

Talbot Financial, LLC

Form ADV Part 2A Brochure

Talbot Financial, LLC

10500 NE 8th ST, #1700

Bellevue, WA 98004

Telephone: 425-533-0797

E-mail: Jim.Pirak@talbotfinancial.com

Brochure last updated: November 20, 2015

Form ADV Part 2A Brochure

This Form ADV Part 2A brochure provides information about the qualifications and business practices of Talbot Financial, LLC. If you have any questions about the contents of this brochure, please contact us at 425-533-0797 (Jim.Pirak@talbotfinancial.com) or at 206-714-3229 (Nathan@Talbotfinancial.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. Additional information about Talbot Financial, LLC also is available on the SEC's website at www.adviserinfo.sec.gov. Talbot Financial, LLC is a registered investment advisor. Registration as an investment advisor does not imply any certain level of skill or training.

Material Changes (Item 2)

This section of the brochure helps you quickly identify material changes from the last annual update.

This version of the Talbot Financial, LLC's Form ADV Part 2 is in a new narrative format. Please review all parts of it, including any supplements. This new brochure describes important details about us, the services we provide, and includes information that was not in our previous brochure. Since the last update of this document the following changes have occurred:

- Nathan Talbot is now a principal and part owner of Talbot Financial LLC. He joined the firm July 1, 2013. He is also an Investment Advisor Representative of the company. Please refer to his Form ADV Part 2B for a complete description of his education and business background.
- We amended our description of our billing methods to more accurately describe that we bill clients monthly in arrears. Please refer to “Item 5” of this document for further information.
- We have made a material change in the reporting of our company’s Assets Under Management for 2015 versus previous years related to real estate assets. Previously we had included real estate assets as part of non-discretionary Assets Under Management. We now segregate real estate assets under a new affiliate and no longer include real estate assets in our Assets Under Management calculations. Please refer to “Item 4” of this document for further information.
- Previously in our form ADV Part 2A we had shown a graduated / tiered fee structure. Talbot Financial charges between .85%-1.50% on equity assets and mutual funds under management; though the firm will, on occasion, choose to charge (0%) on some assets due to special situations such as holding restricted stocks for a client. Talbot Financial charges 0% on cash, .20%-.40% on individual fixed income investments. Please refer to “Item 5” in this document for further information.
- We have amended our description of our investment strategy to better describe our deep value method. Please refer to “Item 8” in this document for a full description.
- We amended our disclosures regarding proxy voting to more accurately describe our process. Please refer to “Item 17” of this document for a full description.
- James Pirak replaced Greg Zanetti as our Chief Compliance Officer as of June 1, 2015.

Table of Contents (Item 3)

Material Changes (Item 2)	1
Advisory Business (Item 4)	5
Types of Advisory Services	5
Types of Investments Used	6
Tailored Services and Investment Restrictions	6
Assets Under Management	6
Fees and Compensation (Item 5)	6
Compensation Methodology and Rates	7
How Clients Pay Advisory Fees	8
Other Types of Fees and Expenses	8
Commission Based Compensation	9
Performance-Based Fees and Side-By-Side Management (Item 6)	9
Types of Clients (Item 7)	10
Methods of Analysis, Investment Strategies, and Risk of Loss (Item 8)	10
Methods of Analysis	10
Investment Strategies	10
Risks	11
Disciplinary Information (Item 9)	13
Other Financial Industry Activities and Affiliations (Item 10)	13
Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading (Item 11)	14
Code of Ethics	14
Material Financial Interest and Personal Trading	14
Brokerage Practices (Item 12)	14
Factors Considered When Recommending Charles Schwab & Co., Inc. as Your Qualified Custodian	15
Review of Accounts (Item 13)	18
Reviews	18
Reports	18
Client Referrals and Other Compensation (Item 14)	19
Custody (Item 15)	19
Investment Discretion (Item 16)	19

Voting Client Securities (Item 17).....	19
Financial Information (Item 18)	20
Privacy Statement	21 <u>20</u>

Advisory Business (Item 4)

This section of the brochure tells you about our business, including ownership, and a description of the services we offer.

Talbot Financial, LLC is referred to in this document as “Talbot Financial”, “the Company”, “us”, “we”, or “our”. In this document we refer to current and prospective clients of Talbot Financial as “you”, “client”, or “your”. Talbot Financial was created in 2010 and is owned by its principals, Randall Talbot, James Pirak, and Nathan Talbot.

Types of Advisory Services

Investment Supervisory Services

Our clients enter into a written Investment Advisory Agreement, where Talbot Financial and our investment adviser representatives provide asset management services on a continuous and ongoing basis guided by the individual needs of the client. Using the information provided by you, the investment advice provided to you is tailored to your individual situation. We regularly inquire about, and you are responsible for providing, information about your investment goals, time horizon, and risk tolerance. These investment supervisory services are generally not provided to all your holdings or net worth but rather only to assets specifically designated by you and agreed to by us as managed assets.

Advice on Matters Not Involving Securities

Talbot Financial may from time-to-time provide advice on topics not involving securities. This advice may relate to real estate or insurance. The fees for this advice may be included as part of an assets under management billing agreement or a fixed fee agreement described in the written agreement between us. Non-securities related advice is only provided to you upon specific written request and agreement between us. Not all clients receive this type of advice.

Financial Planning

Some clients are provided a written plan that may include a personal balance sheet and certain projections. Any reports, financial statement projections, and analyses are intended exclusively for your use in developing and implementing your financial plan. In view of this limited purpose, the statements should not be considered complete financial statements. Talbot Financial will not audit, review, or compile financial statements, and accordingly, we will not express an opinion or other form of assurance on them, including the reasonableness of assumptions and other data on which any prospective financial statements are based. It is likely that there will be material differences between projected and actual results because events vary and circumstances frequently do not occur as expected.

Our analyses will be highly dependent on certain economic assumptions about the future. Therefore, you should establish familiarity with historical data regarding key assumptions such as inflation and investment rates of return, as well as an understanding of how significantly these assumptions affect the results of our analyses. We may counsel you as to

the consistency of your assumptions with relevant historical data, but we will not express any assurance as to the accuracy or reasonableness of your specific data and assumptions. You are ultimately responsible for the assumptions and personal data upon which our procedures and projections are based. The financial plan assumptions and reports are primarily a tool to alert you to certain possibilities. 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.

The financial plans provided for some of our clients do not address all potential aspects of financial planning. Typically, our plans address retirement planning, college funding, and asset allocation. Risk management issues such as life, health, disability, and long-term care insurance are not typically addressed in the plan and you are encouraged to ask us about these areas if you are interested.

Types of Investments Used

We consider many different types of securities when formulating the investment advice we give to you. If you come to us with existing investments, we evaluate them with respect to your financial goals, risk tolerance, and investment time horizon. Depending upon your situation, your account(s) managed by us may contain individual stocks, corporate and/or government bonds, mutual funds, or exchange traded funds ("ETFs"). In some situations we may recommend that real estate and insurance be part of your investment portfolio.

Negatively Correlated Investments

We may invest a portion of your portfolios in negatively correlated mutual funds or ETFs. Negatively correlated mutual funds or ETFs may rise in value while the general stock market declines and vice versa. We may add these negatively correlated mutual funds or ETFs in an attempt to reduce the volatility of your portfolio. The addition of negatively correlated investments does not in any way guarantee that the volatility, draw down, or loss of portfolio principal will be lower and it may actually reduce long-term portfolio performance.

Tailored Services and Investment Restrictions

We attempt to tailor your investment portfolio to your situation as you have described it to us. This is why it is so important that you let us know about changes to your financial situation, goals, or investment time horizon. You may impose restrictions on investing in certain securities or types of securities. You must clearly identify these restrictions in writing to us.

Assets Under Management

As of February 26, 2015, Talbot Financial manages approximately \$124,859,546, all on a discretionary basis.

Fees and Compensation (Item 5)

This section of the brochure describes how we are compensated for the services we offer.

Compensation Methodology and Rates

Assets Under Management

Some clients are charged for our asset management services based on a percentage of the assets being managed. Talbot Financial charges between .85%-1.50% on equity assets and mutual funds under management; though the firm will, on occasion, choose to charge (0%) on some assets due to special situations such as holding restricted stocks for a client. Talbot Financial charges 0% on cash, .20%-.40% on individual fixed income investments.

Your specific annual fee arrangement will be described in the written Investment Advisory Agreement entered into between Talbot Financial and you. Investment advisory fees charged by us are negotiable at our sole discretion. All clients do not pay the same fee. A lower fee for a comparable service may be available from other sources.

The annual fee for our services is billed monthly, in arrears, based on the value of the account at the end of the month. If the management agreement does not span the entire monthly billing period, the fee will be pro-rated based on the number of days the account is open during the billing period. Your account custodian will send client statements, at least quarterly, showing all disbursements for the account including the amount of the advisory fee, if deducted directly from the account. It is the shared responsibility of Talbot Financial and you to verify the accuracy of the fee calculation as the account custodian will not determine whether the fee has been properly calculated. See Brokerage Practices (Item 12) in this brochure for more information about your account custodian(s).

You may terminate the Investment Advisory Agreement without fee or penalty by providing written notice to Talbot Financial within five (5) business days from the execution of the agreement. Thereafter, either party may terminate the Investment Advisory Agreement by providing written notice. Any unearned fees collected in advance of services being performed will be returned to you on a *pro rata* basis.

Fixed Fees

You may enter into an Investment Advisory Agreement where the fee for services is determined through negotiations and agreement between you and Talbot Financial. Fixed fees are not necessarily based upon the value of assets managed or time expended providing services. Fixed fees are normally agreed to for one year, then renegotiated and agreed to for future periods. If you are paying a fixed fee you may pay a fee higher or lower than one based upon the value of assets managed. In the event a fixed fee engagement is terminated, unearned fees will be returned to you on a *pro rata* basis.

Valuation of Publicly Traded Securities

Publicly traded securities in your account(s) managed by us are held at the custodian that we recommend but is ultimately chosen by you. We use the securities valuation provided by the independent qualified custodian for reporting and billing purposes. Publicly traded securities are usually valued as of the end of business on the last trading day of the calendar quarter.

How Clients Pay Advisory Fees

Fees are generally deducted directly from your account. You may provide your qualified account custodian with written authorization to have fees deducted from the account and paid to Talbot Financial.

Other Types of Fees and Expenses

In addition to the investment advisory fees you pay to us, you will pay transaction fees (commissions) to your custodian or broker-dealer for executing securities transactions and charges for special services elected by you or Talbot Financial. These fees may include:

- periodic distribution fees
- electronic fund and wire transfer fees
- certificate delivery fees
- reorganization fees
- account transfer fees (outbound)
- returned check fees
- international security transfer fees
- overnight mail and check fees
- Rule 144 transfer fees
- transfer agent fees

This list is not meant to be all inclusive. Any fee on a special service incurred by the client will be fully disclosed. Please refer to Item 12 of this document for an explanation of our brokerage practices.

Investment Company Fees

Investment company funds (e.g., mutual funds or ETFs) that are held by you will bear their own internal transaction and execution costs, as well as directly compensate their investment managers along with internal administrative services. Some funds pay 12b-1 fees, distribution fees, and/or shareholder service fees to broker-dealers that offer investment company funds to their clients. These fees affect the net asset value of the fund shares and are indirectly borne by fund shareholders such as you.

Some fund companies have imposed a redemption fee. A redemption fee is another type of fee that some funds charge their shareholders when shares are sold or redeemed within a short period of time from the purchase of the fund shares. Although a redemption fee is deducted from redemption proceeds just like a deferred sales load, it is not considered to be a sales load. Unlike a sales load, which is generally used to compensate brokers, a redemption fee is typically used to defray fund costs associated with a shareholder's redemption and is paid directly to the fund, not to a broker. The SEC generally limits redemption fees to 2%. In most cases, the funds will use the "first-in, first-out" (FIFO) method to determine the holding period. Under this method, the date of the redemption will be compared with the earliest purchase date of shares held in the account. While it is not the general practice of Talbot Financial to sell client's securities in a period that would

generate a redemption fee we might do so if we believe the sale is in your best interests, or if fund shares must be redeemed to pay fees from the account.

A complete explanation of these charges is contained in the Prospectus and Statement of Additional Information for each investment company fund. You can get a prospectus through the investment company website, by telephone, or by mail.

Commission Based Compensation

Our investment advisor representatives do not receive any commission based compensation related to 12b-1 distribution fees or other sales commissions from investment companies while providing investment advisory services to you.

Additional Compensation

The owners of Talbot Financial and its Investment Advisor Representatives ("IARs") are also licensed as insurance agents. During the course of providing services to a client, they may recommend that you purchase, sell or hold an insurance product. Our IARs, when acting as insurance agents, will receive compensation usually based upon the size (premium amount) and/or type of insurance product. The receipt of the fees and commissions creates a financial incentive for the IARs to recommend one investment choice or insurance product over another. This incentive creates a potential conflict of interest between you and Talbot Financial where the IAR has an incentive to recommend investment products based on the compensation received, rather than on your needs. You acknowledge that the IAR and Talbot Financial will receive payment in addition to any investment advisory or financial planning fee(s) paid by you. To address these potential conflicts, we review the costs and expenses associated with investments selected for, or recommended to, you to assure that the costs incurred are reasonable with respect to the services provided.

Performance-Based Fees and Side-By-Side Management (Item 6)

This section of the brochure explains any performance-based fees we may charge you for and how they may be different from other clients' charges.

Talbot Financial does not charge fees that are based upon a share of capital gains or capital appreciation of client assets.

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 to act in the best interests of each of our clients at all times.

Types of Clients (Item 7)

This section of the brochure describes who we generally provide our services to.

Talbot Financial provides advisory services to a variety of types of clients including individuals, trusts, individual's pension plan accounts, and retirement plan trustees.

Methods of Analysis, Investment Strategies, and Risk of Loss (Item 8)

This section of the brochure explains how we formulate our investment advice and manage client assets.

Methods of Analysis

Value Investing

As part of our analysis of investments we currently use a deep value method that emphasizes the strength of a company's balance sheet, income statement and statement of cash flows. Factors such as P/E ratio, dividend yield, top and bottom line growth, free cash flow, and strength of the management team are all part of the evaluation process. Talbot Financial does not invest in accordance with a specific asset allocation model, but rather has adopted a value-style investment philosophy that is reflected in the great majority of client portfolios. We attempt to do this by carefully choosing the proportions of various "value" assets in an investment portfolio. Client portfolios that do not reflect this philosophy are a result of the client's expressed wishes to invest in a different manner. We analyze an investment by examining its publically available financial statements or reports, its management, competitive advantages, competitors, and markets. We attempt to identify investments that are selling for less than their intrinsic worth. Our fundamental analysis method is based upon the assumption that markets may misprice an investment in the short run but that the "correct" price will eventually be reached. We might not be diversified by asset class. Some positions could be concentrated (as defined as a position greater than 5% of the overall portfolio.)

Investment Strategies

We attempt to adjust our asset allocation advice to over-weight or focus on an asset class or sector of the market that we feel will perform better than others. We strive to buy investments with the goal of holding them as long-term investments, but we might recommend you sell a particular investment if, in our opinion, it is no longer in your best interest to hold.

Risks

General Risks to Investing

Investing is not without risk, and involves the risk of loss of principal which you should be prepared to bear. We use several strategies to try to reduce risk, including diversifying a portfolio across sectors and monitoring the portfolio for changes in fundamentals.

Despite these strategies, historical evidence clearly shows that every asset class has experienced severe declines in value—sometimes sustained over many years—throughout several periods of time in history. In addition, each of our strategies to minimize risk may not achieve that goal as the benefits of diversification decline if asset classes become more correlated. As with any investment, you could lose all or part of your investments managed by Talbot Financial, and your account's performance could trail that of other investments.

Asset Class Risk

Securities in your portfolio(s) or in underlying investments such as mutual funds may underperform in comparison to the general securities markets or other asset classes.

Concentration Risk

To the extent that Talbot Financial recommends portfolio allocations that are concentrated in a particular market, industry or asset class, your portfolio may be susceptible to loss due to adverse occurrences affecting that market, industry, or asset class.

Equity Securities Risk

Equity securities are subject to changes in value that may be attributable to market perception of a particular issuer or general stock market fluctuations that affect all issuers. Investments in equity securities may be more volatile than other types of investments.

Growth Securities Risk

Growth companies are companies whose earnings growth potential appears to be greater than the market, in general, and whose revenue growth is expected to continue over an extended period. Stocks of growth companies or "growth securities" have market values that may be more volatile than those of other types of investments. Growth securities typically do not pay a dividend.

Issuer Risk

Your account's performance depends on the performance of individual securities in which your account invests. Any issuer may perform poorly, causing the value of its securities to decline. Poor performance may be caused by poor management decisions, competitive pressures, changes in technology, disruptions in supply, labor problems or shortages, corporate restructurings, fraudulent disclosures, or other factors. Changes to the financial condition or credit rating of an issuer of those securities may cause the value of the securities to decline.

Management Risk

The performance of your account is subject to the risk that our investment management strategy may not produce the intended results.

Market Risk

Your account could lose money over short periods due to short-term market movements and over longer periods during market downturns. The value of a security may decline due to general market conditions, economic trends, or events that are not specifically related to the issuer of the security or to factors that affect a particular industry or industries. During a general downturn in the securities markets, multiple asset classes may be negatively affected.

Market Trading Risks

Your investment account faces numerous market trading risks, including the potential lack of an active market for investments held in your account and losses from trading in secondary markets.

Passive Investment Risk

Talbot Financial may use a passive investment strategy that is not actively managed where we do not attempt to take defensive positions in declining markets.

Larger Company Securities Risk

Securities of companies with larger market capitalizations may underperform securities of companies with smaller and mid-sized market capitalizations in certain economic environments. Larger, more established companies might be unable to react as quickly to new competitive challenges, such as changes in technology and consumer tastes. Some larger companies may be unable to grow at rates higher than the fastest growing smaller companies, especially during extended periods of economic expansion.

Leverage Risk

Certain transactions may give rise to a form of leveraging, including borrowing. Such transactions may include, among others, reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed-delivery, or forward-commitment transactions. The use of derivatives may also create leverage. The use of leverage may cause a portfolio to liquidate portfolio positions when it may not be advantageous to do so. Leveraging may make a portfolio more volatile than if the portfolio had not been leveraged. This is because leverage tends to increase a portfolio's exposure to market risk, interest rate risk, or other risks by increasing assets available for investment.

Liquidity Risk

A security may not be able to be sold at the time desired without adversely affecting the price.

Regulatory Risk

Changes in government regulations may adversely affect the value of a security. An insufficiently regulated industry or market might also permit inappropriate practices that adversely affect an investment.

Smaller Company Securities Risk

Securities of companies with smaller market capitalizations, historically, tend to be more volatile and less liquid than larger company stocks. Smaller companies may have no or relatively short operating histories, or be newly public companies. Some of these

companies have aggressive capital structures, including high debt levels, or are involved in rapidly growing or changing industries, or new technologies, which pose additional risks.

Value Style Investment Risk

Value stocks can perform differently from the market as a whole and from other types of stocks. Value stocks may be purchased based upon the belief that a given security may be out of favor. Value investing seeks to identify stocks that have depressed valuations, based upon a number of factors which are thought to be temporary in nature, and to sell them at superior profits when their prices rise when the issues which caused the valuation of the stock to be depressed are resolved. While certain value stocks may increase in value more quickly during periods of anticipated economic upturn, they may also lose value more quickly in periods of anticipated economic downturn. Furthermore, there is a risk that the factors which caused the depressed valuations are longer term or even permanent in nature, and that there will not be any rise in value. Finally, there is the increased risk that such companies may not have sufficient resources to continue as ongoing businesses, which may result in the stock of such companies becoming worthless.

Key Man Risk

We are a small firm with James Pirak performing several key functions. This fact leads to “key man risk,” or the risk that something could happen to Mr. Pirak that negatively affects your portfolio.

Disciplinary Information (Item 9)

This section of the brochure lists legal and disciplinary information for Talbot Financial, its owners, and management team.

Neither Talbot Financial nor any of our owners or management team members has been involved in any civil or criminal investment-related events.

Other Financial Industry Activities and Affiliations (Item 10)

This section of the brochure describes other financial services industry affiliations we may have that could present a conflict of interest with you.

We want you to know that there are certain entities with which Talbot Financial has relationships that may give rise to conflicts of interest, or the appearance of conflicts of interest. Talbot Properties, LLC is an affiliate of Talbot Financial, LLC. Talbot Properties, LLC manages real estate investments for a number of separate LLCs for a fee but does not hold direct ownership in any real estate projects.

Insurance Agent

Our Investment Advisor Representatives may provide advice about matters other than securities. Our Investment Advisors may also act as an insurance agent. As an insurance agent, our Investment Advisor Representatives will receive compensation based upon

whether or not, and in what amount, clients purchase insurance products through him. Please refer to the Additional Compensation section of Item 5 of this document.

Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading (Item 11)

This section of the brochure describes our code of ethics, adopted pursuant to SEC rule 204A-1, and how we deal with client and related person trading.

Code of Ethics

We have adopted a code of ethics designed to prevent and detect violations of securities rules by our employees and affiliated persons. Our controls in this area focus upon securities transactions made by our employees that have access to material information about the trading of Talbot Financial. We will provide a copy of our code of ethics to clients or prospective clients upon request.

Material Financial Interest and Personal Trading

From time-to-time the interests of the principals and employees of Talbot Financial may coincide with yours and other clients. Individual securities may be bought, held, or sold by a principal or employee of Talbot Financial that is also recommended to or held by you or another client. If potential insider information is inadvertently provided or learned by a principal or employee, it is our policy to strictly prohibit its use.

It is the policy of Talbot Financial to permit the firm, its employees and investment advisor representatives ("IARs") to buy, sell, and hold the same securities that the IARs also recommend to clients. It is acknowledged and understood that we perform investment services for different types of clients with varying investment goals, risk profiles, and time horizons. As such, the investment advice offered to you may differ from other clients and investments made by our IARs. We have no obligation to recommend for purchase or sale a security that Talbot Financial, its principals, affiliates, employees, or IARs may purchase, sell, or hold. When a decision is made to liquidate a security from all applicable accounts, priority will always be given to client orders before those of a related or associated person to Talbot Financial. In some cases the trades of the clients and advisory personnel will be combined in a single block trade, and all trades will receive the average price. We have procedures for dealing with insider trading, employee-related accounts, "front running" and other issues that may present a potential conflict when buy/sell recommendations are made. These procedures include reviewing employee security transactions and holdings to eliminate, to the extent possible, the adverse effects of potential conflicts of interest on clients.

Brokerage Practices (Item 12)

This section of the brochure describes how we recommend broker-dealers for client transactions.

Factors Considered When Recommending Charles Schwab & Co., Inc. as Your Qualified Custodian

Talbot Financial does not maintain custody of your assets that we manage, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15 – Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (“Schwab”), a registered broker-dealer, Member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may help you do so. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see “Your Brokerage and Custody Costs”).

How We Select Brokers/Custodians

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.)
- Availability of investment research and tools that help us make investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Availability of other products and services that benefit us

Your Brokerage and Custody Costs

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. In addition to commissions, Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs,

we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “How We Select Brokers/Custodians”).

Products and Services Available to Us From Schwab

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab’s business serving independent investment advisory firms like us. They provide us with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while others help us manage and grow our business. Schwab’s support services generally are available on an unsolicited basis (we don’t have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab’s support services.

Services That Benefit You

Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab’s services described in this paragraph generally benefit you and your account.

Services That May Not Directly Benefit You

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients’ accounts. They include investment research, both Schwab’s own and that of third parties. We may use this research to service all or a substantial number of our clients’ accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients’ accounts
- Assist with back-office functions, recordkeeping, and client reporting

Services That Generally Benefit Only Us

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs

- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

Our Interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How We Select Brokers/Custodians") and not Schwab's services that benefit only us.

Some of the products or services provided by the Schwab do not qualify for the safe harbor in section 28(e) of the Securities Exchange Act of 1934, including those services that do not aid in investment decision-making or trade execution.

Brokerage for Client Referrals

Talbot Financial does not have any agreements in place where securities transactions are directed to particular broker-dealers in exchange for client referrals.

Directed Brokerage

If you direct Talbot Financial to execute securities transaction at a broker-dealer other than one we use for our other clients you will forgo any benefit from savings on execution costs that we may have obtained through our negotiation of volume discounts or batched orders. In directing the use of a particular broker-dealer, it should be understood that we will not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. You may incur higher commissions, other transactions costs, greater spreads, or receive less favorable net prices, on transactions for your account than would otherwise be the case had you used a broker-dealer we prefer.

Aggregated Orders

When we decide to purchase or sell a specific security for multiple clients at the same time, we will consider aggregating, or combining the orders. This procedure will result in a single average price for all client transactions in the aggregated order. The account custodian charges for each transaction as if it were placed individually.

Allocation of Thinly Traded Securities

Talbot Financial may allocate securities among accounts when enough of a particular security or securities cannot be purchased or sold on a given day at a desired price. In this event, we will allocate the shares actually purchased or sold on pro rata basis. We may remove small allocations from the process if we believe it would not be in the best interest of our client(s).

Trade Errors Policy

From time-to-time we may make an error in submitting a trade order on your behalf. When this occurs, we may place a correcting trade with the broker-dealer which has custody of your account. If an investment gain results from the correcting trade, the gain will remain in your account unless the same error involved other client account(s) that should have received the gain, it is not permissible for you to retain the gain, or we confer with you and you decide to forego the gain (e.g., due to tax reasons). If the gain does not remain in your account and Charles Schwab & Co. Inc. ("Schwab") is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, Talbot Financial will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in your account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in your account, they may be netted.

Review of Accounts (Item 13)

This section of the brochure describes how often client accounts are reviewed and by whom.

Reviews

Talbot Financial reviews the securities held in its clients' investment supervisory accounts on an ongoing basis. The reviews are conducted by James Pirak and Nathan Talbot, Investment Advisor Representatives. Your accounts are reviewed at least quarterly for proper asset and sector allocation to assure they comply with your investment objectives and mandates. Reviews may be triggered by changes in a client's personal, tax, or financial status. Macroeconomic and company-specific events may also trigger reviews.

Financial plans are not reviewed after delivery to you. We only review financial plans upon specific written request.

Reports

Talbot Financial does not prepare or send written reports to all clients. We have arranged for your independent qualified account custodian, Schwab, to prepare and distribute account statements directly to you. These account statements describe all activity in the clients' accounts including account holdings, transactions, and investment advisory fees deducted from the account.

Client Referrals and Other Compensation (Item 14)

This section of the brochure discloses our arrangements with people who are compensated for referring us business.

Talbot Financial has not entered into any agreements with third parties to give or receive referrals for compensation.

Custody (Item 15)

This section of the brochure encourages you to check the statements sent to you by your account custodian to ensure the accuracy of the fee calculation.

You have authorized us to deduct periodic investment advisory fees directly from one or more of your accounts managed by Talbot Financial. These deductions from your account are shown on the periodic statements sent by your qualified custodian. You are encouraged to review these statements carefully and compare the amounts on the custodian statements with any statements we send and the fee schedule outlined in your Investment Advisory Agreement.

Investment Discretion (Item 16)

This section of the brochure discloses the power we have to make trades in your account.

You grant Talbot Financial a limited power of attorney to select, purchase, or sell securities without obtaining your specific consent within the account(s) you have under our management. The limited powers of attorney are granted in the written Investment Advisory Agreement entered into between us. There are no restrictions upon the securities that may be purchased, sold, or held in your account unless you provide these restrictions to us in writing.

Voting Client Securities (Item 17)

This section of the brochure explains our proxy voting policy and your ability to get proxy voting information from us.

Talbot Financial, LLC ("Talbot Financial") has adopted proxy voting policies and procedures (the "Policies"), which are described below. Talbot Financial manages its Client's assets consistent with governing laws and the investment policies of each Client. When charged with the responsibility to vote proxies on behalf of its Clients, Talbot Financial seeks to exercise its Clients' rights as shareholders of voting securities with the principle aim of maintaining or enhancing the companies' economic value.

The Policies are designed to promote accountability of a company's management to its shareholders and to align the interests of management with those shareholders. Talbot

Financial will generally support company management on proposals relating to environmental and social policy issues, on matters regarding the state of organization of the company and routine matters related to corporate administration which are not expected to have a significant economic impact on the economy or its shareholders. Talbot Financial will generally support company management recommendations for matters relating to, among other things, the election of directors, approval of independent auditors, executive compensation that is reasonable in our judgment, corporate structure and anti-takeover defenses. Fee or cost increases recommended by Mutual Fund management are generally voted against. On all other matters, Talbot Financial will review each matter on a case-by-case basis and reserves the right to deviate from the Policies' guidelines when it believes the situation warrants such a deviation.

Talbot Financial may abstain from voting from time to time where it determines that the costs associated with voting a proxy outweigh the benefits derived from exercising the right to vote.

In addition, Talbot Financial will monitor situations that may result in a conflict of interest between any of its Clients by maintaining a list of significant existing and prospective corporate Clients. Talbot Financial's personnel responsible for reviewing and voting proxies on behalf of its Clients will report any proxy received or expected to be received from a company included on that list to James Pirak of Talbot Financial. James Pirak will determine if a conflict exists. If a conflict does exist, the proxy will either be voted strictly in accordance with the Policy or Talbot Financial will seek instruction on how to vote from the Client (or its agent).

Clients may obtain information on how Talbot Financial voted on proxies related to securities held in their accounts by contacting Talbot Financial at 425- 533-0797 or James Pirak at Jim.Pirak@Talbotfinancial.com.

Talbot Financial, LLC
10500 NE 8th ST, #1700
Bellevue, WA 98004

Financial Information (Item 18)

This section of the brochure is where investment advisors that collect more than \$1200 in fees per client and six months or more in advance would include a balance sheet.

Talbot Financial is not aware of any circumstance that is reasonably likely to impair our ability to meet contractual commitments to you or our other clients. We do not require pre-payment of investment advisory fees of greater than \$1200 and more than six months in advance.

Privacy Statement

We, like other professionals who advise on personal financial matters, are required by federal law to inform our clients of their policies regarding the privacy of client information.

In the course of providing our clients with certain advice, we may receive nonpublic personal financial information such as financial statements, account statements, and tax returns from our clients, their accountants and other representatives. All nonpublic personal information that we receive regarding our clients or former clients is held in strict confidence in accordance with our professional obligations, and is not released to people outside Talbot Financial, except with your consent, as required by law or to explain our actions to professional organizations that we are members of. We may share certain information with third parties who assist us in providing our services to you (such as administrative and client service functions) or marketing services, as permitted by law, subject to the obligation of these third parties not to use or disclose such information for any other purpose.

We retain records relating to professional services that we provide so that we are better able to assist you with your professional needs and, in some cases to comply with professional guidelines. In order to guard your nonpublic personal information from unauthorized disclosure, we maintain physical, electronic, and procedural safeguards.