

## **Part 2A of Form ADV: *Firm Brochure***

### **Front Street Capital Management, Inc.**

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This brochure provides information about the qualifications and business practices of Front Street Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (406)541-0130 or [info@frontstreetcap.com](mailto:info@frontstreetcap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Front Street Capital, Inc. is a Registered Investment Advisory firm. Registration does not imply a certain level of skill or training.

Additional information about Front Street Capital Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 141974.

## Item 2 Material Changes

This section identifies and discusses material changes to the ADV brochure since our last ADV Part 2A dated 4/1/2014. For more details on any particular matter, please see the item in this ADV brochure referred to in the summary below.

Item 4: Advisory Business.

Assets under management were updated as of December 31, 2014 to \$306 million.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures of material changes as necessary.

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## Item 4 Advisory Business

Front Street Capital Management, Inc. (FSCM) is a SEC-registered investment adviser with its principal place of business located in Montana. FSCM began conducting business in 2006.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company): ***Russell T Piazza***

FSCM has separated its portfolio management services into three separate and distinct components based on the type of instruments invested in. For each service, clients will have the opportunity to place reasonable restrictions on the types of investments made in client accounts. Clients will also retain individual ownership of all securities.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Corporate debt securities (other than commercial paper)
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Money Market

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

Our firm provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

As of December 30, 2014, FSCM managed \$306 million dollars on a discretionary basis. FSCM does not manage any money on a non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

### **INVESTMENT SUPERVISORY SERVICES ("ISS")**

#### **EQUITY PORTFOLIO MANAGEMENT**

FSCM will create a portfolio consisting primarily of equity securities. We will allocate the client's assets among various equity investments taking into consideration the client's stated objectives and the overall management style selected by the client.

#### **MUTUAL FUND PORTFOLIO MANAGEMENT**

FSCM will create a portfolio consisting of one or more no-load mutual funds. We will allocate the client's assets among various mutual fund investments taking into consideration the overall management style selected by the client.

The mutual funds will be selected on the basis of any or all of the following criteria: the fund's performance history; the industry sector in which the fund invests; the track record of the fund's manager; the fund's investment objectives; the fund's management style and philosophy; and the fund's management fee structure. Portfolio weighting between funds and market sectors will be determined by each client's individual needs and circumstances.

### **FIXED INCOME PORTFOLIO MANAGEMENT**

FSCM will create a portfolio consisting primarily of fixed income securities. We will allocate the client's assets among fixed income securities, taking into considerations the overall management style selected by the client. We may utilize U.S. government agency bonds (including, but not limited to, federal home loan bonds) as part of this service where appropriate to the needs of the client.

### **INVESTMENT ADVISOR TO THE TARKIO FUND (TARKX)**

FSCM also provides discretionary portfolio management services to the Tarkio Fund (the "Mutual Fund"), a publicly traded mutual fund registered under the Investment Company Act of 1940.

FSCM serves as the investment manager to the Mutual Fund, and continuously manages the fund assets based on the investment goals and objectives as outlined in the Mutual Fund's prospectus.

Interested investors should refer to the Mutual Fund's prospectus and Statement of Additional Information ("SAI") for important information regarding objectives, investments, time-horizon, risks, fees, and additional disclosures.

Prior to making any investment in the fund, investors and prospective investors should carefully review these documents for a comprehensive understanding of the terms and conditions applicable for investment in the Mutual Fund.

### **CONSULTING SERVICES**

Clients can also receive investment advice on a more focused basis. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

## **Item 5 Fees and Compensation**

Our annual fees for Investment Supervisory Services are based upon a percentage of assets under management and generally range from 0.375% to 1%.

Fees will be directly debited from client accounts in arrears at the end of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter. Fees will be debited from the account in accordance with client's authorization in the investment advisory agreement.

Clients should be aware that a conflict of interest may exist when we determine the holdings of a client's portfolio. At times, FSCM must decide whether to recommend and/or purchase equities, fixed income instruments, no-load mutual funds, or its own mutual fund discussed in Item 4 above. Based upon the fee-structures outlined herein, we stand to earn a higher fee by recommending individual equities rather than fixed income instruments or mutual funds. We also may earn a higher fee by recommending our mutual fund, the Tarkio Fund, over other mutual funds or investment strategies. Tarkio Fund fees are disclosed in the fund prospectus and are currently 0.75% management fee and 0.25% administrative fee for a total of 1%.

**Limited Negotiability of Advisory Fees:** Although FSCM has established the following fee schedules; we retain the discretion to negotiate alternative fees and minimum account size on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

### **INVESTMENT SUPERVISORY SERVICES ("ISS") EQUITY PORTFOLIO MANAGEMENT FEES**

The annual fee for FSCM's Equity Portfolio Management Services will be charged as a percentage of equity assets under management, ranging from 0.50% to 1.25% depending on the nature and complexity of each client's circumstances and the amount of assets under management. A minimum of \$100,000 of assets under management is required for this service. FSCM may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

### **MUTUAL FUND PORTFOLIO MANAGEMENT FEES**

The annual fee for FSCM's Mutual Fund Portfolio Management Services will be charged as a percentage of mutual fund assets under management, typically at a rate of 0.375%. A minimum of \$50,000 of assets under management is required for this service. FSCM may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

Portfolio management clients of our firm who also invest in the Tarkio Fund will pay only those fees charged to investors by the Mutual Fund, i.e., the value of the client's investment in the Tarkio Fund is excluded from our quarterly portfolio management fee calculation.

The fee arrangement, termination, and refund policies are described in each Mutual Fund's prospectus and Statement of Additional Information ("SAI"). Clients should review both the fees charged by the funds and the fees charged by FSCM to fully understand the total amount of fees paid by the client for advisory services.

### **FIXED INCOME SERVICES FEES**

The annual fee for FSCM's Fixed Income Portfolio Management Services will be charged as a percentage of fixed income assets under management, typically ranging from 0.10% to 0.30% depending on the nature and complexity of each client's circumstances and the amount of assets under management. A minimum of \$100,000 of assets under management is required for this service. FSCM may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

### **CONSULTING SERVICES FEES**

FSCM's Consulting Services fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Consulting Services fees are calculated and charged on an hourly basis, ranging from \$50 to \$100 per hour. An estimate for the total hours is determined at the start of the advisory relationship.

Our Consulting Services fees are calculated and charged on a fixed fee basis, typically ranging from \$50 to \$500, subject to the specific arrangement reached with the client.

## GENERAL INFORMATION

***Termination of the Advisory Relationship:*** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. If an account terminates before a complete quarterly billing cycle, FSCM will prorate fees and directly bill clients' account for services rendered.

***Mutual Fund Fees:*** All fees paid to FSCM for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

***Grandfathering of Minimum Account Requirements:*** Pre-existing advisory clients are subject to FSCM's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements may differ among clients.

***ERISA Accounts:*** FSCM is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. . As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, FSCM may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset FSCM's advisory fees.

***Advisory Fees in General:*** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

***Limited Prepayment of Fees:*** Under no circumstances do we require or solicit payment of fees in excess of \$500 more than six months in advance of services rendered.

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

FSCM does not charge performance-based fees.

## Item 7 Types of Clients

FSCM provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Investment companies(including mutual funds)
- Pension and profit sharing plans(other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above

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

### **METHODS OF ANALYSIS**

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

***Fundamental Analysis.*** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

***Qualitative Analysis.*** We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.

A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

***Mutual Fund and/or ETF Analysis.*** We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

***Risks for all forms of analysis.*** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

### **INVESTMENT STRATEGIES**

We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among



other considerations:

**Long-term purchases.** Typically, we strive to purchase securities with the idea of holding them in the client's account for a year or longer. We would normally employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Other Investment Strategies:** When appropriate to the needs of the client, FSCM may recommend the following strategies. Because we believe these investment strategies involve certain additional degrees of risk, they will only be recommended with consistent with the client's stated tolerance for risk and other client needs.

- *Short-term purchases* (typically selling within a year or less)
- *Trading* (typically selling within 30 days or less).
- *Margin transactions* (Purchasing stocks for your portfolio with money borrowed from your brokerage account with interest paid to the custodian. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings. Additional agreements are required and all accounts do not qualify for margin.
- *Option writing.* Used primarily upon client request only. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

**Risk of Loss.** Securities investments are not guaranteed and you may lose money on your investments. Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal.

## Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

## Item 10 Other Financial Industry Activities and Affiliations

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations except as follows:

**Mutual Fund:** FSCM previously disclosed in "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) of this brochure that our firm is the investment adviser to the Tarkio Fund, an investment company registered under the Investment Company Act of 1940. We are related to the Mutual Fund through common control. Please refer to these items for a detailed explanation of this relationship and important conflict of interest disclosures. For additional information, the Fund Prospectus and Statement of Additional Information are available online or by



calling (866) 738-3629. Prospective investors should review these documents carefully before making any investment in the Mutual Fund.

**Delano Investment Advisory LLC** (DIA) is a registered investment advisory firm established in 2001. As previously disclosed in "Advisory Business" (Item 4), beginning January 1, 2014, FSCM is the sole owner of DIA and is therefore under common control. Each firm is independent of the other and offers different investment strategies and fees. DIA revenue will pass to the heirs of former DIA Adviser, Mr. Delano, ranging from 100% to 25% through 2018. A conflict of interest may result if DIA recommends the Tarkio Fund to its clients as FSCM receives a management fee as disclosed in the fund's Prospectus. Any Tarkio Fund holding in DIA client's accounts will be excluded from advisory fees charged by DIA.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

FSCM and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

FSCM's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [info@frontstreetcap.com](mailto:info@frontstreetcap.com), or by calling us at (406)541-0130.

As previously disclosed in this brochure, FSCM is the investment adviser to an affiliated mutual fund. Please refer to "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) for a detailed explanation of this relationship and important conflict of interest disclosure.

In addition, access persons of our firm are required to report all personal securities transactions conducted in our affiliated mutual fund(s).

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security on the same day transaction(s) being implemented for an advisory account (Mutual Funds excluded), thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts. There may be some instances when securities might be purchased on the same day, such as client requests or client funding needs. In those instances FSCM will review those trades specifically to ensure that the client was not disadvantaged nor the employee advantaged due to the employee trade on the same day.

We may aggregate Tarkio Fund trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases in the order as listed on the allocation worksheet, with each account paying the average price. As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. It is the expressed policy of our firm that no person employed by us may purchase or sell any security on the same day as any transaction(s) being implemented for an advisory account (Mutual Funds Excluded). This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. Clients can decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
8. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
9. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
10. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
11. Any individual who violates any of the above restrictions may be subject to termination.

## **Item 12 Brokerage Practices**

For discretionary clients, FSCM requires these clients to provide us with written authority to determine the broker dealer to use and the commission costs that will be charged to these clients for these transactions.

These clients must include any limitations on this discretionary authority in this written authority statement. Clients may change/amend these limitations as required. Such amendments must be provided to us in writing.

FSCM manages each client portfolio independently based upon strategies developed and discussions held with each client. We do not follow a model investment strategy. Therefore, we will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block. Since we have frequent discussions and individualized strategies concerning each client, FSCM may initiate trades of the same security on the same day and different prices for different clients.

Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. FSCM will typically aggregate trades among clients whose accounts can be traded at a given broker, and generally

will begin allocating trades with clients holding the lowest or highest percentage of the subject security on any particular day. FSCM's block trading policy and procedures are as follows:

- 1) Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with FSCM, or our firm's order allocation policy.
- 2) The portfolio manager must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.
- 3) The portfolio manager must reasonably believe that the order aggregation will benefit, and will enable FSCM to seek best execution for each client participating in the aggregated order. This requires a good faith judgment at the time the order is placed for the execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.
- 4) Prior to entry of an aggregated order, a written order ticket (spreadsheet) is completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- 5) If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated among the participating client accounts in the same order as on the initial order ticket or other written statement of allocation. However, adjustments to this allocation policy may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. Furthermore, adjustments to this allocation may be made for reasons such as to avoid having odd amounts of shares held in any client account, to avoid excessive ticket charges in smaller accounts, to engage new funding being deposited, and when the portfolio manager believes it is in the best interest of the clients.
- 6) Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of shares traded for each client.
- 7) FSCM's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- 8) Funds and securities for aggregated orders are clearly identified on FSCM's records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.
- 9) No client or account will be favored over another.

As FSCM does not have the discretionary authority to determine the broker dealer to be used or the commission rates to be paid, clients must direct us as to the broker dealer to be used. In directing the use of a particular broker or dealer, it should be understood that we will not have authority to negotiate commissions among various brokers or obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to other clients.

Clients may request that brokerage transactions be directed to a particular broker or dealer; however, if we believe that the use of that broker dealer would hinder our ability to meet its fiduciary obligations to our client, we will not be able to accept the account.

FSCM participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers services to independent investment advisers which include custody of securities, trade execution, clearance and settlement of transactions. FSCM receives some benefits from TD Ameritrade through our participation in the program.

FSCM participates in TD Ameritrade's Institutional customer program and we recommend TD Ameritrade to our clients for custody and brokerage services. There is no direct link between our firm's participation in the program and the investment advice we give to our clients, although we receive economic benefits through our participation in the program that are typically not available to TD Ameritrade retail investors.

These benefits include the following products and services (provided without cost or at a discount): duplicate client statements and confirmations; research related products and tools; consulting services ; access to a trading desk serving adviser participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain Institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to FSCM by third party vendors. TD Ameritrade may also pay for business consulting and professional services received by FSCM's related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for FSCM's personnel to attend conferences or meetings relating to the program or to TD Ameritrade's adviser custody and brokerage services generally.

Some of the products and services made available by TD Ameritrade through the program may benefit FSCM but may not benefit our client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits received by FSCM through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware, however, that the receipt of economic benefits by FSCM or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

FSCM's receipt of Additional Services does not diminish our duty to act in the best interests of our clients, including seeking best execution of trades for client accounts.

## **Item 13 Review of Accounts**

### **EQUITY, MUTUAL FUND AND FIXED INCOME PORTFOLIO MANAGEMENT**

**REVIEWS:** While the underlying securities within Individual Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by: Russ Piazza, Portfolio Manager, and Michele Blood, Operations Manager

**REPORTS:** In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer, we provide quarterly reports summarizing account performance, balances and holdings.

### **TARKIO FUND PORTFOLIO MANAGEMENT**

**REVIEWS:** FSCM continually reviews and monitors the Mutual Fund's holdings in accordance with the investment objectives as detailed in the Fund Prospectus.

**REPORTS:** Tarkio Fund sends reports to their shareholders on a semiannual basis. The semiannual report covers the first six months of the fund's fiscal year, while the annual report covers the fund's entire fiscal year. These reports are filed with the SEC and available online under SEC file number 811-22504.

## CONSULTING SERVICES

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted. Such reviews will be conducted by the client's account representative.

**REPORTS:** Consulting Services clients will not typically receive reports due to the nature of the service.

### Item 14 Client Referrals and Other Compensation

It is FSCM's policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.

It is FSCM's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

### Item 15 Custody

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

Our firm does not have actual or constructive custody of client accounts.

### Item 16 Investment Discretion

Most clients hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by providing us with additional written instructions.

### Item 17 Voting Client Securities (Proxies)

As a matter of firm policy and practice, FSCM does not generally accept the authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios through their custodian. We may provide advice to clients regarding the clients' voting of proxies upon client request.

In certain circumstances, however, we may accept proxy voting authority on behalf of a client. In such instances,

FSCM will vote proxies in a manner consistent with the investors' stated goals.

As discussed previously in "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) of this brochure, we are also the advisor to the Tarkio Fund. Because the fund is regulated under different rules, we are required to vote proxies for the fund.

Clients may request, in writing, information on how proxies for plan shares were voted. If any client requests information on how we voted proxies for the account(s), we will promptly provide such information to the client.

Clients may obtain a copy of the complete proxy voting policies and procedures by contacting FSCM directly. The policies and procedures instruct the advisor on subjects such as voting, reporting and how to handle possible conflicts of interests.

## **Item 18 Financial Information**

FSCM does not have any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. FSCM has no additional financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$500 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

FSCM has not been the subject of a bankruptcy petition at any time during the past ten years.