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## **Cornerstone Institutional Investors, Inc.**

74 W. Broad St., Suite 340  
Bethlehem, PA 18018  
(800) 923-0900

[www.cornerstone-companies.com](http://www.cornerstone-companies.com)

March 26, 2012

This Brochure provides information about the qualifications and business practices of Cornerstone Institutional Investors, Inc. (“Cornerstone”). If you have any questions about the contents of this Brochure, please contact us at (800) 923-0900. 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.

Cornerstone is a registered investment adviser with the Securities and Exchange Commission. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Cornerstone Institutional Investors, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes**

This Brochure dated March 26, 2012 is our most recent ADV Part 2 Brochure prepared according to the SEC's requirements and rules. One change to this document from our previous brochure dated March 1, 2011 is as follows:

Page 6: Fees and Compensation – Additional language added to 5<sup>th</sup> paragraph, 4<sup>th</sup> sentence – (new relationships subject to an annual minimum fee of \$5,000).

Pursuant to SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Donna Humphrey, Chief Compliance Officer at (800) 923-0900 or [dhumphrey@cornerstone-companies.com](mailto:dhumphrey@cornerstone-companies.com). Our Brochure is also available on our web site [www.cornerstone-companies.com](http://www.cornerstone-companies.com) free of charge.

Additional information about Cornerstone Institutional Investors, Inc. is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Cornerstone Institutional Investors, Inc. who are registered, or are required to be registered, as investment adviser representatives of Cornerstone Institutional Investors, Inc.

## Table of Contents

Cover Page .....	i
Material Changes .....	ii
Table of Contents .....	iii
Advisory Business .....	1
Fees and Compensation .....	6
Performance-Based Fees and Side-By-Side Management .....	7
Types of Clients .....	7
Methods of Analysis, Investment Strategies and Risk of Loss .....	8
Disciplinary Information .....	12
Other Financial Industry Activities and Affiliations .....	12
Code of Ethics .....	13
Brokerage Practices .....	15
Review of Accounts .....	156
Client Referrals and Other Compensation .....	16
Custody .....	17
Investment Discretion .....	17
Voting Client Securities .....	18
Financial Information .....	19
Business Continuity & Information Security Programs .....	19

## **Advisory Business**

Cornerstone Institutional Investors, Inc. began offering investment services in 1998 and has continuously offered investment advisory services since that time. The firm is privately held by four shareholders: Malcolm L. Cowen II, President; Thomas J. Scalici, CEO; Kevin Karpuk, Chief Investment Officer; and, Christopher J. McKinley, Director of Information Systems.

Cornerstone provides investment advisory services for institutional clients (i.e., defined benefit and defined contribution plans, foundations and endowments, corporations, religious organizations, hospitals, charitable organizations and public funds) and individual clients (i.e., natural persons, families, personal trusts, family partnerships and limited liability companies). The common factor among these clients is their obligation or desire to implement a “best practices” fiduciary investment solution designed to produce above average risk-adjusted returns based on their risk profile. This is achieved through asset allocation, portfolio structure, tactical overlays, manager selection and fee transparency.

Our advisory philosophy is that clients are funding one liability or another via their asset pools. Understanding liability structure allows us to work with a variety of clientele while employing the same management philosophy. The common thread tying together our services whether we are working with private clients who need to fund their lifestyles or institutions with defined benefit obligations, endowment spending requirements, or other liabilities is that our focus is on risk management, asset allocation, portfolio monitoring and fee transparency.

We prefer to be retained as a full service investment consultant by each client; however, you can engage Cornerstone in any one or multiple lines of business because of our open architecture platform. An open architecture platform, which means hiring “best in class” service providers for management, brokerage, custody, recordkeeping, etc., allows you to achieve a high level of flexibility. This flexibility enables us to work with you to develop investment policies that are tailored to your specific needs in every aspect of your investment solution. Our clientele’s requirement of flexibility has led Cornerstone to make substantial investments in technology so that reporting and monitoring can be customized to suit your needs.

As of the date of this filing, Cornerstone manages a total of \$256,197,800 of which \$104,357,484 are discretionary assets and \$151,840,316 are non-discretionary assets.

Our services which are listed below are broadly grouped into five categories which are: Asset Management Services, Fiduciary Support Services, Discretionary Management, Other Services and Additional Services which are described in more detail below.

### **Asset Management Services**

Asset management services are the core offering of any investment consulting firm. We provide asset allocation modeling to our clients on an annual basis using current capital market

assumptions. The assumptions which we purchase from Callan Associates, Inc. take current market conditions into account rather than simply using historical norms because macroeconomic and monetary trends can impact your portfolio. We input these capital market assumptions into software which uses *Monte Carlo* simulations to create a likely range of outcomes over different time periods.

We also provide manager search and selection services for our clients. You can find the methodology of these searches in the section of this document entitled “**Methods of Analysis, Investment Strategies and Risk of Loss**”.

As mentioned above, our performance reporting technology was developed to allow both us and you flexibility in output as reporting needs or market conditions change. Our reporting technology combines client-specific cashflow and asset allocation with detailed return, risk, and risk-adjusted return metrics. These reports compare your manager/portfolio performance against both appropriate indices and benchmarks. The design of our reporting is meant to help you understand whether you are making progress towards your goals and whether more due diligence is needed on specific service providers based on the guidelines found within your written Investment Policy Statement.

Cornerstone provides portfolio, manager and security level analysis to you that include return attribution, trading statistics and diversification measures. This analysis includes benchmarking against peers and investment policy guidelines to confirm that portfolios are being managed prudently.

### **Fiduciary Support Services**

For the majority of our clients, one of our first mandates is to formulate a written Investment Policy Statement that formalizes the investment guidelines and expectations for each party to the document. While there are few legal requirements to have an Investment Policy Statement in writing, it is considered a best practice. When formulating this statement, Cornerstone takes your risk tolerance, time horizon, fiduciary status, regulatory limitations and other specific factors into account. A well written document should clearly outline acceptable investments, targeted returns and downside and acceptable performance standards. Each party, including investment managers, receives a copy of the executed document. As a living document, an Investment Policy Statement must be reviewed frequently. Our reporting is built to support a constant review of the guidelines of the document and we urge clients to review the document at least annually to ensure that it changes as your needs or expectations do. A well written policy should be able to outlast a particular party to it.

We provide you fiduciary training and ongoing compliance reviews utilizing the guidelines developed by the Center for Fiduciary Studies, LLC®. This program promotes the understanding of regulatory and moral responsibilities shared by fiduciaries. We organize seminars during which we review with you a best practices process that should be followed to minimize fiduciary liability and promote the achievement of your goals. A part of our ongoing fiduciary compliance reviews are to perform risk assessments for clients. These reviews involve

comparing best practices with your current process. If deficiencies exist, we implement changes. More information is available on these seminars upon request.

For those clients who have socially responsible investment mandates we utilize outside resources to both select managers and monitor portfolios for compliance with these guidelines. Socially responsible mandates vary as greatly as the underlying organizations supporting them do. We work with you during the process of Investment Policy Statement development to codify your objectives as they pertain to socially responsible investing. On an ongoing basis, we continuously monitor the underlying holdings of the portfolio to ensure compliance. If there is a breach of the mandate, we take corrective action including instructing the manager to sell the security or terminating the offending party.

Cornerstone will act as a named fiduciary in certain instances. Various regulatory and legal definitions exist for the term fiduciary. An example of this is that Cornerstone has been retained by qualified retirement plan clients as either an ERISA 3(21) or ERISA 3(38) advisor, as defined by the Department of Labor. The specifics of Cornerstone's role as a fiduciary for any assets under your care are outlined in the Investment Advisory Contract you enter into with us. The role of fiduciary imposes on Cornerstone a higher level of care than is typical in a traditional consulting relationship. We discuss with our clients and contractually agree to be bound by these requirements on an individual basis and acquire various types of liability insurance in these instances where appropriate or required.

## **Discretionary Management**

Cornerstone provides discretionary investment management to clients at their request. The scope of these services is more broadly outlined in the section entitled "**Investment Discretion**" later in this document. We utilize a manager-of-managers approach for the majority of our client relationships and employ macroeconomic overlays which are described within the section titled "**Methods of Analysis, Investment Strategies and Risk of Loss**".

In most cases, Cornerstone outsources individual security management to other registered advisors; however, in the case of cash management, Cornerstone can manage these assets directly for clients with basic needs. Pursuant to the written guidelines of our clients, we purchase short-term investments with clearly defined quality and duration characteristics.

## **Other Services**

Few individual clients or middle market institutions can afford the cost of maintaining staff positions to handle the day-to-day reporting requirements that are associated with these pools of assets. As such, as part of our investment advisory offerings, Cornerstone coordinates the actions of the different service providers for our clients. We provide data and insight into investment pools to accountants, auditors, actuaries, recordkeepers and other third parties at your direction. This information is made available upon your written authorization.

These Other Services vary greatly depending on regulatory or client-specific needs. The scope of these services and any extra costs associated with these are outlined within your Investment Advisory Agreement. As with the rest of our advisory offering, fees are negotiable and are discussed more fully in the section of this document labeled “**Fees and Compensation**”.

### **Additional Services**

Services that are found outside a normal scope of work are grouped under our Additional Services listing. Fees associated with these services are typically *a la carte* and can be found under the section of this document labeled “**Fees and Compensation**”.

The offerings we consider Additional Services are generally project based. For example, alternative investment searches are more complex due to their nature than are traditional asset class searches, requiring more in depth due diligence, because the data associated with this asset class is less regulated and widely available than other investment styles.

We outsource asset/liability modeling to third party actuaries but provide them with our capital market assumptions and all plan data required. Once the modeling is completed, we meet with our clients to discuss the report and whether any changes to asset allocation, funding levels or liabilities should be considered.

There are numerous project based services we provide to our retirement planning clients including, running RFP’s for new providers, merger and acquisition consulting, fee benchmarking, transition management, fiduciary reviews and custom communications programs.

Cornerstone has provided litigation support on differing levels for clients. Our role can be anywhere from data collection to pre-trial support to expert witness.

Our commission recaptures and transition management services include searching and implementing both programs for clients. In discretionary relationships, Cornerstone directly contracts with third party firms to provide these services or provides them internally.

We group the above discussed services into various lines of business. Our explanation of these lines of business is found below.

### **Investment Management Consulting**

Cornerstone provides comprehensive investment consulting services designed to ensure that clients are meeting their fiduciary responsibility as defined by ERISA (Employee Retirement Income Security Act), UPIA (Uniform Prudent Investor Act), UPMIFA (Uniform Prudent Management of Institutional Funds Act), MPERS (Uniform Management of Public Employee Retirement Systems Act), or other pertinent laws. We manage all of our relationships in a manner designed to deliver best practices and urge our individual clientele to follow as high a fiduciary standard for your personal assets as you would for an institution for which you serve.

## **Retirement Planning**

Our Retirement Planning practice works with you to develop different methods in which to retain employees through well designed compensation structures. We design, implement and monitor defined contribution plans (401(k), 403(b), 457(b), etc.), non-qualified deferred compensation plans and incentive plans.

Cornerstone assists clients with plan design, negotiating vendor contracts, managing asset allocation portfolios, policy development and monitoring, core menu fund selection, quarterly fiduciary reviews, plan communications, monitoring regulatory changes, annual educational goals and problem resolution support.

Dependent on the size and scope of our relationship, Cornerstone also holds employee education meetings at both a group and individual level in which both the benefit and proper investment techniques are discussed. The scope and cost of these services are formally outlined within your Investment Advisory Agreement.

## **Financial Planning**

Cornerstone offers financial planning services to individuals that include services such as: personal financial planning, insurance and estate planning, capital needs analysis, tax and cashflow analysis, retirement planning, investment analysis and planning and education planning.

Financial planning information will be obtained through personal interviews with each client concerning your current financial status, future goals and attitudes towards risk. Related documents that you supply are carefully reviewed, along with data gathered from you. In most cases, a written report is issued.

## **Insurance Services**

We advocate a fiduciary decision-making process when helping clients assess their insurance needs. While a formal fiduciary standard does not currently exist in the insurance industry, we have elected to implement one since we feel it is a moral and ethical way to do business and because it is consistent with a philosophy of managing the firm. The key components of a fiduciary decision-making process revolved around documentation and disclosure, transparency around the variables that effect pricing and performance and identifying and quantifying risk. The primary target market for our services are the executives and key employees of our corporate clients, high net-worth individuals and our charitable planning clients. This group is most impacted by the limitations of group benefit programs that are designed to provide benefits to the masses. Shortfall risks in the areas of life, disability insurance and long-term care are addressed during the course of our planning.

CII is a member firm of the M Financial Group. M was founded in 1978 and is owned by approximately 120 member firm organizations. It is currently the largest insurance producers



group in the country. Over the years, M has created partner relationships with a number of large life and disability insurance carriers. During the course of this relationship, M has created a number of proprietary products, riders, underwriting and pricing advantages due to the volume and quality of the business generated by its Member Firms. CII as a member firm owns stock in M Life, a reinsurance company designed to retain a certain portion of the risk underwritten by the Member Firms. Annually, M has the right to distribute profits from M Life to the Member Firms Payments based on the profitability of the block of business each firm manages for its clients. CII is eligible to receive these Incentive Compensation Payments.

## **Fees and Compensation**

Cornerstone's fees are negotiable on a case-by-case basis and mutually agreed upon depending on the level and scope of services that you require. These fees can be any one or a combination of the following: asset based fee (percentage of assets), a flat dollar fee or a project based fee. The entire scope and rate of these fees are defined within your Investment Advisory Agreement.

Investment Management Fees are calculated and due quarterly and may be payable in advance or in arrears. Based on your preference, Cornerstone can either deduct these fees directly from your account or invoice you directly for services rendered.

Cornerstone's Investment Management Fees are for advisory services only and are separate from compensation paid to independent money managers, custodians, recordkeepers, mutual funds, brokers and other service providers as well as other fees which include taxes, trading fees and other transfer fees. Cornerstone does not sponsor a wrap-program in which all of these services would be included in Cornerstone's fee. We believe that it is a best practice and matter of moral integrity to disclose all fees you have paid to our firm. We will disclose such payments and any other compensation created from our relationship with you. Detailed historical fee information for your account is available upon request.

Our Investment Advisory Agreement can be terminated by contractually determined written notice by either party. Upon such a termination, accounts that are billed in advance will have fees prorated and promptly refunded directly to you. The method for calculating the proration is based on the number of calendar days expired during the current billing period as a percentage of total calendar days in the quarter.

Cornerstone's fees are a function of the complexity of the client engagement and the services agreed upon. Fees can be asset based or a negotiated fixed fee for a period certain. Fees are determined after considering factors such as, but not limited to, the amount of assets under management, the complexity of the investment solution, and/or the services you require. In no case will fees exceed 100 basis points annually of assets under management (new relationships subject to an annual minimum fee of \$5,000) for our general consulting fees with the following exceptions:

## **Financial Planning Fees**

Cornerstone charges a flat fee ranging from \$2,500 to \$100,000 unless agreed upon between the Advisor and the client, which will be quoted prior to the contract being executed. The fee for this service will be determined according to the complexity of the plan as well as the extent of service desired by the client. An estimated fee will be given upon contracting with the client. Fees may be negotiable.

Fees may be charged on a quarterly basis and may be payable in advance or in arrears. The contract may be terminated by either party upon 30 days written notice for which a payment is due. The client will be billed for the time spent and costs incurred up to the date of termination. Clients who terminate the contract within 5 business days of signing the contract shall be provided a full refund.

## **Special Client Projects**

During the course of a client relationship, Cornerstone is often asked to perform special projects in addition to or in lieu of providing our traditional investment consulting services. Examples of Special Client Projects include but are not limited to managing RFP's (Request for Proposals) for Retirement Plan Providers or Custodians, Plan Fiduciary Reviews, Overall Plan/Portfolio Fee Analysis, Consolidated/Customized Performance Reporting, Asset Liability Modeling, Communication and Education services, Fiduciary Training and Transition Management. A consulting fee, ranging from \$5,000 to \$250,000, which is negotiated with the client before services are provided, is charged for these services. Under certain circumstances, Cornerstone may waive all or part of this fee. Fees for special client projects are payable per the Scope of Work agreement and payment schedules will vary depending on the type and/or the complexity of the project.

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

Cornerstone does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Types of Clients**

Cornerstone provides consulting services to high net worth individuals, corporations, qualified defined benefit and defined contribution plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, colleges, hospitals and other institutions.

Although minimum account sizes are negotiable based on various factors (other relationships with the client, future growth expectations, etc.), our target market consists of smaller middle market institutions and high net worth individuals or families. We define smaller middle market institutions as those with up to \$25 million of investable assets. High net worth individuals are those with less than \$10 million of investable assets.

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

We utilize many sources of data including those both publicly available and those that are proprietary. Your written Investment Policy Statement outlines the steps of the process and our methodologies. During the drafting of the policy, we explore your current solution and possible enhancements, as well as defining how we will undertake our responsibilities for both monitoring and making changes to the portfolio on an ongoing basis. Our consulting services utilize a four step process as follows:

The process of drafting an Investment Policy Statement gives us great insight into your current financial condition, your investment preferences and your specific needs or limitations. Once we have completed an initial review, we provide asset allocation modeling to frame a discussion of risk (i.e. the downside possibility of your portfolio). We believe our analytics are world class, but there are limitations to any modeling that need to be viewed by an experienced eye because the real world diverges greatly from models. Besides risk tolerance, you may have restrictions particular to your investment portfolio including tax considerations, socially responsible investment mandates or other regulatory or self-imposed restrictions.

Investment pools succeed because they follow a prudent investment process that promotes intelligent decision-making. This process typically focuses on four basic principles:

- Asset allocation
- Portfolio structure
- Multiple specialist managers
- Continuous portfolio management

### **Asset Allocation – the most important step in the management process**

How do you position investments if you can't depend on the past performance of investment products? The preponderance of research over more than a decade suggests that asset allocation policy is the primary determinant of long-term success or failure. This means that your decisions regarding asset mix (stocks vs. bonds, etc.) are far more important than which mutual funds you buy or sell or which money managers handle your investments.

How your assets are allocated should be directly related to your investment objectives – your investment time horizon, your ability to handle risk, and the overall goal you want to reach. The most important steps in the investment process are those in which an investor's objectives are carefully defined and then implemented with an appropriate asset allocation strategy.

Cornerstone assists clients in developing an appropriate asset allocation by using the software and inputs described earlier in the document. These inputs are forward-looking in nature because we do not believe that historical performance is likely to be repeated. Our *Monte Carlo* simulation software provides for a range of returns based on these inputs and provides us with the ability to model expected median returns and expected loss scenarios.

It is important for you to recognize that no software, regardless of its sophistication is able to predict the future. Even with thoughtfully constructed Capital Market Assumptions, your downside is not limited in any way. We model out downside returns that can be expected in normal market declines but do not warrant that these lower bounds cannot be breached in a given year.

### **Portfolio Structure – diversification across and within asset classes**

For the best chance at success, your portfolio should be diversified across and within these asset classes as well. In other words, you shouldn't only buy "stocks" or mutual funds, but you should also make sure you have the right mix of large cap, small cap, growth and value, avoiding concentrations that create unknown risks.

An important idea to stress is that of identifying the style specialty of a money manager because stock performance within groups tends to be similar. In addition, money managers that specialize in a style of stock or bond tend to outperform "generalist" money managers that buy stocks or bonds over several different categories.

Cornerstone performs due diligence on a multitude of asset classes and sub-asset classes including but not limited to; large and small capitalization domestic equities, international and emerging equities and fixed income, domestic and high yield fixed income, cash alternatives and alternative asset classes which can include real estate, private equity, hedge funds, commodities, convertible securities, global tactical asset allocation funds and other inflation sensitive investments.

In 401(k) and 403(b) plans, this manifests itself in two ways, one in the selection of the core fund menu of investments and two, in our ability to create or select appropriate risk-based asset allocation or Target Date Fund portfolios. Virtually every investment platform in a defined contribution plan has some sort of limitations (number of funds, use of proprietary funds, ability to record keep custom portfolios, etc.) that need to be incorporated into the decision-making process.

We urge you to do independent research on these asset classes and confer with us regarding your investments in these products. Diversification has historically provided benefits to clients through lower volatility of returns but this is not guaranteed to be true in all time periods. During times of financial market stress, many historically uncorrelated asset classes earn similar return patterns, lessening the benefit of diversification. These periods of "flights to quality" can be of varying lengths and degrees and should be expected.

### **Use of Specialist Money Managers**

Specialist money managers that concentrate on one investment discipline, such as large cap growth stocks, can become experts in a small segment of the larger market. This focus can mean greater consistency and predictability of results. In contrast, generalist money managers who

roam about the market in search of “good” opportunities often underperform the market indexes and experience increased volatility.

Again, the use of multiple specialist managers satisfies your requirement to minimize uncompensated risk and search for additional returns in well-defined types of securities. With thousands of money managers and mutual funds; how do we identify the firms that are likely to continue to do well in the future? The manager selection process includes exhaustive quantitative analyses in combination with an examination of the qualitative aspects of a manager’s investment process and business organization. We describe the basic considerations in the manager selection process below and will share a more detailed explanation upon request:

**Performance** – How does the firm compare against its peers across market cycles? Is the result consistent with a particular style? Are you adequately compensated for the manager specific risk?

**Philosophy** – Is there a clearly defined investment philosophy and style that has been consistently applied over a number of market cycles?

**Process** – Can the manager demonstrate discipline in making buy and sell decisions? How efficient is the manager’s securities trading operation?

**People** – Is the firm a stable, well-managed organization that attracts and retains outstanding investment manager talent? Is it employee owned?

Cornerstone employs four investment analysts to research and track the various firms that manage your portfolio. These analysts are members of and report to our Investment Policy Committee which numbers 8 individuals from consultants to compliance to operational professionals.

It is not possible to envision every risk involved while working with third parties. To mitigate the risk of outright fraud, Cornerstone utilizes third party custodians to hold the assets of our clients except as described in the section titled “Custody”. All money managers will underperform their benchmarks at some point in time. This is expected as different sub-styles or stock specific issues arise. We attempt to limit the effect of these periods by requiring minimum levels of diversification; however, they cannot be avoided entirely. Another risk in investing with independent money managers is that either the people or the process will change. Cornerstone utilizes two methods to lessen this risk: industry contacts and contractual requirements. We maintain constant contact with competitors of these firms in the industry who will inform us of changes promptly. We also require that the manager inform us of changes to personnel or process immediately. This requirement is found in your separate agreements with the managers and is also in the written Investment Policy Statement.

## **Continuous Portfolio Management**

Portfolio management should be a continuous process. Once a portfolio strategy is implemented, the investment process should work to maintain the asset allocation policy and the competitive performance of the money manager team. This requires a periodic rebalancing discipline and the continuous monitoring of money managers for style drift and peer group underperformance.

Rebalancing is an important aspect of portfolio management, as market movements are certain to change intended asset mix and therefore risk exposure and return potential. This can create unintended and unnecessary risks, as it did during the market run-up in the late 1990s. Utilizing a tactical overlay within the allocation bands of your investment policy is a key determinant of success.

Our macroeconomic overlay combines research from Callan, Bank Credit Analysts, and other sources with our fundamental aversion to uncompensated risk. An example of uncompensated risk is when the yield of certain fixed income investments becomes too small in relation to riskless assets (i.e. Treasury Bills). We observe trends in investment flows, international trade balances, debt markets and other factors that influence financial markets and the Investment Policy Committee decides on tactical over/underweights based on your specific needs.

While Cornerstone emphasizes preservation of capital, we may at times become more aggressive within the allowable ranges of your Investment Policy Statement. A potential risk is that our tactical overlay could be poorly timed causing less than optimal performance in your account.

## **Process Summary**

Investment markets tend to be irrational and unpredictable in the short run. Fortunately, the factors that control performance over the long term – asset allocation policy and manager quality – can be effectively managed. The key to success is employing a process that integrates the four basic investment management principles in decision making. In the final analysis, the objective is to minimize mistakes.

This process, at its core, is the same regardless of the client to which we consult. Nuances such as differing cash needs, long-term goals, and other variables as outlined specifically by you are considered while developing the final investment solution and ongoing monitoring process. Having full knowledge of your needs and limitations helps us craft individualized policies to maximize the chance of long-term success.

Investing in securities involves risk of loss that Clients should be prepared to bear. While we attempt to quantify and communicate these risks to you, we cannot make assurances about maximum loss during market dislocations or other events that are not in our control as outlined above.

## **Disciplinary 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 Cornerstone Institutional Investors, Inc. or the integrity of Cornerstone management. We have no information or disclosures applicable to this Item.

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

### **Broker/Dealers**

All registered investment advisory associates of Cornerstone are registered representatives with M Holdings Securities, Inc. (“MHS”), a member firm of the Financial Industry Regulatory Authority (FINRA) engaged in the design and sale of specialized investment products. We will occasionally provide money managers with the option to do directed trades through MHS. On such occasions we will disclose this information to you.

Cornerstone and/or its executive officers may, from time to time, receive incentive awards for the recommendation/introduction of investment or insurance products. These arrangements may represent a conflict of interest between you and Cornerstone. In situations where this conflict exists or may potentially exist, you will receive full disclosure of a conflict, compensation paid and resolution of the conflict.

Our brokerage policies are outlined in the section of this document labeled “**Brokerage Practices**”.

### **Custodians**

We run searches for, negotiate pricing and services and recommend clients to custody assets at various banks, trust companies or thrift institutions. A partial list of these institutions includes Bank of New York Mellon, Wachovia Bank, Wells Fargo, M&T Bank, PNC Bank, Northern Trust, First Niagara Bank, 1<sup>st</sup> National Bank of Omaha, Charles Schwab and Deutsche Bank, et al. None of these relationships yield any benefit to us and all fees paid to these institutions are defined and controlled by your agreement with them.

### **Qualified Plan Recordkeepers**

Cornerstone and its affiliates currently provide services to more than 100 retirement plan clients on more than 15 recordkeeping platforms. While Cornerstone and its affiliates do not provide qualified plan recordkeeping services, we have built an electronic link to them so we can access the data necessary to monitor and manage the investments in the plan. Cornerstone and its affiliates currently has clients on the following platforms; Fidelity, Schwab, Vanguard, TIAA-CREF, John Hancock, Principal, Prudential, Nationwide, Transamerica, Newport Group, Matrix and several other TPA platforms.

## **Other Investment Advisors**

Cornerstone is affiliated with Cornerstone Advisors Asset Management, Inc. (CAAM), a registered investment advisory firm specializing in investment consulting, fiduciary services, and qualified retirement plan design and consultation to ultra-high net worth individuals, entrepreneurs, not-for-profit institutions, corporations, and closely held businesses. CAAM's target market is institutions with above \$25 million and individuals with more than \$10 million in investable assets. CAAM is also an affiliated partner of Callan Associates Inc., a Registered Investment Advisor located in San Francisco, California. CAAM is a founding member of Callan's Investment Advisor Group (IAG) and purchases investment technology and research through Callan or other non-affiliated third parties.

Cornerstone and its affiliates may periodically refer a client to another financial services firm and receive a fee. Examples of this include estate and business succession planning, health and welfare consulting, salary studies and incentive compensation plan design. Fees received from the referred entity will not incur any additional costs to you.

In all cases, compensation provided to or from these affiliates will be fully disclosed to you. If a conflict of interest exists or may exist, we will obtain from you a signed disclosure form outlining the potential conflict and our process for minimizing the effect of said conflict on you.

## **Code of Ethics**

Cornerstone has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to you. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Cornerstone must acknowledge the terms of the Code of Ethics annually, or as amended.

Cornerstone anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which we have management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Cornerstone, its affiliates and/or clients, directly or indirectly, have a position of interest. Our employees and persons associated with Cornerstone are required to follow our Code of Ethics. Subject to satisfying this policy and applicable laws, our officers, directors and employees and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for you. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would



permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between you and us.

As a summary of the entire Code of Ethics, which is available upon request, we believe that The Statement of General Principles found within the Code of Ethics best encapsulates our internal rules regarding our relationship with you. It reads as follows:

*“In recognition of the trust and confidence placed in the Firm by its clients and to stress its belief that its operations are directed to the benefit of its clients, the Firm has developed and adopted the following general principles to guide its associated persons, officers, and directors:*

- 1. The interests of the clients are paramount and all associated persons of the Firm must conduct themselves in such a manner that the interests of the clients take precedence over all others.*
- 2. All personal securities transactions by associated persons of the Firm must be placed in such a way as to avoid any conflict between the interest of the Firm’s clients and the interest of any associated person of the Firm.*
- 3. All associated persons of the Firm must avoid actions or activities that allow personal benefit or profit from their position with regard to the Firm’s clients.*
- 4. All associated persons will remain compliant with federal securities laws.*
- 5. Any potential violations of this Code of Ethics must be promptly reported to the Chief Compliance Officer.”*

Although the Code of Ethics that we have adopted outlines our philosophy with regards to maintaining our relationship with you, below you will find instances where a conflict or potential conflict of interest exist. In each case, we have attempted to minimize the frequency of these conflicts and have outlined disclosure and remediation of such situations.

Executive Officers and other employees, as insurance agents, brokers for various insurance companies, or registered representatives of broker/dealers, can purchase investment products, including traditional insurance and variable life insurance, for you upon request. However, you are under no obligation to engage Cornerstone or these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at your discretion.

Cornerstone or individuals associated with it may buy or sell securities identical to those recommended to clients. It is our express policy that no person employed by Cornerstone may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, preventing employees from benefiting from transactions placed on behalf of advisory accounts.

Cornerstone or any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

As certain transactions may represent a conflict of interest, Cornerstone has established the following restrictions in order to ensure its fiduciary responsibilities:

- 1) An executive officer or employee of Cornerstone shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on a reasonable inquiry. No person of Cornerstone shall prefer his or her own interest to that of the advisory client.
- 2) Cornerstone maintains a list of all securities holdings for itself, and anyone associated with this advisory practice. These holdings are reviewed on a regular basis by the executive officers.
- 3) You are and will be fully informed that certain individuals may receive separate compensation when effecting transactions during the implementation process.
- 4) Cornerstone emphasizes your unrestricted right to decline to implement any advice rendered.
- 5) Cornerstone emphasizes your unrestricted right to select and choose any broker or dealer, and/or insurance company you wish.
- 6) We require that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- 7) Any individual not in observance of the above may be subject to termination.

## **Brokerage Practices**

Cornerstone does not directly participate in any soft dollar arrangements when trading for your accounts and requires service providers to receive your written permission prior to entering into any soft dollar arrangements.

In certain circumstances, Cornerstone Institutional Investors, Inc. may suggest the use of a FINRA member firm broker/dealer to a client in need of assistance, provided Cornerstone, in its discretion, meets its fiduciary obligation of best execution. While commissions charged, if any, are generally competitive, they may not be the lowest in the industry. The overall services provided by the broker/dealer are taken into consideration when executing transactions. You are not under any obligation to affect trades through any recommended broker and are free to select any broker or dealer you choose. Choosing to direct brokerage may cause you to not achieve most favorable execution and you may pay higher brokerage commissions by choosing to direct brokerage.

Cornerstone's advisory practice, due to the individualized nature of its business and client needs, does not include, blocking trades, negotiating commissions with broker/dealers or obtaining volume discounts, nor necessarily obtaining the best price.

Our policy is that the firm will not affect any principal or agency cross securities transactions for client accounts. We will not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker/dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker/dealer or has an affiliated broker/dealer.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Cornerstone's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Cornerstone will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

We do not participate in any relationships with outside parties that include brokerage for client referrals.

## **Review of Accounts**

Cornerstone periodically reviews all accounts under advisement. These accounts are reviewed at least semi-annually by the investment advisor representative assigned to the account. The purpose of these reviews is to ensure that your accounts are within your Investment Policy Statement guidelines and that your financial situation has not changed from the previous review.

Account reviews are also conducted when non-calendar determined events occur. Such events include but are not limited to: large in/outflows, a change in your financial situation or a market dislocation.

You receive from the custodian of your assets a statement of values and transactions no less than quarterly. For the majority of our clients, Cornerstone prepares reporting for your accounts with holdings and performance information no less frequently than quarterly.

## **Client Referrals and Other Compensation**

Cornerstone has a code of ethics that requires all dealings be in the best interest of our clients. All compensation paid and received for services related to client accounts is fully disclosed to you. Specific instances of fee sharing and other compensation issues are outlined below.

Cornerstone has entered into an agreement with the M Holdings Securities, Inc., a FINRA Member Firm, whereby Cornerstone provides back office and technological support to assist other investment advisors registered through M Holdings Securities, Inc. in servicing their clients.

Cornerstone may enter into an agreement with another registered investment advisor where the parties recognize that a synergy exists between the services offered by both parties and that those clients of one firm could benefit from services rendered by the other firm. Services rendered by Cornerstone include, but are not limited to, managing Requests for Proposal (RFP's) and advisory or consulting services on investment assets. If a client of the other firm enters into an agreement with Cornerstone to perform such services, then Cornerstone will pay the referring investment advisor firm a fee agreed to by both parties. Prior to the client entering into an advisory agreement with Cornerstone, a complete disclosure will be made to the client by the referring advisor and a signed disclosure form will be required from the client. Fees paid to the referring entity are included in the fee paid to Cornerstone by the client and the client will not incur any additional costs related to this relationship.

## **Custody**

All assets owned by clients are physically held by third party financial institutions that include banks, trust companies, broker/dealers, or prime brokers. Cornerstone does not take legal custody of assets; however Cornerstone Advisors Asset Management, Inc., an affiliate of Cornerstone, does take custody of some client assets only under their Planned Giving Services operation. All other assets under advisement are held either in street name or in your name at third party institutions.

You should receive statements no less than quarterly from the broker/dealer, bank or other qualified custodian that holds and maintains your investment assets. We urge you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Investment Discretion**

Cornerstone can accept discretionary investment authority for client accounts. The level of discretionary authority which is outlined within Investment Advisory Agreements can be unlimited, limited or none. You are free to choose the level of discretion you grant to us and are under no obligation to choose one method over another.

Unlimited discretionary authority means that we can invest client assets in a manner that we find most beneficial to you so long as it is consistent with the investment objectives. This discretionary authority includes the ability to open investment accounts on your behalf, hire subadvisors to manage the assets or buy and sell mutual funds or individual securities within your account without prior approval.

You can limit the investment discretion allowed to Cornerstone in several ways. You can limit investment discretion based on dollar amounts or percent of the portfolio. In these cases, Cornerstone may initiate transactions up to the limit before providing a written explanation to you. The delivery of this written communication effectively resets this discretion limit to its maximum level.

While we will typically inform you either prior to or immediately following a transaction performed by Cornerstone, unless we have written instruction from you to the contrary, Cornerstone has no obligation to inform you of such transactions. You will receive detail of the transaction from the custodian, whether that is via trade confirmation or statement.

## **Voting Client Securities**

Cornerstone will accept authority to vote proxies on your behalf if the firm has discretionary authority over the account in compliance with SEC rule 206(4)-6. A designated employee has been assigned to vote all such corporate actions. The general rule utilized when voting proxies is that the votes are cast in the best interest of the client/beneficiaries of the account.

More specifically, our proxy voting procedures were crafted on the belief that management usually has both the best insights into and best interests of the company in mind when either supporting or dissenting from proxy issues. There are, however, several instances in which management's decision can be questioned, especially when management may be biased by real or potential conflicts of interest. Some examples of when we will vote against management recommendations include: excess anti-takeover measures and excessive compensation for executives.

When considering how to vote on specific items, we take client specific issues into account and may vote the same proxy differently for you than we vote it for other clients. The most frequent example of this exception is in the case of clients who have "socially responsible" guidelines in place versus those that do not. Clients who have instituted socially responsible guidelines have indicated that financial gain must be offset against other factors. This creates a situation where voting on an issue for one client may not coincide with the wishes of another client.

Where appropriate, Cornerstone has outsourced proxy voting to third party money managers that have discretion over individual security selection because their level of familiarity with the company and issues supersedes that available to Cornerstone.

You may choose to retain proxy voting rights by indicating that desire to us within your Investment Advisors Agreement. If you wish to vote a proxy in a particular manner, you should email Kaitlin Lehman, Cornerstone's current designated proxy voting delegate at [klehman@cornerstone-companies.com](mailto:klehman@cornerstone-companies.com) no less than 10 business days prior to the deadline with an indication of how to vote the particular proxy.

You can obtain a copy of Cornerstone's complete proxy voting policies and procedures upon request. You may also obtain information from us about how we voted any proxies on your behalf.

## **Financial Information**

Registered investment advisers are required in this section to provide you with certain financial information or disclosures about Cornerstone's financial condition.

We have no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and have not been the subject of a bankruptcy proceeding.

## **Business Continuity & Information Security Programs**

We have developed business continuity and information security programs that are regularly reviewed by compliance and information technology professionals in light of both current best practices and applicable regulations. Clients may obtain a copy of our Business Continuity Disclosure upon request.