



Breakwater Investment Management, LLC
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This Brochure, "Breakwater Investment Management ADV Part 2" provides information about the qualifications and business practices of Breakwater Investment Management, LLC ("Breakwater"). If you have any questions about the contents of this Brochure, please contact us at 206.624.9000 or info@breakwaterinvestment.com.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission nor by any state securities authority.

Breakwater is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Breakwater also is available on the SEC's website at www.adviserinfo.sec.gov, CRD 150841.

Material Changes

In June 2012, pursuant to changes in regulation, we became registered with the State of Washington instead of the Securities and Exchange Commission.

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Brochure Supplement(s)

Advisory Business

Breakwater Investment Management, LLC is referred to in this document as “Breakwater,” “the company,” “us,” “we,” or “our.” In this document we refer to current and prospective clients of Breakwater as “you,” “your,” or “client.” Breakwater is a Washington State Limited Liability Company founded in August 2009. The founder and owner of Breakwater is Joseph F. (Jay) Turley.

Breakwater offers investment advisory and financial planning services to its clients. Advice and services are tailored to the stated objectives of you, the client(s).

Investment Advisory

We manage investment portfolios on a separately managed account basis for individuals, high net worth individuals, qualified retirement plans, trusts, businesses and non-profit organizations. We will work with you to determine your investment objectives and investor risk profile. Once your investment objectives and investor risk profile have been determined, we will allocate your portfolio taking into consideration the overall management style selected by you. You may impose restrictions on investing in certain securities or types of securities. You must clearly state these restrictions to us in writing.

We work with new clients to develop a plan to transition from your existing portfolio to the desired portfolio. We will then monitor and update the allocations that make up your portfolio.

Pursuant to your agreement, you grant us ongoing and continuous discretionary authority to execute our investment recommendations without prior approval in accordance with your objectives, as understood by us or as stated in your Investment Policy Statement (or similar document and or notes and discussions from meetings used to establish your objectives and suitability.) Under this authority, you allow us to purchase and sell securities and instruments in your account, and act on your behalf in most matters necessary or incidental to the handling of your account, including the selection and retention of subadvisors, as applicable. The exception to this management is that we do not receive or vote proxies on issues held in the account or receive annual reports (see page 8). This responsibility remains with you.

Financial Planning

In addition to managing your investment portfolio, we may consult with you on various financial areas including college financial planning, retirement planning, and personal cash flow analysis, among other things.

In general, planning services are offered without charge to investment advisory clients. We occasionally do pro bono (free) planning for clients, based on their financial need.

Financial planning services may include:

- Investment Planning/Investment Policy Statements
- Financial Independence/Retirement Planning

- Capital Needs Analysis (Goal Funding)
- Income Tax Planning
- Estate Planning
- Education Planning
- Risk Management (Life and Disability Insurance)
- Employee Stock Option Planning
- Tax minimization strategies

Some written plans may include a personal balance sheet and financial projections. Any reports, financial statement projections, and analyses are intended exclusively for your use in developing and implementing your financial plan. You are ultimately responsible for the assumptions and personal data upon which Breakwater's procedures and projections are based. The financial plan assumptions and reports are primarily a tool to alert you to certain potential financial outcomes. The reports are not intended to nor do they provide any guarantee about future events including your investment returns. The implementation of the plan is solely your responsibility.

We provide financial planning services consistent with your financial and tax status, risk profile, and return objectives. We may also provide general non-securities financial planning on topics that may include tax and budgetary planning, estate planning, and business planning.

Breakwater Absorption of Transaction Costs for Certain Existing Clients

A program was put in place to facilitate the transfer of accounts to Breakwater for clients that worked with Jay Turley at another firm prior to the inception of Breakwater. This program is closed to new accounts. As was the case in the prior firm, clients in the program pay no management fees on cash and pay no trading fees. Trading fees are paid by Breakwater. In theory this program creates an incentive for us to not recommend cash holdings and discourages us from trading. In practice we believe there is no difference between our management and our recommendations for clients in the program and those not in it.

Advisory Services to 401(k) Plans

On occasion, Breakwater may enter into agreements with 401(k) Plan Sponsors to recommend investment options available to participants in a Plan, comprised of stand-alone mutual funds or ETFs, and recommends, as appropriate, replacements of investment options.

Assets

As of February 24th, 2012 we managed a total \$70,653,736 in client assets, all of which was discretionary.

Fees and Compensation

Advisory Agreements

The specific manner in which fees are charged by us is established in your written investment advisory agreement. We bill fees on a monthly basis in arrears. Fees are deducted directly

from your investment accounts. Management fees are based on the market value of assets at the close of business on the last business day of the month as determined by the custodian. Fees are prorated for capital contributions and withdrawals made during the applicable calendar month. You share responsibility for verifying the accuracy of fee calculations.

Our fees are exclusive of brokerage commissions, transaction fees, taxes, wire fees, fund internal fees, fund early redemption fees, and other related costs and expenses which shall be incurred by the client.

Standard Fee Schedule

1.25% on entire balance for assets up to \$500,000

1.00% on entire balance for assets between \$500,001 and \$1,000,000

0.85% on entire balance for assets between \$1,000,001 and \$5,000,000

Fees on assets in excess of \$5,000,000 are negotiated

Financial Planning Agreements

Financial Planning fees are typically fixed at \$2,500 for investment planning/investment policy statements and financial independence/retirement planning. However, this fee is waived for clients who have signed an advisory agreement. Unusually complex client situations may be charged a higher fee or an hourly fee. The fee is due and payable upon completion of the plan (and its presentation to you). If you receive "limited planning services" for example, a topical discussion or review, we charge for these services on an hourly basis at \$250 per hour, billed in 15-minute increments. Fees for hourly services are billed by invoice with payment due upon receipt.

Agreements with 401(k) Plans

.75% of plan asset balance

Negotiation

Notwithstanding the above, fees are negotiable on a client-by-client basis. Typical reasons to negotiate the fee schedule include possible discounts for nonprofit institutions and friends and family, or discounts based on competitive factors, transitions from programs in which transaction costs were previously paid by Breakwater or financial need. Not all clients will pay the same fee. There is no minimum balance to open or maintain an account.

Terminating engagements

You can terminate our engagement at any time by giving us written notice (email or letter). For investment management services, your account will be charged for the days prior to receipt of your notice. In all cases we will be cooperative in resolving disputes and helpful if you wish to move your investments to the care of another firm. Our goal is excellent service any time you work with us, whether you are engaging us or leaving us.

Performance-Based Fees and Side-By-Side Management

Performance-Based Fees

We do not charge any performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets of a client).

Side-By-Side Management

We provide investment advisory services to other clients in addition to you. Not all clients receive the same investment advice, nor do they pay the same fee. We strive and are obligated to act in the best interests of each of our clients at all times.

Types of Clients

It is more important to us to work with people who are pleasant in nature and kind to animals, than those who meet a threshold level of wealth or investable assets. We provide portfolio management services to individuals, high net worth individuals, qualified retirement plans, trusts, non-profit organizations, and businesses. We provide financial planning services to individual clients.

Methods of Analysis, Investment Strategies and Risk of Loss

Investment advice may be offered on any investments held by a client at the start of the advisory relationship.

There is no guarantee that we will achieve any level of performance and you will at times experience a loss when implementing an investment strategy. The primary vehicles to be used in the investment portfolio are passive exchange traded funds (ETFs) and, secondarily, mutual funds. Doing so prioritizes low costs, tax efficiency, transparency, low tracking error, and liquidity as the primary objectives to capture asset class returns in the appropriate asset classes.

We generally seek to offer you global investment portfolios. In an attempt to diversify risk and home country bias, portfolios will frequently have a significant amount (more than half) of their investments in a combination of international bonds, international stocks and international real estate. Portfolios will typically have significant exposure to emerging markets and currency risks.

Our investment philosophy and strategy are based on traditional academic principles of modern portfolio theory and academic research that have demonstrated that investment markets are generally efficient. Attempts by “Active” investment managers and mutual funds to exceed the performance of their respective benchmark (i.e. index) frequently have resulted in poor and underperforming results. We believe that a well-diversified passive index

investment portfolio that is periodically rebalanced offers the investor the greatest opportunity to pursue their financial goals and achieve our portfolio return expectations.

Our analysis is grounded in our educational background and training and utilizes financial newspapers, journals and magazines as well as research reports prepared by others, corporate rating services, prospectuses, filings with the Securities and Exchange Commission and company press releases. We also regularly attend investment and academic presentations and conferences.

In order to help manage risk, a portfolio must be properly diversified at all times. This means not simply owning a large number of stocks and bonds, but spreading investment assets over many asset classes, each of which may behave differently in response to varying economic and market conditions. By building a portfolio where we invest in asset classes that are not perfectly correlated with one another, we strive to create a more optimized portfolio that minimizes risk for a given level of return or maximizes return for a given level of risk.

The second part of our approach to portfolio management involves managing costs. We strive to seek low cost investments within each asset class, we monitor trading costs, we attempt to be very tax efficient (typically harvesting tax losses when they are material,) and we keep our management fees very competitive.

As with any investment, there is the possibility that you could lose all or part of your investment, including all of your initial, subsequent and unrealized gains on investments managed by Breakwater. Your account's performance could also trail that of other investments. During a general downturn in the securities markets, multiple asset classes may be negatively affected.

Breakwater generally uses a passive investment strategy that is not actively managed. We do not attempt to take defensive positions in declining markets and are more comfortable staying the course.

We are a small firm with one principal executive who is also our Chief Investment Officer (CIO). This fact leads to "key man risk," or the risk that some sort of incapacitation could happen to Jay Turley that would impact the stewardship of your portfolio.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. Our firm and the individuals employed by the firm have an unblemished compliance record.

Other Financial Industry Activities and Affiliations

We do not have any other financial industry affiliations.

Code of Ethics

We have no greater responsibility than to put your interests before our own. We have a culture of transparency and integrity. Our Code of Ethics is designed to codify a culture of placing clients' interests first and treating clients as we would wish to be treated if we were clients.

Our Code of Ethics is adopted for all employees of the firm. It codifies the expectation of a high standard of business conduct and fiduciary duty to you. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, and personal securities trading procedures, among other things.

All employees of Breakwater must acknowledge the terms of the Code of Ethics annually, or as amended. Prompt reporting of internal violations is mandatory. Our chief compliance officer regularly evaluates employee performance to ensure compliance with the Code of Ethics. A copy of the Code of Ethics is available to you or any prospective client upon request.

Breakwater or individuals associated with us may buy and sell some of the same securities for our own accounts that we buy and sell for you. We may buy or sell securities for our own accounts for reasons not related to the strategies adopted by our clients. We will disclose to you 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.

It is our policy that the firm will not affect any principal or agency cross-securities transactions for your accounts. We will also not cross trades between your and another client's accounts. All trades are executed in publicly traded markets.

Brokerage Practices

We may recommend that you establish brokerage accounts with a particular registered broker-dealer, to maintain custody of your assets and to affect trades for your account ("Custodian".) We are independently owned and operated and not affiliated with or beholden to the Custodian. The Custodian provides us with access to its institutional trading and custody services, which are typically not available to the Custodian's retail investors. These services generally are available to independent investment advisors at no charge to them so long as some minimum amount of our Clients' assets are maintained in accounts at the Custodian, are not otherwise contingent upon us committing to the Custodian any specific amount of business (assets in custody or trading.) The Custodian's services include brokerage, custody, research,

and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our Client accounts maintained in its custody, the Custodian does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through the Custodian or that settle into Custodian accounts.

The Custodian also makes available to us other products and services that benefit us but may not benefit your accounts. Some of these other products and services assist us in managing and administering your accounts. These include software and other technology that provide access to your account data (such as trade confirmations and account statements); facilitate trade execution; provide research, pricing information and other market data; facilitate payment of our fees from your accounts; and assist with back-office functions, recordkeeping and Client reporting.

The Custodian also makes available to us other services intended to help us manage and further develop our business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, the Custodian may make available, arrange and/or pay for these types of services rendered to us by independent third parties. The Custodian may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us.

Our recommendation that you maintain your assets in accounts at the Custodian may be based in part on the benefit to us of the availability of some of the foregoing products and services which allow us to conduct business more efficiently and serve you and our clients better and not solely on the nature, cost or quality of custody and brokerage services provided by the Custodian, which may create a potential conflict of interest.

Review of Accounts

All reviews are either conducted or supervised by Jay Turley. The frequency of reviews is based on your investment objectives, on an as-needed basis. More frequent reviews may also be triggered by a change in your investment objectives, tax considerations, large deposits or withdrawals, large sales or purchases, or changes in macro-economic climate. You have a duty to notify us of material changes in your financial situation.

If you are a financial planning client, you will receive your financial plan and recommendations at the time service is completed. Financial plans are not reviewed after delivery.

Investment advisory clients receive standard account statements from the Custodian of their accounts on a monthly basis. Financial planning clients do not normally receive investment reports.

Client Referrals and Other Compensation

We are not compensated for any referrals we make nor do we compensate anyone who refers clients to us with anything other than gratitude.

Custody

You should receive regular statements from the custodian that holds and maintains your investment assets. We urge you to carefully review such statements and compare such official custodial records to performance evaluations that we may provide to you. Our statements and reports may vary from custodial statements based on accounting procedures and reporting dates. All securities are valued by the Custodian.

While clients maintain their funds at a qualified custodian independent of us, we do directly deduct management fees from your accounts. The SEC considers this action to be a form of custody. It is ultimately the 3rd party, independent custodian (Schwab) that is responsible for the safe keeping and reporting of client assets.

Investment Discretion

We receive discretionary authority from you at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, such discretion is to be exercised in a manner consistent with the stated investment objectives for your particular account.

When considering and selecting securities and determining amounts for investments, we will observe the guidelines for your investment policies, limitations, and restrictions. Any investment guidelines and restrictions must be provided to us in writing.

Voting *Client* Securities

As a matter of firm policy and practice, we do not have any authority to and do not vote proxies on your behalf. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. For ERISA accounts (typically 401(k) accounts,) the plan trustee votes proxies. Clients will receive proxies and other solicitations directly from their custodian or a transfer agent. Please contact Jay Turley at (206) 624-9000 if you have questions about a particular solicitation.

Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to you, and we have not been the subject of a bankruptcy proceeding.

Requirements for State-Registered Advisers

Principal Executive Officers and Management Persons

Jay F Turley, CFA, CFP®, Born 1959

Chartered Financial Analyst

Certified Financial Planner™ practitioner

Chartered Financial Consultant

Masters of Business Administration, 1992, University of Washington, Seattle, WA

Visiting Student, 1991, Graduate School of Business, University of Cape Town, Cape Town, South Africa

Bachelor of Science, 1983, Babson College, Wellesley, MA

CFA Society of Seattle Past President and Board Member, current member, Seattle, WA

CFA Institute Member, Charlottesville, VA

Washington State Bar Association Animal Law Section (non-attorney member), Seattle, WA

Seattle Estate Planning Council Member, Seattle, WA

Beth Steinhaus, CFP®, Born 1982

Certified Financial Planner™ practitioner

Working in financial advising industry since 2007

Masters of Teaching English to Speakers of Other Languages, 2009, Seattle University, Seattle, WA

Bachelor of Arts, 2004, University of Michigan, Ann Arbor, MI

Secondary Education teaching certification, 2004

The Chartered Financial Analyst (CFA) charter is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute – the largest global association of investment professionals. There are currently more than 90,000 CFA charterholders working in 134 countries. To earn the CFA charter, candidates must: (1) pass three sequential, six-hour examinations; (2) have at least four years of qualified professional investment experience; (3) join CFA Institute as members; and (4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

The CFA Institute Code of Ethics and Standards of Professional Conduct, enforced through an active professional conduct program, require CFA charterholders to:

- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

To learn more about the CFA charter, visit www.cfainstitute.org.

In order to obtain the CFP® certification, a candidate must take and pass a 10-hour exam testing all topic areas of financial planning. They must meet the experience requirement of at least three years of qualifying full-time work experience in one of the six primary areas of the personal financial planning process. Candidates must pass Fitness Standards and a background check and must follow the CFP Board's Code of Ethics and Professional Responsibility, Rules of Conduct and Financial Planning Practice Standards. There is also an ongoing continuing education requirement of at least 30 hours every two years, including a course on ethics.

The personnel of Breakwater are not actively engaged in any outside business. Jay Turley is a passive one-third owner of a pistachio farm in Spain, and minimal time is spent engaged in the workings of this business.

None of the personnel of Breakwater receive performance-based compensation that would create the incentive to recommend one investment over the other. Periodically employees may receive bonuses, which are based on the growth and profitability of our firm.

Breakwater and its personnel have never been the subject of any arbitration claims, or civil, self-regulatory organization, or administrative proceedings. We have no other relationships with any issuers of securities.

Please contact us if you wish to discuss any part of this document. Thank you.