

**Cornerstone Capital Advisors, Inc.**  
**2405 Wadsworth Boulevard**  
**Lakewood, CO 80214**

February 29, 2012

This “brochure” provides self-reported information about the qualifications and business practices of Cornerstone Capital Advisors, Inc. If you have any questions about the contents of this brochure, please contact us by phone at 303-232-8550 or by email at [Peter@CornerstoneAdv.org](mailto:Peter@CornerstoneAdv.org). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any State securities authority. Additional information about Cornerstone Capital Advisors, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

“Registered” conveys that Cornerstone Capital Advisors, Inc. has processed necessary filings with the SEC and/or state securities regulators. While firm registration, of itself, does not confer anything with respect to skill or training, investment advisor representatives are required to demonstrate, by standardized written examination, a level of understanding.

Throughout the balance of this brochure Cornerstone Capital Advisors, Inc. may be referred to as “Cornerstone” or “CCAI”.

Peter and Roger Gaide may be reached at the following telephone numbers and email addresses:

303-232-8550 phone  
303-232-8549 fax  
877-275-8550 toll free

E-mail: Peter Gaide, [Peter@CornerstoneAdv.org](mailto:Peter@CornerstoneAdv.org)  
Roger Gaide, [Roger@CornerstoneAdv.org](mailto:Roger@CornerstoneAdv.org)

Additional information about Cornerstone, Peter and Roger may be found at:

website: [www.CornerstoneCapitalAdv.com](http://www.CornerstoneCapitalAdv.com)

Please note: Clients may not rely on e-mail communications to effect transactions in their accounts. Please confirm any order by speaking with us at 303-232-8550.

To locate Cornerstone Capital Advisors, Inc. and obtain driving directions to our offices at 2405 Wadsworth Blvd, Lakewood, CO 80214, please see: [www.mapquest.com](http://www.mapquest.com).

## **Item 2 – Material Changes to Cornerstone Capital Advisors, Inc.’s Business**

Changes to CCAI’s last (March 2011) Form ADV filing with the SEC have been made so as to conform as closely as possible with various regulations and perspectives of state regulators.

In conformity with the Dodd-Frank Wall Street Reform and Consumer Protection Act, CCAI anticipates withdrawing its registration with the SEC, and to become state registered in all applicable jurisdictions on or prior to June 28, 2012.

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**Item 4 – Advisory Business (Overview of Cornerstone)**

Welcome to Cornerstone Capital Advisors, Inc. Our purpose, and that of our predecessor firm since 1994, has been to design and manage portfolios customized to address each client's personal goals and risk preferences. Every portfolio is expertly managed. We help our clients set realistic performance goals and provide our clients with quality, comprehensive performance and position reports that measure goal attainment. A full complement of tax reports is available to each client or client's CPA, as authorized, so that tax planning and quarterly estimates are accurate.

Cornerstone Capital Advisors, Inc. serves the investment needs of individuals, trusts, foundations, corporations and other business entities. Our minimum account size is \$250,000. As of February 24, 2011, CCAI managed \$37.47mm, \$33.45mm on a discretionary basis and \$4.02mm on a non-discretionary basis. CCAI no longer accepts new non-discretionary accounts, as we believe the lengthy amount of time necessary to communicate about each transaction can negatively affect quality price execution.

As a fee-only investment manager, Cornerstone neither feels nor exerts commission-based sales pressure. As a fiduciary, Cornerstone desires to satisfy your personal financial goals and that controls the investment decisions we make on your behalf. We endeavor to establish long-term relationships built on mutual understanding, trust and respect. A thorough understanding of investments and experience in managing client portfolios is insufficient, unless the highest professional and ethical standards are observed. Cornerstone Capital Advisors, Inc., complying with laws and regulations prescribed by the government and securities industry, pledges to place the interests of our clients at the fore.

Cornerstone is owned and operated by Peter Gaide and Roger Gaide. The principals of CCAI are engaged in no other businesses. Here is some biographical information for each of us.

Peter Gaide has been serving the investment and consulting needs of private and institutional clients since 1983. Peter formed Cornerstone Capital Advisors in 1994 to serve clients with independent, objective investment advice tailored to cost effectively meet individual financial goals within stated risk preferences. From 1990 to 1994 Peter was a Financial Consultant with A. G. Edwards & Sons, Inc. Previously, he was a Vice President in the Investment Banking Division of Shearson Lehman Hutton, which he served from 1983 to 1990, structuring \$3 billion of municipal bond offerings for public clients located throughout the country. He is a 1979 graduate of the University of Colorado with a B.S. in Business Administration and he earned an MBA, with emphasis in Finance, from the University of Denver in 1981.

Roger Gaide joined Cornerstone Capital Advisors in 2000, with more than 25 years of energy business-related strategic and financial planning, analysis, trading, contracts administration and commercial development experience, both within the U.S. and overseas. After five years' work, principally in engineering disciplines, Roger shifted his career toward business development and management, ultimately serving as president of a U.S. subsidiary of British Petroleum. He holds a baccalaureate degree in engineering from the Colorado School of Mines and earned a Masters degree in Business Administration at the University of Houston.

Cornerstone maintains the following general standards of education or business experience for those involved in the determining or giving investment advice to clients: 1) a bachelor or higher degree in business administration with preference to finance, accounting, economics or law; 2) a minimum of 5 years of finance, accounting or analytical work experience.

The educational and business background of persons giving investment advice and principal executive officers is as follows:

Peter E. Gaide, President, born 1958

Master of Business Administration, Finance, University of Denver, 1981

Bachelor of Science, Business Administration, University of Colorado, Boulder, 1979

Cornerstone Capital Advisors, Inc., Lakewood, CO, President, 1994 to present

A.G. Edwards & Sons, Inc., Englewood, CO, Registered Representative, 1990-1994

Shearson Lehman Hutton, Inc., Denver, CO, Vice President - Investment Banking, 1983-1990

Roger S. Gaide, Executive Vice President, born 1954

Master of Business Administration, University of Houston, 1991

Bachelor of Science in Chemical and Petroleum-Refining Engineering, Colorado School of Mines, 1975

Cornerstone Capital Advisors, Inc., 2000 to present

At Cornerstone Capital Advisors, Inc. we believe that we are good listeners. It is this skill that enables us to identify and embrace your goals and helps us to evaluate your attitude about certain investment risks. In short, it is this skill that enables us to determine if we can help you. We don't work for every prospective client who contacts us. There must be a good fit between your goals and risk preferences and our methods for helping our clients to meet their goals.

It is Cornerstone Capital Advisors, Inc.'s purpose to understand our clients' individual financial goals, risk preferences, time horizons and tax situation and to consistently apply time-tested investment principles to help our clients reach their investment goals. Each portfolio is unique. We do not pool or combine client assets. We do not hold CFP designations or hold ourselves out to be financial planners. We do utilize financial planning software so as to mathematically determine asset allocations (the mix of stocks, bonds, cash, real estate) indicated for client retirement goals. This process is

inherently based upon a number of forward looking assumptions which include, but are not limited to, rate of return assumptions, client longevity, client spending, client savings rates, taxes, social security and other retirement income, and other variables. These assumptions cannot be entirely relied upon and change over time, but serve as a starting basis for portfolio construction.

CCAI will designate target allocations for stocks, mutual funds, cash and bonds in each client portfolio. Rarely would we recommend the use of annuities. Actual allocations may exceed target allocations (particularly for cash if in CCAI's opinion there appears to be heightened risk in the securities markets). Clients may direct us to make trades in their accounts or they may make trades directly or on-line through the custodial broker. Rarely, but if a client is regular in giving such directions, we may request that the client open a separate account devoted to such activity exclusively, such that account performance attribution is distinguishable. As notified by clients, we endeavor to comply with client wishes concerning investment preferences and dislikes (such as 'sin' stocks).

Because of the interaction of monetary policy, economic conditions, politics, technology advances, productivity, and qualitative differences in companies' management, among other influences, it is difficult to analyze all the factors that contribute to the variation in a security's price and the resultant value of your portfolio. However, there are a few time-tested principles that guide our stock and bond investment processes.

### **'Equity' (Common Stock) Investment Principles**

**1) Invest in companies that are growing their sales and earnings per share.** The reason to allocate assets to stocks, rather than bonds, is to grow your assets. Over longer periods of time, equity markets discount the expected future earnings of a company to determine its value. As such, for the value of your equity investment to grow, the earnings of the company must grow, assuming other factors remain constant. It seems more likely that future earnings growth can be sustained if a company is growing its sales revenue, than if its earnings growth results from so-called "financial engineering".

**2) Invest for the intermediate and longer-term.** We believe that over the long-term equity markets are efficient. That is, they reasonably discount the future earnings of companies. However, there are times when the markets broadly or companies' shares specifically are under- or over-valued relative to fundamental value. These times represent buying or selling opportunities. Rarely is the time proximity to correction of significant under- and over-valuation close.

**3) Minimize portfolio risk through adequate diversification.** Statistics show that diversification among 10 different companies and industries may be adequate. However, we believe that broader diversification is beneficial. This need for diversification must be balanced against transaction costs.

#### **4) Understand that markets may not recognize some companies as good values.**

Not only must we strive to identify companies that are trading at a discount to fundamental value, the markets must also recognize them as values once we buy their shares. We endeavor to own companies that are performing better than the market. Employing this "relative strength" concept in selecting individual companies aides the collective portfolio to perform better than relevant benchmarks, which, after all, is the purpose of 'managing' equity assets.

### **Bond ('Fixed Income') Investment Principles**

#### **1) Buy bonds when the yield on them is greater than the historical norm and when the real return is positive (the return is greater than the rate of inflation).**

Investing in bonds is generally counterintuitive. That is, when the economy is strengthening, an investor can reasonably anticipate that the Federal Reserve Board of Governors will raise interest rates (so as to slow the economy), which devalues bonds. The reverse is also true. An investor would prefer to buy bonds when rates are high and anticipated to fall (in a weakening economy).

#### **2) Unless investing for speculative capital gains, most income-oriented bond investors would be well-served to limit the maturity structures of their portfolios to the intermediate-term.**

A mix of quality corporate and government bonds with a duration slightly longer than the 5-year US Treasury bond benchmark will generally provide a return that slightly exceeds the benchmark over the longer-term. We believe that structuring such a portfolio using a ladder maturity approach is preferable to employing bullet, barbell or other portfolio structures that require the investment manager to accurately guess the direction and magnitude of interest rates to develop returns in excess of transaction costs. There are times when bonds become so expensive, interest rates are so historically low, that to employ a ladder maturity, greater than benchmark duration, would result in almost certain losses, should interest rates normalize. When such circumstances are deemed to exist, we will generally invest in shorter-term bonds and hold a higher-than-allocation level of cash. Portfolios are also structured to meet client-specific cash needs.

#### **3) As possible, invest in individual bonds rather than in 'bond mutual funds'.**

Individual bonds have a stated maturity date, so bonds may be purchased to mature when funds are projected to be needed. As the maturity date approaches, the value of the bond will more closely approximate the par (face) value of the bond. It is virtually assured that a bond fund will not trade at par value when you need to sell it. It may be higher or lower, depending on the level of prevailing interest rates and the income and duration of the fund. Also, most individual bonds have a fixed rate of interest that affords us the opportunity to accurately forecast cash flow (income) for our clients.

#### **4) Don't let the investor's tax status cause purchase of only tax-advantaged municipal bonds.**

There are times when municipal bonds offer a relatively greater after-tax value, compared with taxable bond alternatives. At such times, mingling tax-free municipal bonds into a portfolio makes sense for some clients. However, we are

reluctant to create an entirely tax-advantaged portfolio of municipal bonds for any client. There are a number of reasons for this, including that: 1) a change in the client's income and a resulting change in the applied tax bracket may cause municipal bonds to become less attractive; and 2) the Federal government may reduce the marginal tax and brackets, resulting in declining effective value of the municipal bond income.

It is our ability to listen that affords us the opportunity to provide superior service. You are not only hiring us to help you with asset allocation and investment selection, but you are hiring us to communicate with you about the performance of your portfolio relative to mutually developed goals. CCAI uses one of the most-sophisticated portfolio reporting software packages available to the investment industry. Not only are we able to provide performance-related reports to you, we are able to provide tax-related schedules to your CPA so that your advisory "team" functions as a team.

On a quarterly basis, you will receive a Portfolio Appraisal Report that identifies each security you own, your cost basis, current value and expected annual income/yield. You will also receive a Performance Report that shows how your accounts performed. In addition to receiving these paper reports, you and your CPA can request realized gain/loss, income/expense and performance-by-security reports. Should you or your CPA urgently need such a report, we are happy to fax or e-mail these reports. You will receive confirmations of purchases and sales from the executing broker. On a monthly basis you will receive a monthly statement from the custodial broker. We would encourage you to periodically compare the CCAI and broker reports. CCAI reports are calculated using '*trade date*' data and the brokerage reports are calculated on a lagging '*settlement date*' basis. Therefore, these reports may be slightly different, if a trade was executed near month-end and not yet settled as of the reporting date.

While reports are valuable in helping to manage your portfolio and measure goal attainment, they are no substitute for personal communication. Not only do we initiate telephone calls and request meetings with our clients from time to time, but we also make ourselves available to receive your telephone calls and e-mail messages. Rarely do clients call to chit-chat. They have questions about the market or a topic they read or heard about. We invest in our client relationships, spending time to help educate our clients. Educated clients are better able to communicate their goals and have greater insight concerning future performance.

Our effort to deliver superior client service leads clients to refer their friends, neighbors and family members to us.

## **Item 5 – Fees and Compensation**

Cornerstone Capital Advisors, Inc. generally charges fees based upon the amount of assets managed. CCAI uses the following fee schedule:

### **Annual**



<b>Combined Portfolio Value</b>	<b>Fee</b>
Less than \$250,000	1.50%
\$250,001 to \$500,000	1.25%
\$500,001 to \$1,000,000	1.10%
Greater than \$1,000,000	1.00%

Fees may be otherwise negotiated at the discretion of Cornerstone.

When CCAI manages multiple accounts for a client (for example, a Rollover IRA, a Roth IRA and a joint account), the values of the accounts are aggregated to determine the applicable fee bracket. Not all advisors do this. Illustratively, if a client had a \$1.1mm IRA, a \$200,000 Roth and \$400,000 joint account, our annual fee would be 1.00% of \$1,700,000 or \$17,000 annually.

Some advisors apply 'scaled' fee assessments, whereby the first \$250,000 is charged 1.5%, the next \$250,000 is charged 1.25%, etc. Applying a 'scaled' methodology to the \$1,700,000 example above, an advisor would charge \$19,375 per annum. Understanding account aggregation, the scale brackets, applicable percentage rates and how the rates are used are important to knowing what you will pay for advisory services.

At quarter end, CCAI calculates the amount of assets managed for each client and applies the scale, then divides the result by four in determining the fee for the next quarter. Clients are invoiced quarterly and invoices may be paid by your authorizing the deduction of the fee from your account(s) or may be paid to CCAI directly. Our Advisory Agreement with clients is terminable by either the client or CCAI at will. In the instance this should occur, any fee advanced to CCAI for the quarter would be pro-rata refunded to the client on the basis of the number of days that service was provided.

Consulting services are provided at the rate of \$150 per hour. Typically, hourly fees will be charged in addition to asset management fees for special projects, including work associated with estate accounts. Any such fees will be discussed with clients prior to commencement of such projects. The fees for project consulting will be negotiated.

While not payable to CCAI, fees may be charged to clients for trade execution (commissions) and mutual fund, money market fund, and open or closed-end fund management, as well as administration of these and similar entities. Such expenses may be billed directly (as in the case of a commission) or may be indirect, reducing security returns (as in the case of mutual fund administrative fees).

For clients with more substantial bond portfolios, CCAI may recommend the use of Prime Broker relationships, intended to provide access to a broader market and improve prices achieved. Commissions charged on bond transactions by brokers are typically built into the prices of the bonds, which influence the net yield to clients. Such fees may not be readily observable by clients. CCAI seeks competitive markets for bonds to derive fair prices for clients. Commissions charged by executing brokers are considered in determining such prices.

In Section 12 of this brochure we describe factors evaluated when recommending a custodian. CCAI does not accept compensation from custodians or brokers. We do not ask for or accept 'soft-dollar' payment of expenses. For example of a 'soft dollar' relationship, as an inducement to have clients' assets custodied at XYZ broker-dealer, the broker-dealer may pay for the advisor's quote services. We accept no such inducements. The custodian we use does provide back office support, market and security research, security pricing, data transmission and similar services. We do not view the provision of such services to be unique to the custodian we recommend and as such, do not view the provision of such services to influence our custodian recommendation, notwithstanding regulators' view that the use of such services poses a conflict of interest with our clients' interests.

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

Cornerstone Capital Advisors, Inc. does not charge fees based upon a share of capital gains or capital appreciation of client's assets. Such a fee mechanism might be typical of a hedge fund. We do not operate a hedge fund.

#### **Item 7 – Types of Clients**

Cornerstone Capital Advisors, Inc. generally provides investment advisory services to a) individuals (Rollover IRA, Roth IRA, Contributory IRA, SEP, Simple, Individual account, Joint account); b) trusts; c) foundations; d) charitable entities; and e) other entities. CCAI also provides advice to the trustees of qualified plans.

Cornerstone has a 'soft' minimum account size requirement of \$250,000. The minimum account size may be lowered at CCAI's discretion generally if a) asset values are close to the minimum, b) contributions to an account would be regular and substantial, or c) if a relative (a parent, for example) is a client of the firm.

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

In Section 4 (Advisory Business) we wrote about the process for determining client-specific portfolio asset allocation. Academic studies demonstrate that the bulk of portfolio returns are determined by an account's allocation amongst a variety of asset classes. Allocation of assets amongst statistically inversely or non-perfectly correlated asset classes may moderate risk (as reflected by volatility of portfolio returns).

Also in Section 4 we discussed principles we utilize to manage equity and bond investments.

With respect to equity investments, we generally invest in individual common stocks to derive exposure to large-cap sectors of the market. We typically use equity mutual funds, including ETFs, for exposure to mid- and small-cap sectors. CCAI also uses mutual funds and ETFs to gain exposure to foreign equity markets.

It is our strong preference to manage fixed income asset allocations using individual bonds rather than bond mutual funds. We believe that doing so a) is more cost-effective; b) affords a basis for accurate cash-flow determination; c) permits structuring to meet projected cash needs; d) affords more-specific ability to avoid sectors (which we don't believe well-serve clients) of the market included in some mutual funds, and e) allows greater control over credit quality. As an example, we generally avoid mortgage-backed bonds (FNMA, GNMA, etc.). Such assets don't necessarily offer reliable cash flow, may prepay principal when interest rates decline, and may defer repayment if interest rates rise – outcomes that are not beneficial to our clients.

CCAI generally invests client portfolios in investment grade corporate bonds and, occasionally, in government bonds, municipal bonds and bank CDs.

Diversification of equity assets across sectors can offer a degree of protection from risk associated with industry- or company-specific news suggesting reduced earnings for a protracted period and resulting in security price declines. However, if equity markets are in general decline, diversification of assets within the class may provide only moderate or no relief from decline.

Bonds are generally thought to be safer assets than stocks. However, that is not necessarily true. There are several risks inherent to bonds including, but not limited to: 1) default risk (the risk the borrower defaults on its obligation to pay interest and repay principal when due); 2) credit risk (the risk that a credit rating agency lowers its evaluation of the credit worthiness of a borrower, resulting in the markets demanding a higher rate of return for newly perceived additional risk and driving the market price of a bond down); 3) interest rate or duration risk (the risk that when interest rates rise

generally, the price of bonds falls and vice versa -- this risk is heightened when interest rates are historically low, and is magnified with longer-dated bonds); and 4) currency risk (the risk that values of non-US dollar-denominated bonds change with currency value fluctuation).

There are many sorts of risk not enumerated here, both material and less significant, both foreseeable and otherwise, both prevalent now and as may develop with innovations in the securities market place and by government actions. For example, a mutual fund manager may permit the style of a fund to drift slightly from historical areas of investment emphasis. Alternatively, securities regulations may not adequately address a whole class of investment vehicles (for example, derivatives) whose potential negative impact may be significant and hidden. Therefore, clients need to be prepared, financially and emotionally, for the potential of material declines in (and even loss of) the value of portfolio assets. CCAI endeavors to inform clients of risks inherent in investing in securities markets.

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

Neither Cornerstone Capital Advisors, Inc. nor its principals have been, nor are we currently, subject of any criminal or disciplinary action brought by the SEC, states, self-regulatory organizations or others. As such, this item is not applicable to CCAI.

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

Neither Cornerstone Capital Advisors, Inc. nor its principals are registered or have a registration pending to become a broker-dealer or a registered representative of a broker-dealer, a futures commission agent, a commodity pool operator, a commodity trading advisor or an associate of any such entity.

CCAI has no financially material business relationship with any specific investment company, other investment advisor or financial planner, futures commission merchant, commodity pool operator, commodity trading advisor, bank, accountant or firm, lawyer or firm, insurance agent or agency, pension consultant, real estate broker or dealer, or sponsor or syndicator of limited partnerships.

Nearly all client accounts managed by Cornerstone are in the custody of a single broker-dealer firm. While Cornerstone is not compensated by that firm, the relationship is material to our business to the extent that a decision by the broker-dealer firm to cease working with Registered Investment Advisors could be at least briefly disruptive.

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

It is the policy of Cornerstone Capital Advisors, Inc. to place the interest of the client ahead of any employee and that all employees acknowledge a fiduciary obligation to clients and a requirement to abide by all applicable rules, regulations and laws governing Investment Advisors.

No employee may trade any security for himself or herself or any client based on insider information.

No employee may purchase an initial public offering without first obtaining approval from the Chief Compliance Officer (CCO). The CCO will document the “approval” of purchase on the Approved Securities for Purchase list, maintained by the CCO.

Other than for fixed income, money market, UIT, commercial paper, equity option, and mutual fund transactions and trades completed in commodity accounts (the firm does not effect trades in commodity accounts for clients), employees must verify that a security to be traded is on the Securities Approved for Purchase list prior to effecting a trade in said security. If the security is not on the list, the employee must discuss the security and intended trade with the CCO and the CCO must place the security on the list prior to the employee making a trade.

On a daily basis, the CCO and the EVP will monitor the personal trading of one another and compliance with the Personal Trading Policies. This monitoring shall be effected and recorded through the daily use of the SEC Buy – Sell Compliance Report.

For purposes of complying with Rule 204-2(a)(13), the CCO and EVP are considered “access persons” and records of their trading are maintained within the firm-wide portfolio accounting program or in paper/electronic form.

The employee must annually read the firm’s Personal Trading Policy, and will annually certify agreement and conformity to it.

Cornerstone, Peter Gaide or Roger Gaide, or immediate family members (‘inside persons’), may from time to time buy or sell securities, for the account of inside persons, that Cornerstone also recommends or transacts on behalf of clients. Inside persons may buy or sell the same securities recommended to clients at different times, exercising the varied investment interests of the inside persons. It is understood that Cornerstone’s or inside persons’ trades are not of such size as to move the market significantly. Nonetheless, the trading in the same securities by inside persons is viewed by regulators to be in conflict with clients’ interests. Mitigation of such conflicts can be effected by: a) aggregating inside persons’ orders with client orders where such results in equal or lesser price to the client; or b) requiring the passage of 2 hours of time between the execution of a client order and the execution of inside persons orders

(except when CCAI is not using discretion to execute the client order). Cornerstone monitors personal trading on a daily basis. Cornerstone has procedures in place to identify and/or resolve any potential conflict of interest.

CCAI hereby offers to make available to clients or prospective clients a copy of our Investment Advisor Compliance Program, Policies and Procedures for the Investment Advisor Act of 1940 and Attendant Code of Ethics.

## **Item 12 – Brokerage Practices**

At least annually, Cornerstone Capital Advisors, Inc. evaluates the financial structure of the primary custodian(s) it recommends for use by clients such that CCAI is comfortable that the custodian will remain solvent and able to perform its functions for the client.

With respect to broker-dealers used by CCAI for client transactions, CCAI reviews the a) accuracy and reasonableness of fees charged by the by the broker dealer; and b) monitors the execution of trades relative to prevailing market bid/ask prices. Quality execution is a function of many variables including, but not limited to security availability, price, and execution time.

As to larger client accounts, CCAI may recommend use of Prime Brokers for execution of bond transactions when opportune. It is CCAI's opinion that use of Prime Brokers may broaden the market of available bonds (offers) and bids sought on the sale of bonds and thereby potentially enhances availability and pricing for clients on bond transactions.

Clients can impose limitations on the securities to be purchased and sold and the amount. Clients can also specify the broker that they wish Cornerstone to use. However, Cornerstone may or may not be able or willing to accommodate such direction. Part of the assessment of a given broker will be their financial stability and the ability of their back-office operations to integrate into CCAI's portfolio management software. CCAI acknowledges that a client's direction to use a specific broker may result in lower commissions. Whether or not the use of a directed broker would result in a quality trade execution is unknown. In the absence of acceptable broker directions, Cornerstone recommends the use of Charles Schwab & Company, Inc. ("Schwab") to hold customer assets and execute trades, along with Prime Brokers. Schwab provides 'back office' services to facilitate account administration. Schwab provides research services and electronic trade, position and price data transmission services and advisory fee collection services. It is viewed by regulators that our recommending a custodian and the receipt of services from such custodian is a conflict of interest. Cornerstone does not view that such services necessarily influence the use of Schwab

as a client custodian, as such services are commonly provided by alternative custodians as well. Such services do not differentiate Schwab from other custodians. The commissions charged by Schwab appear competitive for execution services of the kind provided to Cornerstone and its clients. We therefore believe any such conflict of interest with the client is mitigated.

To the extent practical and believed to be in the best interest of clients, portfolio transactions for more than one client, particularly for individual equities and large bond purchases, may at the firm's discretion be aggregated during the day. If so, clients will receive the average execution price. To the extent that an insufficient quantity of assets is bought or sold to satisfy the entire amount of the position sought to be traded, the allocation of trades to clients will be effected on a random lottery basis or in an alternate manner deemed to be equitable to the accounts involved. In such event, no allocation shall be made to employees or principals of the firm. A record of the allocation shall be maintained in each day's SEC Buy – Sell Compliance Report. The aggregation of orders may result in lower transactional costs, particularly for bond transactions. Clients will pay their proportional share of allocable (in the instance of bond trades) transaction costs, in addition to minimum transaction or Prime Brokerage fees (if any), or (in the instance of equity, mutual fund and ETF trades) the transaction costs imposed by the custodian based on the size of the trade delivered into or from the individual client's account, the client's overall portfolio size, the client's transaction history and/or the client's election to use (or not) the custodian's electronic trade confirmation and/or statement delivery services.

CCAI reserves the right to place aggregated orders held by a common custodian preferentially to directed orders. If applied, this order process may or may not result in differential order execution pricing for the aggregate versus directed trade and as such, directed trades may or may not in effect, pay a higher transactional cost considering both commissions and trade execution pricing.

### **Item 13 – Review of Accounts**

Cornerstone Capital Advisors, Inc. monitors client portfolios. This includes, but is not necessarily limited to: A) review of the allocation targets for portfolio assets between bonds, stocks and cash as such allocation percentages are maintained in each client's electronic portfolio record (EPR); and B) Comparison of asset allocation targets with actual asset allocation. If a client directive is contrary to achieving the asset allocation targets, that directive shall be noted in the contact relationship management (CRM) database. Anytime a client gives notice to alter the portfolio allocation targets, such notice will be described in the CRM and adjusted in the EPR.

On a quarterly basis, clients will receive a Portfolio Appraisal Report that identifies each security owned and its cost basis, current value and expected annual income/yield. Clients will also receive a Performance Report that shows how the client's aggregate portfolio performed compared to relevant benchmarks. There are many other reports that clients or their CPAs, as authorized, can request, including: performance by security reports, realized gain/loss reports, projected income reports, income/expense reports and others.

Clients will receive portfolio reports from the custodian monthly and trade confirmations from the executing broker as they occur. Clients should periodically compare these reports. These reports will foot to within a few pennies (allowing for rounding on many positions where more than two decimal places are used) except under those circumstances where a trade was made and not settled at quarter-end. CCAI's reports are calculated on a trade date basis and custodial reports are calculated on a (later) settlement date basis. When a trade settles early in a quarter, an adjustment to the custodian's reports as to the cash balance (decrease for purchases and increase for sales), an adjustment for the security position in the account, and a potential adjustment for the difference in the month-end closing price as compared to the purchase or sale price, will be necessary to reconcile with Cornerstone reports. While the math is straight forward, CCAI understands that these adjustments can be a little confusing initially. We will be happy to walk clients through any such calculations.

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

Cornerstone Capital Advisors, Inc. may enter into Consulting Agreements with CPAs in accordance with Rule 206(4)-3 under the Investment Advisor Act of 1940 whereby the CPAs are compensated for soliciting clients on behalf of Cornerstone. A CPA covered by such agreement will be paid a percentage of the client fee that Cornerstone charges as determined herein. The CPA's solicitor fee is disclosed to the client and this Brochure is delivered by the CPA to the client at the time of solicitation. Cornerstone retains a file for receipts wherein the client acknowledges being told of the Consulting Agreement and fee solicitation and being given Cornerstone's Brochure. Cornerstone charges advisory fees to accounts introduced by a CPA on the same basis as fees charged to accounts that are not introduced by a CPA.

On an occasional basis attorneys and CPAs will refer prospects to us where there is no Consulting Agreement. We will ordinarily send the attorney or CPA a non-material gratuity expressing our thanks for the referral. We do the same thing for prospects referred to us by existing clients. This is a simple courtesy.



## **Item 15 – Custody**

Refer to Item 13 above regarding the use of custodians. Cornerstone Capital Advisors, Inc. does not take custody of client funds or securities (does not receive such from clients at our offices). However, state regulators deem CCAI to constructively take custody of client assets in the context of our receipt of fees from client accounts. In conformity with written client authorization (contained in the custodial account application and in our Client Agreement) CCAI is paid quarterly directly from client accounts after the mailing of invoices to clients and custodian. In the monthly custodial report (generally the first month of each quarter), the custodian notifies the client of fees withdrawn from client account(s). We are deemed by regulators to take constructive custody of assets in this applicable context and hereby notice regulators of our practice and intent to use the custodial safeguards above mentioned. The Power of Attorney granted to CCAI by the client is limited in the ability to trade securities on the client's behalf, send funds to the client's address of record and pay our fees. CCAI cannot otherwise remove any asset from the client's accounts without a letter of instruction or transfer authorization signed by the client. It is also the client's option to pay us directly for invoiced amounts.

## **Item 16 – Investment Discretion**

Cornerstone Capital Advisors, Inc. now only accepts discretionary accounts. Approximately 11% (by account value) of CCAI's advisory business functions as legacy non-discretionary business. The relationship between CCAI and our client is set forth in an Investment Advisory Agreement executed by CCAI and the client. In the custodian's account application form, the client initials three lines granting CCAI authority to a) make trades on the client's behalf; b) disburse funds to the address of record; and c) pay Cornerstone's invoice for management fees from the client account.

While CCAI has discretionary authority, our actions are guided by the goals and risk preferences communicated by the client to us in our initial planning process and as such may be amended from time to time. Clients may impose limitations on the type of security that they would want to own, etc. In our Advisory Agreement we ask that clients communicate to us anytime an action we take is viewed to be inconsistent with their preference for how their account should be managed.

## **Item 17 – Voting Client Securities (proxies)**

Cornerstone Capital Advisors, Inc. attempts to vote proxies for the accounts managed. Proxy voting is a responsibility we take seriously. We have established these general policies to guide our voting process and we inform our clients of the policies such that each can determine whether he or she would want to vote their proxies independently of our process.

We undertake the proxy voting process as a way to communicate our views about who the guiding shareholder agents of the company should be (the board members) and how we would like them to act in the long-term interest of shareholders to maximize shareholder value. Because our investment process is, in part, based on the expectation that management will be able to continue to perform in the future as in the past, it should follow that our voting of proxies will generally comply with the wishes of management.

Issues or resolutions typically matters of the proxy voting process include those related to the board of directors, auditors, compensation and shareholder rights.

We believe that boards of directors should be composed of a majority of non-management persons; that is, they earn their livelihood independent from the company. Thus, we would favor proxy resolutions effecting this structure. We firmly believe that audit and compensation committees of the board should consist solely of such independent directors.

We believe that auditing firms should materially provide only audit services to the company and not otherwise be engaged in consultancy to the company. We would generally favor resolutions to this effect.

Stock option compensation is increasingly a popular way of attempting to align the interests of shareholders and those of the employees, management and directors. Notwithstanding the benefits of aligning these interests, we are not in favor of diluting shareholders' ownership interest and will normally vote against the expansion of stock-based compensation plans and in favor of other plans that adequately and appropriately incent and reward effective service.

With respect to shareholder rights, we believe that all shareholders of a company should have an equal voice and that barriers that limit the ability of shareholders to effect corporate change and to realize the full value of their investment are not desirable. Therefore, we will normally vote against proposals for supermajority voting rights, against the issuance of poison pill preferred shares, and against proposals for different classes of stock with different voting rights.

With respect to “social responsibility” issues, we believe that matters related to a company’s day-to-day business operations are primarily the responsibility of management. We are focused on maximizing long-term shareholder value and will normally vote against shareholder proposals requesting that a company disclose or change certain business practices unless we believe the proposal would have a substantial positive economic impact on the company.

Notwithstanding our proxy voting activity, we may choose not to purchase or may choose to sell securities of firms found to be engaging in activities unacceptable to us, whether regarding issues of social responsibility, shareholder rights, or corporate organization, especially in anticipation of negative effect on shareholder value.

Because we aggregate the votes of all clients when voting proxies, we cannot cast votes differentially. In the instance that you would like to retain your right to vote proxies, this option is certainly open to you. To the extent proxies are voted with economic interests in mind, there ought to be no conflict of interest between a client and the vote CCAI may cast. Proxy topics that cover ‘social issues’ may present areas of more or less consistency between CCAI’s views and client views. If such proxy topics are of paramount importance to clients, we would suggest they retain voting rights. Should you retain proxy voting authority and have a question about proxy materials sent to you, we would be happy to speak with you about your question(s).

CCAI would be happy to provide a copy of our Proxy Voting Policy to you upon request.

## **Item 18 – Financial Information**

Cornerstone Capital Advisors, Inc. is not required to disclose our financial condition. As an S-Corporation, substantially all net income of CCAI is distributed as dividend income to the owners of CCAI annually. We are not aware of any financial condition that would impair our ability to meet our commitments to our clients.

## **Item 19 – Requirements for State-Registered Advisers**

Any applicable responses to this Item have been answered in Items 4, 5, 6, 9, 10, 12 and 15.