

## FILAMENT, LLC

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March 28, 2012

This Brochure provides information about the qualifications and business practices of Filament, LLC. If you have any questions about the contents of this Brochure, you may contact us at (206) 436-2300 or [info@filamentadvisors.com](mailto:info@filamentadvisors.com) to obtain answers and additional information. Filament, LLC is a registered investment adviser with the United States Securities and Exchange Commission (SEC). Registration of an investment adviser does not imply any level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

Additional information about Filament, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

The date of the previous annual update to our Brochure was March 31, 2011. This annual updating amendment is made as of March 28, 2012. This section summarizes all material changes that have been made to the Brochure since the previous annual update.

The following material changes have been made to the Brochure:

As referenced on the SEC website, our Brochure “type” has been amended to include all of the following categories: Individuals, High net worth individuals, Foundations/charities, Selection of Other Advisors, Financial Planning Services.

Our regulatory assets under management on page 2 have been updated as of December 31, 2011. We manage for clients \$581,193,186 on a discretionary basis and \$398,240,320 on a non-discretionary basis.

Each year, within 120 days of the close of our fiscal year, we will deliver to current clients a Summary of Material Changes to the Brochure and offer to provide current clients a copy of the updated Brochure, if desired. Alternatively, we may annually elect to deliver to each client a free updated Brochure that includes or is accompanied by a Summary of Material Changes. We may also be required to deliver to you certain interim amendments of our brochure that occur other than as part of an annual updating amendment.

Our Brochure and this Summary of Material Changes is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Filament is 138419. The Brochure also may be requested at any time by contacting John Goodwin, Chief Compliance Officer of Filament at (206) 436-2300 or [john@filamentadvisors.com](mailto:john@filamentadvisors.com). Our Brochure always is provided free of charge.

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#### Item 4 – Advisory Business

**A** Filament is an SEC registered investment advisory firm located in Seattle, Washington. Our Clients are individuals, families and related family entities such as trusts, corporations, partnerships and foundations. We provide investment supervisory, management and consulting services and related financial planning services. We are compensated only through fees paid to us by our Clients and we receive no commissions, rebates, or similar revenue from any other source (see Item 5). Over 85% of our firm is owned by Filament employees. We have been in business since 2005.

**B, C** Our investment advisory services include: development of Client specific strategic asset allocation plans; security and investment product (or manager) due diligence, selection and recommendation; investment implementation, ongoing supervision, monitoring and portfolio rebalancing activities; and regular Client investment and performance reporting.

Our advice and services are tailored to the unique objectives of each Client. We formulate an investment policy after discussing with each Client their risk tolerance, time horizon, projected future liquidity needs, current holdings, tax considerations, personal market views and other factors. This policy guides us in objectively formulating suitable investment and financial recommendations for each Client. We meet with Clients as needed to review portfolio performance, discuss current issues, and re-assess goals and investments plans. Client input, involvement and decision-making are critical parts of the financial planning process and implementation of investment decisions.

We also provide or coordinate other financial advice and services. These services may be provided by us, or by third party providers in coordination with us (such as legal and tax advice and tax compliance and reporting).

These services may include:

- Financial independence/retirement planning
- Capital and liquidity needs analysis, and related financial modeling
- Income tax planning and coordination with Client's CPA
- Estate planning and coordination with Client's lawyer
- Philanthropy planning and implementation
- Education planning
- Risk management review (including insurance analysis for life, disability and other lines of personal insurance in coordination with third party insurance providers)
- Employee stock option planning
- Consideration and evaluation of financing transactions & risk reduction strategies for concentrated equity positions
- Advice incident to major asset purchases and sales
- Coordination of third party bill payment services or providers

Financial recommendations are developed and implemented on an ongoing basis and are summarized for the Client through periodic written reports, analysis and evaluations. Communications with third party advisors, including for example lawyers and accountants engaged by our Clients, are an integral part of developing investment and financial recommendations.

Clients are encouraged to review their plans regularly and to communicate with us regarding any changes in their unique circumstances, goals and objectives.

Clients may impose restrictions on investing in certain securities or types of securities, and may invest in or retain securities we have not reviewed, approved or recommended. We consider these types of restrictions when preparing the Investment Policy Statement as well as when implementing portfolio decisions.

Please see Item 8 for a detailed description of our investment strategies.

We are fiduciaries and must put our Clients' interests before our own and seek to avoid any conflicts of interest with our Clients. Our compensation structure is designed to help minimize any potential for conflict of interest with our Clients regarding portfolio and investment decisions.

- D** We do not manage wrap fee programs.
- E** We manage \$581,193,186 of Client assets on a discretionary basis and \$398,240,320 of Client assets on a non-discretionary basis. These amounts were calculated as of December 31, 2011.

## Item 5 – Fees and Compensation

- A** Our Clients pay us an annual retainer fee that is negotiated between us and the Client. Neither Filament nor any of our supervised persons accept compensation from the sale of securities or other investment products. Retainer fees are established or reestablished at least annually. Retainer fees are based on two criteria. First, we determine the Client's total wealth under our supervision (AUM). Because the goals and objectives of each Client are unique, and the investment and non-investment holdings of each Client likewise are unique, we mutually determine the scope of total wealth under our supervision (which may include portfolio investments and non-portfolio assets). Second, we look at the complexity of the Client's affairs and the scope of services which are required or requested.

Factors that may influence complexity and scope of the engagement include the number and nature of Client entities (including partnerships, corporations, trusts, foundations and similar), the composition of investment wealth (including mix of traditional and non traditional investments), the mix of services requested, anticipated frequency of meetings, the training and skills required of staff members providing the services and other factors.

Occasionally we provide investment consulting or financial planning on a limited engagement (or special project) basis. These projects are charged on a fixed-fee or hourly rate. Fees will be determined based on the complexity and scope of the analysis or services requested and the training and skills of staff members providing the requested service.

If services are being provided to multiple accounts or entities of a single Client (or Client Family), fees may be divided among the various accounts or entities in a mutually agreeable manner.

- B** Annual retainer fees are billed quarterly in advance of service. Fees are payable in equal quarterly installments each January 1st, April 1st, July 1st, and October 1st (or on the following business day if such date is a holiday or weekend). The annual retainer amount is established as of each January 1<sup>st</sup>, or at any other mutually agreeable date. For any short year or quarter, retainer payments are pro-rated on a daily basis assuming a 365 day year. If authorized by our Client, fees may be paid directly to us from the Client's account by the custodian upon submission of an invoice to the custodian. Payment of fees may result in the liquidation of Client's securities if there is insufficient cash in the account.

Payment of special project fees is made as agreed by the parties. Under no circumstances is the Client required to prepay fees for more than six months of services.

- C** Our fees are exclusive of transaction fees, custodial fees, and direct investment manager fees for all Client investments, including for example brokerage commissions, custodial fees, management fees or costs of mutual funds, exchange traded funds, managed accounts, investment partnerships or similar. Please see Item 12.

While our fees include the time and activities necessary for the firm to coordinate and communicate with third party advisors (such as lawyers, accountants, insurance specialist and

similar professionals), our fees are exclusive of the fees and costs of these third party advisors engaged by the Client.

- D** Either party may terminate our engagement agreement upon 30 days prior written notice to the other party. In the event of termination, any prepaid but unearned fees are promptly refunded to the Client. Any fees that have been earned by Filament but not yet paid by the Client are due and payable. We may modify the terms of the fee agreement by giving Clients 30 days written notice in advance.
- E** Neither Filament nor any of our supervised persons accept compensation from the sale of securities or other investment products.

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

We do not charge performance-based fees for our services or engage in side-by-side management. Accordingly, this Item is not applicable to our firm.



### **Item 7 – Types of Clients**

We provide investment and financial advisory services to high net worth individuals, their families, and related entities including trusts, estates, charitable organizations (foundations), family investment corporations, partnerships and business entities. We do not have a stated minimum account size, but most typically our Clients are “accredited investors” and “qualified purchasers” under federal securities laws.

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

Our investment strategies are tailored to investors with a long time horizon and an appreciation for an institutional style of investing. We focus particularly on the tradeoff of return as compensation for accepting investment risk and the effects of investment costs, inflation and taxes on investment returns. Our highest investment priority is developing the mix of assets appropriate to each Client's unique goals, objectives and risk tolerance. Our Clients have the final say as to how their investment objectives are defined and implemented.

Risk has many dimensions and we help our Clients consider the risk of not accomplishing their objectives in conjunction with market risk, liquidity risk, and investment-specific risk of loss. To manage risk, we recommend investing broadly across the capital markets, in all major asset classes both domestically and globally. We employ both passive and active investment strategies. Passive strategies attempt to achieve benchmark-like results. Active strategies attempt to outperform a relevant and appropriate benchmark. We utilize a range of strategies that are expected to perform differently in varying capital market environments.

All investment products we recommend come from third party investment managers that are not affiliated with Filament. We do not receive any commissions, rebates or other compensation from these managers. These investments are portable, and our Clients can choose to retain or sell them if they no longer retain us as their advisor.

Our methods of analysis, sources of information and investment strategies vary substantially by security or product type, asset class, investment risk, liquidity and other factors. In addition to traditional methods such as fundamental and quantitative analysis, our research, sourcing and due diligence may be supported by manager site visits, phone calls, correspondence or other means of direct and indirect communication with managers, third party opinions, experiences and references, investment conference materials, and continuing education courses. Some managers or products may be sourced through unrelated intermediaries. These intermediaries are not compensated by us, but they may be compensated by the product manager for the referral or placement.

Other sources of information we rely upon when researching and analyzing securities include traditional research materials such as financial newspapers and magazines, informational databases, annual reports, prospectuses, filings with the SEC, research materials prepared by others, and company press releases. We also subscribe to various professional publications deemed to be consistent and supportive of our investment philosophy.

We provide advice to Clients concerning all of the following types of investment strategies and securities:

- Cash and cash equivalent investments (including e.g., bank deposits, CDs, money market funds and similar)
- Fixed income investments (including e.g., corporate, municipal, US government and foreign issuer debt)
- Public equity investments (including exchange listed, over the counter and foreign issuer)
- Hedge fund investments

- Real asset investments (including investments in real estate and other real assets including commodities)
- Private equity and debt investments

We access these investment strategies through any variety of security, depending on the size of the investment, the desired manager, costs, tax consequences and other factors. We commonly utilize money market funds, mutual funds, exchange traded funds, exchange traded notes, commingled trusts, real estate investment companies, registered investment companies, and private placement limited partnerships and limited liability companies. Where appropriate, we may recommend the use of derivatives, options, warrants or structured products for accomplishing objectives and managing risk.

We may also advise on hedging strategies involving currency and/or concentrated equity positions, consistent with a Client's goals, objectives and suitability. Third party advisor experts may be engaged by the Client and/or us to provide supplemental information, perspective, analysis, pricing or other support for these transactions.

A complete analysis of all facets of risk associated with each of these investment strategies and product types is beyond the scope of this Brochure. The most material risk with each and every investment is risk of loss, which may include complete loss. Investments are subject to market, currency, economic, political and business risks. Some strategies and products we recommend are illiquid over an extended time period and Clients using these products and strategies must be able to tolerate this illiquidity by reserving sufficient resources to meet all obligations. Some strategies and products involve the use of leverage (borrowing) and this can exacerbate losses or magnify gains.

While a specific strategy may involve a certain set of risks viewed in isolation, the strategy must also be viewed in the broader portfolio context including diversification and correlation benefits provided by the investment. The significant risks and benefits of each strategy are discussed with the Client prior to recommendation, Client approval and implementation.

We use our best judgment and good faith efforts in making suitable investment recommendations to our Clients. It is the responsibility of the Client to give us complete information and to notify us of any changes in their financial circumstances, goals or risk tolerance. Investing in securities involves risk of loss that Clients must be prepared to bear. Not every investment decision or recommendation made by us will be profitable. We cannot warrant or guarantee any particular level of account performance, or that an account will be profitable over time.

### **Item 9 – Disciplinary Information**

We are required to disclose all material facts regarding any legal or disciplinary event that would be material to your evaluation of our firm, or the integrity of our management. No principal or person associated with Filament has any information to disclose which is applicable to this Item.

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

We are not affiliated with any other financial industry participants. We may recommend other investment advisors to our Clients, but we do not receive any compensation directly or indirectly from those advisors.

**Item 11 – Code of Ethics, Participation or Interest in Client Transactions  
& Personal Trading**

- A** Filament has a Code of Ethics which all employees are required to follow. The Code of Ethics outlines our high standard of business conduct, and fiduciary duty to Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things.

A copy of the Code of Ethics is available to any Client or prospective Client upon request by contacting John Goodwin at (206) 436-2300 or [john@filamentadvisors.com](mailto:john@filamentadvisors.com).

- B-D** We do not have a material financial interest in any security or investment that we recommend.

Our managers, employees and other individuals associated with our firm may buy and sell some of the same securities for their own account that we buy and sell or recommend for Clients. In some cases they may buy or sell securities for their own account that differ from, or for reasons not related to, the strategies adopted for our Clients. In general, our employees' wealth level, asset allocation, time horizon, risk tolerance, liquidity needs, and other factors may differ substantially from our Clients' and, accordingly, employee portfolio transactions may reasonably be expected to differ from Client portfolio transactions. Our employees are required to follow the Code of Ethics when making trades for their own accounts in securities which are recommended to and/or purchased for Clients. The Code of Ethics is designed to assure that the personal securities transactions will not interfere with decisions made in the best interest of advisory Clients while at the same time, allowing employees to invest their own accounts. When applicable we will purchase or sell securities for Clients before purchasing the same for our account or allowing representatives to purchase or sell the same for their own account.

Filament will disclose to advisory Clients any material conflict of interest relating to us, our representatives, or any of our employees which could reasonably be expected to impair the rendering of unbiased and objective advice.

## Item 12 – Brokerage Practices

**A** Our Clients' assets are held by unaffiliated third-party custodians (*independent, third-party custodians*). We use our discretion to recommend independent third-party custodians, but our Clients always have final authority of the choice of custodian (or custodians) for their accounts. Clients are not obligated to effect transactions through any broker-dealer recommended by us. In recommending broker-dealers, Filament has a fiduciary duty to seek best execution and we take into account relevant factors such as:

- Price;
- The custodian's facilities, reliability and financial responsibility;
- The ability of the custodian to effect transactions, particularly with regard to such aspects as timing, order size and execution of order;
- The research and related brokerage services provided by such custodian to the Filament, notwithstanding that the account may not be the direct or exclusive beneficiary of such services; and
- Any other factors that we consider to be relevant.

Our Clients typically establish accounts with a registered broker-dealer and SIPC member ("BD") with whom we have negotiated reduced commissions, rates, and miscellaneous charges in our efforts to seek "best execution". Some Clients establish or retain accounts with other BDs that we have not recommended and with which we have not negotiated reduced commissions, rates, or charges. We reserve the right to decline acceptance of any Client account for which the Client directs the use of a particular broker if we believe that this choice would hinder either our fiduciary duty to the Client or our ability to service the account.

We have no oral or written arrangements under which we are paid cash or receive an economic benefit from a non-Client in connection with giving advice to our Clients. However, a BD we recommend may make available to our firm, on an unsolicited basis, research and other products and services other than execution in connection with Client securities transactions.

These products and services may have economic value to our Clients (whose accounts may benefit from the products or services) and also to us. These products and services may be proprietary to the brokerage firm, or provided by third parties and are not typically made available to retail investors. Products and services provided as an integral part of a broker-dealer's institutional trading and custody platform may include pricing and other market data, research, software and other technology (including electronic downloading of trading activity, performance monitoring and reporting, web access to confirmations, account statements and other Client data), practice management aids (consulting, publications, conferences and seminars) and vendor discounts. We have no arrangements, oral or in writing, concerning these unsolicited products and services, which typically are made

available by broker-dealers to advisors in consideration of the total number, size and profitability of all accounts referred by the advisor, rather than the size or profitability of any individual Client account. In some instances, broker-dealers may make available, arrange and/or pay for these types of services provided by independent third parties or may discount or waive fees it would otherwise charge.

But for these potential “soft dollar” arrangements, Filament might forego these value added services or we might obtain these services and support at additional cost which might be passed along to Clients through higher advisory fees.

The unsolicited offer of these products and services could create a potential conflict of interest with regard to our negotiations with the BD on behalf of Clients. Accordingly, in recommending broker-dealers we must determine in good faith that Client commissions and costs are reasonable in relation to the benefits derived by our Clients from the provision of these products and services, if any, to us.

We emphasize to Clients their unrestricted right to select and choose any broker or dealer they wish. Upon a Client’s request, we will make available a description of what the firm has obtained through soft dollar arrangements, the names of the broker-dealers providing those fees, products or services, the amount of commissions generated for the requesting Client’s account, and other information regarding the firm’s use of the particular broker-dealer.

**B** We may aggregate trades for Clients. The allocations of a particular security will be determined by us before the trade is placed with the broker. When practical, Client trades in the same security will be bunched in a single order (a “block”) in an effort to obtain best execution at the best security price available. When employing a block trade:

- We will make reasonable efforts to attempt to fill Client orders by day-end.
- If the block order is not filled by day-end, we will allocate shares executed to underlying accounts on a pro rata basis, adjusted as necessary to keep Client transaction costs to a minimum.
- If a block order is filled (full or partial fill) at several prices through multiple trades, an average price and commission will be used for all trades executed;
- All participants receiving securities from the block trade will receive the average price.
- Only trades executed within the block on the single day may be combined for purposes of calculating the average price.

It is expected that this trade aggregation and allocation policy will be applied consistently. However, if application of this policy results in unfair or inequitable treatment to some or all of our Clients, we may deviate from this policy.



### **Item 13 – Review of Accounts**

- A** We monitor the underlying securities in our Clients' accounts on an ongoing and continual basis. Each Client receives a formal review of their accounts at least quarterly, unless specifically requested and agreed otherwise. Accounts are reviewed in the context of each Client's stated investment objectives and guidelines.

Each Client has an assigned Client management team, consisting of two or more Investment Advisor Representatives of Filament. The Client management team is responsible for ongoing, periodic and quarterly reviews of the account. Clients will be provided the Supplemental Brochure (Form ADV Part 2B) for any employee providing advice related to their accounts.

- B** More frequent reviews may be triggered by a change in Client's investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; loss of confidence in corporate management; or, changes in the prevailing economic climate.
- C** Our Clients receive standard account statements from the custodians of their accounts on a monthly or quarterly basis and are encouraged to compare these statements to report summaries they receive from us. We provide a written quarterly report summarizing the account activity and performance, including comparisons to indices performance and asset allocation of the portfolio compared to portfolio target allocations.

When we provide hourly or project consulting or financial advice, our reports are tailored to the specific objectives of the Client and the scope and purpose of the review.

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

We may be offered or receive “soft dollar” benefits from an unrelated third party custodian or broker-dealer as described in Item 12 above. The conflicts of interest this type of arrangement presents and how we deal with these conflicts are detailed in Item 12.

We do not directly or indirectly compensate any unrelated third parties for Client referrals.

### **Item 15 – Custody**

With the exception of our ability to debit agreed upon retainer fees from Client accounts when authorized by the Client, Filament does not have custody of Client assets.

Our Clients receive standard account statements from the custodian of each of their accounts on a quarterly or more frequent basis. We urge our Clients to carefully review these statements from the custodians and to compare these to reports that we provide. Each of our reports contains a prominent notice to this effect. Our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. We always will attempt to reconcile any differences to the satisfaction of our Client and answer any questions they may have.

Filament is not liable to our Clients for any loss or other harm resulting from the insolvency of the custodian or any acts of the agents or employees of the custodian. The full amount of any such loss may not be covered by the Securities Investor Protection Corporation (“SIPC”) or any other insurance which may be carried by the custodian. SIPC provides only limited protection for the loss of property held by a custodian.

## Item 16 – Investment Discretion

We offer advisory services on either a discretionary or non-discretionary basis. Discretionary authority allows us to execute investment recommendations in accordance with the investment policy statement (or similar document used to establish each Client's objectives and suitability), without the Client's prior approval of each specific transaction. Under this authority, Clients allow us to purchase and sell securities and instruments in their account(s), arrange for delivery and payment in connection with the foregoing, select and retain sub-advisors, and act on behalf of the Client in matters necessary or incidental to the handling of the account, including monitoring certain assets. Regardless of this discretionary authority, Clients may impose restrictions on investing in certain securities or types of securities.

Non-discretionary authority requires us to obtain a Client's prior approval of each specific transaction prior to executing the investment recommendations.

In the ordinary course of our work with each Client, investment recommendations are discussed and evaluated and the Client is asked to approve each transaction prior to execution. Clients may provide us with investment discretion over identified brokerage accounts in order to facilitate execution of transactions (including trades or strategies) that previously have been discussed and approved by the Client. This discretionary authority, where permitted, also allows implementation and execution of transactions where timing is critical or the Client is unavailable to discuss and approve the recommended transactions.

### Item 17 – Voting Client Securities

- A** Mainly for convenience purposes, we may be designated by our Clients to receive and vote proxies on their behalf and to receive annual reports and other shareholder communications. We do not maintain or develop an opinion different from management regarding matters that are (or may be) the subject of company proxy voting. In the absence of specific knowledge of company mismanagement or substantial board conflict over policy, our practice is to vote with management on all matters that are the subject of proxy voting. We also may refrain from voting securities when the cost of voting outweighs the benefits of voting such securities (for example, the shares being voted represent or track a broad market index or similar passive investment strategy, or the shares represent a small and inconsequential portion of total shares outstanding). Clients always may retain the right to receive proxy materials and vote proxies in their own best interests.

Clients and prospective Clients may request a copy of Filament's Proxy Voting Policy and may obtain a record of proxy votes relating to securities held in their accounts by written request made to Filament.

- B** Clients who do not designate us to receive and vote proxies will receive their proxies and other solicitations directly from the custodian or transfer agent. If any proxy materials are received by us on behalf of a Client, they will be sent directly to the Client or the designated representative of the Client, who will be responsible for voting the proxy.

**Item 18 – Financial Information**

- A** We require retainer fees to be paid in advance. We also generally require at least a portion of any fixed-fee or hourly rate projects to be paid in advance. Under no circumstances will we retain more than \$1200, more than six months in advance from any Client.
- B** We have discretionary authority over certain of the funds or securities of our Clients. We have no known financial conditions that would impair our ability to meet contractual commitments to our Clients.
- C** Neither Filament nor any of the principals of the firm have been the subject of a bankruptcy petition at any time in the past.