



April 2009

INVESTMENT PERSPECTIVES

Our Commitment to You

Throughout the long history of our nation there have been many times when it appeared that the country was about to surrender to forces beyond its control. There have been wars that appeared almost un-winnable, there have been economic panics and a Great Depression, there have been any number of unscrupulous men who plundered our economic system, and there have been politicians who governed for themselves rather than for the good of the country. In all of these instances, people felt that these times were the worst. In fact it is difficult to remember times when the country was truly at peace, not only free from wars, but free to pursue the promise of a democratic society.

Just in the past ten years we have experienced a number of events that have been challenging, to say the least, both at home and abroad: 9/11, the dot.com bubble/bust, the Iraqi war, the Afghan war, Iran, North Korea, the current bear market and economic recession, and Bernie Madoff. Our country has a tradition of prevailing during tough times – our will is strong and our spirit is great.

Many people now are concerned about their future, from those already in retirement to those who are about to retire, and to those who have to re-think where the future will take them. Our goal at Hutchinson Capital Management is to provide you with the peace of mind that will enable you to reach your goals, even if these plans may be delayed. And we want you to reach these goals safely and without fear. We want you to know that we have taken many precautions to ensure that your assets are safe and that we always conduct business following the highest ethical standards.

Hutchinson Capital Management, as an SEC-registered investment adviser, is regulated under the Investment Advisers Act of 1940. Passage of the Act was in response to the Great Depression when there were very few safeguards to protect those invested in securities. In recent years, the Investment Adviser Act has seen the addition of many new rules which we believe serve to strengthen the fiduciary responsibilities of investment advisers with their clients. We thought that we would review below several of these more important rules and regulations, as well as a few others that govern our business practices.

Code of Ethics

The Code of Ethics is based on the principle that Hutchinson Capital Management's employees owe a fiduciary obligation to their clients to conduct business premised on fundamental principles of openness, integrity, honesty, and trust, and in the best interests of clients, while at the same time complying with federal securities laws. Persons covered by the Code must adhere to this general principle as well as comply with the Code's specific provisions. The Code is predicated on the following six principles:

- 1) **The interests of clients must and will come first.** The Company will recognize and respect, at all times, that the interests of clients will come first. In any decision relating to the Company's investments or the personal investments of its employees, the Company will scrupulously avoid serving its own interests ahead of the interests of clients. The Company recognizes that it has a fiduciary responsibility to its clients that supersedes those interests of its supervised persons.
- 2) **Personal investments must be executed in compliance with the Code and must avoid any actual or potential conflicts of interest.** The Company realizes that it is important to avoid situations involving any real or possible impropriety. It is not enough for the Company to simply follow the letter of the Code. It must abide by the spirit of the Code and all of its principles.
- 3) **The Company or its agents or representatives will not take inappropriate advantage of their position.** As a general principle, the Company will not tolerate and will do its best to avoid any situation that might compromise, or call into question, its exercise of fully independent judgment in the interests of clients.
- 4) **Supervised persons of the Company will not invest client funds in securities in which its supervised persons have an undisclosed financial interest.** Supervised persons of the Company will fully disclose all reportable securities in which they have a beneficial interest, and will never invest client funds in securities in which they have an undisclosed financial interest.
- 5) **Supervised persons of the Company will not use client assets to affect the prices at which they trade their own securities.** Supervised persons of the Company will never use client assets or their knowledge of pending transactions to affect the prices at which they trade their own securities.
- 6) **The Company will always follow the letter and intent of federal and applicable state securities laws.** Supervised persons of the Company will be expected to uphold standards and a course of conduct that ensures compliance with all applicable federal and state securities laws.

Compliance Rule

This rule requires an investment adviser to designate an individual of the company as its Chief Compliance Officer (CCO). Hutchinson Capital Management takes the compliance rule seriously. Over three years ago, it hired a U.C. Berkeley educated MBA with an extensive regulatory background, whose only function is to serve as Hutchinson's Chief Compliance Officer. The CCO has written over 15 individual compliance policies and procedures that directly address and control specific operations of Hutchinson Capital Management.

These policies and procedures cover a wide area of compliance topics, including (in part) performance reporting, the allocation of investment opportunities among investors, the valuation of client holdings and custody, best execution, proxy voting, privacy, and disaster recovery. To give an example of the extensiveness of such policies and procedures, Hutchinson's disaster recovery plan alone has 52 separate sections, covering everything from alternate offices, to data recovery, to personnel replacement, phone trees, alternate vendors, and specific disaster scenarios.

Third-Party Custodians

Client assets managed by Hutchinson Capital Management are always safeguarded with third-party qualified custodians. Hutchinson Capital Management will not take physical possession of client assets, or accept client assets endorsed to Hutchinson Capital Management. Each month these custodians independently send to clients account statements which show every transaction made in each client's account. Hutchinson Capital Management is not related to any broker or custodian in any way, and does not act as a registered representative (broker) of any brokerage firm; as such, Hutchinson Capital Management receives no brokerage commissions from any transaction placed with any brokerage firm. It should be noted that if Bernie Madoff's clients had followed this rule they most likely would never have invested with him – he was the broker of record, the investment counselor, and the custodian.

Insurance Coverage for Fraud

In 1970, Congress created the Securities Investor Protection Corporation (SIPC), a nonprofit corporation funded by its brokerage firm members. SIPC intervenes when a brokerage firm is closed due to bankruptcy or other financial difficulties and customer assets are missing. SIPC provides up to \$500,000 of protection including up to \$100,000 in cash per account registration (individual, joint etc.). While SIPC's role is to replace missing securities and cash in the event of broker failure, it does not protect against general market risk. Hutchinson Capital Management's primary custodian, Schwab, is a member of SIPC.

Many brokers have additional insurance beyond SIPC to help protect clients. In Schwab's case, additional brokerage insurance is provided by Lloyd's of London. Specifically, Schwab's coverage provides protection of cash and securities up to a total amount of \$600 million, with a limit of \$150 million (including cash of up to \$1 million)

to any one customer. According to Schwab, there has never been a claim paid by Lloyd's of London.

Customer Privacy

Customer privacy is critically important for all employees at Hutchinson Capital Management. Our Privacy and Security policy states that we do not disclose, and do not wish to reserve the right to disclose, any non-public personal information about our customers or former customers to anyone, except as permitted by law. Employees and third party service providers that we use are governed by strict confidentiality agreements whose terms extend after their employment terminates or their service contracts expire. (Note that Hutchinson Capital Management typically uses the word "client" rather than customer.)

Customer Protection Rule

The SEC Customer Protection Rule requires brokers to segregate client assets from the firm's own assets. In other words, brokers must keep within their possession or control all clients' assets and these cannot be used for proprietary firm trading or lending unless specifically authorized by the client. The law is supported by various internal and external audits, regulatory examinations and reporting requirements.

"Soft Dollar" Arrangements

"Soft dollars" are credits that brokerage firms may provide to investment advisers to pay for research or order management systems that investment advisers would otherwise have to pay themselves. Hutchinson Capital Management is not involved in soft dollar arrangements with any brokerage firms. Hutchinson Capital Management has determined that paying for such items out of its own pocket is the right way to conduct its business as an independent adviser.

Fees

Hutchinson Capital Management is a fee-only Investment Counselor. We charge fees on a sliding scale based on the size of the portfolio that we manage – these are the only fees that we receive. Our management fees are typically considerably lower than investment advisers that use mutual funds (rather than individual stocks) because there are two fees charged – one by the investment adviser and a second from the mutual fund.

Additionally, Hutchinson Capital Management does not charge, and never has charged, any type of performance fee on any client account. Performance fees are typically charged by hedge funds; it is a fee based on the performance of the portfolio and is in addition to the percentage fee that they charge on assets under management.

In summary, we believe that our company provides a platform for our clients to feel safe and protected from unnecessary worry associated with the investment of their assets.

Especially during times like these, there is enough to be concerned about without having to worry about the safety and security of your assets. Please be assured that we will continue to provide you with the highest level of security possible both now and in the future.