

# Elemental Capital Partners LLC

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## **FORM ADV PART 2A DISCLOSURE BROCHURE**

*This disclosure brochure provides clients with information about the qualifications and business practices of Elemental Capital Partners LLC, a registered investment adviser ("Elemental"). It describes the services Elemental provides as well as background information on those individuals who provide such services on behalf of Elemental. Please contact Elemental at 415-320-6647 if you have any questions about the contents of this disclosure brochure.*

*The information in this disclosure brochure has not been approved or verified by the U.S. Securities and Exchange Commission or any state securities authority. Registration does not imply that Elemental or any individual providing investment advisory services on behalf of Elemental possess a certain level of skill or training.*

*Information on the disciplinary history and the registration of Elemental and its associated persons is available on the Internet at [www.adviserinfo.sec.gov/IAPD/](http://www.adviserinfo.sec.gov/IAPD/). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Elemental is 283897.*

## **Item 2 – Material Changes**

This item discusses specific material changes to the Elemental Capital Partners LLC (“Elemental”) disclosure brochure. Pursuant to current regulations, Elemental will ensure that clients receive a summary of any material changes to this and subsequent disclosure brochures within 120 days of the close of its fiscal year which occurs at the end of the calendar year. Elemental may further provide other ongoing disclosure information about material changes as necessary.

Elemental will also provide clients with a new disclosure brochure as necessary based on changes or new information, at any time, without charge.

Elemental has made the following material change to this disclosure brochure since its last annual amendment filing on January 14, 2021:

On February 20, 2021, Elemental transitioned its investment adviser registration from the State of California to the U.S. Securities and Exchange Commission.

## **Item 4 – Advisory Business**

Elemental no longer offers financial planning as part of investment management services.

## **Item 5 – Fees and Compensation**

Elemental now charges all clients a flat fee of 3% of their portfolio’s value.

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## Item 4 - Advisory Business

### A. The Company

Elemental Capital Partners LLC (“Elemental” or the “firm”) is a California limited liability company that was founded in 2008. Elemental has been registered with the U.S. Securities and Exchange Commission (“SEC”) since February 2021. Prior to that, Elemental was registered with the State of California from January 2016 to February 2021.

The sole owner and portfolio manager of Elemental is Brian Wu.

### B. Advisory Services

Elemental offers investment management services, managing client accounts only through its proprietary Ascend Portfolio Strategy although it is within the sole and absolute discretion of Elemental’s portfolio manager to reduce a client’s exposure to the Ascend Portfolio Strategy by maintaining a higher cash balance in the client’s account. Investment management services are offered on a discretionary basis only. Elemental manages clients’ accounts in accordance with the investment objectives and guidelines of the Ascend Portfolio Strategy.

The Ascend Portfolio Strategy is a highly aggressive growth product that consists of a concentrated portfolio of investments focused primarily on the technology sector. The Ascend Portfolio Strategy holds fewer different stocks than a typical diversified portfolio and therefore, is much more likely to experience sudden dramatic price swings than more diversified investment portfolios or the broader market in general. Given the narrow range of investments held in the Ascend Portfolio Strategy at any one time, the rise or drop in price of any given holding in the portfolio is likely to have a larger impact on portfolio performance than it would in a more broadly diversified portfolio.

Due to the aggressive nature of the Ascend Portfolio Strategy, Clients will be required to acknowledge in the investment management agreement entered into between the client and Elemental, that the Ascend Portfolio Strategy is a highly volatile approach to trading and investing and should be viewed as complementary to a stable, highly predictable investment approach.

In order to create a strong congruity of interest between Elemental and its clients, Brian Wu, Elemental’s sole owner and portfolio manager has invested a significant portion of his net worth pursuant to the Ascend Portfolio Strategy.

**The Ascend Portfolio Strategy utilizes aggressive trading and investment techniques that involve substantial risks to a client’s portfolio and is therefore not suitable for everyone. Accordingly, clients must be able to bear the loss of the entire amount of their investment.**

### C. Client Tailored Services and Client Imposed Restrictions

In order to ensure that the Ascend portfolio strategy is appropriate for a client, Elemental will work with the client to obtain information regarding the client’s financial circumstances, investment objectives, overall financial condition, risk profile and other information regarding the client’s financial and investment needs. Elemental reserves the right to reject any potential client if Elemental determines, in its sole and absolute discretion, that the

Ascend Portfolio Strategy is not an appropriate investment vehicle given the client's financial situation or risk profile.

At least annually, Elemental will review with clients their financial circumstances, investment objectives and risk profile. In order for Elemental to provide effective investment management services, it is critical that clients provide accurate and complete information to Elemental and inform Elemental anytime such information needs to be updated or that there is a change in their financial circumstances, investment objectives and/or risk profile.

Given the nature of Elemental's investment management services and the Ascend Portfolio Strategy, clients are not permitted to impose restrictions on investing in certain securities or types of securities; provided, however, that Elemental will take into account any regulatory restrictions imposed on a client due to such client's position in the financial industry (i.e., an affiliation with another registered entity such as a broker-dealer).

#### **D. Wrap Fee Programs**

Elemental does not participate in wrap fee programs (*i.e.*, programs that offer services for one, all-inclusive fee).

#### **E. Assets Under Management**

As of December 31, 2020, Elemental had the following assets under management:

<b>Total Assets Under Management</b>	<b>Discretionary Assets</b>	<b>Non-Discretionary Assets</b>
\$130,225,000	\$130,225,000	\$0.00

### **Item 5 - Fees And Compensation**

#### **A. Advisory Fees**

Elemental charges an annual investment management fee equal to three percent (3%) of the value (market value or fair market value in the absence of market value) of the client's portfolio at the end of the calendar quarter. The investment management fee is payable quarterly in arrears. The investment management fee is assessed on all assets under management, including securities, cash, money market balances and any outstanding margin balance (if applicable). The investment management fee is pro-rated for periods less than a full billing cycle (based upon the number of calendar days in the calendar month that the investment management agreement was effective). In addition, Elemental reserves the right to assess a pro-rated investment management fee on the amount of any withdrawal made (or requested) by the client during a calendar quarter.

Details of the investment management fee charged is more fully described in the investment management agreement entered into with each client. Lower fees for comparable services may be available from other sources and Elemental urges each potential client to compare Elemental's fees and services to that of other investment advisory firms.

#### **B. Payment Method**

At the end of each quarter, Elemental will notify the client's qualified custodian of the amount of the fee due and payable to Elemental pursuant to Elemental's fee schedule and

investment management agreement. The qualified custodian will not validate or check Elemental's fees, its corresponding calculation or the assets on which the fee is based unless the client has retained their services to do so. With the client's pre-approval, the qualified custodian will "deduct" the investment management fee from the client's account or, if the client has more than one account, from the account(s) the client has designated to pay Elemental's investment management fees.

Each month, the client will receive a statement directly from the qualified custodian showing all transactions, positions and credits/debits into or from the client's account. Statements sent after quarter end will also reflect the investment management fee paid by the client to Elemental.

### **C. Additional Information**

#### **Fee Only**

Elemental is compensated solely by fees paid by its clients and does not accept commissions or compensation from any other source (i.e., mutual funds, insurance products or any other investment product).

#### **Margin**

The use of margin in an investment advisory account affects a client's asset-based fee. If margin is used to purchase additional securities, the total value of eligible account assets increases, thereby increasing the client's asset-based fee. The receipt of a higher asset-based fee by Elemental creates a conflict of interest since Elemental is incentivized to recommend the use of margin. In addition, having a margin account may incur some associated costs. Clients will be charged margin interest by the custodian on the debit balance in their custodial account.

#### **Other Fee Arrangements**

Employees and their family members may be charged, in Elemental's sole discretion, a lower investment management (or no investment management fee at all). Elemental, again in its sole discretion, may also provide its investment management services on a pro bono basis when circumstances dictate. Notwithstanding any of the foregoing, Elemental's investment management fees are not negotiable.

#### **Third-Party Expenses**

In addition to the investment management fees paid to Elemental, clients may also incur certain charges imposed by other third-parties, such as broker-dealer, custodians, trust companies, banks and other financial institutions. These additional charges may include securities brokerage commissions, transaction fees, custodial fees, margin costs, charges imposed directly by a mutual fund or ETF in a client's account, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

#### **Professional Fees**

Elemental's investment management fee does not include the services of any co-fiduciaries, accountants, or attorneys. Accordingly, the fees of any additional professionals engaged by a client will be billed directly by such professional(s).

## **D. Termination and Refunds**

A client has the right to terminate their investment advisory relationship with Elemental without penalty within five (5) business days after entering into an investment management agreement with Elemental. In addition, either party has the right to cancel an investment management agreement for any reason upon thirty (30) days prior written notice to the other party. If an account is terminated during a calendar quarter, fees will be adjusted *pro rata* based upon the number of days in the calendar quarter that the investment management agreement was effective. Because fees are charged in arrears, the client will not be due a refund.

## **E. Additional Compensation**

Elemental is compensated solely by fees paid by its clients, does not accept commissions or compensation from any other source (i.e., mutual funds, insurance products or any other investment product) and does not charge a mark-up on clients' securities transactions.

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

Elemental does not accept performance-based fees or engage in side-by-side management. Elemental's fees are calculated as described above in Item 5 - Fees and Compensation - and are not charged on the basis of a share of the capital gains upon, or capital appreciation of, the funds in a client's account.

## **Item 7 - Types of Clients**

### **A. Clients**

Elemental provides investment advisory services primarily to individuals, including high net worth individuals, and institutional clients.

### **B. Engaging the Services of Elemental**

All clients wishing to engage Elemental for advisory services must enter into an investment management agreement with Elemental and complete any other document or questionnaire provided by the firm. In addition, clients must also sign a separate document acknowledging that they understand both the risks associated with investing in the Ascend Portfolio Strategy and that Elemental's investment management fee is higher than what a typical investment adviser may charge. The investment management agreement describes the services and responsibilities of Elemental to the client. It also outlines Elemental's investment management fee in detail. Clients must complete certain broker-dealer/custodial documentation. Upon completion of these documents, Elemental will be considered engaged by the client.

Clients are responsible for ensuring that Elemental is informed in a timely manner of changes in investment objectives and risk tolerance.

## C. Conditions for Managing Accounts

Elemental requires that new clients have a minimum account size of \$250,000 for investment management services. Elemental may, in its sole discretion, accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing relationship, account retention, and pro bono activities. Elemental will only accept clients with less than the minimum portfolio size if, in the sole opinion of the firm's portfolio manager, the smaller account size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance.

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

### A. Methods of Analysis and Investment Strategies

#### Methods of Analysis

Elemental's security analysis methods may include, fundamental analysis, technical analysis, cyclical analysis, charting, qualitative analysis, and the use of technical trading models.

#### *Fundamental Analysis*

Fundamental analysis is a method of evaluating securities by attempting to measure the intrinsic value of a stock. Fundamental analysts study the overall economy and industry conditions, the financial condition of a company, details regarding the company's product line, and the experience and expertise of the company's management. The resulting data is used to measure the true value of the company's stock compared to the current market value.

#### Investment Strategies

#### *Ascend Portfolio Strategy*

The Ascend Portfolio Strategy focuses on companies primarily in the technology sector that have outsized earnings potential that is not appreciated or understood by the general consensus. The Ascend Portfolio Strategy frequently invests in emerging product cycles, management turnarounds, and shifting competitive dynamics within specific industries. All investment ideas are subjected to rigorous risk-reward and valuation analysis to determine whether the investment should be made and to determine position size.

Elemental may use all or some of the following strategies to implement the Ascend Portfolio Strategy:

#### *Long-Term Purchases*

Securities are purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.



### *Short-Term Purchases*

Securities are purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

### *Trading*

Securities are purchased with the expectation that they will be sold within a very short period of time, generally less than 30 days, in an effort to capture significant market gains and avoid significant market losses during a volatile market.

### *Short Sales*

A securities transaction in which an investor sells borrowed securities in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price.

### *Margin Transactions*

Elemental may employ the use of margin as part of its Ascend Portfolio Strategy in order to provide the portfolio manager with the flexibility to short stocks. It is not Elemental's intent to employ leverage to increase a client's exposure to the market; provided, however, that margin balances can occur from time to time (although typically a temporary situation). A margin balance may occur when there is position turnover in the portfolio where buying and selling is occurring in an account over the course of several days or if withdrawals are made and there's a strategic reason for waiting to sell positions to create the cash such as an upcoming planned portfolio rebalance or deferring tax liabilities at year-end. Only the accounts of non-retirement clients may employ the use of margin. Each client must sign a separate margin agreement with the client's broker-dealer/custodian before margin is extended to that client account.

### *Option Writing*

An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. An investment strategy utilizing option writing involves selling (writing) an option. When an investor sells (writes) an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The seller receives from the buyer a premium (the market price of the option at a particular time) in exchange for writing the option.

### Sources of Information

In conducting its security analysis, Elemental may obtain and utilize information and data from a wide variety of public sources. Elemental will not independently verify or guarantee such information and data. The main sources of information used by Elemental include rigorous financial modeling, meetings with corporate executives, Morningstar reports, financial newspapers and magazines, annual reports, prospectuses, and filings with the Securities and Exchange Commission.

### Investing Involves Risk

Investing in securities involves risk of loss that each client should be prepared to bear. The value of a client's investment may be affected by one or more of the following risks, any of which could cause a client's portfolio return, the price of the portfolio's shares or the portfolio's yield to fluctuate:

- *Market Risk.* The value of portfolio assets will fluctuate as the stock or bond market fluctuates. The value of investments may decline, sometimes rapidly and unpredictably, simply because of economic changes or other events that affect large portions of the market.
- *Interest Rate Risk.* Changes in interest rates will affect the value of a portfolio's investments in fixed-income securities. When interest rates rise, the value of investments in fixed-income securities tend to fall and this decrease in value may not be offset by higher income from new investments. Interest rate risk is generally greater for fixed-income securities with longer maturities or durations.
- *Credit Risk.* An issuer or guarantor of a fixed-income security, or the counterparty to a derivatives or other contract, may be unable or unwilling to make timely payments of interest or principal, or to otherwise honor its obligations. The issuer or guarantor may default causing a loss of the full principal amount of a security. The degree of risk for a particular security may be reflected in its credit rating. There is the possibility that the credit rating of a fixed-income security may be downgraded after purchase, which may adversely affect the value of the security. Investments in fixed-income securities with lower ratings tend to have a higher probability that an issuer will default or fail to meet its payment obligations.
- *Allocation Risk.* The allocation of investments among different asset classes may have a significant effect on portfolio value when one of these asset classes is performing more poorly than the others. As investments will be periodically reallocated, there will be transaction costs which may be, over time, significant. In addition, there is a risk that certain asset allocation decisions may not achieve the desired results and, as a result, a client's portfolio may incur significant losses.
- *Foreign (Non-U.S.) Risk.* A portfolio's investments in securities of non-U.S. issuers may involve more risk than those of U.S. issuers. These securities may fluctuate more widely in price and may be less liquid due to adverse market, economic, political, regulatory or other factors.
- *Emerging Markets Risk.* Securities of companies in emerging markets may be more volatile than those of companies in developed markets. By definition, markets, economies and government institutions are generally less developed in emerging market countries. Investment in securities of companies in emerging markets may entail special risks relating to the potential for social instability and the risks of expropriation, nationalization or confiscation. Investors may also face the imposition of restrictions on foreign investment or the repatriation of capital and a lack of hedging instruments.
- *Currency Risk.* Fluctuations in currency exchange rates may negatively affect the value of a portfolio's investments or reduce its returns.
- *Derivatives Risk.* Certain strategies involve the use of derivatives to create market exposure. Derivatives may be illiquid, difficult to price and leveraged so that small changes may produce disproportionate losses for a client's portfolio and may be subject to counterparty risk to a greater degree than more traditional investments. Because of their complex nature, some derivatives may not perform as intended. As a

result, a portfolio may not realize the anticipated benefits from a derivative it holds or it may realize losses. Derivative transactions may create investment leverage, which may increase a portfolio's volatility and may require the portfolio to liquidate portfolio securities when it may not be advantageous to do so.

- *Capitalization Risk.* Investments in small- and mid-capitalization companies may be more volatile than investments in large-capitalization companies. Investments in small-capitalization companies may have additional risks because these companies have limited product lines, markets or financial resources.
- *Liquidity Risk.* Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing an investment manager from selling out of such illiquid securities at an advantageous price. Derivatives and securities involving substantial market and credit risk also tend to involve greater liquidity risk.
- *Issuer Specific Risk.* The value of an equity security or debt obligation may decline in response to developments affecting the specific issuer of the security or obligation, even if the overall industry or economy is unaffected. These developments may comprise a variety of factors, including, but not limited to, management issues or other corporate disruption, political factors adversely affecting governmental issuers, a decline in revenues or profitability, an increase in costs, or an adverse effect on the issuer's competitive position.
- *Concentrated Portfolios Risk.* Certain investment strategies focus on particular asset classes, countries, regions, industries, sectors or types of investments. Concentrated portfolios are an aggressive and highly volatile approach to trading and investing. Concentrated portfolios hold fewer different stocks than a diversified portfolio and are much more likely to experience sudden dramatic prices swings. In addition, the rise or drop in price of any given holding is likely to have a larger impact on portfolio performance than a more broadly diversified portfolio.
- *Legal or Legislative Risk.* Legislative changes or court rulings may impact the value of investments or the securities' claim on the issuer's assets and finances.
- *Infrastructure Risks.* Infrastructure-related investments are subject to a number of unique risks. These investments may be concentrated into a small number of projects, resulting in a high degree of risk with respect to each project. Further, these investments are often subject to foreign and emerging market risks.
- *Socially Responsible Investing.* Investments may focus on "low carbon" or other areas of socially responsible investing. This investment category represents a relatively new area of investment with a relatively limited performance track record. Due to the consideration of non-monetary factors in investment decisions, these investments may experience a lower rate of return. There may be a relatively limited number of investments to consider in this investment category, and available investments may be subject to increased competition.
- *Large Investment Risks.* Clients may collectively account for a large portion of the assets in certain investments. A decision by many investors to buy or sell some or all of a particular investment where clients hold a significant portion of that investment may negatively impact the value of that the investment.
- *Cybersecurity Risk.* The information and technology systems of Elemental and its affiliates, as well as of key service providers, including third-party vendors, central agents, exchanges, clearing houses, and other financial institutions (including the custodian), are vulnerable to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from

cyber-attacks and hacking by other computer users, and to avoid the resulting damage and disruption of hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. In general, cyber-attacks are deliberate, but unintentional events may have similar effects. Cyber-attacks may cause losses to clients by interfering with the processing of transactions, affecting the ability to calculate net asset value or impeding or sabotaging trading. Clients may also incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, and the dissemination of confidential and proprietary information. Any such breach could expose Elemental to civil liability as well as regulatory inquiry and/or action. In addition, clients could be exposed to additional losses as a result of unauthorized use of their personal information. While Elemental has established business continuity plans, incident responses plans and systems designed to prevent cyber-attacks, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified. Similar types of cybersecurity risks also are present for issuers of securities in which Elemental invests, which could result in material adverse consequences for such issuers, and may cause a client's investment in such securities to lose value.

## **B. Risks Associated with Investment Strategies and Methods of Analysis**

### *Risks Associated with Investment Strategies*

#### Ascend Portfolio Strategy

Because the Ascend Portfolio Strategy holds fewer different stocks than a typical diversified portfolio, it is much more likely to experience sudden dramatic price swings than more diversified investment portfolios or the broader market in general. Given the narrow range of investments held in the Ascend Portfolio Strategy at any one time, the rise or drop in price of any given holding in the portfolio is likely to have a larger impact on portfolio performance, than it would in a more broadly diversified portfolio.

#### Long-Term Purchases

Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or your particular investments will decrease in value even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost (e.g., "locking-up" assets that may be better utilized in the short-term in other investments).

#### Short-Term Purchases

Using a short-term purchase strategy generally assumes that the performance of the financial markets can be accurately predicted over the short-term. The risk associated with a short-term purchase strategy is that there are many factors that may affect market performance in the short-term including interest rate fluctuations, cyclical earnings, etc. Such factors may have a smaller impact over the longer-term. In addition, short-term trading may incur a disproportionately higher amount of transaction costs compared to long-term trading.

### Trading

Strategies involving frequent trading of securities can affect investment performance through increased brokerage and other transaction costs and taxes.

### Short Sales

Short selling is very risky. The primary risk associated with selling a security that was borrowed in anticipation of a price decline is that if the price of those borrowed shares *increases*, the potential losses are *unlimited*.

### Margin Transactions

When buying stocks on margin, you are employing leverage as an investing strategy. Leverage allows an investor to extend their financial reach by investing using borrowed funds while limiting the amount of their own cash they expend. This can involve a high degree of risk, including, but not limited to:

- Losing more money than you have invested;
- Paying interest on your loan;
- Being required to deposit additional cash or securities in your account on short notice to cover market losses;
- Being forced to sell some or all of your securities when falling stock prices reduce the value of your securities; and/or
- Having your brokerage firm sell some or all of your securities without consulting you to pay off the loan it made to you.

### Option Writing

There are numerous risks associated with transactions in options on securities or securities indexes and therefore, are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss of principal. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. For example, as the writer of covered call options, the client forgoes, during the option's life, the opportunity to profit from increases in the market value of the underlying security or the index above the sum of the option premium received and the exercise price of the call, but has retained the risk of loss, minus the option premium received, should the price of the underlying security decline. In the case of index options, the client incurs basis risk between the performance of the underlying portfolio and the performance of the underlying index (e.g., the underlying portfolio may decline in value while the underlying index may increase in value, resulting in a loss on the call option while the underlying portfolio declines as well).

### *Risk Associated with Methods of Analysis*

The analysis of securities requires subjective assessments and decision-making by experienced investment professionals, however, there is always the risk of an error in judgment.

Elemental's securities analysis methods rely on the assumption that the companies whose securities the firm purchases and sells, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While Elemental is alert to indications that data may be incorrect, there is always the risk that the firm's analysis may be compromised by inaccurate or misleading information.

### Fundamental Analysis

Fundamental analysis, when used in isolation, has a number of risks:

- Information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.
- The data used may be out of date.
- It ignores the influence of random events such as oil spills, product defects being exposed, acts of God and so on.
- It assumes that there is no monopolistic power over markets.
- The market may fail to reach expectations of perceived value.

## **C. Risks Associated with Specific Securities Utilized**

### Common Stocks

The major risks associated with investing in common stocks relate to the issuer's capitalization, quality of the issuer's management, quality and cost of the issuer's services, the issuer's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk and the issuer's ability to create shareholder value (i.e., increase the value of the company's stock price).

### Preferred Stocks

Preferred stock dividends are generally fixed in advance. Unlike requirements to pay interest on certain types of debt securities, the company that issues preferred stock may not be required to pay a dividend and may stop paying the dividend at any time. Preferred stock may also be subject to mandatory redemption provisions and an issuer may repurchase these securities at prices that are below the price at which they were purchased by the investor. Under these circumstances, a client account holding such preferred securities could lose money.

### Convertible Stocks

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value." The investment value of a convertible security is influenced by changes in interest rates, the credit standing of the issuer and other factors. The conversion value of a convertible security is determined by the market price of the underlying common stock. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. A convertible

security will generally be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible is called for redemption, a client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on a client's ability to achieve their investment objective.

### Warrants and Rights

Warrants are securities, typically issued with preferred stocks or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of a warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer. Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

**Note that there may be other circumstances not described here that could adversely affect a client's investment and prevent their portfolio from reaching its objective.**

## **Item 9 - Disciplinary History**

Neither Elemental nor its management personnel have any reportable disciplinary history.

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

### **A. Broker-Dealer Registration and Registered Representatives**

Elemental is not registered, nor does it have an application pending to register, as a broker-dealer. No management person is registered, nor does any management person have an application pending to register, as a registered representative of a broker-dealer.

### **B. Futures and Commodity Registration**

Elemental is not registered, nor does it have an application pending to register, as a futures commission merchant, commodity pool operator or a commodity trading advisor. No management person is registered, nor does any management person have an application pending to register, as an associated person of a futures commission merchant, commodity pool operator or a commodity trading advisor.

### **C. Financial Industry Affiliations**

Elemental does not have any financial industry affiliations to disclose.

### **D. Selection of Other Advisers**

Elemental does not use the services of third party money managers to manage client accounts.

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

### **A. Code of Ethics**

Elemental has adopted a Code of Ethics to prevent violations of the securities laws. The Code of Ethics is predicated on the principle that Elemental and its personnel owe a fiduciary duty to clients. Accordingly, Elemental expects all firm personnel to act with honesty, integrity and professionalism and to adhere to federal securities laws. All firm personnel are required to adhere to the Code of Ethics. At all times, Elemental and its personnel must (i) place client interests ahead of the firm's; (ii) engage in personal investing that is in full compliance with the firm's Code of Ethics; and (iii) avoid taking advantage of their position.

Clients and prospective clients may request a copy of Elemental's Code of Ethics by contacting Elemental at 415-320-6647 or [brian@elementalcap.com](mailto:brian@elementalcap.com).

### **B. Recommendations Involving Material Financial Interests**

Elemental does not recommend to clients securities in which the firm or any related person has a material financial interest.

### **C. Conflicts of Interest**

In order to create a strong congruity of interest between Elemental and its clients, Brian Wu, Elemental's sole owner and portfolio manager has invested a significant portion of his net worth using the Ascend Portfolio Strategy. This may provide an opportunity for Mr. Wu to buy or sell the same securities before or after investing in the same securities for client accounts resulting in Mr. Wu profiting off the timing of such transactions. Accordingly, these transactions may create an unavoidable conflict of interest. While the conflict may not necessarily be able to be mitigated, Mr. Wu is cognizant of his fiduciary duty to Elemental's clients and will adhere to the ethical dictates of Elemental's Code of Ethics.

### **D. Additional Information**

At times, Mr. Wu may purchase securities that he deems appropriate only for his own account. Based on the experience Mr. Wu gains while holding the securities and on further research and due diligence, Mr. Wu may at a later time purchase such securities for client accounts at prices which might be higher or lower than those originally paid.

## **Item 12 - Brokerage Practices**

### **A. Brokerage Selection**

Elemental will recommend that clients establish a clearing/custodial relationship with TD Ameritrade Inc. for trade execution and clearing and to provide custodial services. TD Ameritrade is a member of FINRA and SIPC.



### Best Execution

Best execution has been defined as the “execution of securities transactions for clients in such a manner that the client’s total cost or proceeds in each transaction is the most favorable under the circumstances.” The best execution responsibility applies to the circumstances of each particular transaction and an investment adviser must consider the full range and quality of a broker-dealer’s services, including, among other things, execution capability, commission rates, the value of any research, financial responsibility and responsiveness.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer’s services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while Elemental will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

### Broker Analysis

Elemental evaluates a wide range of criteria in seeking the most favorable price and market for the execution of transactions. These include the broker-dealer’s trading costs, efficiency of execution and error resolution, financial strength and stability, capability, positioning and distribution capabilities, information in regard to the availability of securities, trading patterns, statistical or factual information, opinion pertaining to trading and prior performance in serving Elemental.

Brian Wu, Elemental’s portfolio manager, is responsible for continuously monitoring and evaluation the performance and execution capabilities of brokers that transact orders for client accounts to ensure consistent quality executions. In addition, Elemental periodically reviews its transaction costs in light of current market circumstances and other relevant information.

### Research/Soft Dollar Benefits

Elemental has no formal soft dollar arrangements and does not use soft dollars to acquire any research services. However, as a user of TD Ameritrade’s institutional services, Elemental receives other products and services that benefit Elemental, but may not benefit its clients’ accounts. Some of these other products and services assist the firm in managing and administering clients’ accounts, including:

- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk serving institutional participants exclusively;
- Access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts;
- Ability to have investment advisory fees deducted directly from client account;
- Receipt of compliance publications; and
- Access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors.

TD Ameritrade also makes available to Elemental other services intended to help Elemental manage and further develop its business enterprise. These services may include consulting,

publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, TD Ameritrade may make available, arrange and/or pay for these types of services rendered to Elemental by independent third parties.

Additional benefits received because of Elemental's use of TD Ameritrade's institutional services may depend upon the amount of amount of assets custodied by TD Ameritrade. While as a fiduciary Elemental endeavors to act in its clients' best interests, Elemental's recommendation that clients maintain their assets in accounts at either TD Ameritrade may be based in part on the benefit to Elemental of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage provided by TD Ameritrade which may create a conflict of interest.

### Directed Brokerage

#### *Company Directed Brokerage*

Elemental does not have the discretionary authority to determine the broker-dealer to be used. As stated above, clients will have TD Ameritrade recommended to them. While there is no direct linkage between the investment advice given and usage of TD Ameritrade, economic benefits are received which would not be received if Elemental did not give investment advice to clients (please see additional disclosures in the "Research/Soft Dollars Benefits" section directly above). Elemental does not participate in any transaction fees or commissions paid to the broker dealer or custodian and does not receive any fees or commissions for the opening or maintenance of client accounts at recommended brokers.

Not all investment advisers require their clients to direct brokerage. Elemental is required to disclose that by directing brokerage, Elemental may not be able to achieve most favorable execution of client transactions and this practice may cost clients more money.

#### *Client Directed Brokerage*

Elemental does not permit clients to direct brokerage.

## **B. Trade Aggregation and Allocation**

### Trade Aggregation

Elemental may determine that the purchase or sale of a particular security is appropriate for more than one client account and may aggregate client trades into one order (e.g. a "block trade") for execution purposes. Block trading allows Elemental to execute transactions in a more timely, equitable and efficient manner and seeks to provide, when feasible, based on similar time frames of information required to make a trade decision, the same execution prices for clients at the same custodian and executing broker. Block trading can also avoid the adverse effect on a security's price when simultaneous and competing orders are placed. Elemental will aggregate orders only when such aggregation is consistent with Elemental's duty to seek best execution and is consistent with the investment objective of each client. No client account will be unfairly favored over any other account.

### Trade Allocation

Each client that participates in an aggregated order will participate based on the average execution price in that particular security. All transaction costs will be allocated pro rata

based on each client's participation in the transaction. All securities purchased or sold, will be allocated pro rata based on the assets of each account. In the event of a partial fill of an aggregated order, accounts will receive a pro rata allocation, provided; however, that the portfolio manager shall have the discretion to make adjustments to this pro rata allocation to avoid certain adverse trading results such as having odd amounts of shares held in any client account or to avoid excessive ticket charges in smaller client accounts.

### **C. Trade Errors**

Trade errors are promptly reported to the custodian and will be rectified by the custodian with no adverse financial effect on the client.

## **Item 13 - Review Of Accounts**

### **A. Periodic Reviews**

Account reviews are performed quarterly by Brian Wu, Elemental's portfolio manager. Account reviews are performed more frequently when market conditions dictate.

### **B. Other Reviews**

Other conditions that may trigger a review of clients' accounts are changes in the tax laws, new investment information and changes in a client's own situation. Reviews may also be triggered by material market, economic or political events, cash inflow or outflow to/from the portfolio or by changes in client's financial situations (such as retirement, termination of employment, or inheritance).

### **C. Regular Reports**

Clients will receive statements from their custodian at least quarterly. Additionally, monthly custodial statements will be generated as a result of investment activity in the client's account. Confirmation statements will be issued for all trading activity. Monthly and/or quarterly custodial statements will include portfolio holdings, dates and amounts of transactions, cost basis and current and prior statement value.

## **Item 14 - Client Referrals And Other Compensation**

### **A. Economic Benefits**

As detailed in Item 12 above, Elemental recommends TD Ameritrade to clients for custody and brokerage services. While there is no direct link between Elemental's participation in the program and the investment advice given to clients, Elemental does receive economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Elemental; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and

discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors.

TD Ameritrade may also have paid-for business consulting and professional services received by Elemental's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Elemental, but may not benefit Elemental's client accounts. These products or services may assist Elemental in managing and administering client accounts. Other services made available by TD Ameritrade are intended to help us manage and further develop Elemental's business enterprise. The benefits received by Elemental or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of Elemental's fiduciary duties to its clients, Elemental endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Elemental or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Elemental's choice of TD Ameritrade for custody and brokerage services.

## **B. Client Referrals**

Elemental, as a matter policy and practice, currently does not compensate solicitors for the referral of advisory clients to the firm and therefore, does not engage in any solicitor arrangements. If Elemental chooses to initiate a relationship of this nature, any such arrangements will comply with all applicable laws and rules, along with any applicable registration and licensing requirements.

## **Item 15 - Custody**

Custody of client assets will be maintained with the independent custodian selected by the client. Elemental will not have physical custody of any assets in the client's account except as permitted for direct deduction of advisory fees. Clients will be solely responsible for paying all fees or charges of the custodian. Clients will authorize Elemental to give the custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investment for the client's account.

Clients will receive directly from the custodian at least quarterly a statement showing all transactions occurring in the client's account during the period covered by the account statement, and the funds, securities and other property in the client's account at the end of the period. The account statement will also indicate the amount of advisory fees deducted from the client's account(s) for each billing period.

Clients are urged to carefully review statements received from the custodian to ensure the accurate reporting of such information.

## **Item 16 - Investment Discretion**

Elemental provides discretionary investment management services to clients. Elemental is provided with written authority (*e.g.*, the limited power of attorney contained in Elemental's investment management agreement) to determine the following: (1) the type of securities to be bought and sold; (2) the dollar amounts of the securities to be bought and sold; and (3) whether a client's transaction should be combined with those of other clients as a "block" trade.

## **Item 17 - Voting Client Securities**

### **Proxy Voting**

Elemental does not vote proxies on behalf of its clients. Therefore, although Elemental may provide discretionary investment advisory services relative to client investment assets, it is the client that maintains exclusive responsibility for: (i) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted and (ii) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceeding or other type events pertaining to the client's investment assets. Elemental and/or the client shall correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets. Notwithstanding the foregoing, Elemental's portfolio manager will remain available to discuss proxy voting options with clients.

### **Legal Proceedings**

Although Elemental may have discretion over client accounts, Elemental will not be responsible for handling client claims in class action lawsuits or similar settlements involving securities owned by the client. Clients will receive the paperwork for such claims directly from their account custodians. Each client should verify with their custodian or other account administrator whether such claims are being made on the client's behalf by the custodian or if the client is expected to file such claims directly.

## **Item 18 - Financial Information**

### **A. Prepayment of Fees**

Because Elemental does not require or accept prepayment of more than \$1,200 in fees six months or more in advance, Elemental is not required to include a balance sheet with this disclosure brochure.

### **B. Financial Condition**

Elemental does not have any adverse financial conditions to disclose.

### **C. Bankruptcy**

Elemental has never been the subject of a bankruptcy petition.

## **Item 19 – Additional Information**

### **A. Privacy Notice**

Elemental views protecting its clients' private information as a top priority and has instituted policies and procedures to ensure that client information is private and secure. Elemental does not disclose any nonpublic personal information about its clients or former clients to any nonaffiliated third parties, except as permitted or required by law. In the course of servicing a client's account, Elemental may share some information with its service

providers, such as transfer agents, custodians, broker-dealers, accountants, and lawyers, etc. Elemental restricts internal access to nonpublic personal information about the client to those persons who need access to that information in order to provide services to the client and to perform administrative functions for Elemental. As emphasized above, it has always been and will always be Elemental 's policy never to sell information about current or former clients or their accounts to anyone. It is also Elemental 's policy not to share information unless required to process a transaction, at the request of a client, or as required by law. For the full text of the Elemental's Privacy Policy please contact Elemental at 415-320-6647.

#### **B. Requests for Additional Information**

Clients may contact Elemental at 415-320-6647 to request additional information or to submit a complaint. Written complaints should be sent to Elemental Capital Partners LLC, 662 28th Avenue, San Francisco, CA 94121.