

# FILAMENT, LLC

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March 31, 2017

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

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

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## Item 2 – Material Changes

The date of the previous annual update to our Brochure was March 30, 2016. This annual updating amendment is made as of March 31, 2017. This section summarizes all material changes that have been made to the Brochure since the previous annual update.

Our regulatory assets under management (“AUM”) found in Item 4 have been updated as of December 31, 2016. We manage for clients \$951,594,917 on a discretionary basis and \$580,613,175 on a non-discretionary basis.

Changes we believe are not material, including changes in word choice or phrasing, were made to items 4, 5, 11, 12, and 16.

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

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

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## Item 4 – Advisory Business

Filament, LLC (“Filament”) is an SEC registered investment advisory firm located in Seattle, Washington. Registration of an investment adviser does not imply any level of skill or training. Approximately 90% of our firm is owned by Filament employees. We have been in business since 2005.

Our Clients are predominantly high net worth individuals and families with complex holdings and a need for comprehensive investment and financial advice. We may advise and provide services to many different accounts and entities related to our Clients, including personal and retirement accounts, education savings accounts, accounts of minor children, revocable and irrevocable trusts, family partnerships, foundations, charitable organizations and similar entities. The complexity of our Clients’ financial lives often requires that we work in close collaboration with other advisors that the Client has engaged, including other investment advisors, attorneys, CPAs, insurance professionals, and bill payment services. We are not affiliated with, and have no financial arrangements with, any of these other advisors.

We manage investment portfolios on both a discretionary and non-discretionary basis. Please refer to Item 16.

To guide and inform our work with each Client we jointly formulate an Investment Policy Statement (or “IPS”) that summarizes the Client’s goals, objectives, constraints, risk tolerance and unique circumstances, including such factors as time horizon, projected future liquidity needs, current holdings, tax considerations, and personal market or investment views. A Client may have more than one investment policy; for example, when one account or entity within a Client relationship has a distinct legal status or unique goals, objectives, constraints, risk tolerance or unique circumstances. The Investment Policy Statement guides us in objectively formulating suitable investment and financial recommendations for each Client. We meet with Clients as needed to review portfolio performance, discuss current issues, and reassess goals and investments plans. Client input, involvement and, as appropriate, decision-making are critical parts of the investment process.

As a consequence of the complexity of our Clients’ financial lives and the customized advice we offer, each Client’s investment portfolio is unique, although it may share common characteristics with portfolios that have similar investment objectives. Because each portfolio is unique, investment results may vary, even between accounts that have similar investment objectives or similar portfolios. Idiosyncratic factors that can influence the composition of Client’s portfolio and investment results include (*but are not limited to*):

- Whether we have been given discretion over any part or all of the portfolio
- Decisions made by the Client whether to invest (or not invest) in any security or investment product we may recommend from time to time
- The timing of initiation of the portfolio, or any investment or part of the portfolio, including amounts added to or withdrawn from the portfolio
- Whether the portfolio contains any legacy holdings or positions (those that pre-date engagement of our Firm) or investments made by the Client during our engagement

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that have not been recommended by our Firm which we may agree to incorporate into portfolio reporting or analysis as requested by the Client

- Investment constraints and restrictions imposed by the Client on the types of investments that may be made or the types of securities that may be purchased for the portfolio, which Filament may consent to but not recommend
- Regulatory constraints that may apply to any part or all of the portfolio

### **Filament's Integrated Investment Advisory and Family Office Service**

We tailor our services to the specific needs of each Client, but most commonly we are engaged to provide an integrated investment advisory and family office service. The investment advisory services in this integrated offering include: (i) development of the written Investment Policy Statement; (ii) design of an asset allocation tailored to Client-specific circumstances; (iii) development of financial modeling or financial projections to test and support asset allocation decisions; (iv) investment product due diligence, selection and recommendation; (v) discretionary and non-discretionary investment implementation, ongoing supervision, monitoring and portfolio rebalancing activities; (vi) quarterly client investment and performance reporting; and (vii) periodic meetings (typically 2-4 per year), either in person, by telephone or through other means of communication as required under the circumstances.

In our integrated Investment Advisory and Family Office Service we provide, or coordinate the provision of, other related financial advice and services. The scope of these services is determined by the Client and is one factor in determining our retainer fee (see Item 5). This advice and these services may include:

- Financial independence/retirement planning
- Capital and liquidity needs analysis and related financial modeling
- Coordination with Client's CPA on matters of income tax planning and reporting
- Coordination with Client's lawyer on matters of estate planning and gifting
- Philanthropy planning and implementation
- Education planning
- Coordination with Client's third-party providers of life, disability and other lines of personal insurance
- Employee stock option planning
- Consideration and evaluation of financing transactions and risk reduction strategies for concentrated equity positions
- Advice incident to major asset purchases and sales
- Coordination with Client's third-party bill payment service provider

Financial recommendations are developed and implemented on an ongoing basis and are summarized for the Client through periodic written reports, analysis and evaluations. Communications with our Clients' third party service providers, including legal counsel and accountants engaged by our Clients, are integral in helping us develop customized investment and financial recommendations.

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## **Filament's Portfolio Management Service**

To meet the needs of institutional investors (including foundations and endowments) and individual and family Clients for whom comprehensive financial planning and family office services are not requested, we provide stand-alone investment advisory services. Our Portfolio Management Service covers only agreed upon portfolio assets (the "Managed Account"), and our scope of services is limited to: (i) development of a written Investment Policy Statement; (ii) design of an asset allocation tailored to Client-specific circumstances; (iii) development of financial modeling or financial projections to test and support asset allocation decisions; (iv) investment product due diligence and selection; (v) discretionary and non-discretionary investment implementation, ongoing supervision, monitoring and portfolio rebalancing activities for the Managed Account; (vi) quarterly client investment and performance reporting on the Managed Account; and (vii) periodic meetings (typically 2-4 per year), either in person, by telephone or through other means of communication as required under the circumstances.

### **Additional Detail Regarding Our Advisory Business**

Please see Item 8 for a detailed description of investment strategies employed in our integrated Investment Advisory and Family Office Service and our Portfolio Management Service.

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

Clients may impose restrictions on investing in certain securities or types of securities. In addition, Clients may invest in or hold certain securities that we have not reviewed, approved or recommended. We consider these types of restrictions and holdings when preparing a Client's Investment Policy Statement and in implementing portfolio decisions for the Client's account(s).

We do not manage wrap fee programs.

As of December 31, 2016, Filament managed \$951,594,917 of Client assets on a discretionary basis and \$580,613,175 of Client assets on a non-discretionary basis. These amounts were calculated as of December 31, 2016.

## **Item 5 – Fees and Compensation**

### **Fees and Compensation in General**

We are paid exclusively by our Clients in the form of an agreed upon annual retainer, a quarterly charge on assets under management or special project or retainer fees. Neither Filament nor any of our supervised persons accept compensation from the sale of securities or any other investment products or services. We are independent of any broker-dealer or other investment management firm and we do not accept referral fees from any brokerage firm, advisory firm or professional advisor to whom we may refer clients. We believe this compensation structure provides transparency regarding our fees, and best aligns our interests with those of our Clients.

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## **Integrated Investment Advisory and Family Office Service**

Clients of our Investment Advisory and Family Office Service pay us an annual retainer fee that is negotiated and set forth in our engagement agreement (or an addendum thereto). We generally require a \$50,000 minimum retainer fee for this service, but we may agree to a lower retainer amount in our sole discretion and for any reason whatsoever. Retainer fees in highly complex scenarios can exceed \$250,000 per year. We review retainer fees approximately every 12 months to assess their appropriateness in light of current circumstances and to assess comparability of fees across similar engagements. Retainer fees may be adjusted at any time by the mutual agreement of the parties, and until adjusted continue at the agreed upon retainer amount. We base our retainer fees on several criteria. First, we consider the Client's total assets under management with our firm. Second, we consider the complexity of the Client's affairs and the scope of services which are required or requested. Factors that influence complexity and scope of the engagement can include (i) the number and nature of entities associated with the engagement (including partnerships, corporations, trusts, foundations and similar); (ii) the composition of investment wealth (including the mix of traditional and non-traditional investments); (iii) Client's request to incorporate outside accounts or assets in regular financial and/or investment and performance reporting; (iv) the scope of financial advisory and family office services to be provided and anticipated frequency of meetings; (v) the training and skills required of staff members providing the services; (vi) the longevity of the client relationship; and (vii) other factors unique to the engagement.

## **Portfolio Management Service**

Filament's Portfolio Management Services generally are provided in accordance with the following fee schedule:

<b>Assets Under Management</b>	<b>Management Fee</b>
For the first \$3 million	0.1875% of account value per quarter (0.75% per annum) (subject to minimum \$15,000 annually)
On the next \$3 million	0.125% of account value per quarter (0.50% per annum)
On assets above \$6 million	0.075% of account value per quarter (0.30% per annum)

We may agree to a lower or flat fee for our Portfolio Management Services in our sole discretion and for any reason whatsoever.

## **Limited Scope Engagement**

Occasionally we provide investment consulting or financial planning services on a limited engagement or special project basis. Special projects are highly customizable and idiosyncratic and may include (for example) financial analysis, wealth transfer planning, investment or philanthropy

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education, and specialized or custom investment due diligence. We charge hourly or project fees, as set forth in our engagement agreement with the Client, based on the projected complexity and scope of the analysis or services requested and the training and skills of staff members providing the requested service. If billed on an hourly basis, rates may range from \$100/hour to over \$500/hour.

### **Other Considerations**

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

Fees and account minimums for all services are negotiable and we may, in our complete discretion, consider factors such as the potential for additional amounts under management, relationship with existing or prospective Clients, the dollar amount of assets to be managed, charitable or eleemosynary purposes of a Client or Client-entity and other considerations. Owners and employees of our company, and their family and friends, may receive investment and financial advisory services (under any of the programs described in this Item) for free or at fees that are lower than what we generally charge Clients.

We believe that our fees are competitive with firms that offer similar services, but comparable services may be available from others for lower fees.

Retainer fees generally are billed quarterly in advance of service each January 1st, April 1st, July 1st, and October 1st (or on the following business day if such date is a holiday or weekend). Retainer fees are payable in equal quarterly installments. Retainer fees may be changed by written agreement of the parties at any mutually agreeable date, but until adjusted by mutual agreement continue annually at the agreed upon retainer amount. For purposes of calculating our quarterly Portfolio Management Fee, AUM is determined as of the business day preceding the first day of each quarter. The quarterly Management Fee is payable as of January 1st, April 1st, July 1st, and October 1st of each calendar year but is invoiced and collected following determination of Assets Under Management as soon as is practicable following the prior quarter-end. For any short year or quarter, retainer or AUM fees are pro-rated on a daily basis assuming a 365 day year. If authorized by our Client, fees may be paid directly to us from the Client's account by the custodian upon Filament's submission of an invoice to the custodian. Payment of fees through the qualified custodian may result in Filament liquidating Client securities if there is insufficient cash in the account.

Payment terms for special project fees are set forth in the engagement agreement for the project. We typically require a deposit at the time of initiation of service, periodic progress payments, and final payment upon completion of any special project. Under no circumstances is the Client required to prepay fees for more than six months of services.

Our fees are exclusive of all transaction fees, custodial fees, and direct investment manager fees or costs for Client investments we recommend, including for example brokerage commissions, management fees or costs of mutual funds, exchange traded funds, managed accounts, investment partnerships or similar. We may seek to negotiate reductions and concessions in these fees and costs if the scale of our activity with a manager or custodian permits us to do so. Investment fees and costs for recommended investments typically are set forth in an offering document or prospectus for an investment. We urge Clients to review and familiarize themselves with these fees



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and expenses in order to understand the total cost of the investments we recommend. Please see Item 12.

While our fees may include the time and activities necessary for the firm to coordinate and communicate with third party advisors (such as with lawyers, accountants, insurance specialists and other similar professionals), our fees are exclusive of the fees and costs of these third party advisors engaged by the Client.

Either party may terminate our engagement agreement upon 30 days prior written notice to the other party. In the event of termination, any prepaid but unearned fees are promptly refunded to the Client. Any fees that have been earned by Filament but not yet paid by the Client are due and payable. We may modify the terms of the fee agreement by giving Clients 30 days written notice in advance.

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

We do not charge performance-based fees for any of our services or engage in side-by-side management.

### **Item 7 – Types of Clients**

We provide investment and financial advisory services predominantly to high net worth individuals, families, and related family entities. Entities we commonly advise include trusts, estates, family foundations, family investment corporations, partnerships and small businesses. We also provide investment advisory services to institutional clients, including charities (and their endowments or foundations) and donor advised funds. We do not have a stated minimum account size, but we generally require a minimum retainer or fee under any of our investment advisory programs.

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

Our investment strategies are tailored to investors with a long time horizon and an appreciation for an institutional style of investing. We focus particularly on the tradeoff of return as compensation for accepting investment risk and the effects of investment costs, inflation and taxes on investment returns. Our highest investment priority is developing the mix of assets (commonly referred to as the “asset allocation”) appropriate to each Client’s goals, objectives, constraints, risk tolerance and unique circumstances as set forth in the Client’s Investment Policy Statement.

Risk has many dimensions and we help our Clients consider the risk of not accomplishing their objectives in conjunction with market risk, liquidity risk, investment-specific risk of loss and other types of risk. In an effort to manage risk, we recommend investing broadly across the capital markets, in major asset classes both domestically and globally. We employ both passive and active investment strategies. Passive strategies attempt to achieve benchmark-like results. Active strategies attempt to outperform and/or manage risk versus a relevant and appropriate benchmark through the application of portfolio management techniques and/or manager skill. We utilize a range of strategies that historically have performed differently in varying capital market environments. While a specific strategy may involve a certain set of risks viewed in isolation, the strategy must also be

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viewed in the broader portfolio context including diversification and correlation benefits potentially provided by the investment.

There is no guarantee that portfolios structured in this manner will perform as anticipated, and investing in securities always entails potential risk of loss of investment. Key portfolio-level risks to consider include the following:

- Future investment returns in any investment, or in any asset class, are uncertain. We cannot warrant or guarantee any particular level of product, investment, portfolio or account performance, or that a product, investment, portfolio or account will be profitable over time.
- Future correlations between asset classes are uncertain and unstable and may prove particularly so during periods of extreme market “stress.”
- Plans based on long term estimates should not be used for consideration of short term strategies, goals or objectives.
- Risk, broadly defined as the likelihood of losing money or of the possibility of falling short of one’s goal, is not entirely quantifiable, even in retrospect.

Importantly, all investment products we recommend are managed by third party investment managers that are not affiliated with Filament. We do not receive any commissions, rebates or other compensation from these managers. If a client chooses to terminate our advisory role, their Filament recommended investments are portable or accessible and available to Clients through the manager or third party custodian (some managers may require termination of the management arrangement in the absence of an affiliation with our firm) without further cost or obligation owed to Filament. We believe this degree of independence strongly aligns our interests with the best interests of our Clients.

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

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

There are risks associated with investing in third-party managers. Principally, a manager may not persist in delivering acceptable account performance. Past performance of investments is no

guarantee of future results. Since Filament cannot control the investments made by the third-party manager, the manager might unexpectedly deviate from a stated investment mandate. Finally, as we do not control or have visibility to a manager's daily operations, it is possible that internal controls designed to prevent business, regulatory or reputational deficiencies may be insufficient or not properly followed.

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

- Cash and cash equivalent investments (including bank deposits, CDs, money market funds and similar instruments)
- Fixed income investments (including corporate, municipal, U.S. government and foreign issuer debt)
- Public equity investments (including exchange listed, over the counter and foreign issuer)
- Hedge fund investments, including "fund of hedge fund" investments
- Real asset investments (including investments in real estate and other real assets including commodities)
- Private equity and debt investments

We access these investment strategies through a variety of securities and security types, the precise choice of which may be influenced by the size of the investment and manager minimums, implementation and ongoing management costs, tax attributes or consequences, administrative and record-keeping burdens and other factors. We commonly utilize money market funds, separately managed accounts, mutual funds, exchange traded funds, exchange traded notes, commingled trusts, real estate investment companies, registered investment companies, and private placement limited partnerships and limited liability companies (in a variety of domiciles). Where appropriate, we may recommend the use of options, warrants, structured products or other derivatives for accomplishing objectives and managing risk.

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

A complete analysis of all facets of risk associated with each of these investment strategies and product types is beyond the scope of this Brochure. The most material risk with each and every investment is risk of loss, which may include complete loss. Filament recommended investments are subject to market, currency, economic, political and business risks. Various broad-based factor risks Clients must consider include:

Market risk - market risk reflects the fact that there are certain general market conditions in which any given investment strategy is unlikely to be profitable. Neither we, nor the managers we recommend, have the ability to control or predict such market conditions, including such important market conditions as the level of economic activity and interest

rates. Our approach is designed to achieve broad diversification across markets, but multiple markets can move in tandem against a Client's positions and the Client can suffer substantial losses. Equity securities and derivatives can vary based on a company's performance and movements in the broader markets. Economic factors, market sentiment, political and other factors can influence the value of equities. Interest rates, and changes in interest rates, can impact the value of interest rate sensitive investments including fixed income securities.

Manager risk - manager risk encompasses the possibility of loss due to manager fraud, intentional or inadvertent deviation from a predefined investment strategy or simply poor judgment.

General economic conditions - general economic conditions can affect the level and volatility of interest rates and the extent and timing of investor participation in the markets for equities, interest sensitive securities, commodities and other investments. Unexpected volatility or illiquidity in the markets can result in losses.

Market disruptions and governmental intervention - Government intervention in the case of market disruption can suddenly and substantially impact market participants' ability to implement certain strategies or manage the risk of portfolio positions. These interventions can be unclear in scope and application resulting in confusion and uncertainty that can detrimentally impact investment strategies in unpredictable ways.

Risks of investments in non-US securities - Non U.S. investments, and in particular those in emerging markets, involve special risks. These risks include fluctuations in currency exchange rates, foreign government intervention or expropriation, failure of markets to function properly, political or economic instability, and differences in regulatory, financial disclosure, accounting and auditing standards.

### **Other Considerations Regarding Analysis, Strategies and Risk of Loss**

We use our best judgment and good faith efforts in making suitable investment recommendations to our Clients. It is the responsibility of the Client to give us complete and accurate information and to notify us of any changes in their financial circumstances, goals or risk tolerance.

Filament may not conduct due diligence, or may conduct only limited due diligence, on securities included in Client portfolios that Filament has not recommended. Such non-recommended securities may pose an investment risk to the client. Non recommended investments can include, for example, concentrated stock holdings the client does not wish to liquidate, client directed investments, investments made under the recommendation of a prior advisor and prior illiquid investments (partnerships, LLCs) that have not fully liquidated.

Some strategies and products we recommend are illiquid over an extended time period and Clients using these products and strategies must be able to tolerate this illiquidity by reserving sufficient resources to meet all obligations. Some strategies and products involve the use of leverage (borrowing) and this can exacerbate losses or magnify gains.

Investments in private investment funds or other alternative investments may present special risks including, without limitation, limited liquidity, higher fees, potential conflicts of interest associated with performance-based fee structures, volatile performance, heightened risk of loss, limited transparency, special tax considerations, subjective valuations and limited regulatory oversight. The specific risk factors of each investment are inherently unique and cannot adequately be summarized here. For this reason, in addition to receiving our opinion regarding suitability of a private investment, Clients are urged to consider all of the specific risk factors presented in any given private investment by thoroughly reviewing the private placement or offering memorandum prior to investing.

Filament typically invests for the long-term and does not engage in high frequency trading. Third party investment managers selected by Filament may, however, employ such strategies, directly or through sub-managers, and such frequent trading may result in increased brokerage and other transaction costs for that portion of the account.

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

We are required to disclose all material facts regarding any legal or disciplinary event that would be material to your evaluation of our advisory business, or the integrity of our management. Our firm has no reportable disciplinary events to disclose.

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

We are not affiliated with any other financial industry participants. While we recommend other advisors (including investment advisors) to our Clients, we do not receive any compensation directly or indirectly from those other advisors. See Item 12 regarding brokerage practices.

One of our Clients owns a small minority interest in our firm, which could pose the potential for a conflict of interest. Our Client-Owner has engaged us for investment advisory and family office services on terms that are substantially similar to those of similarly situated clients of our Firm and our Client does not receive preferential access to any investments or products we source or recommend. Apart from the Client's economic interest in the firm as an owner, we have no direct or indirect compensation or financial benefit arrangements with our Client-Owner.

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

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

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

Our managers, employees and other individuals associated with our firm may buy and sell some of the same securities for their own account that we buy and sell or recommend for Clients and may participate in the firm's Portfolio Management Service. In some cases they may buy or sell securities for their own account that differ from, or for reasons not related to, the strategies adopted for our Clients. In general, our employees' wealth level, asset allocation, time horizon, risk tolerance, liquidity needs, and other factors may differ substantially from our Clients' and, accordingly, employee portfolio transactions may reasonably be expected to differ from Client portfolio transactions. Our employees are required to follow the Code of Ethics when making trades for their own accounts in securities which are recommended to and/or purchased for Clients. The Code of Ethics is designed to assure that the personal securities transactions will not interfere with decisions made in the best interest of advisory Clients while at the same time, allowing employees to invest for their own accounts. Under our Code of Ethics, the Firm's access persons must pre-clear any acquisition of securities in a limited offering (e.g. Private Placement) or an initial public offering. Personal securities transactions are reviewed on at least a quarterly basis. When applicable, we will purchase or sell securities for Clients before purchasing the same for our account or allowing representatives to purchase or sell the same for their own account, while in other instances we may aggregate such trades with client transactions for common execution.

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

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

## Item 12 – Brokerage Practices

We use our discretion to recommend unaffiliated FINRA-registered broker-dealers for maintaining custody of Client assets and effecting Client security transactions. In recommending broker-dealers, Filament has a fiduciary duty to seek best qualitative execution and we take into account relevant factors such as:

- Reasonableness and transparency of transaction fees and charges, as a whole
- Capability to timely and accurately execute, clear, and settle trades
- Client reporting and record-keeping capabilities
- Scope and quality of custody services provided
- Availability and use of technology to support client objectives
- Business reputation, financial strength and stability
- Responsiveness of staff and overall quality of service
- Availability of other products and services that benefit us (as discussed below).
- Any other factors that we consider to be relevant.

As a result of our best execution analysis, as well as the requirements of our business and the needs of our Clients, we may participate in one or more institutional brokerage programs. Under these arrangements, we establish master-advisor accounts under which our Client accounts are housed. The scale we bring to these arrangements generally enables us to negotiate reduced commissions,



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rates, charges and fees (discounted from retail rates or possibly those offered to other advisors). We view these concessions as instrumental to “best execution” for our Clients and our Clients typically choose to establish one or more accounts under the recommended institutional brokerage program. In order to participate in our Portfolio Management Service, accounts must be opened with our recommended broker(s).

Some of our Clients choose to establish or retain accounts with broker-dealers that we have not recommended and with which we do not maintain an advisor master account relationship. In these circumstances, we have not performed a “best execution” analysis with respect to the broker-dealer, we cannot execute in the account on the Client’s behalf (we may only provide general advice), and best execution may not be achieved resulting in higher transaction costs for the client. Filament reserves the right to decline acceptance of any Client account for which the Client directs the use of a particular broker if we believe that this choice would hinder either our fiduciary duty to the Client or our ability to service the account.

Except with regard to our Portfolio Management service, our Clients always have final authority for the choice of custodian (or custodians) for their accounts as well as the specific broker to be used for any or all Client security transactions.

The institutional broker-dealer(s) that we recommend typically make available to our firm, on an unsolicited basis, research and other products and services other than execution in connection with Client securities transactions. These products and services provided by the recommended broker-dealer may have economic value to our Clients (whose accounts may benefit from the products or services) and also to us. These products and services may be proprietary to the brokerage firm, or provided by third parties and are not typically made available to retail investors. Products and services provided as an integral part of a broker-dealers’ institutional trading and custody platform may include pricing and other market data, research, software and other technology (including electronic downloading of trading activity, performance monitoring and reporting, web access to confirmations, account statements and other Client data), practice management aids (consulting, publications, conferences and seminars) and vendor discounts. Importantly, we have no arrangements, oral or in writing, concerning these unsolicited products and services, which typically are made available by broker-dealers to advisors in consideration of the total number, size and profitability of all accounts referred by the advisor, rather than the size or profitability of any individual Client account. In some instances, broker-dealers may make available, arrange and/or pay for these types of services provided by independent third parties or may discount or waive fees it would otherwise charge.

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

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

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

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

### **Item 13 – Review of Accounts**

We supervise and manage Client portfolios on an ongoing and regular basis. Each Client receives a written report reviewing their accounts at least quarterly, unless specifically requested and agreed otherwise. Accounts are reviewed in the context of each Client's investment objectives and guidelines.

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

More frequent reviews may be triggered by a change in Client's investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; loss of confidence in a recommended manager; or, changes in the prevailing economic climate.

We provide a written quarterly report summarizing the account activity and performance, including comparisons to indices performance and asset allocation of the portfolio compared to portfolio target allocations. Our Clients receive account statements from the custodians of their accounts on at least a quarterly basis and are encouraged regularly to compare these statements to report summaries they receive from us.

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

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

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



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

### **Item 15 – Custody**

With the exception of our ability, when authorized by the Client in the Client account agreement(s), to debit the agreed upon fees, Filament does not have custody of Client assets. We do not maintain custody of client funds for the purpose of discretionary bill payment services.

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

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

### **Item 16 – Investment Discretion**

We offer advisory services on both a discretionary and non-discretionary basis. Discretionary authority allows us to execute certain investment recommendations in accordance with the Investment Policy Statement and client suitability without the Client’s prior approval of each specific transaction. Under this authority, Clients allow us to purchase and sell securities and instruments in their account(s), arrange for delivery and payment in connection with the foregoing, select and retain sub-advisors, and act on behalf of the Client in matters necessary or incidental to the handling of the account, including monitoring certain assets. Regardless of this discretionary authority, Clients may impose restrictions on investing in certain securities or types of securities, which we may consent to but not recommend.

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

Under our Investment Advisory and Family Office Service, investment recommendations are discussed and evaluated and the Client is asked to approve each transaction prior to execution. Clients of this service may provide us with investment discretion over Client accounts in custody at a Filament recommended broker-dealer in order to facilitate execution of transactions (including trades or strategies) that previously have been discussed and approved by the Client. This discretionary authority, where permitted, also allows implementation and execution of transactions where timing is critical or the Client is unavailable to discuss and approve the recommended transactions.

Our Portfolio Management Service is primarily offered and provided on a fully discretionary basis but in appropriate circumstances may include products requiring client approval prior to investment.

Clients grant us discretionary authority in the written investment advisory agreement governing our engagement and in forms establishing custodial/brokerage accounts under one or more of our discretionary master accounts. If our discretion is to be limited in any manner, such instructions must be in writing and signed by us.

### Item 17 – Voting Client Securities

Our clients have the right to receive proxy materials and vote proxies in their own best interests. Any client who is concerned about the manner in which proxies may be voted is urged to retain and exercise this right. If Clients do not designate us to receive and vote proxies, they will receive their proxies and other solicitations directly from the custodian or transfer agent. If any proxy materials are received by us on behalf of a Client, the materials will be sent to the Client or designated representative of the Client who will be responsible for voting the proxy.

We do not recommend the stocks of individual companies and, accordingly, do not perform research on any aspect of these companies including management policies, governance or other proposals that may be the subject of proxy voting. Therefore, Filament's proxy voting responsibilities generally arise in connection with (i) broadly diversified exchange traded funds and mutual funds that we may recommend to clients from time to time; (ii) equity securities our clients may hold in accounts under our management which we have not reviewed, directed or otherwise recommended, and (iii) equity securities managed by third-party managers we have recommended and that our Clients have engaged.

We will accept proxy voting responsibility pursuant to the Client's written instruction. In these cases, Filament has adopted the following policies, which clients should understand prior to instructing Filament to vote proxies on their behalf:

1. Proxy voting for any managed accounts will be performed by the third-party managers of such accounts.
2. Filament may not vote every proxy it receives (*e.g.*, where a conflict exists). In the cases where Filament votes proxies, we have determined that voting proxies does not pose any material conflict of interest between Filament and our Client, and is highly unlikely to do so at any future time given the nature of our business and our investment recommendations (including specifically the fact that we have not recommended the stocks of individual companies).
3. Filament generally votes in accordance with management recommendations, with consideration of the potential costs and benefits of a more activist-oriented strategy.
4. Filament always strives to vote proxies in the client's best interest. If we become aware of any conflict of interest, we will immediately notify the Client of the conflict and refrain from voting the security in regard to any proposal without Client consent.
5. The Client may revoke our proxy voting authority at any time.

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

#### **Item 18 – Financial Information**

Under no circumstances will we require or solicit from any Client prepayment of more than \$1,200, more than six months in advance.

We have no known financial conditions that would impair our ability to meet contractual commitments and fiduciary obligations to our Clients.