

# Form ADV Part II

## Brochure Cover Page

### Elliott Cove Capital Management LLC

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**This brochure provides information about the qualifications and business practices of Elliott Cove Capital Management LLC (“Elliott Cove”). If you have any questions about the contents of this document, please contact Elliott Cove’s Chief Compliance Officer, Victor D. Ruiz at 206-267-2683 or [vruiz@elliottcove.com](mailto:vruiz@elliottcove.com). The information in this disclosure document has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Elliott Cove is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

*Elliott Cove is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training, and you should not choose an investment adviser solely on the basis of its status as a registered investment adviser. Please consider the information provided to you in oral and written communications to determine whether to hire or retain an investment adviser and to evaluate an investment adviser’s qualifications and business practices.*

## Item 2 – Material Changes

On July 28, 2010, the United States Securities and Exchange Commission (“SEC”) made changes to the requirements of the disclosure document which Elliott Cove is required to provide to its clients. This brochure, dated March 14, 2011, is prepared according to those new requirements and is materially different in structure from older versions of the document. It also includes new information that was not previously required. The previous version of Elliott Cove’s disclosure document, prepared according to the SEC’s old requirements, was last updated on March 24, 2010.

Elliott Cove updates this document annually, or more frequently in the event of certain material changes. In future versions, this section will outline and summarize the specific changes made since the document’s previous update. Elliott Cove will make available a copy of this section to its clients within 120 days of the close of its fiscal year to make sure clients are aware of any material changes to the firm’s business philosophies and practices.

Elliott Cove’s clients may request a full copy of the latest version of this document at any time by contacting Victor D. Ruiz, Chief Compliance Officer, at 1-206-267-2683 or [vruiz@elliottcove.com](mailto:vruiz@elliottcove.com).

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## **Item 4 – Advisory Business**

Elliott Cove Capital Management LLC ("Elliott Cove") is a fee based investment advisor offering indexed-like based asset allocation portfolios to individuals and small businesses. We have been in business since September of 2002. Our principal owners are Cashel House Investments LLC and Northrim Investment Services Company, both domestic entities. As of 12/31/2010 Elliott Cove's assets under discretionary management was \$ 96,200,000.

### **Our Investment Philosophy**

Investment management at Elliott Cove Capital Management is based on the concept of efficient markets. This has far ranging conceptual as well as practical implications that set it apart from much of what investors are offered through other approaches. The concept of efficient markets drives our selection of securities, the fees investors pay, the returns they receive, and the expectations they hold. We believe that when investors understand the general principles and implications of efficient markets, they will embrace this approach as the most sensible, practical, and financially sound way there is to prepare for their financial future.

Markets are said to be efficient when stock prices reflect all of the known information concerning a particular company. This is important because at that point, when the stock reflects the tug-of-war between buyers and sellers, no one can know whether it is worth more or less, unless they have information that no one else has. The vast majority of stock prices already reflect all known information because of the work of thousands of investors who are continually screening the globe to find new opportunities and uncover hidden ones. And when they do, how long does it take for that information to be reflected in the price of the stock? Generally, it's all over in a matter of seconds. After that, trading on older "news" is generally unprofitable.

This is an extremely powerful motivation for mutual funds and brokerage firms to perpetuate the belief, on the part of their clients, that markets are not efficient and that smart and nimble stock pickers can somehow find value that everyone else has overlooked and get it to you before others have time to act. But markets have been shown to be efficient, as mountains of rigorous academic research confirm and this holds important implications for how you manage your investments.

A major conclusion from this is that attempts to pick stocks and "outsmart" the market are doomed to failure. The same is true with respect to "timing" the market to forecast its ups and downs. (Explaining why the market went up or down yesterday is always far easier than the impossible task of divining what it will do tomorrow.) Investors have paid dearly for the

belief that someone can foresee the unforeseeable, but are now returning to the sensible view that intelligent diversification is far preferable to stock picking or market timing as a concept on which to stake their financial future.

Many investors persist in the belief that they (or their investment manager) can beat the market for two major reasons: (1) Everyone wants to believe. It seems so clear (beforehand) that a little effort in choosing the right stock will pay off. The desire to believe is very strong, so the broker or analyst touting his stock picking skills starts with a huge advantage - you want to believe; (2) In the short run, the stock performance of different companies varies widely. This seduces those who bought the stock into believing they had superior insights and causing those who did not, to now chase it, or hire the broker or advisor who recommended it. The truth, however, is that no one has been able to beat the markets over the long run by more than would be explained by random chance.

There is an alternative to the Herculean (and expensive) task of attempting to beat the markets; Accept the efficiency of the markets and put it to work for you. This means building a portfolio of index type investments that is matched to your risk profile and holding these investments over the long haul. We call this process Disciplined Asset Allocation and it underlies our investment philosophy at Elliott Cove Capital Management. This process provides most investors with greater stability with their investments, as well as lower costs, potentially higher long-term returns, and greater peace of mind. It is the approach used by an increasing array of professional pension funds, endowments, and other sophisticated investors. It is the approach we use - objective, value oriented, no-nonsense, and disciplined.

Without knowing it, investors are unwittingly choosing either an approach based on market efficiency or one that is built on the desire to outsmart the market. Within both categories, there are alternative approaches, but this major division is extremely important because of the actions - and consequences - that follow from choosing one or the other.

If you follow the active camp, you believe that markets are inefficient and that stock pickers and/or market timers can find hidden values that others have been unable to discover. Importantly, you have to believe that they can do this consistently, over time. Finally, you have to be willing to pay dearly from your investment dollars for the advisors you hire to carry out this strategy.

People who adopt the efficient market viewpoint, immediately save the high costs of active stock selection. They generally save on taxes, generally receive higher net returns over the long haul, free themselves from daily fretting over the direction of "the market," and avoid knee-jerk reactions that are virtually inevitable when utilizing an active management style. The truth is, no one knows what will happen to an individual stock price or the market in the

foreseeable future - not the "experts," not the commentators, and not your stockbroker - no matter how much you pay for the effort.

Does this mean that you should never buy a stock? Not at all. Buying and following stocks can be rewarding and is certainly interesting. Our advice is to do some of this if you do enjoy it, but put the bulk of your real investment dollars into one or more well-constructed index-like portfolios that are designed for the long term. This is investing, not gambling or speculating, and when done properly it can pay handsome dividends.

Accepting the efficiency of the markets provides an important advantage to the investor in terms of costs - it helps keep them low. During a bull market, investment advisory and management fees from advisors as well as mutual funds can escalate as the public becomes so enamored with rocketing returns that they don't mind, or notice, the fact that costs are climbing up. After all, with returns of 20 to 30 percent annually, what's another one percent in management fees? As it turns out, quite a bit, especially in an era of low returns and volatile markets. Costs, along with taxes, become a large consideration in such an environment and the indexing approach to investing provides considerable advantages. Look carefully at the costs you're paying for active investment management - they are likely higher than you realize.

Many investors confuse "the market" with one or two important indexes, such as the S&P 500 or the Dow Jones Industrial Average. By doing so, they confuse "index investing" with buying one index such as the S&P. In reality, there are a great many segments to the market, the S&P 500 being only one of the most used and important. The S&P 500 is, in fact, a large company index, representing only one part of the market. Equally important are small cap stocks, value stocks, growth stocks, foreign stocks, bonds, real estate, and other "slices" of the market, all of which are represented by individual indexes. By limiting themselves to the S&P 500, investors limit their choice to the returns and the risks of only one segment of the market. For many investors, this one segment does not offer the correct risk/reward trade-off for their needs.

Elliott Cove can utilize a blend of many different index-like funds (open end, closed end, exchange traded funds) to construct a portfolio for your particular tolerance for risk. Our universe of building blocks includes index-like funds of large cap growth and value stocks, small cap growth and value stocks, foreign stocks, real estate funds, and bond funds. This universe consists of more than 150 highly efficient, low cost, index like funds that we use to construct the portfolio that is right for you.

We assist you in determining the risk/reward combination that best fits your needs. We have a number of standard classifications ranging from low to higher risk and we will also help you to customize a portfolio to meet your individual requirements.

Investing during some recent periods has been a very unpleasant experience for many people. Faith in the market is severely shaken, and in many cases, plans for retirement have been put on hold. We do not promise a quick path to renewed fortunes. There are no quick fixes or easy answers. What we do promise is an approach to investing that is sensible, sound, conservative, and open. Intelligent, well-designed portfolios, combined with an objective assessment of your needs and desires, are the best path to financial security.

The security you want in your financial world will not come overnight, but moving in the right direction is a critical start towards your destination.

### **Five Critical Steps for Success**

1. Determine whether you are in the active or indexing camp: If you accept the overwhelming evidence that the markets are efficient, you can base your investment strategy on that belief and rationally construct an efficient index type portfolio. In this camp, you are joined by the bulk of academic researchers and many investment managers.

2. Determine your risk preference: Remember that over the long haul, to get higher returns you have to take higher risks. But the good news is that the more time you have, the less you should care about short-term fluctuations, which is how market risks are defined. We will work with you to determine a level of risk that is appropriate for you. Intelligent portfolio construction can obtain greater returns for less risk, but only to a point. After that, you have to move to a higher level of risk to achieve higher potential returns.

3. Create the appropriate portfolio: This is our main function. After you determine your risk tolerance (we can help you with some simple questions) our job is to create a portfolio that matches this level of risk and obtains the highest return available for that degree of risk. This is an elusive goal and no one ever reaches the magic "efficient frontier," but this is our mission, and we work hard to achieve it for you.

4. Rebalance your portfolio: Portfolios will "drift" over time as some market segments outperform others. This makes it necessary to rebalance the proportions of what is held to bring them back into line with your initial goals. This is an important element of our service. We review and rebalance quarterly if the portfolios are outside the asset allocation guidelines described in our Investment Policy Statement. Without rebalancing you can easily find yourself holding an investment that is considerably different from what you thought you had (as many mutual fund investors have found).

5. Keep abreast of your needs: Your needs and desires will change over time, as you grow older, pass milestones in your life, or have unexpected changes in your financial environment.

We respond to these changes in the same way as we construct your initial investment portfolio: without additional fees and with complete objectivity. In addition, the investment world is continually changing with new advances in academic research and financial instruments. We incorporate these changes into our portfolio when we are convinced they will benefit our clients.

At Elliott Cove Capital Management we believe in the efficiency of financial markets and design our portfolios to take advantage of this efficiency. However, we go beyond simply picking a single index, and construct portfolios that combine different segments of the market to diversify your investments - while striving for greater returns and lower costs. The result is a sound, intelligent and objective way to manage your investments.

## **Item 5 – Fees and Compensation**

### **Elliott Cove Capital Management Basic Fee Schedule:**

Elliott Cove Capital Management provides these investment management services for a fee, which is based on a percentage of assets under management. In those cases where the client is referred to us, variations may be made depending on the relationship between Elliott Cove Capital Management and the adviser or broker introducing the client. Any such variation is disclosed and agreed to in the clients' Investment Advisory Contract. Fees are generally not negotiable, but exceptions may be made in special circumstances. Minimum account size is \$25,000, however Elliott Cove Capital Management reserves the right to accept accounts lower than our minimum account size. The fees for advisory services are payable quarterly in arrears, to Elliott Cove, and shall be based on the average daily balance of the account, including cash, for the previous quarter or fraction thereof. Standard payment of asset management fees is by automatic deduction from the account.

### **Account Opening Fee:**

Each account shall be assessed an opening fee of \$50.00. Such fee shall be deducted by the custodian from the initial investment funding of the account.

The initial account investment and all subsequent additions shall be invested in a money market fund upon receipt by the Custodian for the benefit of the investor, pending transfer to Elliott Cove portfolio(s). The Custodian shall invest the funds into the selected Elliott Cove portfolio(s) on or before the first Elliott Cove regularly scheduled trading day following receipt of funds by the Custodian. Portfolio trades are processed at least weekly, and in all cases shall occur within five business days following receipt of funds by Custodian.



The maximum annual basic advisory fee structure for accounts is tiered and is currently:

<u>Assets Managed*</u>	<u>Maximum Annual Fee</u>
First \$100,000	1.65%
Next \$150,000	1.50%
Next \$750,000	1.25%
Assets over \$1,000,000	1.00%

\* Minimum account size is \$25,000

When the account size exceeds \$100,000, the maximum Annual Fee will decrease from 1.65% to 1.50%, for the first \$250,000. If an account below our minimum account size of \$25,000 is accepted by Elliott Cove Capital Management LLC, that amount less than \$25,000 will be subject to an annual advisory fee of 1.85% until the account size reaches \$25,000 whereupon the 1.85% fee will be reduced to 1.65% in accordance with the fee schedule listed above.

A client may cancel his or her Investment Advisory Contract by providing Elliott Cove Capital Management LLC with 30-day written notice executed by all owners of the account. A client may withdraw from this contract without penalty or fees within 5 business days of receipt of his or her Investment Advisory Contract.

Clients should be aware that mutual funds whose shares are held in client accounts pay advisory and other fees and expenses out of their assets referred to as operating expenses by mutual fund companies. These operating expenses are charged by the mutual fund companies regardless of which Investment Advisor you select and are assessed by and for the benefit of the mutual fund company. Elliott Cove Capital Management does not share in any fees assessed by a mutual fund company.

#### **Elliott Cove Capital Management Institutional Retirement Fee Schedule:**

Elliott Cove Capital also provides investment management services to institutional retirement programs for a fee which is based on a percentage of assets under management. In those cases where the retirement program is referred to us, variations in allocation of the fee may be made depending on the relationship between Elliott Cove Capital Management and the adviser or broker introducing the client. Any such variation is disclosed and agreed to in the retirement program's Investment Advisory Contract. Fees are generally not negotiable, but exceptions may be made in special circumstances. Minimum account size can be as low as \$ 0 since Elliott Cove does work with start-up retirement programs. Depending on the third party administrator employed by a plan sponsor, fees may be billed and assessed on a quarterly

basis in arrears or in advance. Fees payable in arrears for advisory services shall be based on the end of quarter balance of the account, including cash, for the previous quarter. Fees payable in advance for advisory services shall be on the following basis: As of the origination date of the account, the fee for the initial quarterly period, payable in advance, will be based upon the opening valuation of the account, including cash and cash equivalents, and will be billed on a pro-rata basis for the number of days remaining in the quarter. The fee at the beginning of the next calendar quarter will be billed in advance based on the end of quarter balance of the account for the previous quarter, including cash thereafter, subsequent quarterly management fees as described will be deducted from the account. Standard payment of asset management fees is by automatic deduction from the account.

The maximum annual retirement program fee for accounts is currently stepped and is:

<u>Assets Managed</u>	<u>Maximum Annual Fee</u>
\$ 0 to \$ 250,000	1.25%
\$ 250,001 to \$ 500,000	0.90%
\$ 500,001 to \$ 750,000	0.80%
\$ 750,001 to \$1,000,000	0.70%
\$1,000,001+	0.60%

A client (retirement program) may cancel his or her Investment Advisory Contract by providing Elliott Cove Capital Management LLC with 30-day written notice executed by trustee (or equivalent) of the account. The account can be liquidated or transferred in less than 30-days, however, the notice period will serve as the basis for the computation of any pro-rata refund that may be due on any unused portion of a prepaid quarterly management fee or in calculating advisory fees which may yet be due in the case of fees paid in arrears. A client may withdraw from this contract without penalty or fees within 5 business days of receipt of his or her Investment Advisory Contract.

Retirement program participants should be aware that mutual funds whose shares are held in client accounts pay advisory and other fees and expenses out of their assets referred to as operating expenses by mutual fund companies. These operating expenses are charged by the mutual fund companies regardless of which Investment Advisor you select and are assessed by and for the benefit of the mutual fund company. Elliott Cove Capital Management does not share in any fees assessed by mutual fund company's.

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

Elliott Cove does not charge performance-based fees.

## **Item 7 – Types of Clients**

Elliott Cove provides advisory services to the following types of clients:

- Individuals
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

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

No investment is free of risks. Current and prospective Elliott Cove customers are cautioned that investments in securities involve risk of loss, including the possibility of a complete loss of the amount invested. All investors should be prepared to bear these risks. One of Elliott Cove's foremost priorities is to ensure sure clients understand the investment risks they choose to take and help them select investment strategies that are appropriate for their risk tolerance.

### **Investment Policy for Elliott Cove Portfolios**

#### **Purpose and Philosophy**

This policy sets forth the philosophy, rules and guidelines underlying the development and ongoing management of the Elliott Cove Capital Management portfolios. It begins with a broad review of the Elliott Cove philosophy, and then details the specific information regarding portfolio creation and maintenance. This policy statement also includes the specific asset class allocation selections and the ranges that Elliott Cove uses in its diversification process.

The defining feature of the Elliott Cove portfolios is that they are constructed using investment products including, but not limited to, load or no-load index-type mutual funds, (including open-end or closed end funds), exchange traded funds (ETFs), or other products in a process we term Disciplined Asset Allocation. This process is based on the efficient market hypothesis - that financial markets are highly efficient and it is extremely difficult in the long run to "beat" them - and we make this work for our clients, rather than attempting to circumvent it.

Disciplined Asset Allocation uses principles of diversification to lower risk, while attempting to achieve superior risk-adjusted returns. Diversification, in this process, means more than simply a collection of unrelated securities; it is a carefully constructed portfolio designed to achieve favorable risk-return characteristics by combining asset classes and styles in a controlled manner. We then monitor and alter (rebalance) the portfolios to keep them in line with their original risk parameters, hence the term "disciplined". Our goal is to achieve long term superior returns, per unit of risk - with the risk level determined by our clients.

This Policy translates these principles into specific portfolio characteristics. By being rigorous and well-defined in our asset management process, Elliott Cove attempts to ensure that the risk parameters and portfolio characteristics will not "drift" over time from their original intent. It is a major characteristic of our portfolios that we concentrate first upon risk, with returns following from the specific risk profile and market behavior of different asset classes. This is in sharp contrast to investment management styles that focus on returns, allowing risk to shift from the original profile of the portfolio in the search for higher returns.

## **Responsibilities**

1. The Investment Committee is appointed by the board of Elliott Cove Capital Management. The Investment Committee is responsible for establishment and amendment of the Investment Policy Statement, for setting the portfolio objectives, risk ranges and asset allocation ranges, for establishing a rebalancing policy, and for the selection of investment managers for the portfolios, as appropriate. Any significant changes to the portfolios, including the data that prompted the changes, will be approved by the Investment Committee and adopted as Investment Policy. Amendments to the Investment Policy Statement must be approved by a majority of the committee members in attendance at a duly called Elliott Cove Investment Committee meeting and submitted to the Board of Elliott Cove Capital Management in writing. Current members of the Investment Committee are:

J. James Gallagher  
Ivan "Skip" Starke  
Victor Ruiz  
Ralph Chiocco

2. The Portfolios will be managed by professional investment managers registered under the Investment Advisors Act of 1940. The Investment Managers (the "Managers") will have the responsibility and discretion for day-to-day investment decisions regarding the Portfolio's assets assigned to them including specific security selection and timing of purchases and sells.

3. Elliott Cove Capital Management will at all times employ a professional corporate custodian (the "Custodian") to hold funds of Elliott Cove Capital Management clients. The Custodian will have the responsibility for safekeeping cash and securities, collections and disbursements, and providing account statements as instructed.

### **Portfolio Objectives and Asset Class Ranges**

The Elliott Cove portfolios have been constructed with guidelines that govern the risk profile of each portfolio and its on-going management. These guidelines are in place to ensure that the Elliott Cove portfolios will continue to hold to their original intent with similar risk in relation to the market, using the standard deviation of the S&P 500 over the preceding 10 years as the risk benchmark. (Please Note: the dividend adjusted S&P 500 Index is presented solely to provide a tool for judging the risk and returns of the Portfolios relative to this widely recognized market indicator. Due to substantial differences between the S&P 500 Index and the Portfolio's composition, the Index is not intended to be used as a performance benchmark for the Elliott Cove Portfolios.)

Changes in a standard Elliott Cove portfolio will be made if:

1. The risk of the portfolio drifts outside the policy boundaries;
2. A new investment vehicle becomes available with characteristics Elliott Cove Capital Management considers superior to one or more of the components of the portfolio;
3. Advances in research dictate that a change can markedly improve the risk-reward characteristics of the portfolio;
4. The specific investment goals and desires of individual clients warrant changes in a custom portfolio. Elliott Cove does not make changes in reaction to short term activity in equity and fixed income markets, although clients are free to change their portfolios (standard) or portfolio composition (custom) in response to their perceptions of market risk and other factors.

The goal at Elliott Cove Capital Management is to obtain for our investors the largest possible return with the lowest amount of risk. We believe that this is best achieved through the use of asset-class index type mutual funds, not through individual stock picking or market timing.

Selecting the appropriate weightings for the portfolios consists of using combinations of asset classes to move the Portfolios toward the efficient frontier. Within this process, it is important to analyze data over long periods of time to make meaningful conclusions about the risk-

return profile of various asset classes since the profiles can be, and usually are, significantly different over sub-intervals. Because no one can forecast what the particular returns of an asset class will be over a short period, it is preferable to base portfolio management on long term statistical relationships and forego attempts to catch short-term swings through market timing.

It is apparent through research spanning 70 years of historical market performance, done with cross sectional analysis of international markets that there is a clear enhancement of returns by focusing on small cap versus large cap stocks. However, this benefit comes at the price of higher volatility, i.e. risk. This latter point underscores the need to diversify broadly to capture the greater returns, while mitigating the risk of doing so. Large cap stocks behave differently from the small cap asset class and their inclusion reduces portfolio risk (volatility) by capturing the un-correlated returns of the different classes.

In all our portfolios we have included a portion allocated to real estate as this provides both diversification from equities and solid returns over the past several decades. Many investors do not have exposure to real estate in their mutual funds or managed accounts, but we believe there is a clear benefit in having an exposure to this key asset class.

We also maintain an exposure to foreign equities in selected portfolios. By including foreign equities, the portfolios are given exposure to areas not solely dependent on the U.S. market, thereby providing a further level of diversification. At the same time, foreign equities are limited since greater concentration quickly increases risk exposure.

The Investment Committee will set a target allocation for each asset class, within the range set out in our Investment Policy. The Committee will meet periodically to review the target allocation, and to adjust the targets when deemed appropriate.

## **Portfolio Construction**

Portfolio construction adopts the underlying research of the "Fama-French Three Factor Model," a large body of academic research that identifies three factors that determine portfolio risk and performance: market movements; the size factor (small cap stocks outperform large cap stocks); and the value factor (value stocks outperform growth stocks). We believe that use of this methodology combined with high efficiency, low cost index type portfolios provides more consistent risk and return characteristics within a portfolio than market timing or stock picking alternatives. We accept and embrace the efficient market hypothesis and work to provide superior portfolios to our clients within the three factor framework.

Fama-French showed that it is advantageous to over-weight in small cap stocks - especially small cap value - for the more aggressive portfolios, as returns on small cap stocks are superior

over the long term. In addition, their research demonstrates that an emphasis on value stocks, both small and large cap, rewards investors with greater returns. As a result, the Elliott Cove portfolios emphasize small cap and value stocks, especially in the more aggressive portfolios, which, when properly diversified, provide investors the greatest potential for achieving superior returns.

In fixed income investments we only use medium to short term instruments. Many studies have shown that bonds with longer maturities provide minimal return advantages while introducing additional and unnecessary risk.

The Elliott Cove portfolios may be comprised primarily of index-like funds, (both open-end and closed end) as well as Exchange Traded Funds (ETFs), to provide structured allocation of various asset classes to generate the desired risk-return profile and ultimate portfolio composition. Enhanced index funds may be used as well. A large universe of securities may be used in the process, including, but not limited to those of the Dimensional Fund Advisors (DFA), Vanguard Index Funds, Barclay (iShares), and State Street ETFs. In addition, customized Elliott Cove portfolios may contain individual equities, fixed income or other securities to meet specific client needs.

The company's current core portfolios are comprised of DFA asset class funds. Extensive back testing was performed using data covering the past 30+ years to determine the specific combination of index type funds that we believe will generate the best return for the lowest levels of risk. Combining broad asset classes reduces risk through extensive diversification, while allowing the risk (measured by standard deviation) to be controlled over time. It is important that investors realize that the risk-return profile of the portfolio (or any portfolio) is a statistical concept over time - during any particular interval, the performance of a portfolio will deviate from its long term trend performance.

Consistent with the Elliott Cove philosophy is the idea of not taking unnecessary risk; that is, if there is not a concomitant increase in expected returns, or decrease in risk, by adding an index class, that asset class is eliminated from consideration. We also seek to limit the overlap commonly found with many mutual funds and investment portfolios. Overlap refers to the fact that many portfolio managers use mutual funds and stocks that are very similar in nature, which limits real diversification in spite of a large number of securities in the portfolio.

The Investment Committee will review the target allocations on an annual basis and adjust the allocation if they deem it to be appropriate.

## **Rebalancing**

The Elliott Cove portfolios are designed to maintain general risk characteristics relative to pre-selected standards, typically measured in terms of standard deviation. In order to monitor and maintain the risk profile of each portfolio, the Elliott Cove Investment Committee will review the asset class composition of the portfolios on at least a quarterly basis and rebalance the portfolios as necessary.

The decision to rebalance a portfolio involves several factors including transaction costs and tax implications. Rebalancing completely back to the target may not be the most efficient way to rebalance when considering the transaction costs to the client. Rebalancing is efficient when the marginal cost of rebalancing is less than the marginal benefit. When using the omnibus securities trading services available through Trust Company of America, the cost to sell and purchase securities is spread over the aggregate portfolio and is absorbed by Elliott Cove. Therefore, trading costs are not charged to the individual client portfolio, and not a factor when considering whether or not to rebalance.

An additional consideration is the tax implications on regular custodial accounts. The rebalancing routine necessitates the sale of asset classes which exceed the target, and the purchase of asset classes which are below the target at the time of rebalance. Therefore, the sale of securities in a taxable account would result in a capital gain to the investor; leading to potential negative tax consequences.

### **Rebalancing Routine on Regular Custodial Accounts**

For regular custodial (taxable) portfolios, due to possible tax implications, allocations within the custodial accounts will be allowed to fluctuate within an established range. Typically, the portfolios will be rebalanced when the allocation is outside of the range. The reallocation will typically be to a point halfway between the target allocation and the trigger point (the absolute value of the relative variance from the target allocation). Rebalancing halfway back to target will provide the majority of the benefits of rebalancing and also reduce the overall costs and tax implications with asset class sales. This methodology will also allow for fluctuations which routinely occur in asset class allocations within a prescribed range around the target without forcing an asset class sale back to the targeted allocation percentage.

### **Rebalancing on Retirement Accounts**

If the portfolio is an IRA or other type of tax qualified program, any taxes on gains are deferred until funds are withdrawn by the client. Since there are no significant transaction costs or tax implications in rebalancing retirement accounts, these portfolios may be rebalanced to the target allocations on a quarterly basis. The Investment Committee will review the portfolios quarterly and determine the appropriate rebalancing.



## **Frequency of Review and Rebalancing of Regular Custodial Accounts**

The asset class allocation will be reviewed at least quarterly and rebalanced whenever the relative variances have been exceeded. No rebalancing would occur if cash flows would bring the portfolio below the trigger points within the following 30-day period.

From a risk control viewpoint, the most important relationship to maintain is the allocation between fixed income and equity. This is because the standard deviation of the equity asset classes is higher than the standard deviation for the fixed income allocation and an increased allocation to equity will increase the portfolio's risk level. A similar relationship exists between large and small cap, but not to the degree of the difference between equity and fixed income.

The target ranges and trigger points will be set to maintain the portfolios risk level within the ranges for each of the portfolios. When the target allocation is adjusted, the trigger points will also be adjusted.

### **Our Portfolios:**

**All Equity Portfolio** - The Elliott Cove All Equity Portfolio seeks to generate superior long term returns proportionate with its higher risk profile. The portfolio is constructed from a universe of Dimensional Fund Advisors (DFA) index type mutual funds and may, from time to time, include other high quality index type funds. U.S. and foreign equities, along with real estate investments, are combined to form a highly diversified portfolio for the investor with a tolerance for volatility higher than the U.S. stock market as represented by the S&P 500.

The All Equity Portfolio is fully invested at all times and retains its targeted weighting through periodic rebalancing. The portfolio is reviewed quarterly to ensure that it maintains its targeted risk profile and investment purpose in an environment of continually changing financial market and equity performance. Trading in the portfolio is limited, but alterations are made periodically in light of new research findings, rebalancing and new index fund availability.

Elliott Cove's All Equity Portfolio is appropriate for investors with a relatively high risk tolerance and a time horizon of 10 years or longer. Over time, the All Equity Portfolio can be expected to exhibit greater volatility, along with potentially higher returns, than the other Elliott Cove portfolios. The All Equity Portfolio has upside potential for those who are able to commit their investments for a longer time period and are able to accept significant volatility over the investment cycle.

**Aggressive Portfolio** - The Elliott Cove Aggressive Portfolio seeks to generate superior long term returns proportionate with its higher risk profile. The portfolio is constructed from a universe of Dimensional Fund Advisors (DFA) index type mutual funds and may, from time to time, include other high quality index type funds. These funds consist of U.S. and foreign equities, fixed income, and real estate investments. They are combined to form a highly diversified portfolio for the investor with a tolerance for volatility slightly higher than the U.S. stock market as represented by the S&P 500.

The Aggressive Portfolio is fully invested at all times and retains its targeted weighting through periodic rebalancing. The portfolio is reviewed quarterly to ensure that it maintains its targeted risk profile and investment purpose in an environment of continually changing financial market and equity performance. Trading in the portfolio is limited, but alterations are made periodically in light of new research findings, rebalancing and new index fund availability.

Elliott Cove's Aggressive Portfolio is appropriate for investors with a moderate to high risk tolerance and a time horizon of 10 years or longer. Over time, the Aggressive Portfolio can be expected to exhibit greater volatility, along with potentially higher returns than Elliott Cove's Moderate, Core Allocation, Balanced, Conservative or Capital Preservation Portfolios. The Aggressive Portfolio has upside potential for those who are able to commit their investments for a longer time period and are able to accept volatility of returns over the investment cycle.

**Moderate Portfolio** - The Elliott Cove Moderate Portfolio seeks to generate returns comparable to those of the S&P 500 while incurring less risk than the index. The portfolio is constructed from a universe of Dimensional Fund Advisors (DFA) index type mutual funds and may, from time to time, include other high quality index type funds and money market funds. These funds consist of U.S. and foreign equities, fixed income, and real estate investments. They are combined to form a highly diversified portfolio for the investor with a tolerance for volatility significantly less than the U.S. stock market as represented by the S&P 500.

The Moderate Portfolio is fully invested at all times and retains its targeted weighting through periodic rebalancing. The portfolio is reviewed quarterly to ensure that it maintains its targeted risk profile and investment purpose in an environment of continually changing financial market and index fund availability.

Elliott Cove's Moderate Portfolio is appropriate for investors that have a moderate risk tolerance and a time horizon of five years or longer. Over time, the Moderate Portfolio can be expected to exhibit greater volatility, along with potentially higher returns, than Elliott Cove's

Capital Preservation, Conservative, Balanced and Core Allocation Portfolios, but less volatility and lower returns than the Aggressive and All Equity Portfolios.

**Core Allocation Portfolio** - The Elliott Cove Core Allocation Portfolio is designed to provide a traditional institutional type mix of approximately 60% equities (including REITs) and 40% fixed income. This portfolio seeks to generate returns near the S&P 500 but with a risk level of approximately two-thirds of the index. The portfolio is constructed from a universe of Dimensional Fund Advisors (DFA) index type mutual funds and may, from time to time, include other high quality index type funds and money market funds. These funds consist of U.S. and foreign equities, fixed income, and real estate investments. They are combined to form a highly diversified portfolio for the investor with a tolerance for volatility less than the U.S. stock market as represented by the S&P 500.

The Core Allocation Portfolio is fully invested at all times and retains its targeted weighting through periodic rebalancing. The portfolio is reviewed quarterly to ensure that it maintains its targeted risk profile and investment purpose in an environment of continually changing financial market and equity performance. Trading in the portfolio is limited, but alterations are made periodically in light of new research findings, rebalancing and new index fund availability.

Elliott Cove's Core Allocation Portfolio is appropriate for investors with a moderate risk tolerance and a time horizon of three to five years. Over time, the Core Allocation Portfolio can be expected to exhibit greater volatility, along with potentially higher returns than Elliott Cove's Balanced, Conservative or Capital Preservation Portfolios but less volatility and lower returns than the Moderate, Aggressive or All Equity Portfolios.

**Balanced Portfolio** - The Elliott Cove Balanced Portfolio seeks to generate moderate returns over the long term at a risk significantly below that of the S&P 500 (approximately one-third). The portfolio is constructed from a universe of Dimensional Fund Advisors (DFA) index type mutual funds and may, from time to time, include other high quality index type funds and money market funds. Fixed income investments are combined with U.S and foreign equities and real estate investments with the intent of lowering the volatility of the portfolio, while attaining greater upside potential than a bond-only investment. The portfolio is highly diversified and is designed to have excellent risk-reward characteristics.

The Balanced Portfolio is fully invested at all times and retains its targeted weighting through periodic rebalancing. The portfolio is reviewed quarterly to ensure that it maintains its targeted risk profile and investment purpose in an environment of continually changing financial market and equity performance. Trading in the portfolio is limited, but alterations are

made periodically in light of new research findings, rebalancing and new index fund availability.

Elliott Cove's Balanced Portfolio is appropriate for investors who are risk adverse, and have a time horizon of three years or more. In volatile and bearish market conditions, the Balanced Portfolio can be expected to exhibit lower volatility than all but the Elliott Cove Conservative and Capital Preservation Portfolios. Its long term returns are not expected to match those of the more aggressive Elliott Cove portfolios.

**Conservative Portfolio** - The Elliott Cove Conservative Portfolio seeks to generate greater returns over the long term than traditional bank CD's or government bonds while incurring minimal risk. The portfolio is constructed from a universe of Dimensional Fund Advisors (DFA) index type mutual funds and may, from time to time, include other high quality index type funds and money market funds. Fixed income and real estate investments are combined with a limited amount of equity investments with the intent of providing low risk for the portfolio, but with greater upside potential than a bond-only investment. The portfolio is highly diversified and is designed to have excellent risk-reward characteristics.

The Conservative Portfolio is fully invested at all times and retains its targeted weighting through periodic rebalancing. The portfolio is reviewed quarterly to ensure that it maintains its targeted risk profile and investment purpose in an environment of continually changing financial market and equity performance. Trading in the portfolio is limited, but alterations are made periodically in light of new research findings, rebalancing and new index fund availability.

Elliott Cove's Conservative Portfolio is appropriate for investors who are risk adverse, and/or have a time horizon of one year or more. In volatile and bearish market conditions, the Conservative Portfolio can be expected to exhibit lower volatility than all of the Elliott Cove Portfolios except for the Capital Preservation Portfolio. Its long term returns are not expected to match those of the more aggressive Elliott Cove portfolios.

**Capital Preservation Portfolio** - The Elliott Cove Capital Preservation Portfolio seeks to preserve the principal investment while providing some upside potential relative to CD's or Money Market Funds. The portfolio is constructed from a universe of Dimensional Fund Advisors (DFA) mutual funds and may, from time to time, include other high quality index type funds. Short term fixed income and real estate investments are combined with a limited amount of equity investments with the intent of providing very low risk for this portfolio, but with some upside potential over a bond-only investment.

The Capital Preservation Portfolio is fully invested at all times and retains its targeted weighting through periodic rebalancing. The portfolio is reviewed quarterly to ensure that it maintains its targeted risk profile and investment purpose in an environment of continually changing financial market and equity performance. Trading in the portfolio is limited, but alterations are made periodically in light of new research findings, rebalancing and new index fund availability.

Elliott Cove's Capital Preservation Portfolio is appropriate for investors whose priority is preserving principal while still providing some upside potential. This portfolio is appropriate for investors with a time horizon of less than one year as well as those with a very low risk tolerance. In volatile and bearish market conditions, the Capital Preservation Portfolio can be expected to exhibit the lowest volatility of the Elliott Cove portfolios.

## **Item 9 – Disciplinary Information**

Like other registered investment advisers, Elliott Cove is required to disclose all material facts regarding any legal or disciplinary events that would materially impact a customer's evaluation of Elliott Cove or the integrity of Elliott Cove's management. No events have occurred at Elliott Cove that are applicable to this item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Elliott Cove is not actively engaged in a business other than giving investment advice.

Neither Elliott Cove nor any of its management persons is registered or has an application pending to register as a broker-dealer, futures commission merchant, commodity pool operator, commodity trading adviser, or associated person of the foregoing, and Elliott Cove does not anticipate such affiliations in the future.

Elliott Cove engages in business relationships with an other investment adviser, a banking institution and an insurance agency. Each of these relationships is detailed below. None of these relationships creates a material conflict of interest with our clients.

**Pacific Portfolio Consulting, L.P.** (Pacific Portfolio) is a registered investment advisor and has been employed by Elliott Cove as a sub-advisor. In their capacity as a sub-advisor, Pacific Portfolio will:

1. Provide Investment Services

- a. Pacific Portfolio assists Elliott Cove in managing our standardized portfolios (Portfolios) in accordance with the Elliott Cove investment objectives as described in Elliott Cove's investment policy.
  - b. In connection with its services regarding the Portfolios, Pacific Portfolio (i) documents assumptions and correlation matrixes in connection with asset allocation models for each Portfolio, (ii) assists in selecting benchmarks and monitoring performance in relation to those benchmarks for each Portfolio, (iii) maintains general oversight of the Portfolios for compliance with Elliott Cove's investment policy and recommends amendments to Elliott Cove's investment policy as considered appropriate; and (iv) recommends such other action as is reasonable and proper in the management of the Portfolios. Pacific Portfolio does not have authority to purchase and sell mutual fund shares or other securities as investments for the Portfolios.
  - c. Pacific Portfolio provides, as needed, investment management services for the creation of new portfolios.
  - d. Pacific Portfolio on an as needed basis develops and monitors customized portfolios for specific clients designated by Elliott Cove.
  - e. Pacific Portfolio assists with the preparation of literature, periodic news letters and general communications with clients with respect to economic and investment related issues. In addition, Pacific Portfolio occasionally participates in presentations to bank executives and customer/client groups where Pacific Portfolio is responsible for the provision of economic and investment forecasts.
2. Provide Consulting Services pertaining to:
- a. Coordination with Elliott Cove's custodian to review its performance in connection with custodial services, sweep account transactions, trading, confirmation of trades, reporting and statement presentation.
  - b. Development and accessing client performance reporting and portfolio composite reporting information from data provided by Elliott Cove's custodian.
  - c. Responds to questions regarding general operational issues related to operation as a registered investment advisor.
  - d. Provides compliance support in complying with the Act and its rules.

In connection with the above services, Pacific Portfolio will not contact Elliott Cove clients without Elliott Cove's prior written consent.

**Northrim Investment Services Company**, an Alaska Corporation owned by Northrim Bank, also an Alaska Corporation is a partial owner of Elliott Cove Capital Management (Elliott Cove). Elliott Cove currently employs employees of Northrim Bank in Alaska as Investment Advisor Representatives. These employees are dual employees in that they are employees of Elliott Cove and Northrim Bank simultaneously. Elliott Cove does not pay any of these

employees for their investment advising activity. Instead, Elliott Cove pays Northrim Bank for successfully acquired Elliott Cove clients. The payment schedule is as follows:

<u><b>Assets Managed</b></u>	<u><b>Annual Fee</b></u>	<u><b>Fee Rate Paid to Northrim Bank</b></u>
\$0 to \$100,000	1.65%	45.9% of collected Advisory Fees paid to Elliott Cove by Customers on such assets
Next \$150,000	1.50%	45.9% of collected Advisory Fees paid to Elliott Cove by Customers on such assets
Next \$750,000	1.25%	Difference between (i) the applicable Advisory Fee percentage, and (ii) 0.65%, times the amount of such assets
Assets over \$1,000,000	1.00%	Difference between (i) the applicable Advisory Fee percentage, and (ii) 6.65%, times the amount of such assets

When the account size exceeds \$100,000, the maximum Annual Fee will decrease from 1.65% to 1.50%. If an account below our minimum account size of \$25,000 is accepted by Elliott Cove Capital Management LLC, that amount less than \$25,000 will be subject to an annual advisory fee of 1.85% until the account size reaches \$25,000 whereupon the 1.85% fee will be reduced to 1.65% in accordance with the fee schedule listed above.

Clients referred to us as a result of this program are billed on the same basis had they not been referred through this program and are not disadvantaged because of this referral program.

**Elliott Cove Insurance Agency LLC** (Agency), a Washington Limited Liability Company is owned by J. James Gallagher. Mr. Gallagher is also an owner of Elliott Cove Capital Management LLC (Elliott Cove). This Agency has been formed for the purpose of offering an insurance and annuities program to financial institution clients of Elliott Cove. The Agency relies on managerial and administrative support from Elliott Cove. In return for this support, the Agency will pay Elliott Cove the costs of providing the aforementioned support.

## **Item 11 – Code of Ethics**

A copy of our Code of Ethics is to be provided to any client or prospective client upon request.

Section 204A of the Advisers Act requires every registered investment adviser to establish, maintain and enforce written policies and procedures reasonably designed to prevent the misuse of material, nonpublic information by the adviser or by any person associated with the

adviser. Elliott Cove requires prompt internal reporting of any violations of this section to the Chief Compliance Officer.

Elliott Cove usually purchases and sells shares of registered mutual funds for its clients. In this case, trading activity generated by inside information cannot affect the price of shares of a mutual fund because the daily market price of a fund's shares is determined by the net asset value of the fund's portfolio, not by the volume of trading in those shares. However, Elliott Cove may also engage in the purchase and sale of Exchange Traded Funds (ETFs). Trading of ETFs can be affected by inside information.

Trading activity generated by inside information can affect the price of publicly traded shares of mutual fund sponsors, investment advisers, administrators and distributors.

Accordingly, Elliott Cove has adopted policies and procedures that are designed to detect and prevent the misuse by Elliott Cove or by any person associated with Elliott Cove of material, nonpublic information concerning publicly traded mutual fund sponsors, advisers, administrators and distributors.

The policies and procedures outlined are also designed to detect and prevent actual and potential conflicts of interest that may arise if Elliott Cove or any person associated with Elliott Cove has an interest in securities that are recommended for purchase or sale by Elliott Cove clients.

Every Elliott Cove director, officer and employee is required to read these policies and procedures and to certify that he or she will comply with those policies and procedures by signing and returning an acknowledgment page to Elliott Cove's Chief Compliance Officer.

### **Disclosure of Conflicts of Interest**

a) Every Elliott Cove director, officer and employee must inform the Chief Compliance Officer within 24 hours of finalizing any business arrangement with a mutual fund sponsor, adviser, administrator or distributor, including any arrangement entered into by a company or entity controlled by that director, officer or employee.

b) If that arrangement is with the sponsor, adviser, administrator or distributor of a fund that is recommended for purchase or sale by Elliott Cove clients, Elliott Cove's federal and state registration must be amended immediately to disclose that potential conflict of interest.



c) In addition, Elliott Cove's brochure and any other advertising or sales literature sent to clients and prospective clients must be amended immediately to disclose the potential conflict of interest.

### **Personal Securities Trading**

a) Under rule 204A-1 of the Adviser's Act, certain supervised persons, called "access persons," are required to report their personal securities transactions and holdings. An access person is a supervised person who has access to nonpublic information regarding clients' purchase or sale of securities, is involved in making securities recommendations to clients or who has access to such recommendations that are nonpublic. Rule 204A-1 (a)(3). Section 202(a)(25) of the Advisers Act [15 U.S.C. 80b-2(a)(25)] defines "supervised person." An adviser's supervised persons are its partners, officers, directors (or other persons occupying a similar status or performing similar functions) and employees, as well as any other persons who provide investment advice on behalf of the adviser and are subject to the adviser's supervision and control. Every Elliott Cove director, officer and employee must report to the Chief Compliance Officer any transactions effecting any securities transaction in which they, their families, or trusts of which they are trustees or in which they have a beneficial interest, acquire an interest in an issuer involved directly or indirectly in the mutual fund industry.

b) Rule 204A-1 of the Adviser's Act, requires a complete report of each access person's security holdings, at the time the person becomes an access person and at least once a year thereafter. These security holding reports must be current as of a date not more than 45 days prior to the individual becoming an access person or the date the report is submitted (annual report).

c) Each director, officer and employee regardless of whether they have executed any transactions mentioned in paragraph a) above must submit a securities transaction log to the Compliance Officer within thirty days after the end of each calendar quarter detailing transaction activity.

d) Three exceptions to personal securities reporting are allowed, two of which apply to Elliott Cove for which no reports are required:

i. With respect to transactions effected pursuant to an automatic investment plan. However, any transaction that overrides the preset schedule or allocations of the automatic investment plan must be included in a quarterly transaction report.

ii. With respect to securities held in accounts over which the access person had no direct or indirect influence or control.

e) Each director, officer and employee is regarded as an "access person". Access persons must submit holdings and transaction reports for "reportable securities" in which the access person has, or acquires, any direct or indirect beneficial ownership. An access person is presumed to be a beneficial owner of securities that are held by his or her immediate family members sharing the access person's household. Rule 204A-1 treats all securities as reportable securities, with five exceptions designed to exclude securities that appear to present little opportunity for the type of improper trading that the access person reports are designed to uncover:

- i. Transactions and holding in direct obligations of the Government of the United States.
  - ii. Money market instruments bankers acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments.
  - iii. Shares of money market funds.
  - iv. Transactions and holdings in shares of other types of mutual funds, unless Elliott Cove or a control affiliate acts as the investment adviser or principal underwriter for the fund.
  - v. Transactions in units of a unit investment trust if the unit investment trust is invested exclusively in unaffiliated mutual funds.
- f) Elliott Cove requires access persons obtain prior approval from the Chief Compliance Officer before investing in an initial public offering ("IPO") or private placement.
- g) If the director, officer or employee has acquired an interest in an issuer that directly or indirectly sponsors, advises, administers or distributes any mutual fund that is recommended for purchase or sale to Elliott Cove clients, Elliott Cove's federal and state registration files must be amended immediately to disclose that interest.
- h) In addition, Elliott Cove's brochure and other advertising or sales literature sent to clients and prospective clients must be amended immediately to disclose the interest.

### **Participation or Interest in Client Transactions**

Elliott Cove Capital Management or its officers may from time to time buy or sell shares of mutual funds that are also purchased or sold for Elliott Cove clients. The nature and timing of such personal investment transactions may differ from investment actions taken on behalf of any client, depending on their respective investment goals. Elliott Cove does not discourage these purchases since the daily market price of a mutual fund's share is determined by the net asset value of the fund's portfolio, not by the volume of trading in those shares. Client

transactions are executed prior to acceptance of orders placed on behalf of employees or related persons. These transactions are consistent with policies and strategies recommended by the firm.

### **Gift Giving/Receiving**

Elliott Cove employees may not give gifts to existing or potential customers of Elliott Cove. This action could be construed as an inducement to do business with Elliott Cove or as a reward for customer referrals. In either case, it becomes a form of fee sharing and the requirement for fee sharing in the states in which we do business requires the recipient of any fee sharing arrangement to be a Registered Investment Advisor. The only exception to this rule is a gift of Elliott Cove promotional materials of nominal value, i.e. coffee cups, pens, letter openers, etc.

As a rule, Elliott Cove employees should not accept gifts from customers, unless it is a thank you gift of nominal value. Travel is not a gift of nominal value. Receipt of any gift by an Elliott Cove employee from a customer must be reported to the Elliott Cove Chief Compliance Officer within 24 hours.

### **Item 12 – Brokerage Practices**

When an account is opened, Elliott Cove recommends Trust Company of America ("TCA") as the custodian of the funds. Elliott Cove does not receive (1) commissions or fees of any sort, nor (2) research or other soft dollar benefits from TCA for this recommendation.

The following factors were taken into consideration in selecting TCA:

#### **Asset Protection**

Accountable for billions of dollars in assets, TCA ensures the safekeeping of client assets under custody by managing, tracking, and holding title to the actual securities.

#### **Strictly Regulated**

As an FDIC insured depository institution, TCA complies with federal statutes and regulations enforced with stringent FDIC examinations. They are supervised and examined by the Colorado Division of Banking and are bound by Colorado State Banking Commission regulations. They also utilize the services of a third-party examiner who reviews their compliance with operating policies and internal controls on an annual basis, and reports his findings to TCA's board of directors.

In addition, TCA is audited annually by a top 10 CPA firm to ensure accurate reporting of assets.

### **Highly Insured**

Customer assets at TCA are protected. Through their charter with the FDIC, investors' cash deposits are insured up to \$250,000 per account. At the corporate level, TCA's insurance coverage includes \$10 million for Financial Institutions Bond/Computer Crime, \$10 million for Bankers Professional Liability, and \$10 million for Directors and Officers Liability.

They operate from a secure facility with security features that meet the requirements for a U.S. bank. In addition, each of their employees undergoes thorough pre-employment screening and background checks.

### **Physical Security**

TCA is headquartered in a secure facility that meets the requirements for a U.S. bank. TCA's data center and administrative centers are connected to emergency generators which provide backup power in the event of a power outage.

### **Data Security**

TCA is committed to providing a protected environment to ensure both complete data integrity and the highest level of data information security. They achieve this secure environment primarily through two key features:

Multi-Factor Authentication – For applications where users can update data or submit trades, TCA uses a sophisticated security technique used to verify each user and the information that each user is authorized to access. This ensures control over data accessibility.

Strong 128-Bit Encryption – 128-bit Secure Socket Layer (SSL) encryption protects data as it moves across the Internet. TCA uses 128-bit SSL encryption and private keys from Verisign Corporation, the leader in Internet transaction security. Verisign's SSL encryption confirms the site's authenticity and encrypts data as it is transferred to the user's computer each time a new screen is accessed. In essence, when advisors or clients view account data or reports, the encryption makes those documents unreadable to unwanted viewers.

### **Redundancy**

TCA has off-site or secondary location recoverability with a premier provider of IT security and infrastructure technologies to ensure uninterrupted service. Complete redundant capability for all critical user applications was completed in the fall of 2009.

## **Privacy**

TCA is committed to preserving the confidentiality of all information related to our clients. They will not disclose any non-public personal information about clients or former clients, except as required by law.

They carefully restrict access to personal client account information to only those employees who require that data to provide products or services. TCA maintains physical, electronic and procedural safeguards to ensure the confidentiality of all non-public client information.

Elliott Cove has chosen TCA, as the provider of custodian services because of the breadth of services offered to our clients, and for their pricing which is one of the most competitive in the market. Elliott Cove clients are charged an annual custodial fee of the greater of \$50 minimum OR .25% fee from TCA for custodial services. This fee is payable quarterly in arrears and shall be based on the end of quarter balance of the account, including cash, for the preceding quarter. In addition, TCA shall bill Elliott Cove Clients the following fees, as applicable:

Account Termination Fee:	\$ 100.00 (within first year of account setup)
IRA/SEP Trustee Fee:	\$ 25.00/year
Check Distribution Fee:	\$ 20.00/occurrence
Automated Clearing House Transfers:	Free of charge.
Wire/Electronic Transfer Fee:	\$ 25.00/wire or transfer
Returned Check Fee:	\$ 35.00/occurrence
Canceled Check Fee:	\$ 20.00/occurrence
Express Mail Fee:	\$ 25.00/occurrence

Transaction fees for the buying or selling of Dimensional Fund Advisors (DFA) mutual funds are paid directly by Elliott Cove for the life of the account, provided the trading of these mutual funds takes place on the normally scheduled trading days. The client does not pay trading fees as it applies to DFA Funds.

## **Item 13 – Review of Accounts**

Customer accounts are reviewed monthly, and quarterly, the only triggering factor is time elapsed since last review, or major shock to the market. Portfolios in tax qualified accounts will be rebalanced quarterly in accordance with Investment Policy Statements. Portfolios in taxable accounts will be rebalanced when accounts are outside the asset allocation ranges established in the Investment Policy Statement.

Accounts for review will be distributed among the following individuals, and will happen on a quarterly basis. Reviews will be conducted to ascertain if the Portfolios are still in line with their prescribed allocation ranges. J. James Gallagher, Chairman & CEO; Ralph Chiocco, EVP & COO; Victor D. Ruiz, Senior Vice President & Chief Compliance Officer; & William J. Schatz, Vice President, Investments. In addition, Elliott Cove employs Investment Advisor Representatives in the states of Alaska and Washington. These Investment Advisor Representatives are responsible for day to day communication with clients and communicating any instructions they may receive from clients to the Elliott Cove main office. Other topics typically covered during customer meeting are:

- Changes to investment objectives, which are likely to evolve over time;
- Long-term strategic financial targets, and how well they match up with the current asset allocation;
- Current customer financial situation;
- Any other financial questions a customer may have.

Directly managed accounts receive quarterly reports indicating portfolio value and changes from previous reporting period. In addition, customers receive a notification of billing on a quarterly basis.

All account holders receive quarterly statements from Trust Company of America and have access to their account positions 24 hours a day, seven days a week.

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

Northrim Investment Services Company, an Alaska Corporation owned by Northrim Bank, also an Alaska Corporation is a partial owner of Elliott Cove Capital (Elliott Cove). Elliott Cove currently employs employees of Northrim Bank in Alaska as Investment Advisor Representatives. These employees are dual employees in that they are employees of Elliott Cove and Northrim Bank simultaneously.

Elliott Cove also maintains relationships with non-affiliated banks employing select bank employees as Investment Advisor Representatives. Like Northrim Bank, these employees are dual employees in that they are employees of Elliott Cove and the banks simultaneously.

Elliott Cove does not pay any of the above dual employees for their investment advising activity. Instead, Elliott Cove pays the banks for successfully acquired Elliott Cove clients according to the following rate schedule:

<u>Assets Managed</u>	<u>Annual Fee</u>	<u>Fee Rate Paid to Northrim Bank</u>
\$0 to \$100,000	1.65%	45.9% of collected Advisory Fees paid to Elliott Cove by Customers on such assets
Next \$150,000	1.50%	45.9% of collected Advisory Fees paid to Elliott Cove by Customers on such assets
Next \$750,000	1.25%	Difference between (i) the applicable Advisory Fee percentage, and (ii) 0.65%, times the amount of such assets
Assets over \$1,000,000	1.00%	Difference between (i) the applicable Advisory Fee percentage, and (ii) 0.65%, times the amount of such assets

When the account size exceeds \$100,000, the maximum Annual Fee will decrease from 1.65% to 1.50%. If an account below our minimum account size of \$25,000 is accepted by Elliott Cove Capital Management LLC, that amount less than \$25,000 will be subject to an annual advisory fee of 1.85% until the account size reaches \$25,000 whereupon the 1.85% fee will be reduced to 1.65% in accordance with the fee schedule listed above.

Clients referred to us as a result of this program are billed on the same basis had they not been referred through this program and are not disadvantaged because of this referral program.

## **Item 15 – Custody**

Elliott Cove does not take possession of client money or securities, although Elliott Cove generally has the authority to deduct its advisory fees from client accounts. Trust Company of America serves as custodian for all client accounts, except those 401(k) accounts currently Third Party Administered by Nextstep Defined Contribution, Inc. and ExpertPlan.

At least quarterly, customers receive account statements from the custodians that hold and maintain their managed account assets.

Customers are responsible for reviewing these custodial statements and comparing them with account information available on-line as provided by Trust Company of America. On-line access is available 7 days a week, 24 hours a day.

Customers should contact Elliott Cove immediately if any discrepancies or errors are discovered.

## **Item 16 – Investment Discretion**

All customer accounts are managed by Elliott Cove Capital Management on a discretionary basis. When an account is opened, the client signs a limited power of attorney giving Elliott Cove authority to direct the execution of the purchase and sale of securities for the account in accordance with the client's investment objective(s) and risk tolerance.

Each customer agrees to advise Elliott Cove, in writing, of any restrictions which the customer wishes to impose on the management of customer's investments. Elliott Cove, in turn, acknowledges that Client may impose reasonable restrictions on the management of his, her or its account, and will manage the customer's account in accordance with all such reasonable restrictions.

## **Item 17 – Voting Client Securities**

Elliott Cove does not vote proxies for securities owned by customers. Nor, as a matter of policy, does Elliott Cove recommend how clients should vote their proxies.

Customers receive their voting proxies directly from the mutual fund company Dimensional Fund Advisors thru Trust Company of America, the custodian via a third party distribution company.

## **Item 18 – Financial Information**

Elliott Cove is not subject to nor affected by any financial condition that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients. Elliott Cove has not been the subject of a bankruptcy petition.



