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March 31, 2021

This Brochure (Form ADV Part 2A) provides information about the qualifications and business practices of **HS Management Partners, LLC** (referred to in this document as “HSMP”). If you have any questions about the contents of this Brochure, please contact Ronald R. Staib, Chief Compliance Officer of HSMP, at (212) 888-0060. 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.

HSMP is an investment adviser registered with the SEC. Registration of an investment adviser does not imply any certain level of skill or training.

Additional information about HSMP also is available on the SEC’s website at www.adviserinfo.sec.gov. You can search this site by our full name or by a unique identifying number, known as a CRD number. The CRD number for HSMP is 145480.

Item 2 — Material Changes

When we use “HSMP” or “Firm” or “we” or “us” or “our” in this Brochure, we are referring to HS Management Partners, LLC.

We have enhanced and reorganized much of the disclosure in this Brochure to provide immaterial clarifications and more detailed information in some cases, to make the entire Brochure easier to read and understand in general, and to update some disclosures. Considering the extent of the changes, we urge all readers, including those readers familiar with our previous versions, to carefully review this entire Brochure.

This section discusses only noteworthy changes since the last annual update of this Brochure, which took place on March 27, 2020 (the following list is not comprehensive as this Brochure includes many changes not mentioned below):

- **Item 4** (Advisory Business) includes a revised and expanded discussion of our investment strategy and its implementation, client account holdings and performance dispersion, client account restrictions, conflicts of interest, and extent of our advisory services.
- **Item 5** (Fees and Compensation) includes an expanded discussion of fee negotiation and arrangements, fee aggregation, fee waivers/reductions, fees and expenses in addition to our investment advisory fees, and conflicts of interest.
- **Item 7** (Types of Clients) includes a notation regarding opening and maintaining an account for our management.
- **Item 8** (Method of Analysis, Investment Strategy, and Risk of Loss) includes descriptions of additional risks, such as inflation, currency, and interest rate risks, credit risks, and risks relating to Brexit. We also added LIBOR and COVID impact related risks.
- **Item 12** (Brokerage Practices) includes a revised and expanded discussion around client account holdings and performance dispersion, broker-dealer selection for trading, trade sequencing, rebalancing client accounts, aggregation and allocation of client orders and trade reallocations, Schwab accounts and directed brokerage arrangements, and trade error determination and resolution.
- **Item 15** (Custody) provides clarification around client custodian arrangements.
- **Item 16** (Investment Discretion) provides clarification around our investment discretion.
- **Item 17** (Voting Client Securities) provides clarification around our policies for voting client securities and includes information on obtaining proxy voting information via email. It also includes a revised discussion around class action claims.

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Item 4 — Advisory Business

HS Management Partners, LLC is a public equity, long-only investment management firm. Harry Segalas, our Managing Partner & Chief Investment Officer, established HSMP in June 2007. David Altman, our Partner & Director of Research, Greg Nejme, our Partner & President, and Bart Buxbaum, our Partner & Director of Client Service, joined the Firm as partners shortly thereafter. Our four partners independently capitalized the Firm, and Mr. Segalas and Mr. Altman each owns over 25% of the Firm, but no individual partner owns a majority stake. HSMP is structured as a limited liability company governed under Delaware law, and is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) (the Firm’s SEC registration became effective as of October 25, 2007—SEC registration does not imply any certain level of skill or training). Our sole office location is in New York City, at the address indicated on the cover page, but starting in March 2020, due to COVID-19, our employees transitioned to working remotely on a fully-connected virtual basis. We are an independent investment adviser, are not affiliated with any other investment adviser, and do not have any parent or subsidiary.

We offer one investment strategy: HSMP Concentrated Quality Growth Equity strategy. Our investment advice is limited to equity securities of publicly traded, domestic and foreign companies, in the form of domestic common stocks, foreign ordinary shares, and American Depository Receipts (“ADRs”), traded on exchanges or over-the-counter markets. We apply a focused, bottom-up, fundamentals-first approach to portfolio management. Core to our approach is an emphasis on (1) the quality of the business and its fundamental basis, (2) the business’s underlying earnings/cash flow growth potential, and (3) the valuation/price of its stock. Cash is not a major component of our investment strategy and we aim to keep our clients’ capital nearly fully invested. We believe that active management adds value and take an incremental approach to trading our discretionary client accounts. Provided our three investment principles are satisfied, we do not set limits by industry or sector weightings and accordingly our portfolio can be significantly concentrated by sector and/or industry. We are benchmark agnostic not index influenced—we do not seek to mimic any market index.

We provide advisory services for separately managed accounts on a discretionary basis and provide non-discretionary investment recommendations in the form of model portfolios. When we manage accounts, we do so on a discretionary basis: we make the investment decisions and trade the accounts without advance consultation with clients—we do not manage accounts on a non-discretionary basis where we would be required to obtain client approval of our investment recommendations prior to arranging or effecting the corresponding trade. Our discretionary clients include high net worth individuals (including family offices), charitable organizations (including endowments and foundations), ERISA plans, and unrelated/third-party funds. When we provide non-discretionary investment recommendations, we do not exercise investment discretion nor trade the accounts: the decision to implement fully, partially, or not at all, our model portfolio recommendations remains with the adviser to whom we submit the model portfolio and/or the model portfolio client. We provide model portfolios for use in multimanager products or platforms. Please refer to Item 7 for a description of the types of clients to whom we provide discretionary advisory services.

We aim to build a concentrated portfolio of generally 20 to 25 companies that we believe possess the characteristics we value: (1) a good, quality business with a sound fundamental basis; (2) a positive, albeit reasonably attainable, long-term, future earnings/cash flow growth potential; and (3) an attractive valuation/stock price. Absent client restrictions, we generally implement our investment strategy in client accounts through our standard, investment portfolio guidelines. Client portfolios are invested primarily in domestic companies, but typically also include up to a 30% total position in foreign companies. Portfolio positions by company are typically capped at 8% of an account’s assets under management without limit by industry or sector weightings, and client accounts can typically have over 50% exposure to the consumer discretionary, consumer staples and/or technology sectors. Cash is typically limited to 5% of an account’s assets under

management and client accounts usually have a less than 1% residual cash position after a trading day. Our annual portfolio turnover rate (comprised of new names and incremental changes to existing positions) has generally ranged between 65% to 95% measured in dollars but can be higher than 110% in certain market conditions (including in 2020). Please refer to Item 8 for a description of our investment process and implementation, and risks associated with our business and strategy.

Clients can request reasonable restrictions on the management of their accounts. Whether we deem a particular restriction reasonable depends on the relevant facts and circumstances. In general, we will deem a restriction unreasonable if we believe it is inconsistent with or hinders the implementation of our strategy or internal investment guidelines overall. In addition, we will consider other factors such as the difficulty in complying with the restriction, the nature or specificity of the restriction, the number of restrictions imposed by a client, the size of the account, and our systems and operations setup, among other factors. Restrictions and modifications to existing restrictions must be submitted to us in writing and in advance for our consideration, and we will typically discuss with clients and prospects their proposed restrictions. We reserve the right to reject or close a client account for any reason, including account size and client restrictions that we believe we cannot satisfactorily accommodate.

Taking into consideration client restrictions, we typically seek to invest our discretionary clients, and typically recommend that model portfolio clients be invested, in the same names and in the same or similar percentage weights with the goal of minimizing dispersion across accounts over time. However, this is not always possible as, in addition to client restrictions, the implementation of our investment strategy for our discretionary clients depends on several factors, including account type and size, timing and market conditions at an account's inception and subsequent contributions and withdrawals, timing and terms of trade execution orders, and a client's directed brokerage and commission recapture instructions (and in the case of model portfolio clients, we have no control over the implementation of our strategy). In fact, small accounts generally experience higher dispersion from our composite than large accounts primarily because they do not participate in trading/allocations/aggregations to the same extent as large accounts (in addition to the mentioned implementation-related factors, actual participation in trade orders also depends on cash available in an account and on our imposed per-order share minimums, which typically range anywhere from 5 to 100 shares depending on the stock price). Also, while the investment merits of a given security drive our investment decision, we take into consideration the tax status of an account or group of accounts in certain instances when practicable under select circumstances (that being said, we are not a tax-efficient focused adviser and do not provide tax advice, and clients should consult with their own separate tax advisors in this regard). All things considered, the holdings and performance of a discretionary client's account can deviate from our composite (and not all client accounts are in the composite) or from other discretionary client accounts, even within the same group and even when comparing different accounts of the same client. Please refer to Item 12 regarding our trading and allocation practices.

Providing investment advisory services in a discretionary and model portfolio basis to different clients under the same investment strategy gives rise to potential conflicts of interest, particularly because we seek to invest our discretionary clients (who include our partners, employees, and their family members), and recommend that model portfolio clients be invested, in the same securities in the same or similar percentage weights. This can create an incentive for us to favor our partners, employees, and their family members, over all our other clients. It also can create an incentive for us to favor our discretionary clients over our model portfolio clients because we report on the performance of our discretionary clients while the performance of model portfolio clients is not attributable to us, and also because discretionary clients are typically subject to fee schedules that are higher than those applicable to model portfolio clients. In addition, it is likely or at least possible that our discretionary clients and our model portfolio clients will compete amongst themselves and against each other to buy or sell the same securities, in the same or different sides of a transaction, which can impact

the pricing and liquidity of the securities adversely or favorably to some or all our discretionary clients or our model portfolio clients, depending on market conditions and the circumstances surrounding a trade order. Furthermore, in terms of confidentiality, model portfolio recipients have access to the securities and percentage weights that we are generally recommending for our discretionary and our model portfolio clients at the time we submit each model portfolio. We aim to mitigate these conflicts of interest by complying with client investment guidelines, complying with our trading and allocation procedures in the case of our discretionary clients, and through the operational procedures for submission of model portfolios in the case of model portfolio clients (although it should be noted that we have no control over the implementation or trading of model portfolios).

We advise clients solely as to the portion of their assets for which we have been given discretionary management, or have been hired to provide model portfolio recommendations, in accordance with our investment strategy. We do not take into consideration clients' assets or investments outside of those assigned to our management or our recommendation and do not provide advice regarding the management of uninvested cash that is in client accounts at the end of a trading day (for example, we do not select money market funds or any other instruments or vehicles into which to sweep client uninvested cash, nor do we set up such arrangements). Further, we do not advise clients on their overall financial plan and do not provide tax advice. Clients, and as applicable their consultants or investment advisers, should ultimately determine whether our investment strategy is appropriate for a client's overall asset allocation and financial outlook upon evaluating our strategy and its implementation, and the associated investment risks. Please refer to Item 8 for more information about our investment process and implementation, and risks associated with our business and strategy.

HSMP does not participate in, or offer, wrap fee programs.

Assets

As of December 31, 2020, HSMP managed or provided investment recommendations for the following assets:

U.S. Dollar Amount

Assets under Management—Discretionary ¹	\$3,491,211,787
Assets under Advisement—Model Portfolios ²	<u>\$ 288,398,537</u>
Total Assets	\$3,779,610,324

¹ These are our regulatory assets under management as reported in Item 5.F. of our Form ADV Part 1A. We managed these assets on a discretionary basis (we made the investment decisions and traded the accounts without obtaining approval of our investment recommendations from clients prior to arranging or effecting the corresponding trade).

² These are the assets for which we provided investment recommendations in the form of model portfolios as reported to us by the corresponding advisers to which we delivered the model portfolios.

Discretionary client accounts can have unsupervised assets in certain cases. Unsupervised assets are those for which we do not provide advisory services. We do not charge an advisory fee on unsupervised assets, nor include them in the account assets under management and account performance. Unsupervised assets can include the cash we set aside in a client account to process a client's withdrawal request, as well as a client contribution in either cash (awaiting client confirmation that it is for our investment) or securities (until we agree with the client to convert them to cash for our investment with the understanding that we are not responsible for the price obtained on the sale). They can also include

dividends paid by portfolio holdings where the client has instructed us not to reinvest said dividends, setting them aside for future distribution (we do not treat dividend accruals as unsupervised assets as we believe that dividend accruals are the result of our investment management). Unless agreed otherwise, we consider all earnings on unsupervised assets, such as interest income and dividends, as available to us for our discretionary investment.

Clients can withdraw assets from their accounts at their discretion. Discretionary clients can direct a withdrawal request to us or directly to their custodians. Considering that we tend to be almost fully invested and generally keep very low cash balances in client accounts, withdrawals can bring unintended operational consequences such as an overdraft. Accordingly, and unless we agree otherwise with a client, when a client directs the account custodian to remove assets from the account, the client shall provide us with prompt written notice of such removal and will be bound by all transactions we do on behalf of the account on or prior to when we acknowledge receipt of said notice in writing. In addition, and unless we agree otherwise with a client, when a client asks that we raise cash in his/her/its account for withdrawal, the client shall submit such request to us in writing and the request is not effective until we acknowledge receipt of it in writing. Raised cash remains in client accounts as unsupervised assets until clients arrange with their custodians the transfer of said cash out of their accounts. Clients should be mindful that when we process sales in their accounts to raise cash to satisfy a withdrawal request, we will sell securities with an eye to making the cash available for clients and the price obtained will depend on the then-current market conditions, so prices can be lower to what we would deem advisable under the circumstances.

Item 5 — Fees and Compensation

We charge our clients an investment advisory fee based on a percentage of an account's assets under management in the case of our discretionary clients or under advisement in the case of model portfolios. Fees are structured with tiered rates that have the effect of applying different rates to different portions of the account's assets, so that both the effective annual blended and actual fee rates decrease (or increase) as assets in the account increase (or decrease). We do not charge performance-based advisory fees.

Investment Advisory Fees

The following is our current standard fee schedule for our discretionary clients (other investment advisers charge the same, similar, higher or lower fees):

<u>\$10 Million Minimum Account Size</u>	
Account's Assets Under Management	Annual Percentage
First \$25 million	0.90%
Next \$25 million	0.70%
Additional amounts over \$50 million	0.50%
<u>Accounts Less Than \$10 Million</u>	
The annual advisory fee for accounts below \$10 million is the greater of 1% of the account's assets under management or \$10,000.	

We negotiate our advisory fees and can offer a fee schedule lower than the one above (for example, for accounts that open with at least \$100 million in assets under management, we charge 0.55% on the first \$100 million and 0.50% for additional amounts over \$100 million). In negotiating our fees, we consider several factors, such as the client's level of

assets under management, type of client or account, servicing requirements, overall and historical ties with HSMP, and existence of an intermediary relationship. We evaluate these factors on a case-by-case basis considering the circumstances at hand and at our sole discretion without notice to, or consent from, other clients unless agreed otherwise. Charging advisory fees based on account value provides us with an incentive to encourage clients to increase their account assets as, generally, the more assets in a client account, the more the client will pay us in fees; however, our employees are not compensated based directly on client contributions or referrals.

We have agreed in some instances to aggregate certain accounts for purposes of calculating the fee or determining the applicable fee schedule, or whether to charge a negotiated rate. For example, we typically aggregate accounts of the same client and of the same family, and generally aggregate accounts of clients with close corporate or institutional ties among them. In addition, we have agreed to aggregate some accounts of unrelated clients that come to us from the same consultant if certain conditions are met, such as the consultant having a contractual arrangement with its clients granting the consultant full discretion to appoint investment advisers (sometimes called "OCIO arrangements"). Aggregation can lower advisory fees when the combined assets are large enough to either trigger a lower blended fee rate or a lower tier in the applicable fee schedule. Therefore, aggregation benefits small accounts more than large accounts, particularly when the large accounts' fee rate or tier is applied to small accounts, but the small accounts' assets are not high enough to lower the fee rate or tier applied to large accounts.

Clients, including similar client accounts, can be billed different fees for several reasons. For example, accounts are billed based on our standard fee schedule, or on the fee schedule applicable at the time the account was opened. In addition, accounts can have a negotiated rate and/or be aggregated as explained above. Also, from time-to-time and under very specific circumstances, we have agreed to waive or reduce a portion of a client's advisory fee, and we do not charge advisory fees for the accounts of our employees, including our partners, their spouses and children. Charging different fee rates provides us with the incentive to favor clients that pay us the most in fees; we aim to mitigate this conflict through our trading and allocation practices, which aim to minimize client dispersion to the extent possible and endeavor to treat accounts fairly over time without regard to the fees they pay us or other benefits that might flow to us. Please refer to Items 4 and 8 for an explanation of our investment strategy, and Item 12 for a discussion of our order aggregation and allocation processes.

We bill our advisory fees quarterly in arrears unless otherwise agreed with a client, and adjust and prorate our fees, as applicable, where changes to the account occur mid-billing cycle. For example, we adjust and/or prorate fees for our discretionary clients' deposits and withdrawals during the billing period. We also adjust and/or prorate fees for accounts opened or closed during the corresponding billing period to reflect the number of days that the account was under our management in the case of our discretionary clients or under advisement in the case of model portfolios. For purposes of fee calculation, the market value of an account's assets under management is generally determined on the last business day of each calendar quarter or on the date an account is terminated, as valued in our internal portfolio accounting system (our valuation can differ from a client's custodian valuation). When operationally feasible and in our sole discretion, we accommodate clients who prefer a different method of calculating their account value for billing purposes, such as when a client requests that the billing be based on the client's custodian's market value, or on an average of each month-end value during the billing period, or on the end-day market value. Our advisory fee for model portfolio arrangements is based on the assets reported to us by the corresponding adviser to whom we deliver the model portfolios.

Clients can elect to either receive our fee invoice for payment upon receipt or authorize us to directly instruct their custodian to pay our fees (direct debit). Direct debit is only available to discretionary clients that custody their assets under our management at qualified custodians that permit this arrangement. If a client authorizes direct debit, we send

the client's custodian our invoice for payment or a simple instruction to pay our fees without the invoice details (in either case, it is likely or at least possible that the client custodian will not verify the accuracy of our fees), and send the client or a third party designated by the client (such as the client's accountant or consultant) a fee invoice showing the amount deducted. If direct debit is not authorized by a client, we send the client or a third party designated by the client a fee invoice generally due within twenty calendar days upon receipt. Our fee invoice typically indicates the account's assets under management, the annual fee percentage applied, any adjustment or proration applicable for the corresponding billing period, and the total amount of fees due or deducted, as applicable. Clients should review our fee invoices for accuracy, and clients with direct debit should also compare our invoices with the custodian account statements reflecting the amounts deducted.

Clients can pay our investment advisory fees from their accounts under our discretionary management or from other assets not under our management. When clients pay our fees from the accounts we manage, considering the low cash balances we tend to keep in client accounts, we typically need to trim the account holdings to raise sufficient cash in the account to process our fees. The trading cost associated with these sales are paid from the client account and are not covered by HSMP.

Fees and Expenses in Addition to our Investment Advisory Fees

In addition to the investment advisory fees that our clients pay to us, clients will incur and are responsible for other fees and costs. Some of these fees and costs are paid from the accounts under our management and are connected to the implementation of our strategy and our trading practices. Others depend completely on clients' separate arrangements with third parties, and clients should direct inquiries related to said costs to the corresponding party. Examples of costs that are paid from the client accounts we manage and that are connected to the implementation of our strategy and our trading practices are trade commissions paid to broker-dealers for executing trades in client accounts, and conversion/exchange fees paid to broker-dealers and/or involved third parties to convert ADRs to ordinary shares or vice versa. Examples of costs that depend completely on clients' separate arrangements with third parties include custodial fees that custodians generally charge clients for opening and maintaining a custody account for our management, trade-away fees that some custodians charge clients from their accounts under our management when we trade client accounts with broker-dealers unaffiliated with the corresponding custodian, fees that consultants and financial advisers charge clients for their services, and fees that custodians, money market mutual funds, and other third parties, charge clients generally from their account under our management for automatically "sweeping" the uninvested cash that is in a client account at the end of each trading day into money market mutual funds or other cash management vehicles. In any event, our advisory fees are exclusive of, and in addition to, any fees, costs and expenses charged by broker-dealers, custodians, consultants, money market mutual funds, and other third parties—all of which will reduce clients' return, if any, in their investments.

Except for the soft-dollar benefits we receive from trading in some discretionary client accounts, we do not derive any financial benefit from such other fees, costs, and expenses (please refer to Item 12 for additional information regarding our trading practices, including best execution and soft-dollar benefits). It should also be noted that we have access to proprietary and/or third-party research reports from Schwab by virtue of having clients, including our employees, partners, and their families, that custody their accounts we manage there and not based on soft-dollar commissions (please refer to Item 15 for additional information regarding accounts that custody with Schwab).

In the case of our model portfolio arrangements, we have no control or information related to trading costs or other fees and expenses that model portfolio clients may incur in addition to our advisory fees.

Item 6 — Performance-Based Fees and Side-By-Side Management

HSMP does not charge performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets in client accounts). Our investment advisory fees are based on a percentage of an account's assets under management as described in Item 5.

Item 7 — Types of Clients

Most of our clients engage us to manage accounts on a discretionary basis. We manage advisory accounts on a discretionary basis primarily for high net worth individuals (including family offices), charitable organizations (including endowments and foundations) and ERISA plans. We also manage advisory accounts for unrelated/third-party pooled investment vehicles (including those formed by families to manage their wealth, private funds, and offshore funds) and act as a sub-adviser to a registered investment company. Most clients are domestic and some are foreign, and we manage assets for non-taxable and taxable accounts.

Our model portfolio arrangements are with a small group of clients/relationships in which we are typically appointed as a non-discretionary sub-adviser, although can also be appointed as an adviser to another investment adviser. Model portfolio recipients include mutual funds, pooled investment vehicles (such as domestic private funds and offshore funds), and other investment advisers.

HSMP reserves the right to accept or reject accounts of any size or type. We do not have specific requirements for opening or maintaining an account for our management, and consider factors such as account size and type, and client restrictions on a case-by-case basis.

Please refer to Item 4, Item 5, Item 8, and Item 12 for more information about our strategy, risks, fees, and trading and allocation practices.

Item 8 — Methods of Analysis, Investment Strategy, and Risk of Loss

Methods of Analysis and Investment Strategy

HSMP has one sole investment strategy: HSMP Concentrated Quality Growth Equity. HSMP applies a focused, bottom-up, fundamentals-first approach to quality growth equity portfolio management. Core to our approach is an emphasis on the quality of the business and its fundamental basis, its underlying earnings/cash flow growth potential, and the valuation/price of its stock. We seek to identify companies that we believe have a solid business model and aim to detect the key factors that we think are unique and important to a company's attainment of projected earnings and cash flow potential. Although we have found that the companies that satisfy our investment criteria tend to operate in select industries, we are benchmark agnostic in that we do not try to mimic or follow any market-benchmark sector weights. Provided our quality criteria are satisfied, we take a multi-dimensional approach to portfolio construction: across the growth continuum, up and down the market capitalization scale, and around the globe.

Suitable investment candidates for us typically include companies that we believe possess: strong management teams, attractive business models, enduring competitive advantages, high free cash flow characteristics, broad geographic platforms, and/or strong, albeit reasonably attainable, earnings and cash flow prospects. In addition to established, leading companies that we have known for many years, we seek to identify "up and coming" candidates that we think meet our quality criteria. Examples include businesses that in our opinion have substantial assets and promising new

leadership, companies that we believe have been freed of legacy issues, franchises moving from niche markets to mainstream, and/or companies with exciting new products and/or services. We analyze company business models and evaluate their long-term potential by accessing Street research and publicly available information, such as company conference calls, press releases, SEC filings and other research. The process can also encompass accessing industry contacts, conference calls and meetings with company management, on-site visits, and/or attending industry conferences. We do not use expert networks.

An idea with attractive investment potential can be placed on our Focus List, which consists of a limited number of companies (generally 50 to 60 companies), including companies in which we invest and companies that we are considering for investment. Our Focus List helps us track and compare existing and potential investment candidates based on certain metrics considered by HSMP, and it is from this List that we select the companies that can be included in client portfolios. If we believe that a company's fundamentals appear strong and supported by HSMP's qualitative and quantitative analysis, and if we find the valuation of its shares attractive, we can decide to initiate a position in the stock. Three primary considerations influence our decision to fully or partially sell a stock position: if there is a loss of confidence in a company's business model or its ability to realize the anticipated growth and earnings/cash flows; if a stock looks richly priced based on our valuation tools and growth assumptions; or if a better alternative investment opportunity is identified. A change in company fundamentals that we deem detrimental typically results in a liquidation of the shares, whereas sales prompted by valuation considerations and/or a better investment opportunity might be incremental in nature. We believe that active management adds value.

The investment team works in a cohesive and collaborative manner, and Harry Segalas, as our Chief Investment Officer ("CIO") and our sole Portfolio Manager, makes all final portfolio decisions. Please refer to Item 4 for a description of the type of portfolio we typically construct subject to client restrictions and other factors.

Risk of Loss

Investing in equity securities involves significant risks that clients should be prepared to bear, including the risk of loss of the original amount invested. The following are some material risks, not all risks, applicable to our investment strategy and advisory business, listed alphabetically. We urge clients and prospective clients to carefully evaluate these risks.

- **Active Management Risk.** Active management is key to our investment strategy and we take an incremental trading approach. This increases trading, which in turn increases trading commissions and/or other transactions costs, fees and expenses that will reduce client returns, if any, and can impact performance over time. Portfolio turnover can also result in short-term capital gains, which can reduce the after-tax return for taxable clients.
- **Concentration Risk.** Our investment strategy involves a high concentration in certain market sectors, industries, geographic regions, and number of issuers. A concentrated portfolio is typically subject to greater risk of loss and market impact than a more diversified account.
- **Consumer Discretionary, Consumer Staples and Technology Sectors Risk.** Our discretionary client portfolios and the model portfolios we recommend are concentrated in these sectors, which are particularly sensitive to changes in consumer spending and preferences. In addition, the technology industry is very sensitive to rapid and often unforeseeable innovation and product obsolescence. Furthermore, participants in these sectors tend to be well established companies with many resources, making these industries highly competitive and therefore more difficult for companies to succeed in them. Moreover, infectious diseases and pandemics, such as COVID-19, can considerably impact these sectors. As such, investments in these sectors are typically more exposed than others to volatility in price and

investor confidence.

- **Cybersecurity and Other Technology Risk.** Like most investment advisers, we rely heavily on technology to perform our functions and also share sensitive, confidential information (such as clients' personal data and/or holdings, and firm proprietary data) with client consultants, investment advisers and custodians, as well as with other third-party service providers such as broker-dealers, software providers, network administrators, and other parties we engage in the client service, operations, legal/compliance, marketing, and Firm accounting areas, among other. Thus, client and Firm sensitive, confidential data on our network or on the networks of third parties with whom we have shared data are vulnerable to inadvertent disclosure and nefarious cyberattacks aiming to expose or exploit the data. Furthermore, our trade processing, portfolio accounting, client servicing, and other essential operational tasks can be subjected not only to cyberattacks, but also to other events such as power failures, internet unavailability and cellphone outages.

All of this can result in an inability to access our systems and/or financial losses and reputational damage, as well as legal and regulatory ramifications, to HSMP. It can also bring financial losses and other unwanted consequences to our clients when their sensitive, personal, confidential data is compromised. We have taken what we believe to be reasonable precautions to maintain our ability to conduct our business, and to protect the functionality of our networks and the confidentiality of our client and Firm data, in the presence of such disruptive events. However, no measures can eliminate cybersecurity or technology risks completely. HSMP will endeavor to notify affected clients, as required under applicable law, in the event of a cybersecurity related incident that negatively impacts the personal information of our clients.

It should be noted that the companies in which we invest our discretionary accounts, or that we recommend in model portfolios, are also susceptible to cybersecurity risks, which can negatively impact their stock value in the event of a cybersecurity related incident.

- **Equity Securities Risk.** We invest in equity securities, which involves several risks. For example, their value can decrease, potentially dramatically, in response to many factors (including general economic conditions, changes in interest rates, fluctuations in foreign currencies, and national or international political, social, governmental, tax, legal, regulatory and economic events, as well as natural disasters, terrorist attacks, and health crises such as epidemics or pandemics like COVID-19) that can negatively impact a particular company's financial situation, result in unanticipated poor performance of some companies in certain geographical regions or economic sectors or industries, and/or adversely affect the stock market in general or overall market sentiment. Furthermore, U.S. and non-U.S. stock markets have experienced periods of substantial price volatility in the past, the present, and can do so again in the future. Moreover, even under favorable market and industry conditions, a company's performance can be negatively impacted by internal factors, such as poor execution by company management, a cybersecurity attack or data breach, and a change in the demand for its products or services.

In addition, we typically invest in common stock, which in the event of liquidation, have rights over company's assets only after the rights of debt holders and preferred stockholders have been satisfied. Also, considering that we do not try to mimic or follow any market-benchmark sector weights, the portfolio we construct can underperform any specific market benchmark or index. Moreover, there are times when the market favors investment styles different from ours, such as momentum or pure core growth or value strategies, or industry sectors different from those in which we typically invest. And, it is also possible that we misinterpret general market or company specific conditions when we make an investment decision.

- **Foreign Security Risk.** Our discretionary client portfolios, and the model portfolios we recommend, generally include foreign companies. Investing in foreign companies exposes clients to political, social, economic, legal and currency

factors or other issues relevant to the corresponding foreign countries or regions; and this risk can be heightened depending on the circumstances, such as in the case of Brexit, LIBOR (London Inter-Bank Offered Rate) elimination or replacement, and terrorist attacks that can negatively affect European companies. In addition, investing in foreign securities either through American Depositary Receipts or ordinary shares exposes clients to foreign currency exchange rate fluctuations, and clients can incur additional costs in conversion rates to facilitate trades or settlements in U.S. dollars. HSMP does not employ a hedging strategy to mitigate foreign security or exchange rate fluctuations risks.

- **Inflation, Currency, and Interest Rate Risks.** Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less, reduces purchasing power, and generally leads to higher interest rates. The liquidity and trading value of foreign currencies can be affected by global economic factors, such as inflation, interest rate levels, and trade balances among countries, as well as the actions of sovereign governments and central banks.

- **Credit Risk.** Financial intermediaries and security issuers can experience adverse economic consequences, including impaired credit ratings, default, and bankruptcy or insolvency. All of which can cause adverse events, such as trading disruptions and credit events that can impair or erase a client's investment.

- **Legal, Tax, and Regulatory Risk.** HSMP is a registered investment adviser regulated by the SEC. As a regulated entity, changes in laws or regulations can impact our ability to operate our business. In addition, legal, tax and regulatory developments can adversely affect the companies in which we invest or the regulatory or tax treatment of client gains.

- **Low Cash Balances Risk.** Our investment strategy generally involves maintaining low levels of cash (including cash equivalents selected by the client or the client's custodian) in client accounts, meaning client accounts are typically nearly fully invested. Therefore, client portfolios will likely be more impacted by market fluctuations than portfolios that are less invested and keep more cash available. In addition, client withdrawals of cash from an account will most likely require the sale of securities which can be at a time when prices are not favorable.

- **Market Capitalization Risk.** Although we typically invest in large capitalization companies, we have demonstrated a willingness to go down the capitalization scale. When moving down the capitalization scale, security liquidity risk significantly increases. In addition, smaller and mid-capitalization companies tend to be more volatile or vulnerable to adverse company specific or general economic conditions than large capitalization companies.

- **Material Non-public Information Risk.** There can be instances where HSMP receives non-public information, voluntarily or involuntarily, such as through our investment activities like meetings with company management or other parties, or through our employees outside activities like board participation, or through the unsolicited receipt of emails or other written communications sent to us mistakenly. In such cases, we will act in accordance with our policies and procedures relating to insider trading and determine whether the information constitutes material non-public information or is likely or possible to be considered so with the benefit of hindsight. If we believe it appropriate under the facts and circumstances at hand and in an effort to not breach insider trading prohibitions, we can decide to restrict further trading on the corresponding stock (at the Firm and personal level) and/or stop recommending it for investment in model portfolios, even when doing so could be considered detrimental to our Firm, employees and all or some of our clients.

- **Reliance on Key Personnel Risk.** Our CIO and sole Portfolio Manager is considered a key person with respect to our investment strategy. Although other experienced Firm-partner members of the investment team can make investment decisions, the unforeseen absence of our CIO can impair, at least temporarily and to some degree, our ability to successfully implement our investment strategy.

- **Brexit Risks.** The United Kingdom (“UK”) formally withdrew from the European Union on January 31, 2020. The ongoing withdrawal process could cause an extended period of uncertainty and market volatility, not just in the UK but throughout the European Union, the European Economic Area and globally. It is not possible to ascertain the precise impact these events may have on clients or the Firm from an economic, financial or regulatory perspective but any such impact could have material consequences for clients.

- **Risk Associated with Catastrophic Events, Civil Disturbances, Health Crises, Natural Disasters, Terrorist Attacks, and Acts of God.** All these events can impact not only market conditions but also exchanges, trading, our vendors’ services, the performance of the companies in which we invest and their competitors, and our ability to carry out our investment advisory business, as well as making our employees, vendors and market participants more susceptible to cyberattacks. As it relates to COVID-19, in an effort to protect the safety and well-being of our team and the continuity of our critical business operations, our employees are generally working remotely and we suspended business travel and replaced in-person meetings with conference calls and video chats. As of this moment, we believe we can perform critical services (making investment decisions, trading and settlement, and communicating with clients about the status of their accounts), assuming that current conditions do not worsen, that our team and close family members do not fall ill, that there are no significant disruptions to our key service providers, and that our team continues to have internet connectivity and phone access from home. In any event, the economic and financial market disruptions associated with COVID-19 have been significant, and it has impacted and can continue to adversely impact our business and client portfolios.

Item 9 — Disciplinary Information

HSMP and our management persons have not been involved in any legal or disciplinary action that would require disclosure under this Item 9.

Item 10 — Other Financial Industry Activities and Affiliations

Neither HSMP nor any of its management persons is registered or has an application pending to register as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of these entities. HSMP has no affiliated entities and our management persons are not affiliated with any financial institution including banks and broker-dealers. We do not recommend or select other investment advisers for our clients.

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

Code of Ethics and Personal Trading

HSMP’s employees can participate in certain activities outside of HSMP, such as having personal securities accounts and engaging in personal transactions, giving political contributions, serving on boards of public and private companies or institutions, and accepting/giving gifts and entertainment from/to persons and entities that do business with HSMP. All this creates conflicts of interest in that it presents the opportunity for employees to improperly place their personal interests ahead that of clients’ and/or to improperly benefit a client or vendor with whom an employee has a personal or business relationship. We aim to mitigate material conflicts of this type through our Code of Ethics (our “Code” or “Code of Ethics”), which we adopted as required under Rule 204A-1 of the Advisers Act and Rule 17j-1 of the Investment Company Act of 1940 (“Investment Company Act”).

In our Code, we set forth the ethical standards of business conduct that our employees must follow based on our fiduciary

duties and applicable federal laws and regulations, and aim to address certain conflicts of interests that we deem material based on our investment strategy and business practices. Our Code includes topics such as insider trading, employee personal trading, employee participation in outside business activities including on boards of public companies, giving and receiving gifts and entertainment to/from clients or other parties with whom we do business, and political contributions. Our Chief Compliance Officer (“CCO”) reviews our Code annually and updates it as appropriate. All our employees must attest to reading and understanding the Code when they join the Firm and annually or whenever it is materially amended thereafter. Clients and prospective clients can request a copy of our Code of Ethics. Requests can be sent in writing to our CCO at our address listed on the cover page of this Brochure.

Our Code prohibits our employees from trading on material non-public information for both client and employee personal trading. When an employee believes that he/she has had access to material non-public information, the employee must refrain from using or communicating that information and must promptly inform the CCO. We will then take appropriate action, which would likely include placing the related company on our Restricted List. This list contains stocks in which transactions are prohibited in client accounts and employees’ personal accounts not managed by us, without prior written approval from our CCO.

Our Code also includes certain requirements with respect to personal trading. Employees must submit personal holding reports annually and personal transaction reports quarterly to our CCO. Employees must also obtain written pre-clearance on certain personal security transactions, such as when they buy a stock in their personal accounts not managed by HSMP. In addition, employees are not permitted to purchase, in their personal accounts not managed by HSMP, securities that appear on our Focus List. Personal trading is also subject to certain blackout and holding periods.

Participation or Interest in Client Transactions

HSMP manages accounts for our employees (including our partners) and their family members. Our employees, their spouses and their children do not pay an advisory fee, but their accounts are managed according to the same investment strategy we use for all our other clients. As a result, employee accounts will generally buy, sell, and hold the same securities that we buy, sell, and hold for our other discretionary clients and that we recommend for our model portfolio clients, and where we aggregate trades, our employees and related accounts will generally participate in the same transactions on an aggregated basis with some or all of our other discretionary clients.

Managing accounts for our employees and their family members alongside accounts for our other discretionary clients under the same investment strategy gives rise to a conflict of interest in that it creates an incentive for us to favor our employee and family accounts over our other client accounts. We aim to mitigate this conflict through the implementation of our trading and allocation guidelines. Our trade orders specify in writing the identity of the client or trading group, and our trading and allocation guidelines primarily focus on account size and type, account restrictions, target percentage holdings, and available account cash, among other factors, regardless of employment or family status. Absent certain circumstances like client restrictions and directed brokerage, employee and family accounts will generally participate in the same aggregated brokerage orders as our other discretionary clients at the same average price and brokerage cost (for more information regarding aggregation and allocation please refer to Item 12).

In addition, managing accounts on a discretionary basis, including the accounts of our employees and their family members, while recommending that model portfolio clients invest in the same securities in the same or similar percentage weights creates an incentive for us to favor our discretionary clients over model portfolio clients, particularly in the case of the accounts of our employees and their family members. Also, it is likely or at least possible that model portfolio clients will compete in the market against our discretionary clients. We aim to mitigate these conflicts of interest between

our discretionary and model portfolio clients by complying with client investment guidelines, our trading and allocation procedures in the case of our discretionary clients, and the operational procedures for submission of model portfolios in the case of model portfolio clients (although it should be noted that we have no control over the implementation or trading of model portfolios). Please refer to Item 4 for information regarding our discretionary and model portfolio services, and associated conflicts of interest.

We do not participate in principal or cross transactions. We do not, acting for our own account, buy or sell securities from or to our client accounts. In addition, we do not arrange for securities to be bought or sold directly from one client account to another client account. All our purchases and sales for our discretionary client accounts are sent for execution to our selected broker-dealers, none of which is affiliated with us.

Item 12 — Brokerage Practices

Best Execution

HSMP's discretionary investment authority includes selecting executing broker-dealers and negotiating commission rates for transactions in client accounts; however, clients are responsible for selecting a custodian with which to custody their assets. Our Best Execution Committee ("Committee") approves, reviews and removes broker-dealers from our Approved Broker-Dealer List ("List") (the list of broker-dealers that the Committee has approved for trading), ranks the broker-dealers on the List and establishes and adjusts our annual commission brokerage budget, and generally assesses the overall quality of execution our clients receive. The Committee meets each quarter or more frequently, as needed. It is comprised of at least our President, Director of Research, CCO, Senior Vice President of Investments & Manager of Operations, Senior Vice President of Trading, and Senior Vice President of Investments. The Committee will also consult from time-to-time with our sole Portfolio Manager as it deems appropriate.

When evaluating broker-dealers for inclusion in or removal from the List, and when ranking them and establishing or adjusting our annual commission brokerage budget for each approved broker-dealer, the Committee considers various factors. These factors include the overall quality of the soft-dollar research or brokerage products or services provided, execution efficiency, commission rate, promptness and accuracy of their back-office operations in terms of clearance, settlement and support, and financial stability of the broker-dealers based on their reported public information (only when a broker-dealer is added to the List and annually on a calendar basis, or more frequently as the Committee deems appropriate based on market conditions and/or the available public information relating to a specific broker-dealer on our List).

Not all factors are contemplated to the same degree or have the same influence. In fact, the Committee will give soft-dollar research or brokerage products or services the highest weight if it believes that all other factors are competitive and that the amount of client commission paid is reasonable in light of the value of the soft-dollar products or services provided. Furthermore, when placing trade orders, our trader is guided by our commission brokerage budget and also considers other relevant factors in the particular circumstances at hand, such as our trading procedures, the size of the order, the type of security, and market conditions. In addition, and as a measure of the overall quality of the execution provided by our approved broker-dealers, the Committee reviews our comparison of the execution prices obtained for our clients versus the VWAP (volume weighted average price for all trades executed in the market for a given security on a given day) during our sampled period.

As previously noted in connection with our model portfolio arrangements, we do not make the final investment decisions as to, nor have authority to trade, the assets of model portfolio clients. We have no input or information as to the pricing

or quality of any trading executed for them. Please refer to Item 4 for more information regarding our model portfolio services.

Soft Dollars

In return for the trade commissions that our clients pay, broker-dealers typically provide to us certain research products and services, and can also provide to us certain brokerage products and services, both proprietary (created or developed by the broker-dealer) and third-party (created or developed by a third-party other than the corresponding broker-dealer), that we consider valuable in our investment decision-making or trade execution responsibilities. This type of arrangement is referred to as soft dollars because we pay using client commissions instead of the Firm's own money. HSMP therefore benefits from client commissions because it does not have to produce or pay for the research and brokerage products or services that it obtains with soft dollars.

In fact, we typically use a broker-dealer who provides what we consider valuable soft-dollar proprietary or third-party research or brokerage products or services, and securities transaction services, even though a lower commission is charged by other broker-dealers, including those who offer no soft-dollar research or brokerage products or services, and minimal securities transaction assistance. In other words, clients very likely pay per-share commission rates higher than those charged by other broker-dealers in exchange for the soft-dollar benefits that we receive (client commissions will be higher than those charged by execution-only broker-dealers). We use soft dollars if we believe that the investment research and brokerage products and services we obtain provide lawful and appropriate assistance to us in performing our investment decision-making or trade execution responsibilities on behalf of our clients.

Broker-dealers from whom we obtain proprietary research or brokerage products or services typically set a target commission dollar amount, to be reached by our general trading volume, that will grant us access to a certain level of soft-dollar benefits, without specifically unbundling the portion of the trade commissions assigned to execution from the portion of the trade commissions assigned to soft-dollar payments. Indeed, it is the target dollar amount set by a given broker-dealer along with our anticipated trading activity that our Best Execution Committee uses as the primary basis to determine if, in our judgment, the corresponding commission rate is reasonable in light of the value of the soft-dollar products or services provided. We also enter into commission sharing arrangements with certain broker-dealers with whom we execute transactions to obtain third-party research or brokerage products or services. Through these arrangements, the executing broker-dealer sets aside and pools a portion of its trade commissions to pay (at our direction and approval) the corresponding third party, which can include other broker-dealers. Our Best Execution Committee reviews accumulated amounts in a pool on a quarterly basis, and aims to keep them at what we deem to be a reasonable level in accordance with our soft-dollar budget and anticipated needs.

All the products and services that we receive with soft dollars are eligible under the safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934. Examples of the soft dollar research we receive include eligible reports and publications, analysis and forecasts, research-oriented computer software, attendance at seminars and conferences, and discussions and meetings with research analysts and company management (we do not use expert networks). Examples of the soft dollar brokerage we can receive include trade execution services such as software that assists us in effecting securities transactions and performing functions incidental to trade execution. We do not use client commissions to pay for any services or products related to the administration of the Firm. If a product or service is used for mixed purposes (meaning some components are used for soft-dollar eligible products and services, but some components are used for other non-eligible purposes), we face a conflict of interest to the extent we have an economic incentive to use the product or service for non-eligible purposes even though it is paid for with soft dollars. However, in the case of mixed uses, we will make a good faith determination as to which portion of the product or service is eligible to be paid for with soft dollars

and which portion must be paid for from the Firm's own resources. We will keep records regarding our allocation, which are reviewed periodically as part of our effort to monitor compliance and mitigate any conflicts posed. We will only enter into commission sharing arrangements that comply with the Section 28(e) safe harbor and applicable guidance thereunder.

We apply the benefits of the soft-dollar products and services we receive to the formulation and implementation of our sole investment strategy. Thus, we believe that our use of soft dollars generally and over time benefits all clients overall without regard for the amount of commissions attributable to a single client account. In fact, some clients do not contribute to soft-dollar payments in part or at all although they benefit from the soft-dollar benefits we obtain with other clients' trading. For example, we do not trade for our model portfolio arrangements and so they do not contribute to soft dollar payments. In addition, we do not obtain soft-dollar research or brokerage products or services from the portion of the trade orders in discretionary client accounts that we place according to a client commission recapture instruction, or from all the trades that take place in accounts fully subject to directed brokerage, which includes not only certain client accounts but also the accounts of our partners, employees and their family members that custody at Charles Schwab & Co. ("Schwab") and trade exclusively with Schwab under a Directed Brokerage Arrangement (please refer to the *Directed Brokerage/Commission Recapture* section below and to Item 15 regarding opening a custodian account with Schwab). We do not seek to allocate soft-dollar benefits to client accounts proportionately to the soft-dollar credits that each account generates.

Considering that not all accounts generate the same amount of soft dollars and that certain accounts, as noted in the paragraph above, do not contribute to soft-dollar payments although they benefit from the soft-dollar products and services we obtain, we have an incentive to cause clients who contribute to soft-dollar payments to engage in more securities transactions than would otherwise be optimal for them in order to generate a larger amount of commissions. Moreover, given that we obtain soft-dollar products and services using clients' commissions, we have an incentive to select broker-dealers based on the soft-dollar benefits they provide to us, rather than selecting those broker-dealers who provide lower cost execution to our clients. To alleviate these conflicts of interest, we only accept soft-dollar benefits in accordance with the Section 28(e) safe harbor, and make a good faith determination that the commissions paid by clients are reasonable in relation to the value of the soft-dollar products and services we receive. That is, before placing a broker-dealer on our Approved Broker-Dealer List and establishing or adjusting our annual commission brokerage budget, we determine through our best execution analysis that the compensation paid, or to be paid, to that broker-dealer is reasonable in relation to the value of all the soft-dollar products and services they provide to us directly or through a third-party provider (please refer to the *Best Execution* section above for additional information).

Trading, Aggregation, and Allocation of Client Orders

Our CIO is our only portfolio manager and makes all final investment decisions for all our discretionary clients to implement our sole investment strategy. In the absence of our portfolio manager, other experienced Firm-partner members of the investment team can make investment decisions on behalf of clients.

As previously noted, taking into consideration client restrictions, we typically seek to invest our discretionary clients in the same names and in the same or similar percentage weights with the goal of minimizing dispersion across accounts over time. However, this is not always possible as, in addition to client restrictions, the implementation of our investment strategy for our discretionary clients depends on several factors, including account type and size, timing and market conditions at an account's inception and subsequent contributions or withdrawals, timing and terms of trade execution orders, and a client's directed brokerage and commission recapture instructions. In fact, small accounts generally experience higher dispersion from our composite than large accounts primarily because they do not participate in

trading/allocations/aggregations to the same extent as large accounts (in addition to the mentioned implementation-related factors, actual participation in trade orders also depends on cash available in an account and on our imposed per-order share minimums, which typically range anywhere from 5 to 100 shares depending on the stock price). Also, while the investment merits of a given security drive our investment decision, we take into consideration the tax status of an account or group of accounts in certain instances when practicable under select circumstances (that being said, we are not a tax-efficient focused adviser and do not provide tax advice, and clients should consult with their own separate tax advisors in this regard). In sum, the holdings and performance of a discretionary client's account can deviate from our composite (and not all client accounts are in the composite) or from other discretionary client accounts, even within the same group and even when comparing different accounts of the same client. All things considered, we believe that our trading, aggregation, and allocation procedures for our discretionary clients are consistent with our goals. In the case of model portfolio arrangements, we have no control over the implementation of our strategy and are not involved in the trading.

Our trade order instructions specify the client or trading group to which an order refers, and typically indicate the target percentage weight for the particular security rather than the number of shares. Actual participation in an order depends on several factors, even within the same trading group, such as client restrictions, existing percentage weighting for the traded security and cash available in each account, as well as our imposed per-order share minimums, which typically range anywhere from 5 to 100 shares, depending on the stock price. When placing trade orders, our trader is guided by our commission brokerage budget and also considers other relevant factors in the particular circumstances at hand, such as our trading procedures, the size of the order, the type of security, and market conditions. Typically and to the extent possible at the discretion of our trader, once our trader selects a broker-dealer to buy and/or sell a particular stock, our trader will then seek to execute all additional trading (buys, sales, and buys and sales) in that stock on that trading day on the chosen side with the originally selected broker-dealer (our trader can choose to direct only buys, or only sales, or both buys and sells, on one, or more, or all of the company names being traded, to the same broker-dealer on any given trading day). We believe that this practice generally helps us facilitate client allocation and average pricing at the end of the trading day and lessens the possibility of errors in settlements with custodians.

We generally combine orders from multiple client accounts and/or trading groups, and trade in aggregated blocks of securities, at our trader's discretion. We use trading groups to facilitate trading; our main trading groups are non-taxable and taxable, and those labeled based on certain common or significant client restrictions. We believe that block trading/aggregation generally allows us to execute trades more efficiently while reducing overall commission charges to clients, and that orders executed outside the block can incur higher commissions and receive higher or lower execution prices. Please refer to the *Directed Brokerage/Commission Recapture* section below for more information.

As part of our trader discretion to work trade orders, our trader determines the sequencing of trade order placements keeping in mind that clients should be treated equitably and fairly over time and that no client account should be systematically disadvantaged over time. That being said, when directed brokerage or commission recapture orders cannot be aggregated with the block at our trader's discretion, our trader must initiate said directed brokerage or commission recapture orders after the block trade orders have begun to be placed by the corresponding broker-dealer(s). In an attempt to prevent favoring one directed brokerage or commission recapture client over another, we will use a randomly generated weekly rotation to determine the order of execution among the client directed brokerage and the client commission recapture broker-dealers. Please refer to the *Directed Brokerage/Commission Recapture* section below.

As stated earlier, we do not, acting for our own account, buy or sell securities from or to our client accounts, and do not arrange for securities to be bought or sold directly from one client account to another client account. All our purchases

and sales for our discretionary client accounts are sent for execution to our selected broker-dealers, none of which is affiliated with us. Although in accordance with our strategy we usually trade our discretionary client accounts in the same direction of a transaction in a given stock, we can also trade for our clients in the opposite direction for several reasons, such as to invest contributions and/or to raise cash for a withdrawal or liquidation, or for purposes of a rebalancing across all or some client accounts.

Final allocations are made at the end of a trading day (even for those orders that were completed intra-day) and we do not keep our orders open from day to day, except in limited circumstances related to client withdrawals and contributions. For purposes of allocation, we aim to combine/aggregate orders executed that day for the same side in the same security through the same broker-dealer. We endeavor to allocate shares among the participating accounts in these combined/aggregated orders on a pro-rata basis, so that each such account receives the same average price and shares the transaction costs also on a pro-rata basis. Although aggregating orders in this fashion can result in a less favorable execution price for any individual client with respect to any particular trade, we believe that it is consistent with our goal of minimizing dispersion across accounts over time, and that it helps us mitigate possible conflicts of interest that can arise when managing different client accounts under the same strategy, particularly in the case of the account of our employees and their family members.

Although most of our orders are allocated on a pro-rata basis, there are instances when pro-rata allocation is not feasible. For example, in cases when an order is partially filled, we try to allocate pro-rata by adjusting the target percentage weight of the order. If residual shares remain, we generally increase the allocation for those participating accounts whose percentage weight (using the new adjusted target percentage) will not be significantly impacted. In cases when so few shares are executed that we believe pro-rata allocation is impracticable, we generally allocate first and fully to those accounts that are furthest away from the target percentage weight of the trade order (including the entire trading group specified in the order and not just those accounts initially participating). We generally then continue allocating in this manner until all shares are exhausted. However, as previously noted, smaller client accounts often do not participate in allocations generally because they do not meet our imposed per-order share minimums.

We can reallocate securities among clients under very specific circumstances keeping in mind our fiduciary duty to clients. For example, if the next day's trade reconciliation reveals that an adjustment to the previous day's trade allocation is appropriate, our CCO is promptly notified and the allocation is adjusted as appropriate in accordance with our allocation procedures. In addition, we can reallocate securities among clients to correct a trade error, but only if done prior to settlement and if we believe that the reallocated securities represent a legitimate investment decision on behalf of the involved client account(s); in that case our CCO must also be promptly notified. Reallocation is never allowed post-settlement. Please refer to the *Trade Errors* section below for more information regarding trade errors.

We can depart from the described trading, aggregation, and allocation procedures if we believe it appropriate under the circumstances keeping in mind our fiduciary duties and our aim to treat clients as a whole fairly over time. While we do not review individual trades in isolation, our CCO and our Senior Vice President of Investments & Manager of Operations regularly monitor client holdings and review client performance dispersion from our composite on a monthly basis. As previously noted in connection with our model portfolio arrangements, we do not trade the assets of model portfolio clients, and therefore the procedures described here do not apply to them (please refer to Item 4 for more information regarding our model portfolio services).

Directed Brokerage/Commission Recapture

In some instances, discretionary clients can restrict our ability to select broker-dealers by directing us to execute some or

all trade orders in their accounts at the broker-dealers that the clients select (this is called directed brokerage, and when done for purposes of rebating commissions, it is known as commission recapture). We allow commission recapture on a case-by-case basis and on a set percentage of the trade orders for a client's account considering several factors, such as the account size, whether the client's chosen broker-dealer is part of our Approved Broker-Dealer List, whether we believe that it is operationally feasible, and whether we determine that it will not hamper the implementation of our investment strategy. We allow directed brokerage to apply to all orders for accounts that custody at Schwab (see below). Directed brokerage and commission recapture instructions must be in writing and we reserve the right to accept them or reject them at any time and for any reason.

When clients direct us to use a specific broker-dealer, our ability to seek best execution for these client orders is likely to be hindered and can cost these clients more money, particularly when we cannot aggregate their trades with our other clients' orders. For example, when our other clients' orders are placed with an executing broker-dealer that cannot satisfy a client's directed brokerage or commission recapture instructions, we will not be able to aggregate said client's orders with those of our other clients. Furthermore, when we cannot aggregate orders for a directed brokerage or commission recapture client with that of our other clients, we will initiate the directed brokerage or commission recapture clients' orders after the aggregated orders for our other clients are placed. As a result, the directed brokerage or commission recapture clients can pay higher or lower commissions or receive more or less favorable prices than we could otherwise have perhaps obtained had we been given discretion to select the broker-dealer (please refer to the *Trading, Aggregation, and Allocation of Client Orders* section above). In an attempt to prevent favoring one directed brokerage or commission recapture client over another, we use a randomly generated weekly rotation to determine the order of execution among the client directed brokerage and the client commission recapture broker-dealers.

Many of our discretionary clients custody their accounts at Schwab, including our employees, partners, and their family members. Schwab does not charge its custody clients a trade commission for trades executed at Schwab, but charges them a trade-away fee for each trade order (regardless of the number of shares being traded in an order) executed at broker-dealers other than Schwab. To avoid the trade-away fee, we offer our clients who custody at Schwab the option of directing us to trade their entire accounts exclusively through Schwab. By signing a Directed Brokerage Arrangement, however, our ability to seek best execution for their accounts is likely to be hindered as we will not be able to aggregate said clients' orders with those of our other clients when we are trading the block with broker-dealers other than Schwab, and in that case, said clients' orders will be initiated after aggregated block-trade orders, as noted above. Clients that custody at Schwab must determine independently if such a directed brokerage arrangement is appropriate for them. It should be noted that we have access to proprietary and/or third-party research reports from Schwab by virtue of having clients that custody there and not based on soft-dollar commissions. Please refer to the *Soft Dollar* section above and to Item 15 regarding opening a custodian account with Schwab.

IPOs

We do not currently participate in initial public offerings (IPOs). If we were to participate in an IPO, we will generally follow our allocation procedures described above). Only those accounts that have indicated in writing their eligibility will participate in an IPO.

Trade Errors

There is no bright-line definition of what constitutes a trade error or a bright-line rule for determining how to rectify trade errors, as it all depends on the specific facts and circumstances. Generally, we would deem a trade error to involve an HSMP's action that causes trade orders not to be implemented in substantially the manner intended by our CIO/Portfolio

Manager or to be implemented in contravention of an agreed, written client restriction, and that then have an impact in a client's account and require some corrective action on HSMP's part to bring about our CIO/Portfolio Manager's intention or the client restriction. Examples of trade errors include buying/selling the wrong stock or the wrong number of shares in client accounts; buying/selling stock for the wrong account; buying instead of selling stock in client accounts as intended, or vice versa; and buying in contravention of account restrictions. Unless otherwise agreed with a client, we can decide not to notify clients of trade errors (in their corresponding accounts) that we deem immaterial depending on the totality of the facts and circumstances (materiality is not necessarily tied to a certain de minimis amount).

We seek to correct our trade errors as promptly as possible without disadvantaging clients, but we can also consider alongside our fiduciary duty the contractual standard of care and any exculpatory clause or indemnification provision agreed upon in the investment advisory agreement with the corresponding client(s). Subject to the foregoing, we reimburse clients who suffer a loss based on the circumstances when we cause the error. In determining the impact of an error and if appropriate, we would normally net the gains/losses of closely related multiple transactions related to the same or closely related trade error(s) in a client's account and/or compare the relevant client's performance against our composite or what we believe would be a comparable account, such as the largest account in the relevant client's trading group (but it can also be another account in the same or different trading group). We can also internally reallocate securities among clients but only if done prior to settlement and if we believe that the reallocated securities represent a legitimate investment decision on behalf of the involved client account(s); in that case our CCO must be promptly notified. Please refer to the *Trading, Aggregation, and Allocation of Client Orders* section above for more information regarding our allocation procedures. If the error was caused by a third party, we try to assist clients in addressing the issue with the responsible party although we cannot guarantee the third party's response.

Some gains are retained by clients while others are not. When a trade error is resolved directly in a client's account, gains resulting from the correction of the error remain in the client's account. When a trade error is resolved in the executing broker-dealer's own error account as an accommodation to HSMP, gains resulting from the correction of the error are generally donated to charity (by either us or the broker-dealer and to the charity of our choice or of the broker-dealer's choice) or remain with the broker-dealer. Under no circumstances will we use soft dollars or future brokerage to compensate a broker-dealer for the correction of trade errors.

As previously noted in connection with our model portfolio arrangements, we do not trade the assets of model portfolio clients, and therefore the procedures described here do not apply to them. Please refer to Item 4 for more information regarding our model portfolio services.

Item 13 — Review of Accounts

Members of our team review discretionary client accounts periodically to verify certain aspects of the implementation of our investment strategy. For example, our Senior Vice President of Investments & Manager of Operations generally reviews our trade inclusion report daily (for the prior trading day) with the aim of identifying discretionary accounts that have not participated in recent trades. Also, members of our operations team, under the supervision of our Senior Vice President of Investments & Manager of Operations, typically reconcile security and cash positions for most discretionary client accounts daily, against custodian records received electronically, when operationally feasible (accounts that are not reconciled daily are typically reconciled monthly against their custodian statements). In addition, our CCO performs a general daily, monthly, quarterly or annual review of our adherence to Firm guidelines and client restrictions as we believe appropriate. Furthermore, our CCO and our Senior Vice President of Investments & Manager of Operations generally review each account's performance versus the Firm's composite on a monthly basis, and bring significant variations to the attention of our CIO to be addressed as applicable.

We typically provide discretionary clients with quarterly written reports summarizing account performance and portfolio holdings. More frequent reports are sent to clients at their request. Our report of portfolio holdings urges clients to carefully review and compare their HSMP positions to their custodian statements.

As previously noted in connection with our model portfolio arrangements, we do not make the final investment decisions or trade for model portfolio clients. We generally review compliance with model portfolio guidelines and restrictions at the time of delivery of each model portfolio. Please refer to Item 4 for more information regarding our model portfolio services.

Item 14 — Client Referrals and Other Compensation

We do not have any oral or written arrangement to directly or indirectly compensate any person for client referrals. Except for the research and brokerage products and services mentioned in Item 12 (soft dollars) and for the research available from Schwab (please refer to Item 15), we do not receive any direct or indirect compensation from any person, other than clients, for providing advisory services to clients.

Item 15 — Custody

Clients determine their own custodian arrangements and enter into separate agreements with their custodians for custody services over the client accounts we manage. HSMP does not maintain physical custody of client funds or securities, but in certain circumstances, it can legally be deemed to have custody of client assets. This is the case, for example, when our discretionary clients grant us authorization to directly instruct their custodians to pay our advisory fees (please refer to Item 5 regarding direct debiting our fees). We require clients for whom we are deemed to have custody to maintain their accounts at qualified custodians—generally U.S. based banks and registered broker-dealers. Qualified custodians should send clients an account statement at least quarterly, and for those clients for whom we are deemed to have custody, we seek to confirm annually with their qualified custodians that they are sending clients their custodian statements at least quarterly. Clients should carefully review the account statements they receive from their custodians. The account statements we provide to our discretionary clients are not their custodian statements and we urge clients to compare the statements they receive from their custodians against the statements they receive from HSMP.

Custodians sometimes also offer clients the ability to write checks against their accounts. Check writing by clients can present operational difficulties and unintended consequences, such as an overdraft, particularly considering that we tend to be almost fully invested and generally keep low cash balances in client accounts. Accordingly, we do not accept check writing on behalf of any client account. Please refer to Item 4 for information related to withdrawal requests.

HSMP does not receive compensation from any custodian. However, and while we do not recommend custodians to our clients or prospective clients, in cases when they request our help in establishing a custody account for our management, we typically help them set up a custodian account with Schwab. HSMP is not affiliated with Schwab. Clients must make their own determination as to the appropriateness of Schwab in their particular situation. If they decide to custody at Schwab, they will enter into a separate custodian agreement with Schwab, and Schwab will act as custodian and will likely also act as broker-dealer for the account. We have access to proprietary and/or third-party research reports from Schwab by virtue of having clients, including our employees, partners, and their families, that custody their accounts we manage there and not based on soft-dollar commissions. This represents a potential conflict of interest in that it provides an incentive for us to help clients set up an account with Schwab; however, we do not obtain soft dollars from accounts custodied at Schwab that have directed brokerage arrangements and we do not recommend custodians (including Schwab) to clients. Please refer to Item 12 for information regarding soft dollars and directed brokerage agreements for

clients who use Schwab as custodian.

It should be noted that HSMP does not accept disbursement authority beyond that needed for trading and settlement delivery versus payment, and to direct debit our investment advisory fees. Clients should carefully review their custodian arrangements so that they do not inadvertently grant us authority beyond this even if HSMP would not act on such broad authorization.

Item 16 — Investment Discretion

HSMP provides investment advisory services in a discretionary and in a model portfolio basis. Discretionary clients execute an investment advisory agreement granting us discretion to manage their accounts; in these cases, we make the investment decisions and trade the accounts without consulting with clients. Model portfolio clients execute an investment advisory agreement pursuant to which we provide non-discretionary investment recommendations in the form of model portfolios; in these cases, we do not exercise investment discretion nor trade the accounts. HSMP does not engage in the management of accounts on a so-called non-discretionary basis where we would be required to obtain client approval of our investment recommendations prior to arranging or effecting the corresponding trade. However, please note that we generally consider sales processed based on a client's instruction to fully liquidate the account for closing or to sell specific securities for tax purposes as non-discretionary. Please refer to Item 4 for a description of our advisory services and Item 7 for our type of clients.

We manage discretionary client accounts and provide model portfolios in accordance with agreed-upon investment guidelines and client restrictions. In addition, discretionary clients can in some instances restrict our ability to select broker-dealers by directing us to execute some or all trade orders in their accounts at the broker-dealers that the clients select. Please refer to Item 4 regarding our advisory services and client restrictions, and Item 12 regarding our trading practices and client directed brokerage and commission recapture.

Item 17 — Voting Client Securities

Discretionary clients can delegate their proxy voting authority to HSMP in their investment advisory agreement with us or can choose to retain their voting authority, in which case we do not vote their proxies. We do not vote proxies in model portfolio arrangements. When the investment advisory agreement with a discretionary client is silent as to who has authority to vote proxies, we will vote proxies as part of the client's overall delegation of discretionary authority to us, unless the client instructs us in writing otherwise. Clients can place restrictions on our voting authority or instruct us to vote a proxy in a certain way. Such restrictions or instructions must be clear and reasonable, be received in writing and in a timely fashion, and not be unduly burdensome to our operational processes. We reserve the right to accept or reject any client restriction or instruction at our sole discretion for any reason. Some members of the investment team are assigned to review proxy materials for specific issuers.

When the investment advisory agreement instructs us to vote proxies, or in those cases in which the agreement is silent and we vote proxy as part of the client's overall delegation of discretionary authority to us, and absent specific client restrictions or instructions, or other operational issues (see below), we will generally vote proxies from the same company the same way for each client. In addition, absent client restrictions or instructions, we will vote proxies for portfolio securities consistent with what we believe is the best economic interest of our clients or plan participants in the case of ERISA accounts. Considering that we invest in companies which we deem to have strong management teams that aim to maximize shareholder value, we generally vote proxies in favor of company management's recommendations (when we refer to company management, we mean the Board of Directors of the corresponding company). However, if upon

analyzing the proxy materials and given the circumstances at hand, we determine that it is in our client's best interest to vote against management, we will do so.

Although we aim to generally vote all proxies from the same company the same way for each client, there could be instances when we do not vote all shares or vote only certain shares, due to some operational issues. For example, if we believe that voting a proxy will limit our ability to sell a stock, such as when foreign shares are blocked from selling for a designated period after casting a vote, we typically do not vote these shares as we think that maintaining our ability to sell a position generally outweighs the benefit of voting. Also, we do not vote shares for which we do not receive all proxy information, and upon inquiring with the custodian or any other responsible party as applicable, we do not receive the information in a timely manner. In addition, when clients participate in stock loan programs, it is possible that we are not able to vote proxies for loaned shares as we are not a party to the stock loan program and do not recall shares for voting. Furthermore, we typically will not vote foreign shares if we determine that doing so is not operationally feasible because, for example, proxy information is not available in English, or authentication by the consul office is needed, or a local power of attorney should be granted. Moreover, we only vote proxy for securities that are held in client accounts; if the security is no longer held in client accounts at the time we would have otherwise processed the vote prior to the voting deadline, we do not vote even if the security was held on client accounts on the proxy record date (we believe that voting in this case would have no meaningful, identifiable economic benefit to our clients as the security is no longer in client accounts).

Clients who did not delegate their proxy voting authority to HSMP should receive their proxy materials directly from their custodians or the company's proxy agent. In the event we inadvertently receive proxy materials for these clients, we will forward the materials to the client. In such circumstances, we are not responsible for any adverse impact to a client if proxy materials are not received timely in advance of a scheduled vote. Although we can discuss proxies with clients as a general matter, we do not advise clients about particular solicitations when they have chosen to vote their own proxies.

Conflicts of interest in proxy voting can arise in various and sometimes unforeseen ways; for example, if a company soliciting the proxy is an existing client or is in the process of signing an investment advisory agreement with us. If we determine that there is a conflict of interest between us and clients, we will continue to follow our existing proxy voting guidelines—we believe that following our guidelines helps us maintain our voting impartiality—, and our Proxy Voting Committee will evaluate our voting decision under certain circumstances. If we determine that there is a material conflict, our Proxy Voting Committee and CCO will discuss the appropriate action, and we will generally continue to follow our existing proxy voting guidelines; however, if in the opinion of our Proxy Voting Committee the conflict is such that we believe our voting impartiality is compromised even when following our guidelines, the Committee could, if time allows, seek an independent third-party voting recommendation or disclose the conflict and ask clients for voting direction. In any event, an employee involved in a conflict will not be part of the proxy voting decision.

Clients can request information on how we voted their shares, and can also ask for a complete copy of our proxy voting policy. These requests should be directed in writing to our CCO at our address listed on the cover page of this Brochure or by email at compliance@hsmanage.com. We use a third party's platform to assist us administratively in the proxy voting process. We keep voting records for five or six years as applicable under the Advisers Act and the Investment Company Act.

Class Actions and Other Legal Matters

HSMP is an investment adviser, and as such, it is hired to provide investment advice. We believe that clients and their legal advisers are best suited to make determinations regarding client participation in class actions, bankruptcies, settlements, and other legal matters, as making such determinations depend on the merits of the legal case and the

assessment of clients' particular circumstances. Accordingly, HSMP does not generally take any responsibility for class actions or legal matters concerning past or current holdings in client accounts. However, unless otherwise agreed with a client, when we receive written notice of a class action or other legal matter relating to stocks in our client portfolios, we generally either contact client custodians so they forward the notices to clients or let custodians proceed with the processing and filing of proofs of claims based on custodians' internal procedures. A client for whom a proof of claim is filed will typically as a result waive other claims that the client could have had against the target of the class action, which could be or not in the best interest of the client. In any event, we will not seek to determine on an individual basis or otherwise whether facts and circumstances relevant to clients, in general or in particular, would suggest that participation or non-participation in a class action, bankruptcy, proof of claim, settlement or any other legal matter is appropriate, more advantageous or in the best interest of clients in general or in particular.

Item 18 — Financial Information

HSMP does not require prepayment of fees in advance. The Firm has never been the subject of a bankruptcy petition, or any other circumstance that would require disclosure under this item.