There are always risks to investing. **Clients should be aware that all investments carry various types of risk, including the potential loss of principal, and clients should be prepared to bear all risks.** It is impossible to name all types of investment risks; however, investment risks do include the following:

- **Political Risks:** Most investments have a global component, even domestic stocks. Political events anywhere in the world may have unforeseen consequences for markets around the world.
- **Systematic Market Risks:** Markets can, as a whole, go up or down on various news releases or for no apparent reason at all. This sometimes means that the price of specific securities can go up or down without clear reason and may take some time to recover any lost value if at all. Adding additional securities does not help to minimize this risk since all securities may be affected by market fluctuations.
- **Currency Risk:** When investing in another country using another currency, the changes in the value of the currency can change the value of the security in a client's portfolio.
- **Regulatory Risk:** Changes in laws and regulations from any government can change the value of a given company and its accompanying securities. Certain industries are more susceptible to government regulation. Changes in zoning, tax structure, or laws can impact the return on these investments.
- **Tax Risks Related to Short-Term Trading:** Clients should note that Hotaling may engage in short-term trading transactions (which last less than one year). These transactions may result in short-term gains or losses for federal and state tax purposes, which may be taxed at a higher rate than long-term strategies. Hotaling endeavors to invest client assets in a tax-efficient manner, but clients are advised to consult with tax professionals regarding the tax implications of their investments.
- **Risks Related to Investment Term:** Securities generally do not follow a straight line up or down in value. All securities have periods of time when their prices are not an accurate reflection of their value. If a client requires Hotaling to liquidate a security during one of these periods, the client may not realize as much value as waiting until the investment has had the opportunity to potentially regain value.
- **Purchasing Power Risk:** Purchasing power risk is the risk that an investment's (relative) value declines as the price of goods rises (inflation). The investment's value itself does not necessarily decline, but its relative value does, which means that the client is unable to purchase as many good with the value of the investment. Inflation can happen for a variety of complex reasons, including a growing economy and rising money supply.
- **Business Risk:** This risk embodies the degree of certainty or uncertainty that a company faces in its revenue and profit.
- **Financial Risk:** Financial risk represents the amount of debt or leverage that a company assumes through its operation and financing.

- **Default Risk:** This risk pertains to the ability of a company to service its debt. Ratings provided by several ratings agencies help to identify those companies with more default risk, though these ratings are not perfect indicators. Obligations of the US government are said to be free of default risk.
- **Information Risk:** All investment professionals rely on research in order to make conclusions about investment options. This research is a mix of both internal (proprietary) and external (provided by third parties) data and analyses. Even an adviser who says they rely solely on proprietary research must still collect data from third parties. Hotaling selects data and research providers based upon their perceived reliability, but there is no guarantee that the data or research is completely accurate. Failure in data accuracy or research translates to a compromised ability to reach accurate investment conclusions.
- **Risks Specific to the Use of Model Portfolios:** Each client's assets are invested according to their specific investment objectives, but the use of models to achieve a client's goals brings about the specific risk that a model portfolio may not meet the client's objectives the same way a completely individualized portfolio might. While this can happen any time, it is most likely to occur when a client provides investment restrictions for their account which cause their account to not participate in every investment decision made for the model portfolios. Clients are encouraged to place restrictions on the investment of their assets if they wish but should understand that numerous restrictions hamper Hotaling (or any adviser) in its abilities to meet their objectives. This is especially true when model portfolios are used because the models are constructed using each security as an integral building block to the portfolio as a whole.
- **Risks of REITs:** Hotaling recommends that some clients allocate a portion of their portfolio to real estate through investment in real estate investment trusts (REITs). A REIT is an entity (typically a trust or corporation) which accepts investments from multiple investors, pools the money, and uses that money to invest in real estate, generally through actual property purchases or mortgage loans. While there are benefits to owning REITs (including income, potential tax benefits, and the relatively low barrier to invest in real estate as compared to more directly investing in real estate), REITs also have some risks that differ from those of stocks, bonds, and mutual funds. First, real estate can be a highly volatile asset class. Second, specific REITs may have a focus such as application (e.g. commercial real estate) or location (e.g. a particular city or state). Such investment focus can accentuate both gains and losses. REITs may also employ significant leverage for the purpose of purchasing more investments with fewer investment dollars, which can enhance returns but also enhances the risk of loss. The success of a REIT is highly dependent upon the manager of the REIT. Clients should ensure that they understand the role of any REITs in their portfolio.
- **Market Disruption, Health Crisis, Terrorism and Geopolitical Risk.** Investments are subject to the risk that war, terrorism, global health crises or similar pandemics, and other related geopolitical events increase short-term market volatility and may have adverse long-term effects on world economics and markets generally. These risks have previously led and may lead in the future to adverse effects on the value of client's investments.

## Item 9:        **Disciplinary Information**

Neither the firm nor any of its employees or principals have any disciplinary information to report.

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

**A. Broker-Dealer**

Please refer to Item 12 A, which discusses Hotaling's relationships with each of Morgan Stanley and JP Morgan Securities Inc.

**B. Futures Commission Merchant / Commodity Trading Advisor**

Neither the principal of Hotaling nor any related persons are registered or have an application pending to register as a futures commission merchant, a commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

**C. Relationship with Related Persons**

Hotaling does not have any relationships with related persons which would have a material impact on a client's advisory relationship with Hotaling.

**D. Recommendations of Other Advisers**

Hotaling manages each client account itself and does not utilize any third-party managers.

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

A. Hotaling's Code of Ethics is available upon request. The Code of Ethics includes discussions of the firm's fiduciary duty to clients and guidelines for political contributions, gifts, entertainment, and trading.

B. Hotaling does not recommend to clients that they invest in any security in which Hotaling or any principal thereof has any financial interest.

C. On occasion, an employee of Hotaling may purchase for his or her own account securities which are also recommended for clients. The firm's Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in an employee's own account. To avoid placing a trade before a client (in the case of a purchase) or after a client (in the case of a sale), all employee trades must either take place in the same block as a client trade or sufficiently apart in time from the client trade so that the employee receives no added benefit. Employee statements are reviewed to confirm compliance with the trading procedures.

D. On occasion, an employee of Hotaling may purchase for his or her own account securities which are also recommended for clients at the same time the clients purchase the securities. The firm's Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in an employee's own account. To avoid placing a trade before a client (in the case of a purchase) or after a client (in the case of a sale), all employee trades must either take place in the same block as a client trade or sufficiently apart in time from the client trade so that the employee receives no added benefit. Employee statements are reviewed to confirm compliance with the trading procedures.

## **Item 12: Brokerage Practices**

### **A. Recommendation of Broker-Dealer**

Hotaling recommends that investment accounts be held in custody by Schwab Advisor Services (“Schwab”). Schwab offers enhanced services to independent investment advisors. These services include custody of securities, trade execution platforms, and access to research not available to the general public. Hotaling may also provide certain clients trading services with Morgan Stanley and JP Morgan Securities Inc., which gives Hotaling the ability to execute certain trades of client assets held in custody at Schwab. Morgan Stanley and JP Morgan Securities Inc. are wholly independent from Hotaling. It is expected that most, if not all, account-specific transactions in a given client account are cleared through the custodian of that account in its capacity as a broker-dealer.

Hotaling recommends Schwab as a custodian and Morgan Stanley and JP Morgan Securities Inc. as broker-dealers to its clients based on a variety of factors. These include but are not limited to commission costs. Effective October 7, 2019, Schwab eliminated commissions for online trades of U.S. equities, ETFs and options (subject to \$0.65 per contract fee). This means that, in most cases, when Hotaling buys and sells these types of securities, clients do not have to pay any commissions to Schwab. However, in choosing a broker-dealer or custodian to recommend, Hotaling is most concerned with the value that the client receives for the cost paid – not just the cost alone. Schwab, Morgan Stanley, and JP Morgan Securities Inc. add value beyond discounted commission cost. Other factors that may be considered in determining overall value include speed and accuracy of execution, availability of certain securities, financial strength, knowledge and experience of staff, research, and service. Schwab also has arrangements with many mutual funds that enable Hotaling to trade these mutual funds in client accounts at reduced transaction charges (as compared to other broker-dealers). Hotaling re-evaluates its use of Schwab, Morgan Stanley, and JP Morgan Securities Inc. at least annually to determine if they are still the best value for its clients.

Schwab, Morgan Stanley, and JP Morgan Securities Inc. provide Hotaling with some non-cash benefits (not available to retail customers) in return for placing client assets with them and executing trades through them. Such non-cash benefits are referred to as “soft dollars.” These benefits come in the form of investment research and sponsored attendance at various investment seminars. Hotaling may also receive such items as investment software, books, and research reports. These products, services, or educational seminars are items that may play a role in Hotaling determining how to invest client accounts. If there is any item that has a multi-use aspect, mixed between investment and non-investment purposes, Hotaling determines a reasonable allocation of investment to non-investment use and soft dollars are allocated only to the investment portion of the product (and Hotaling pays the remaining cost). Hotaling receives a benefit from these services, as otherwise it would be compiling the same research. This may cause Hotaling to want to place more client accounts with a broker-dealer / custodian such as Schwab, Morgan Stanley and JP Morgan Securities Inc. solely because of these added benefits. However, Hotaling considers the value of these benefits to all of its clients when evaluating broker-dealer / custodians. Products and services received via soft dollars are generally used for the benefit of all clients. However, it is possible that a given client’s trades generate soft dollars that acquire products and/or services that are not ultimately utilized for that same client’s account. Soft dollars provide additional value and are accordingly considered in determining which broker-dealer or custodian to utilize as part of Hotaling’s best execution analysis.

Some of the products, services, and other benefits provided by Schwab may not benefit Hotaling’s client accounts. Hotaling’s recommendation or requirement that a client place assets in Schwab’s

custody may be based, in part, on benefits that Schwab provides to Hotaling or Hotaling's commitment to maintain certain assets under management at Schwab and not solely on the nature, cost, or quality of custody and execution services provided by Schwab.

Hotaling does not consider whether Schwab, Morgan Stanley, JP Morgan Securities Inc., or any other broker-dealer / custodian refers clients to Hotaling as part of its evaluation of these broker-dealers.

#### Directed Brokerage

Hotaling generally recommends that clients utilize Schwab Advisor Services to act as the custodian for their account and Schwab, Morgan Stanley, or JP Morgan Securities to act as the broker-dealer their account.

#### B. Aggregating Trades

Commission costs can sometimes be reduced by trading multiple accounts at the same time. This is called aggregating trades. Instead of placing multiple individual trades for the same security for multiple accounts, Hotaling executes (when advantageous) one trade for all of the accounts in which it wishes to trade and then allocates portions of the trade to each account after execution. If an aggregate trade is not fully executed, the securities are allocated to client accounts on a *pro rata* basis, except where doing so would create an unintended adverse consequence.

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

All accounts are reviewed by an investment advisory professional at least annually. However, Hotaling additionally reviews accounts with clients when merited by market conditions, changes in a client's account, or changes to a client's circumstances.

All clients receive statements and trade confirmations directly from Schwab in its role as custodian.

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

#### A. Economic Benefit Provided by Third Parties for Advice Rendered to Client

Please refer to Item 12 of this informational brochure, which addresses broker-dealer and custodial issues.

#### B. Compensation to Non-Advisory Personnel for Client Referrals

Hotaling does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

### **Item 15: Custody**

Hotaling assumes custody of client funds in two ways: directly debiting its fees from client accounts pursuant to applicable agreements granting such right, and permitting clients to issue standing letters of authorization ("SLOAs"). SLOAs permit a client to issue one document that enables

Hotaling to make distributions out of the client's account(s) over time.

Clients provide written authorization to debit advisory fees from their account held by a qualified custodian. Each quarter, clients receive a bill itemizing the fees to be debited, including the formula used to calculate the fee, the value of assets on which the fee is based, and the time period covered by the fee. Advisory fees are not independently calculated or verified by the custodian. The client also receives a statement from the account custodian showing all transactions in the account, including the fee debit.

Hotaling encourages clients to carefully review the statements and confirmations sent to them by their custodian and to compare the information on the quarterly report prepared by Hotaling to the information in the statements provided directly from Schwab. Clients should alert Hotaling of any discrepancies.

In addition to the account custodian's custody procedures, clients issuing SLOAs are required to confirm in writing that the account to which funds are distributed belongs to parties unrelated to Hotaling.

#### **Item 16: Investment Discretion**

Investment management services may be provided on either a "discretionary" or "non-discretionary" basis. When Hotaling is engaged to provide investment management services on a discretionary basis, Hotaling monitors an account to ensure that it meets the client's asset allocation requirements. If any changes are needed to the investments, Hotaling makes the changes. These changes may involve selling a security or group of securities and buying others or keeping the proceeds in cash. Clients may, at any time, place restrictions on either the types of investments that Hotaling purchases on their behalf or on the allocations to each investment type. Clients may receive at their request written or electronic confirmations from the account custodian after any changes are made to an account. Clients also receive monthly statements from the account custodian. Clients engaging Hotaling on a discretionary basis are asked to execute a Limited Power of Attorney (granting Hotaling discretionary authority over a client account) as well as an Investment Management Agreement (IMA) that outlines the responsibilities of both Hotaling and the client.

When a client engages Hotaling to provide investment management services on a non-discretionary basis, the account is monitored by Hotaling. The difference between a discretionary account and a non-discretionary account is that, in a non-discretionary account, Hotaling does not make any changes to the account it has confirmed with the client (either verbally or in writing) that the proposed changes are acceptable.

#### **Item 17: Voting Client Securities**

At times, shareholders of stocks, mutual funds, exchange traded funds, or other securities may be permitted to vote on various types of corporate actions. Examples of these actions include mergers, tender offers, and board elections. Clients are required to vote proxies related to their investments or to choose not to vote their proxies. Hotaling does not accept authority to vote client securities. Clients receive their proxies directly from the custodian for the client account. Hotaling does not give clients advice on how to vote proxies.



**Item 18: Financial Information**

Hotaling is not required to provide a balance sheet with this brochure because it does not require the prepayment of fees more than six (6) months in advance.

Hotaling does not have any material financial circumstances or conditions that would reasonably be expected to impair its ability to meet its contractual obligations to its clients.