

**Part 2A of Form ADV: Firm Brochure**

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**This brochure provides information about the qualifications and business practices of Bannerstone Capital Management. If you have any questions about the contents of this brochure, please contact us at 952-249-8888 or by U.S. Mail at 18258 Minnetonka Boulevard Suite 105, Deephaven, Minnesota 55391 or by email: [info@bannerstonecapital.com](mailto:info@bannerstonecapital.com) The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Bannerstone Capital Management also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

**Material Changes**

We recently added David W. Hust as an investment advisor in June 2011.  
Bannerstone Capital assumed investment advisory duties for Broad Creek Partners, LP from our affiliate Robillard Capital Management LLC in January 2012.

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### **Advisory Business**

Bannerstone Capital Management is an employee-owned investment advisory firm located in suburban Minneapolis, Minnesota. The firm was founded in May, 2008 by its current owners, G. L. “Biff” Robillard III and Scott D. Larson.

Bannerstone creates and manages client portfolios on a fee-only, discretionary basis. We are not a broker-dealer and never collect commissions or mark-ups. Client portfolios are always segregated (never commingled) and always held at a third-party custodian. Our two largest custodians are currently Fidelity Institutional Wealth Services and Wells Fargo. If a custodian charges fees of any kind, we do not benefit or participate financially in any way.

Client portfolios are generally customized collections of our strategies combined in response to our interpretation of a client’s particular goals, risk tolerance and experience in the context of their entire financial circumstances.

We manage \$98 million on a discretionary basis, as of December 28, 2011. Our affiliate Robillard Capital Management, LLC manages acts only as General Partner for certain investment partnerships.

### **Fees and Compensation**

Bannerstone has adopted a fee structure which we believe is aligned with the economic interests of our clients.

Bannerstone is compensated for an advisory role in the management of a client's portfolio. We do not charge commissions, nor do we share in the commissions a client pays to a broker.

We typically charge our investors 1% per year. This is billed monthly and collected for the first time on the first business day of the first full calendar month and on the first business day of each month thereafter. The fee is calculated as a function of the account's net worth on the last business day of the prior calendar month. It is generally collected directly from the account which generated the fee. In some cases we collect from a different account and occasionally we arrange to bill clients. Clients who terminate a management contract will pay only for the month preceding the termination notice: the most recent regular monthly fee paid prior to notice of termination will be refunded in its entirety. We do not typically collect a fee for any portion of a fractional first month. We reimburse any fee collected for a fractional final month if necessary.

Commissions are, in most cases, collected by the broker-dealer providing transaction services. (See Page 6 for more discussion regarding performance-based fees). Occasionally securities, especially fixed income, such as bonds, may be "marked up" by the dealer from whom we buy the bond. Transaction expenses are born by the client's account. (Please see Page 12 "Brokerage".)

The sole source of revenue for Bannerstone Capital Management is the advisory fee income generated from client accounts. Fees may be negotiable, particularly for advising fixed income portfolios.

We collect no commissions or compensation from investment banks, vendors, broker dealers, insurance companies or mutual fund distributors.

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

Bannerstone also manages a some client assets on a performance fee basis. This means we collect an agreed-upon fraction of an account's net profits for the year, sometimes in addition to and occasionally in lieu of an annual fixed fee. This may present a potential conflict of interest since Bannerstone may benefit disproportionately depending on which accounts execute trades in a certain sequence, for example. Bannerstone has policies in place to address this potential conflict, including the mandatory use of so-called "block trading" whenever practical, to ensure all orders across all accounts are executed simultaneously without regard to fee arrangement. When this is not possible, every effort is made to execute every order in the best interest of the client, not Bannerstone Capital. (Please see Page 11 "Code of Ethics".)

### **Types of Clients**

Bannerstone's clients are typically affluent individuals and their various affiliates including trusts and family foundations. We also manage assets for non-profit organizations. About a third of our assets are held in so-called hedge funds.

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

Investing with Bannerstone involves significant risks for loss of principal. There can be no assurance investment goals will be met and investors could suffer drastic and permanent losses of capital when investing with us. Past performance is never a guarantee of future performance.

Bannerstone Capital is primarily an equity manager, although we also manage fixed income for many clients. We have developed and maintain proprietary equity strategies we believe provide long term opportunities for long term capital appreciation. We are not a fund of funds style manager.

We routinely utilize fundamental and technical analysis. We increasingly augment these traditional analysis techniques with the findings of the emerging academic area called Behavioral Economics.

While we manage client's assets on a custom client by client basis and management usually entails extensive use of our two legacy equity portfolio strategies: Thales All Capitalization Total Return (aka "Thales") and Alloy Quantitative Total Return (aka "Alloy").

We also maintain a Dividend Income and Growth (aka "DIG") portfolio, as well as some other disparate more customized portfolios to suit the needs of particular circumstances.

We can and do invest in almost every conceivable asset class and instrument, although our largest concentration of assets is almost invariably equities. Our portfolios are frequently concentrated in a relatively few positions which increases both volatility and potential risk of loss. We sometimes sell securities "short", a notoriously risky strategy for attempting to profit from falling (rather than rising) prices. Short sales have unlimited potential risk.

We may use levered and inverse Exchange Traded Funds (ETFs) from time to time. These instruments are fairly new to the investment community, have unique investment characteristic and short operational histories, making them significantly riskier than even typical equity investing.

We can and do design and implement unique custom portfolios for clients with particular and unique investment considerations. For example, a client's investment criterion might include elements of so-called "Socially Responsible Investing" or a wish to exclude companies considered non U.S. These are considered on a case by case basis.



**Disciplinary Information**

There has never been any disciplinary action of any kind involving Bannerstone Capital Management, its owners and employees, either while at Bannerstone or a predecessor employer.

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

The principals and portfolio managers of Bannerstone Capital Management LLC also act as portfolio managers for Robillard Capital Management LLC, an affiliate. Mr. Robillard is the sole owner of Robillard Capital Management. Robillard Capital is a general partner of hedge funds (investment partnerships).

A potential for conflicts of interest can arise when the same management team is working for two entities, as we do. We are both aware of and very sensitive to this issue. Our policies include a provision to always place the interests of our Bannerstone Capital clients and accounts first. The investment objectives of our hedge funds are different than the investment objectives for our Bannerstone accounts and therefore we typically do not own and trade the same securities simultaneously, but we could. In the rare times this could happen, we have strict policies in place which, among other things, are intended to ensure the hedge funds are “last in” and “last out” whenever possible. Our small size and intimate working conditions currently make managing such conflicts or potential conflicts a straightforward endeavor. (Please see Page 11 “Code of Ethics”)

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

Bannerstone Capital maintains a written Code of Ethics which is part of our Policy Manual. This Code of Ethics is available upon request by anyone. To the best of our knowledge, our Code of Ethics conforms to SEC Rule 204A-1. To obtain a copy, please call or email the Chief Compliance Officer: [biff@bannerstonecapital.com](mailto:biff@bannerstonecapital.com) (the phone number appears on the cover page of this brochure).

The spirit of our code of ethics is extremely simple and straightforward: the customer's interests always come first. Our entire business is predicated on the welfare of our investors. We have designed the firm to prosper when the client prospers.

The potential for conflicts of interest arise when advisors recommend and trade securities for clients which the investment manager themselves may own. We have simple and strict policies to address this potential conflict. The overriding consideration is the client's performance and well being must be the sole consideration at all times. Our policies include safeguards regarding the date and sequence of trades in the same security to minimize any conflict.

The advisory business inherently has many areas where a conflict of interest may arise. Bannerstone Capital is not, of course, immune to such potential conflicts. Transparency, trust and experience are important elements in the effort to manage and eliminate these potential conflicts when they inevitably arise.

### **Brokerage Practices**

We are not a broker and therefore we must employ brokers to transact securities business. Clients may, in general, specify how they would like us to transact their portfolio's business and with whom. We typically advise clients to custody at Fidelity or Charles Schwab and simply trade with the respective custodian's brokerage unit, although we can accommodate other arrangements and often do. We estimate 80% of our trading occurs with Fidelity and Schwab, with some trading occurring at Wells Fargo and Morgan Stanley, and perhaps a few others.

Conflicts of interest can arise in our selection of brokers. We strive to minimize and avoid these conflicts.

We do not engage in any "soft-dollar" arrangements with brokers. "Soft-dollars" is a form of compensation for directing trading to particular agents and is commonly done on Wall Street (and elsewhere). It is essentially a rebate, but the rebate accrues to the asset manager (in this case Bannerstone), not a direct financial rebate to the client (who paid the commissions, of course). Directing trading to any broker, including our primary broker dealer Fidelity, results in a complicated collection of costs, benefits and tradeoffs. Of primary concern for us is a low direct cost to the client. Commissions to brokers are a cost to both client and Bannerstone, of course, since it is a cost which depletes the value of the accounts. Without the encumbrance of "soft-dollars", we believe selecting cost effective brokers for our business is straightforward and the result of many considerations, including execution, commission rate, efficiency, responsiveness and financial strength.

Using any broker, especially in our case where we routinely choose to use almost exclusively one broker, Fidelity, does not guarantee the lowest transaction costs. If a client directs the trading to a particular broker, other than Fidelity, we may be unfamiliar with the costs of the broker and therefore a client may receive less favorable net prices than other clients and this could effect performance.

### **Review of Accounts**

All Bannerstone clients receive regular statements directly from the account's custodian. In most cases this is from Fidelity Institutional Wealth Services. These are typically monthly, although quarterly can be arranged. Clients may usually specify receipt of account statements and performance summaries by e-delivery, U.S. Mail or both.

Clients can generally directly interrogate and review their Bannerstone-supervised portfolio at anytime via the Internet access provided by the custodian, usually Fidelity or Wells Fargo.

Most of our clients also receive a comprehensive quarterly performance summary which is generated from the data provided on the Fidelity statements. This performance summary is the main basis for occasional account reviews where past performance and financial objectives' are reviewed and modified on an as-needed basis.

### **Client Referrals and Other Compensation**

Bannerstone can and has paid for client referrals. We have a contract with one Investment Advisor Representative (a so-called "IAR") who markets our investment advisory services, as well as the services of other advisory firms. We currently manage a portfolio of mutual funds and exchange traded funds (ETFs) for a client referred to us through this IAR. We currently have just one account under this arrangement. Our fee is 50 basis points (.50%) per year. The client does not pay any fees to the IAR. We compensate the IAR from the 50 basis points fee we receive. Clients are informed in writing when such an arrangement exists for them. While IAR generated business is a very small part of our business now, we do anticipate more of this business in the future.

### **Custody**

Bannerstone Capital Management is never the custodian of client accounts. Most of our clients' assets are held at Fidelity Institutional Wealth Services or Charles Schwab with a minority of clients at Wells Fargo or Morgan Stanley. Clients may specify almost any custodian they wish, provided the custodian will permit Bannerstone to act as advisor. (See page 12 for more discussion of brokerage.)

### **Investment Discretion**

We generally have complete discretion with respect to managing the client's assets. Such authority may be revoked at any time by notifying us in writing. Clients accept and assign this authority typically via our written contract.



### **Voting Client Securities**

We generally vote the client securities via the various proxy votes. Clients may, of course, specify otherwise at any time. Clients remain in complete control of the voting of their proxies and may direct the voting of they wish by simply calling or emailing to let their wished be known. This can be for specific elections or all corporate elections.

Our policy when voting client shares on their behalf is to simply vote shares in the best long term interest of our client, the shareholder, to the best of our ability. These policies are described in our Policy Manual (as described in Section 11) and are available to anyone upon request. Inquiries regarding our policies with respect to voting client securities (the so-called rule 206(4)-6 of the Investment Advisers Act of 1940) should contact our Chief Compliance Officer: [biff@bannerstonecapital.com](mailto:biff@bannerstonecapital.com) .

Clients who have questions about how Bannerstone may have already voted on their behalf should contact Scott Larson at 952 249 8892 or email him [scott@bannerstonecapital.com](mailto:scott@bannerstonecapital.com).

### Financial Condition

We have no financial condition which might reasonably impair our ability to meet contractual commitments to our clients.

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