



# Cornerstone Capital Management, LLC

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January, 2011

This brochure provides information about the qualifications and business practices of Cornerstone Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (919) 419-6400.

As this is the first “Firm Brochure” prepared by Cornerstone Capital Management, LLC, no material changes exist.

While Cornerstone Capital Management, LLC may refer to itself as a “registered investment advisor” or “RIA”, clients should be aware that registration itself does not imply any level or skill or training.

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.

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## Advisory Business

Cornerstone Capital Management, LLC is a fee-based investment adviser that offers portfolio management services.

Cornerstone Capital Management, LLC's principal owner is James M. Barnes.

Cornerstone Capital Management, LLC was established in 2002. There is over 40 years experience between its advisors.

The Company philosophy is personal representation, continuity through all stages of the client's financial life, awareness of current financial position, receiving the value of the firm's experience and resources, comfort in knowing your portfolio is being professionally managed through the changes in the world markets and the US economy, peace of mind that comes with meeting your financial goals, and a smooth transition of wealth transfer between generations.

**Initial Consultation:** Cornerstone Capital Management will begin by providing the Client a free initial consultation. The consultation is used to:

- Introduce the Client to Cornerstone Capital Management's firm, its services, and staff;
- Gather information about the Client's investment objectives, financial condition, and risk tolerance, which Cornerstone Capital Management uses in forming its investment advice; and
- Reach an agreement on the terms of service and compensation arrangements.

The consultation must be completed before CCM will make any specific recommendations about the Client's asset allocation or securities to buy or sell.

At the conclusion of the initial consultation, the Client will sign Cornerstone Capital Management's Investment Management Agreement, which serves as the contract between the Client and Cornerstone Capital Management, specifying the precise nature of services to be rendered by Cornerstone Capital Management and fees to be paid by the Client.

Cornerstone Capital Management will evaluate the Client's financial condition and risk tolerance in order to tailor its securities recommendations to meet the Client's investment objectives and individual needs. Cornerstone Capital Management also allows the Client to impose any restrictions on investing in certain securities or types of securities.

Cornerstone Capital Management will make ongoing recommendations primarily involving: exchange-listed stocks, mutual funds, index funds, exchange-traded funds (ETFs), and bonds. However in certain instances, Cornerstone Capital Management may recommend investments in annuities or insurance products. Cornerstone Capital Management will not use margin or leveraged products. Given that the market will affect the value of these securities, Cornerstone Capital Management will monitor Client accounts on a routine basis so that it may make any necessary transactions in discretionary accounts.

The securities mentioned above reflect a broad range of investment risk, including some securities that entail high degrees of risk.

Cornerstone Capital Management does not provide any "wrap programs" (programs that bundle



Brokerage and advisory services under a single comprehensive fee) so all securities recommended by Cornerstone Capital Management may include additional transaction charges by the Client's broker-dealer/custodian separate from Cornerstone Capital Management's advisory fees.

For discretionary accounts, the Client will grant Cornerstone Capital Management limited trading authority (discretionary authority) in the Client's brokerage account by executing the appropriate documents. The discretionary authority will allow Cornerstone Capital Management to enter securities transactions on the Client's behalf, determining which securities and the amount of securities to buy or sell. Clients will be notified of all transactions by trade confirmation from the broker-dealer/custodian and through communication with Cornerstone Capital Management.

Cornerstone Capital management will also request the Client provide written authorization to allow Cornerstone Capital Management to automatically deduct its advisory fee from the Client's account (discussed at greater length in the "Fees and Compensation" section on pages 4-5 of this Firm Brochure); however, Cornerstone Capital Management will not have the authority to make any other withdrawals from the Client's account (s) under management.

All Clients will be recommended discretionary portfolio management. Cornerstone Capital Management current discretionary assets total \$44,498,684 within 99 accounts as of December 31, 2010.

Cornerstone Capital Management recommends the Client grant discretionary authority to Cornerstone Capital Management so that it may execute recommendations in a timely fashion, but Clients should always review their brokerage account statement to verify the trading activity and withdrawals that occur in their account (s).

## Fees and Compensations

Cornerstone Capital Management charges a management fee based on a percentage of assets under management. The percentage of assets charged per year (annum) is listed in the following table by assets level.

### Fee Schedule:

<u>Assets Under Management</u>	<u>Annual Rate</u>	<u>Annual Administration Fee</u>
\$0 through \$1,999,999	1.00%	.10%
\$2,000,000 through \$3,999,999	.75%	.10%
\$4,000,000 and above is negotiable.		.10%

Cornerstone Capital Management charges the above management fee each three month quarter during which the assets of the Client are managed by Cornerstone Capital Management. The management fee will be paid in advance at the beginning of each quarter and will be calculated by Cornerstone Capital Management at the close of business on each billing date. Clients receive an itemized "Advisory Fee Notice" with their quarterly reports from Cornerstone Capital Management. If Client or Cornerstone Capital Management terminates the management agreement during a quarter, the fee will be pro-rated for that quarter.



In addition to the management fees described above, individual IA Reps of Cornerstone Capital Management may also be licensed as insurance agents to sell the insurance products and may receive insurance commission for the sale of those insurance products.

This creates a conflict of interest and may offer IA Reps an incentive to recommend insurance products that produce insurance commissions for the IA Rep. When any such recommendations are made, IA Reps will disclose their commissions prior to completing any transaction and will obtain specific consent from the Client before purchasing any insurance product. Additionally, Clients always have the option to purchase insurance products through other agents not affiliated with Cornerstone Capital Management.

Any insurance commissions will be charged separately through the insurance company or agency and remitted to the IA Rep in their capacity as an insurance agent. Cornerstone Capital Management will not receive any insurance commissions paid to its IA Reps.

Aside from the insurance compensation described above, neither Cornerstone Capital Management nor any of its IA Reps will accept any compensation for the sale of securities or other investment products.

## **Performance-Based Fees and Side-by-Side Management**

Cornerstone Capital Management does not charge performance-based fees (fees based on gains) and so none of its Clients' accounts will ever be managed side-by-side any performance-based accounts.

## **Types of Clients**

Cornerstone Capital Management will provide advisory services to Individual Clients seeking financial planning and management services for their personal accounts.

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

For portfolio management service, Cornerstone Capital Management uses a strategic and tactical strategy to determine the investments in a given portfolio. Given the nature of the market we primary service (University Retirement Plans) fund restrictions within different plans require a two tier approach. The first tier is a core portfolio built around funds available in the retirement plans, with the second tier being investments outside of the retirement plan which can diversify the core portfolio. For this reason, our portfolios are not standardized based on the investment selection for each client.



We employ the efficient frontier methodology of portfolio management. A strategic core portfolio is developed using funds available in the majority of employer sponsored retirement plans, primarily using Fidelity Investments funds if available in the plan. Cornerstone uses Morningstar and other fund screeners to chart and analyze the movement of various investments. The best funds in different asset classes are chosen to represent a diversified portfolio that is based upon optimizing the return of a portfolio with the risk associated with the investments. Despite the strategic core methodology performed by Cornerstone, any investments in securities carries market risk and investors may lose their principle.

For assets outside of employer sponsored retirement plans, Cornerstone employs investments (primarily mutual funds) but not excluding ETFs, REITs and Insurance products to further diversify portfolio and improve the risk verse return attributes of the portfolios. Investments outside of employer sponsored retirement plans are used in a tactical manner to move the portfolios overall risk and return on a more timely and efficient manner. Despite the tactical approach to investing performed by Cornerstone, any investment in securities carries market risk and investors may lose their principal investment.

For portfolio management services, the investment strategies used will vary depending on the Client's financial goals and risk tolerance. Generally, Clients seeking capital preservation with limited risk will be managed with passive strategies using fixed income (e.g. bonds) whereas Clients seeking growth with greater risk will be managed with active strategies using stocks, mutual funds, and ETFs.

While Cornerstone Capital Management will not engage in day-trading, active strategies may entail additional risk due to a greater frequency in transactions, which may involve additional brokerage fees, transaction costs, and taxes.

## **Disciplinary Information**

Neither Cornerstone Capital Management nor any of its related persons (including management and IA Reps) have had any legal or disciplinary events in their past. Clients and prospective Clients can always view the CRD records (registration records) for Cornerstone Capital Management or any of its IA Reps through the SEC's Investment Adviser Public Disclosure (IAPD) website or [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or through FINRA's BrokerCheck database online at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) if the IA Rep is also a broker-dealer agent. The CRD number for Cornerstone Capital Management is 115653 and the CRD numbers for management and IA Reps are listed alongside their biographical information in the accompanying Brochure Supplement document.



## **Other Financial Industry Activities and Affiliations**

While Cornerstone Capital Management is not an insurance agency, IA Reps of Cornerstone Capital Management may be licensed as independent insurance agents and have affiliations with the various insurance companies whose products they sell. Specifically, James M. Barnes, James R. Wilson, and Gregory J. Murphy are licensed as independent insurance agents in North Carolina. As IA Reps of Cornerstone Capital Management, Barnes, Wilson and Murphy may recommend insurance products and may also, as independent insurance agents, sell those recommended insurance products to Clients. When such recommendations or sales are made, a conflict of interest exist as Barnes, Wilson and Murphy earn insurance commission for the sale of those products, which may create an incentive to recommend such products. Cornerstone Capital Management request that all IA Reps disclose this conflict of interest when such recommendations are made. Also, Cornerstone Capital Management requires IA Reps to disclose that Clients may purchase recommended insurance products from other insurance agents not affiliated with Cornerstone Capital Management.

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

Pursuant to SEC Rule 204A-1, Cornerstone Capital Management has a Code of Ethics that promotes the fiduciary duty of Cornerstone Capital Management and its Reps. The Code of Ethics articulates the importance of trust as a foundation to the relationship between an investment adviser and its Clients and establishes policies and procedures to ensure the Cornerstone Capital Management and its IA Reps place the interests of the Clients first. The Code of Ethics requires that Cornerstone Capital Management and its IA Reps adhere to all applicable securities and related laws and regulations. The Code of Ethics also requires Cornerstone Capital Management and its Ia Reps follow industry “best practices” involving: confidential information, suitability of investments, personal trading on the par of Cornerstone and its IA Reps, outside business activities of IA Reps, and the disclosure of conflicts of interest.

A copy of the Adviser’s Code of Ethics is available upon request for any Client or prospective Client.

While Cornerstone Capital Management has no proprietary interest in Client transactions, its Ia Reps may have a financial interest in those recommended that involve the purchase of an insurance product. As explained in the “Other Financial Industry Activities and Affiliations” section on page 7 of this Firm Borchure, Barnes, Wilson and Murphy are licensed as independent insurance agents in North Carolina. As IA Reps of Cornerstone Capital Management, Barnes, Wilson and Murphy may recommend insurance products and may also, as independent insurance agents, sell those recommended insurance products to Advisory Clients. When such recommendations or sales are made, a conflict of interest exist as Barnes, Wilson and Murphy will earn insurance commissions for the sale of those products, which may create an incentive to recommend such products. Cornerstone Capital Management requires that all IA Reps disclose this conflict of interest when such recommendations are made. Also Cornerstone Capital Management requires IA Reps to disclose that the Advisory Clients may purchase recommended



Products from other insurance agents not affiliated with Cornerstone Capital Management.

Additionally, IA Reps of Cornerstone Capital Management may have an interest in Client Transactions insofar as they may personally invest in the same securities recommended to Advisory Clients. These transactions involve a conflict of interest as Cornerstone Capital Management or IA Reps may benefit from an increase in price from subsequent purchases by Advisory Clients. To address this conflict of interest, Cornerstone and its IA Reps will adhere to the following procedures regarding their personal trading:

1. Client transactions will always be placed ahead of those for Cornerstone Capital Management, its management, and its IA Reps;
2. Cornerstone Capital Management and its IA Reps will mostly recommend investments that are widely traded;
3. In the rare instance where private placement offerings are recommended to Clients and an IA rep also has an ownership interest in the private offering, full disclosure will be given so the Client fully understands that conflict of interest; and
4. Neither Advisory Clients nor AI Reps will have enough funds invested in any given security to move the market in that particular security.

## **Brokerage Practices**

At the time of this Firm Brochure filing, Cornerstone Capital Management is not affiliated with a Broker-Dealer. When Cornerstone Capital Management does become affiliated with a broker-dealer, Cornerstone Capital Management will recommend that broker-dealer to all Advisory Clients using Cornerstone Capital Management's portfolio management services and other Advisory Clients that request a recommended broker-dealer and custodian.

Clients have no obligation to use the broker-dealer which Cornerstone Capital Management will become affiliated with, but if Clients seek to have Cornerstone Capital Management manage their accounts on a discretionary basis, the Client's chosen broker-dealer and custodian must allow Cornerstone Capital Management to have trading authority within the account.

## **Review of Accounts**

Cornerstone Capital Management reviews all Clients' account holdings daily, but reviews individual Client accounts on a quarterly basis in conjunction with calculating their management fees. Portfolio management Clients are encouraged to meet with Cornerstone Capital Management at least once per year to review their account as a whole, ensuring that the management aligns with their current financial condition, goals and objectives.

## **Client Referrals and Other Compensation**

Cornerstone Capital Management does not compensate other financial professions (e.g. accountants, tax preparers) to refer their Client to Cornerstone Capital Management for investment advisory services.



## **Custody**

Clients will engage an independent broker-dealer and custodian to maintain their accounts and so Cornerstone Capital Management will not have physical custody of Clients' assets, monies, or securities. However, since Cornerstone Capital Management may withdraw advisory fees directly from Clients' accounts (as described in the "Fees and Compensations" section on pages 4-5 of this Firm Brochure), Cornerstone Capital Management is considered to have custody in a limited capacity. Again, this custody is due solely to the direct withdrawal of fees and does not entail all of the same legal and regulatory requirements as a investment adviser with physical custody of Clients' assets, monies, or securities. Accordingly, Clients will only receive account statement from their broker-dealer and custodian (though Cornerstone Capital Management may send invoices or other communication).

## **Investment Discretion**

As described in the "Advisory Business" section (pages 3-4 of this Firm Brochure), Cornerstone Capital Management will have investment discretion and Clients will sign a trading authorization form with their broker-dealer/custodian.

When Clients grant discretionary authority to Cornerstone Capital Management, Clients may still place restrictions on the advisor, such as a prohibition on investing in specific securities, industries, or markets the Client chooses. Additionally, unless specifically instructed otherwise by the Client, Cornerstone Capital Management seeks to maintain diversified investment portfolios for its portfolio management clients.

## **Voting Client Securities**

For any security that entails a voting right in the underlying company, Cornerstone Capital Management will not have or accept authority to vote Client securities. All voting issues, proxies, and solicitations will be communicated to Clients through the Client's broker-dealer/custodian. Upon request, however, Cornerstone Capital Management may help explain or answer questions regarding a given voting issue.

## **Financial Information**

Cornerstone Capital Management is not required to disclose additional financial information since fees are not charged six months or more in advance, but fees are charged as described in the "Advisory Business" section (pages 3-4 of this Firm Brochure), Cornerstone Capital Management charges all advisory fees only three months in advance. In any case, Cornerstone Capital Management, its management and IA Reps have not material financial information (e.g. bankruptcies, liens, judgments) in their backgrounds.



## **Requirements for State-Registered Advisers**

Cornerstone Capital Management has only one principal executive officer: James M. Barnes. His biographical information is given on the attached “Brochure Supplement” document.

Under the “Fees and Compensation” section (pages 4-5 of this Firm Brochure) explains that IA Reps of Cornerstone Capital Management may also be licensed as insurance agents and may receive insurance commissions for the sale of insurance products.

Cornerstone Capital Management would be required to disclose additional information if it: were to charge performance-based fees; had any other relationship or arrangement with any issuer of securities; or was ever found liable in either: (1) an arbitration, or (b) a civil, self-regulatory organization, or administrative proceeding. As none of these apply to Cornerstone Capital Management, its management persons, or IA Reps, Cornerstone Capital Management has no information to disclose in these regards.





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## Brochure Supplement

James M. Barnes

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

## Brochure Supplement for James M. Barnes

James M. Barnes, born October 5, 1956, attended Lees-McRae College, Banner Elk, NC.

**Business Experience:** James M. Barnes founded Cornerstone Capital Management, LLC in 2001

**Examinations:** Series

**Disciplinary Information:** James M. Barnes has had no legal or disciplinary events

**Other Business Activities:** None.

**Additional Compensation:** James M. Barnes is licensed as insurance agent to sell the insurance products and may receive insurance commission for the sale of those insurance products. This creates a conflict of interest and may offer an incentive to recommend insurance products that produce insurance commissions. When any such recommendations are made, James M. Barnes will disclose the commissions prior to completing any transaction and will obtain specific consent from the Client before purchasing any insurance product.

**Supervision:** James M. Barnes as the Founder is the principal executive in Cornerstone Capital Management, LLC has direct and indirect supervisory authority over all of the Firm's investment advisory representative, including himself.

**Requirements for State Registered Advisors:** James M. Barnes has had no legal or disciplinary events in the past and has not been the subject of a bankruptcy petition. See "Disciplinary Information" above.





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## Brochure Supplement

Gregory J. Murphy

This brochure supplement provides information about Gregory J. Murphy that supplements the Cornerstone Capital Management, LLC brochure. You should have received a copy of that brochure. Please contact us via email through our website [www.ccmadv.com](http://www.ccmadv.com) if you did not receive Cornerstone Capital Management, LLC's brochure or if you have questions about the contents of this supplement.

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

## Brochure Supplement for Gregory J. Murphy

Gregory J Murphy, born November 16, 1968 , received a BS in Business Administration from the University of Tennessee in 1992.

**Business Experience:**

	Fidelity Investments	
1992-1995		Mutual Fund Sales Representative
1995-2002		Senior Retirement Counselor
	Cornerstone Capital Management, LLC	
2002-2006		Director, Investment Consulting
2006-Present		V.P., Portfolio Manager

**Examinations:** Series 6, 63, 65, 7 and 24

**Disciplinary Information:** None.

**Other Business Activities:** None.

**Additional Compensation:** Gregory J Murphy is licensed as insurance agent to sell insurance products and may receive insurance commission for the sale of those insurance products.

**Supervision:** Gregory J. Murphy Reports to James M Barnes, Founder and President of Cornerstone Capital Management. Mr. Barnes can be reached at (919)419-6400.

**Requirements for State Registered Advisors:** Gregory J. Murphy has had no legal or disciplinary events in the past and has not been the subject of a bankruptcy petition. See "Disciplinary Information" above.





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

## Brochure Supplement for James R. Wilson

James R. Wilson, born January 23, 1947, attended Durham Community College 1965 - 1967.

### Business Experience:

Primerica  
1995—1996 Mutual Fund Sales Representative

Verity Asset Management  
1996—1998 Mutual Fund Sales Representative  
1998—2003 Junior Partner

Cornerstone Capital Management, LLC  
2003—Present Director, Retirement Ser-

### Examinations:

Series 6, 63, 65 and 24

### Disciplinary Information:

James R. Wilson has had no legal or disciplinary events in the past. Clients and prospective Clients can view CRD records (registration records) for James M. Barnes through the SEC's Investment Adviser Public Disclosure (IAPD) website or [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). James R. Wilson's CRD number is 2705449.

### Other Business Activities:

None.

### Additional Compensation:

James R. Wilson is licensed as insurance agent to sell insurance products and may receive insurance commission for the sale of those insurance products.

### Supervision:

James R. Wilson Reports to James M Barnes, Founder and President of Cornerstone Capital Management. Mr. Barnes can be reached at (919)419-6400.

### Requirements for State Registered Advisors:

James R. Wilson has had no legal or disciplinary events in the past and has not been the subject of a bankruptcy petition. See "Disciplinary Information" above.

