



Breakwater Investment Management, LLC

Breakwater Allocation Wrap Program

Wrap Fee Program Brochure

Sponsored By:
Breakwater Investment Management, LLC

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Seattle, WA. 98154

This wrap fee program brochure provides information about the qualifications and business practices of Breakwater Investment Management, LLC. If you have any questions about the contents of this brochure, please contact us at 206.624.9000 or jay@breakwaterinvestment.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 Breakwater Investment Management, LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

This update reflects changes in the Wrap Fee Program since the last update on January 21, 2010.

The Wrap Fee Program is available for legacy clients only. The Program is no longer open for enrollment of new clients.

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Program Description

Breakwater Investment Management, LLC’s wrap fee program, “Breakwater Allocation Wrap Program” referred to in this document as “Wrap Fee Program” has been designed to offer clients investment advisory services at fees that are inclusive of trading costs.

Breakwater Allocation Wrap Program

Breakwater Investment Management, LLC doing business as Breakwater Investments will work with you to identify your investment goals and objectives as well as risk tolerance in order to create an initial portfolio allocation designed to complement your financial goals and objectives. We may create a portfolio, consisting of, but not limited to individual stocks or bonds, exchange traded funds, no-load funds and/or load-waived funds (front-end commissions will not be charged).

In some, but not all cases, we may use option contracts on securities, in your managed portfolio. Option strategies are not used in all client portfolios and are only used upon specific written request by you and consent from us. The use of option strategies is not always successful at its goal of increasing return or reducing losses. The use of options entails risks and costs to the portfolio. Option strategies can diminish account performance.

Each portfolio will be initially designed to meet a particular investment goal, which we have determined to be suitable to your circumstances. Once the appropriate portfolio has been determined, we will review the portfolio on an as-needed basis and if necessary, rebalance the account based upon your individual needs, stated goals and objectives. You will have the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio.

Breakwater Investment Management, LLC's Services

We will review the Wrap Fee Assets on a regular basis and make changes as we deem appropriate. Because the Wrap Fee Program Accounts will generally be managed on a discretionary basis, we may implement any changes without your prior approval. You agree to review trade confirmations received from your custodian and notify us immediately of any errors. Our Wrap Fee Assets will generally be managed by us.

Brokerage and Custody of Program Accounts

We will direct transactions for Wrap Fee Program Accounts to broker-dealers that we jointly agree upon. In directing or recommending broker-dealers, we seek "best execution" for your accounts, which is a combination of a number of judgmental factors including price, execution quality and your needs. Recognizing the value of these judgmental factors, brokers selected or recommended may charge commissions that are higher than the lowest commissions that might otherwise be available.

We have a relationship with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, Member SIPC, to maintain custody of your assets and to effect trades for your accounts. We are independently owned and operated and not affiliated with Schwab. Schwab will provide custody and execution services in accordance with the terms set forth in their custodial agreement. We reasonably believe that in the case of managed accounts, Schwab's blend of execution services, commission and transaction costs as well as professionalism allows us to seek best execution and competitive prices.

Program Fees

The annual Program Fees payable to us are as follows:

Under the all-inclusive billing alternative, we will assess one fee to you that captures the management, brokerage and administrative portions collectively. The standard rate schedule is shown below.

FEE SCHEDULE: Portfolio Management through Breakwater Investment Management, LLC's Wrap Fee Program

Our annual fee for investment management services provided under this Agreement is based on the market value of the assets under management in each account, excluding cash and sweep money market balances, and is calculated as follows:

FEE SCHEDULE: Portfolio Management for Managed Accounts

<u>Assets Under Management</u>	<u>Annual Fee</u>	<u>Monthly Fee</u>
\$0 to \$500,000	1.25%	0.10417%
\$500,000 to \$1,000,000	1.00%	0.8334%
\$1,000,000 to \$5,000,000	0.80%	0.06667%
\$5,000,000 +	negotiable	

The above fees are negotiable and charged on a pro-rata basis in arrears. They are inclusive of all trading costs. You may incur charges for other account services provided not directly related to the execution and clearing of transactions, including, but not limited to, IRA custodial fees, safekeeping fees, interest charges on margin loans, and fees for transfers of securities.

In consideration for our services, you will pay a fee monthly in arrears. The fee will be equal to the agreed-upon annual rate, times the market value of the account, divided by the number of days in the agreed-upon year and multiplied by the number of days in the month. The market value will be construed to equal the sum of the values of all assets in the account, not adjusted by any margin debit. The custodian will send you monthly statements reflecting your account value. Our fee will be equal to the respective annual percentage below based on your account value contained on the monthly custodial statement. Fees for partial months at the commencement or termination of this Agreement will be billed or refunded on a pro-rated basis contingent on the number of days the account was open during the month. Monthly fee adjustments for additional assets received into the account during a month or for partial withdrawals will also be provided on the above pro rata basis.

What services are covered by the Program Fees? The Program Fees pay for our advisory services under the Program, administrative expenses of the Program, custody charges for your accounts custodied at Schwab and brokerage services for accounts to the extent trades are conducted through Schwab.

What services are not covered by the Program Fees? The Program Fees do not cover brokerage to the extent trades are conducted through brokers or dealers other than Schwab and custody charges if you have accounts that are custodied anywhere other than Schwab. Finally, the Program Fees do not include, among other expenses, those expenses of mutual funds and exchange traded funds that may be included in your portfolio, odd-lot differentials, SEC or other regulatory fees, wire transfer fees, mark-ups and mark-downs.

How are fees charged? Program fees are charged monthly in arrears. If management begins after the start of a month, Program Fees will be prorated accordingly. If you terminate your agreement with us, then any balance due to either party shall be settled in a reasonable time frame.

Is there a minimum fee and are fees negotiable? Your accounts are not subject to a minimum annual fee. There is no minimum account size.

Additional Information about Program Fees: We generally do not offer the services provided under the Program separately. However, you may be able to purchase services similar to those offered under the Program from other service providers either separately or as part of a similar wrap fee program. These services or programs may cost more or less than the Program, depending on the fees charged by such other service providers.

We may recommend that you establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, to maintain custody of your assets and to effect trades for your accounts. The final decision to custody assets with Schwab is at your discretion. This includes any accounts under ERISA or IRA rules and regulations, in which case you are acting as either the plan sponsor or IRA accountholder.

We are independently owned and operated and not affiliated with Schwab. Schwab provides us with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Institutional. Schwab's services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by you through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to us other products and services that benefit us but may not benefit your accounts. These benefits may include national, regional or company-specific educational events organized and/or sponsored by Schwab Institutional. Other potential benefits may include occasional business entertainment of our personnel by Schwab Institutional personnel. Other of these products and services assist us in managing and administering your accounts. These include software and other technology (and related technological training) that provide access to your account data (such as trade confirmations

and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our fees from your accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab Institutional. Schwab Institutional also makes available to us other services intended to help us manage and further develop our business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance, and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to us by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. While, as a fiduciary, we endeavor to act in your best interests, our recommendation/requirement that you maintain your assets in accounts at Schwab may be based in part on the benefit to us of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

Notwithstanding the above, we will pay the transaction/execution costs associated with securities trading. This may present a disincentive for us to trade securities in your account.

Additional Information

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

We do not have any other financial industry affiliations.

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

We are not compensated for any referrals we make nor do we compensate anyone who refers clients to us. We have been approached by more than one small investment advisory firm to be a buyer of the business in the event of the owner's death or disability. We are flattered by the confidence this implies and may complete such agreements in the year ahead. We do not consider such estate planning measures material enough to trigger an updated ADV.

Registered investment advisers are required to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that impairs

our ability to meet contractual and fiduciary commitments to you, and we have not been the subject of a bankruptcy proceeding.

About Breakwater Investment Management, LLC and its Affiliations

Breakwater Investment Management is registered with the SEC at the time of publication of this brochure, but will be transitioning to state registration within the year. The following disclosures are required for State-Registered Advisers.

Education and Business Standards

Persons associated with us, other than persons whose functions are strictly clerical, are required to have a college degree and/or a professional designation such as J.D., CPA, CFA, CFP, MBA or equivalent experience in the securities industry.

Education and Business Backgrounds

Joseph (Jay) F. Turley

born: 1959

Education

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

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

Bachelor of Science, 1983
Babson College, Wellesley, MA

Designations

Jay Turley is a CFA (Chartered Financial Analyst) charter holder. The CFA designation is issued by the CFA Institute. A CFA candidate must meet one of the following education or experience requirements: Undergraduate degree and four years of professional experience involving investment decision-making, or four years qualified work experience (full time, but not necessarily investment related). CFA candidates must satisfy educational requirements of 250 hours of study and a course examination for each of the 3 levels. There are no continuing education or ongoing experience requirements to maintain the designation.

Jay Turley is also a CFP® (Certified Financial Planner) practitioner. The CFP designation is issued by the Certified Financial Planner Board of Standards, Inc. A CFP candidate must have a bachelor's degree or higher from an accredited college or university, and 3 years full-time personal financial planning experience. The candidate must complete a CFP-board registered

program or hold one of the following: CPA, ChFC, CLU, CFA, Ph.D. in business or economics, Doctor of Business Administration or an Attorney's License. CFP candidates must pass the CFP Certification Examinations. To maintain the designation he must attend at least 30 hours of continuing education every two years.

Jay Turley is also a ChFC (Chartered Financial Consultant). The ChFC designation is issued by The American College. A ChFC candidate must have 3 years of full-time business experience within the five years preceding the awarding of the designation. The candidate must complete six core and two elective courses and pass a final proctored exam for each course. To maintain the designation he must obtain at least 30 continuing education credits every two years.

Business Background

2009 – Present, Managing member and founder
Breakwater Investment Management, LLC, Seattle, WA

2003 – 2009, Financial Advisor
Ameriprise Financial Services, Inc., Seattle, WA

1997 – 2002, Vice President and Co-founder (of acquired company)
Peak Systems, Seattle, WA

1994 – 1996, Financial Analyst
Starwave/Disney, Bellevue, WA

Memberships

CFA Society of Seattle, past President, past board member, Seattle, WA
CFA Institute, Member, Charlottesville, VA
Seattle Estate Planning Council, Member, Seattle, WA

Additional Information

Jay Turley owns a 1/3 interest in a small commercial farm in Spain (and cautions clients against making similar investments.)

Bethany A. Steinhaus

Education

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

Visiting student, 2004
Universidad de Salamanca, Salamanca, Spain

Master of Education, 2009
Seattle University, Seattle, WA

Business Background

2009 – Present, Client Service Manager
Breakwater Investment Management, LLC, Seattle, WA

2007 – 2009, Client Service Manager
Ameriprise Financial Services, Inc., Seattle, WA