



## FORM ADV – PART 2A

(Firm Brochure)

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### Item 1. Identification

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**Brochure Date:** March [6], 2013

This Brochure provides information about the qualifications and business practices of Freestone Capital Management, LLC (“Freestone”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer at 206.398.1100 or 800.990.3001 or via email at [compliance@freestonecapital.com](mailto:compliance@freestonecapital.com). 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.

Freestone is a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.

Additional information about Freestone Capital Management, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

We have updated Item 4.A to reflect a change in the ultimate ownership of Freestone Capital Management, LLC. For more information regarding who owns and controls Freestone, please see Schedules A and B of Part 1A of Freestone's Form ADV.

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## **Item 4. Advisory Business**

### **A. Firm Overview, History and Ownership**

Freestone Capital Management, LLC (“the firm,” “we,” or “Freestone”) is a comprehensive wealth management firm founded in 1999 that is based in Seattle, Washington. Freestone, or our predecessor company, Freestone Capital Management, Inc., has been registered as an investment adviser with the Securities and Exchange Commission since 1999. The firm currently has 50 employees.

The principal owner of the firm is Freestone Capital Holdings, LLC. Gary Furukawa, the firm’s founder and Chief Investment Officer, Della Furukawa and Arthur Goldman, indirectly through one or more entities controlled by them, collectively own more than 25%, but less than 50%, of the firm. For more information regarding who owns and controls Freestone, please see Schedules A and B of Part 1A of the firm’s Form ADV.

We are affiliated with Freestone Advisors LLC and Freestone Investments LLC. These two affiliates act as the general partner to a family of privately pooled investment vehicles (“the private funds”) for which we provide investment advisory services. In addition, we are affiliated with Freestone Securities LLC, a limited lines broker-dealer offering mutual funds, fixed and variable annuities, insurance solutions, and 529 Plans through direct application. Freestone Securities LLC also offers consultation and advice regarding corporate transactions that clients of the firm may seek in managing their overall financial affairs. Please see Item 10 (Other Financial Industry Activities and Affiliations) for additional information regarding these and other firm affiliations.

### **B. Types of Advisory Services**

We provide ongoing and comprehensive investment advisory services to clients on a discretionary or non-discretionary basis, referred to collectively in this Brochure as “the separate accounts.” We also provide investment advisory services to the private funds, as described above. The separate accounts and private funds together are sometimes referred to together in this Brochure as “the accounts.” The detailed terms, strategies, and risks applicable to investors in the private funds are described in each private fund's organizational documents and offering memorandum.

### **C. Tailoring our Advisory Services and Investment Solutions**

Based upon our discussions with each client, and depending upon their particular circumstances and the investment policy that we have established together, we manage client assets using a combination of one or more of the following investment solutions:

- Model portfolios developed by our firm
- Portfolios managed by unaffiliated money managers
- Alternative investments, including affiliated and non-affiliated funds

Most of our client assets are managed on a discretionary basis whereby we handle the allocations and individual investment strategies. However, clients are able to impose reasonable restrictions (such as no tobacco stocks) on the way we manage separate account assets.

Any recommended allocations to our private funds will be provided on a non-discretionary basis, which means that the client decides on a case-by-case basis whether to accept or reject those recommendations. Investors in our private funds are generally not able to impose restrictions on the way we manage private fund assets.

In addition to the above services, Freestone may also provide general financial advice, wealth planning, and other services not specifically related to securities. See Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) in the section regarding Wealth Management and Financial Planning for additional information on the nature of these services.

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

Freestone does not participate in wrap fee programs.

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

As of December 31, 2011, Freestone managed approximately \$2,200,000,000 in assets on behalf of over 900 clients. Of this, approximately \$1.8 billion was managed on a discretionary basis and approximately \$400 million on a non-discretionary basis. On Form ADV we also report "regulatory assets under management" which are calculated on a different basis as required by the SEC.

## **Item 5. Fees and Compensation**

### **A. Discretionary Accounts**

In general, discretionary account fees are based on either the specific portfolio model or investment class (e.g., equity, fixed income, cash) to which assets are allocated. Clients generally will be charged an annualized management fee based on assets under management, which will be assessed quarterly and payable in arrears and billed directly to client accounts. This will be detailed in the investment advisory agreement. With the exception of a few specific portfolio models\*, the standard maximum annual fee schedule is as follows:

1.25% on the first \$0-\$1,000,000 of assets under management

1.00% on any additional assets under management above \$1,000,000

\* Concentrated Equity model fees will not exceed 1.75% per annum. Global Equities models will be charged up to an additional 0.50% to cover third-party manager fees.

Clients will generally be responsible for all custodial fees, brokerage commissions, clearing fees, interest, and withholding or transfer taxes incurred in connection with trading. Information regarding the brokerage and other transaction costs incurred by discretionary accounts is discussed in more detail in Item 12 (Brokerage Practices) in this Brochure.

### **B. Private Funds**

Fees associated with the private funds generally include an annual management fee of 1%, as well as a performance-based fee, which is described in further detail in Item 6 (Performance-Based Fees and Side-by-Side Management). In addition, each private fund pays all operating expenses and other costs of the fund, including fund formation costs. Details of the fees and costs associated with each private fund are detailed in the documentation specific to each fund.

### **C. Non-Discretionary Accounts**

As an accommodation to clients, we may occasionally recommend the purchase of a 529 Plan, fixed or variable life insurance product, or annuity. Freestone Securities, an affiliated broker-dealer, will receive 12b-1 fees and/or commissions, however, an additional management fee will not be charged. A client may invest in a particular mutual fund directly without the services of the firm. In that case, the client would not save money in fees or commissions, and would not receive the services provided by Freestone, which are designed, among other things, to assist each client in determining which investments and underlying allocations are appropriate to their individual, specific financial condition and objectives, and when to acquire, reallocate, or dispose of these investments.

### **D. Hourly or Flat Fees**

The firm may occasionally charge an account an hourly fee or a flat fee for advice regarding investment or related planning.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

As described in Item 5 (Fees and Compensation) above, we may receive part of our compensation from the private funds in the form of performance-based fees. Performance fee arrangements, if applicable, are described in detail in each private fund's offering memorandum. Such fee arrangements may also create an incentive to favor such accounts over other accounts in the allocation of investment opportunities. Freestone has implemented procedures designed to ensure all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities for each unique client and among all clients.

## **Item 7. Types of Clients**

We serve as the investment manager and provide investment advisory services primarily to high net worth families and individuals. However, our clients may also consist of pension and profit sharing plans, financial institutions (including funds of funds), trusts, university endowments, charitable organizations, corporations or other business entities, and third-party investment advisers.



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

### **A. Methods of Analysis**

Our client investment solutions are designed to manage the financial assets of our client by combining our internal expertise in traditional and alternative asset categories with external expertise in domestic/global equity, domestic/global fixed income, and alternative investments. Our methods of security analysis and portfolio construction include fundamental, technical, and quantitative analysis. Our sources of data may include financial news and publications; inspections of corporate activities; research materials prepared by others; corporate rating services; prospectuses, annual reports, and other information, including filings with the SEC; and company press releases.

Our Portfolio Managers and key Freestone employees also serve as members of the Freestone Investment Committee. The group meets regularly to discuss, review, and analyze various market forces and factors, as well as particular Freestone investment solutions and strategies that affect the client portfolios we manage. The Investment Committee's agenda may include micro- and macro-economic trends, inflation, Federal Reserve Policy, sovereign debt issues, market cyclical factors, and risk/reward factors for various strategies, market sectors, and asset classes. Freestone's Investment Committee then formulates and communicates the overall firm investment philosophy and guidance for distribution to Freestone's Client Advisor teams.

### **B. Investment Strategies**

Our approach to portfolio construction seeks to achieve a proper balance of risk and reward, depending on the unique needs and goals of our individual clients. We remain steadfast in our 'Stay Wealthy' approach to investment management by focusing on downside risk as well as upside opportunity.

Investment advice provided to clients is based on a number of factors, including, but not necessarily limited to, the client's investment objectives, risk tolerances, asset-class preferences, time horizons, liquidity needs, expected returns, and an assessment of current economic and market views. Investment strategies are developed for each client and attempt to achieve diversification by investing over time, across asset classes, within asset classes, across geographies, and across various investment styles.

Generally, investment strategies emphasize long-term investments in a diversified portfolio intended to meet the client's long-term financial objectives. Nevertheless, investment strategies used to implement investment advice can include short-term purchases (securities sold within a year), trading (securities sold within 30 days), long-term purchases (securities held at least a year), short sales, and other techniques. In addition, certain client investment accounts are subject to investment strategies described in the offering documents of the underlying funds in which such clients are invested, which may be different than the strategies explained above. Please see such funds' offering documents for further information.

Based upon our discussions with each client, and depending upon each client's particular circumstances and the investment policy that we have established together, we manage discretionary account assets using some combination of the following three investment solutions:

1. Model Portfolios – Internally Managed Accounts
2. Global Equities Model – Externally Managed Accounts
3. Alternative Investments

The specific allocation of assets among these solutions will be determined according to the personal investment policy that we have developed on behalf of each client.

## 1. Model Portfolios

- » **Equity Accounts** – We offer two internally managed equity offerings: Core and Concentrated. The objective of our Core Equity accounts is to achieve growth in capital with market-like returns and below market risk. Income is only a secondary consideration. The Core equity account may consist of individual equity issues, exchanged-traded mutual funds, index funds, actively traded mutual funds, or a combination thereof. The primary focus, however, is on businesses that trade at steep discounts to our assessment of their “intrinsic” values. Other factors considered in the selection process include a high return on capital (growth), high earnings yield (value), high earnings quality (consistency), and identifiable catalysts (timeliness). Cash is a tactical allocation, meaning the portfolios are not required to be fully invested at all times. Concentrated equity accounts include the above securities and may also include stocks that are deeply out of favor, initial public offerings, spin-offs and other types of investments, and utilizes a more aggressive investment style.
- » **Balanced Accounts** – The objective of the Balanced accounts is to achieve moderate growth in capital while incorporating modest income and stability attributes. Balanced accounts may consist of the same securities found in the Core equity accounts, along with individual taxable or tax-exempt bonds, or funds comprised of income-oriented investments. The equity portion of this account will, in general, follow the model portfolio employed for the Core equity accounts.
- » **Fixed Income Accounts** – The objective of our Fixed Income accounts is to generate current income and to provide relative stability for the client. Fixed Income accounts may consist of individual taxable and tax-exempt securities and may include income-oriented mutual funds and equity securities. Securities in these accounts will generally be of investment-grade quality but may include below investment-grade, international, and other income-oriented components when we believe that economic conditions and valuation spreads make such asset classes attractive and where appropriate for a particular client.
- » **Multi-Strategy Accounts** – The objective of the Multi-Strategy accounts is to provide broad exposure to various equity, fixed income, and non-traditional asset strategies employed by the firm, but in a single account format. Multi-Strategy accounts are generally composed of exchanged-traded mutual funds, index funds, and actively traded mutual funds, but may include individual equities as deemed appropriate by the Portfolio Manager.

- » ***Tactical Strategies*** – Tactical Allocation accounts provide exposure to various equity and fixed income strategies employed by the firm. Tactical Allocation accounts generally comprise actively managed mutual funds, index funds, and exchange-traded funds, but may include individual equities as deemed appropriate by the Portfolio Manager. Tactical Allocation accounts are used as components for the Multi-Strategy accounts in addition to providing specialized exposure to asset classes or investment styles not otherwise available to Freestone clients.

## **2. Global Equities Model**

We have entered into relationships with external investment managers who provide us with their individual model portfolios and act as sub-advisers for our client portfolios, and we combine these sub-adviser portfolios into a single custodial account for a client. These sub-advisers represent different investment styles and strategies that offer clients diversification outside of the firm's proprietary solutions. These sub-advisers may employ strategies and techniques that differ materially from others employed by the firm.

Sub-advisers are selected through a careful screening and due diligence process. We have sole discretion over the Global Equities model and may add and/or remove any sub-adviser at any time. Global Equities investment advisers may provide trade execution services to the firm in connection with the implementation of their particular model portfolio, but only with the firm's consent. We also have sole discretion with regard to implementation of any investment advisers' particular model, which means that there may be circumstances that cause us not to follow a particular investment adviser's model recommendations.

It is possible that one or more of the Global Equities sub-advisers have current or prior relationships or other business dealings with one or more key personnel of the firm or one of our affiliated entities, and may provide investment recommendations and advice to one or more of the private funds.

On a case-by-case basis, we may design individual portfolios that do not use the model portfolios or the Global Equities model portfolios, or that use the model portfolios or Global Equities model portfolios only in part, and that do not include fixed limitations on asset types or classes. In such circumstances, a client's portfolio may include investments managed by investment advisers outside the firm.

## **3. Alternative Investments**

Freestone creates and offers a family of private funds to provide clients exposure primarily to alternative investment strategies. In general, we do not tailor the strategy of any private fund to the needs of individual private fund investors or separate account clients. Private funds may employ a variety of investment strategies and techniques, including, but not limited to:

- long/short equity strategies, where the portfolio will have both long and short positions;
- distressed investing or arbitrage strategies, including equity-related investments, loans or other debt, structured finance, real estate, or other asset classes and types;

- private placements and other restricted securities, consisting of non-marketable securities of non-public or public companies;
- the purchase of interests of a single private fund issuer sold in the secondary market;
- a multi-manager and fund-of-funds investment approach, through which a private fund allocates capital to a variety of investment funds or vehicles or discretionary accounts of third-party investment advisers that manage a variety of hedged and unhedged strategies in U.S. and non-U.S. securities and other investments;
- real estate investments, including direct or indirect, equity or debt, co-investments with funds and/or third-party investment advisers, joint ventures, and other vehicles for the acquisition of real estate and real estate-related assets;
- techniques using financial instruments (including options on securities or groups of securities, swaps, and other derivatives) in order to increase return, as a partial or complete hedge against other positions or against certain market or interest rate risks, or as part of other trading strategies.

### **C. Wealth Management and Financial Planning**

We also offer wealth management and financial planning services. Our process focuses on the integration and coordination of all the financial issues that may impact a client. This may include financial, estate, tax, and philanthropic planning; retirement and benefit plan solutions; credit and risk analysis; insurance; college planning; stock option analysis; and business valuation.

We generally do not charge additional fees for any of these planning services, and they are offered in conjunction with the firm's investment advisory services. We may also recommend outside professionals to assist with an account. These outside professionals may charge fees directly to an account for their services.

### **D. Material Risks**

Investing in securities involves risk of loss that clients should be prepared to bear. All investments carry the risk of loss and there is no guarantee that any investment strategy will meet its objective. Any past successes with a given methodology cannot assure future results.

Depending on the type of security, client accounts may face the following investment risks:

- » Equity Risk. Investments in equity securities generally involve a high degree of risk. Prices are volatile and market movements are difficult to predict. These price movements may result from factors affecting individual companies or industries. Price changes may be temporary or last for extended periods. In addition to, or in spite of, the impact of movements in the overall stock market, the value of investments may decline if the particular investments within the portfolio do not perform well in the market. Prices of growth stocks may be more sensitive to changes in current or expected earnings than prices of other stocks. Prices of stocks may fall or fail to appreciate regardless of movements in securities markets. A higher turnover rate, or increased trading, may result in higher transaction costs and higher taxes in taxable accounts, and may also affect the strategies' overall performance.

- » Market Risk. The success of client portfolio activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barrier, currency fluctuations and controls, and national and international political circumstances. These factors may affect the level of volatility of securities prices and the liquidity of investments in client portfolios. Such volatility or illiquidity could impair profitability or result in losses.
- » Extraordinary Events. Global terrorist activity and United States involvement in armed conflict may negatively affect general economic fortunes, including sales, profits, and production, and may lead to depressed securities prices and problems with trading facilities and infrastructure.
- » Fixed Income Risks. Investments in fixed income securities represent numerous risks such as credit, interest rate, reinvestment, and prepayment risk, all of which affect their price (i.e., value). These risks represent the potential for a large amount of price volatility. In general, securities with longer maturities are more sensitive to price changes. Additionally, the prices of high-yield, fixed income securities fluctuate more than high-quality debt issues. Prices are especially sensitive to developments affecting the company's business and to changes in the ratings assigned by rating agencies. Prices are often closely linked with the company's stock prices. High yield securities can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. Developments in the credit market may have a substantial impact on the companies we may invest in and will affect the success of such investments. In the event of a default, the investment may suffer a partial or total loss.
- » Increased Regulations. Events during the past several years and adverse financial results have focused attention upon the necessity to maintain adequate risk controls and compliance procedures. These events have led to increased governmental and self-regulatory authority scrutiny of the financial industry. Various national governments have also expressed concern regarding disruptive effects of speculative trading and the need to regulate the markets in general. Any regulations that restrict the ability to employ, or broker-dealers and counterparties to extend, credit or restrict trading activities could adversely impact profit potential.
- » Market Liquidity Risks. The value of securities held in client accounts and that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, in September 2001, and more recently the "Flash Crash" in May 2010 (the biggest one-day point decline, 998.5 points, on an intraday basis in Dow Jones Industrial Average history) could lead to violent price swings in securities held within client portfolios and could result in substantial losses.
- » Potential Concentration. Client portfolios may have highly concentrated positions in issuers engaged in one or a few industries. This increases the risk of loss relative to the market as a whole.
- » Small Capitalization Companies. A substantial portion of assets may be invested in smaller and less established companies. Both debt and equity securities of such issuers tend to be more

volatile than larger, more established companies. Such volatility could adversely impact client portfolios.

- » Large Company Risk. Large cap stocks can perform differently from other segments of the equity market of the equity market as a whole. Large capitalization companies may be less flexible in evolving markets or unable to implement change as quickly as smaller capitalization companies.
- » Other Funds. In addition to the private funds, we may invest in other unaffiliated funds. These unaffiliated funds include, but are not limited to, U.S. or offshore unit investment trusts, open-end and closed-end mutual funds and hedge funds, private equity funds, venture capital funds, advisory accounts, real estate investment trusts, ETFs, or other private alternative or other investment funds, regardless of whether any of the foregoing investment vehicles are affiliated with us (collectively, “Other Funds and Managers”). These Other Funds and Managers will charge their own management and other fees, so that if we invest in them, clients will bear an additional level of fees and expenses. Also, U.S. mutual funds generally must distribute all gains to investors, including investors who may not have an economic gain from investing in the fund, which can lead to negative tax effects on investors, particularly non-U.S. persons. We may also invest in exchange traded funds, unit investment trusts, or other similar vehicles designed to track the performance of a specific index or sector. These Other Funds may have unique risks of loss as described in their offering documents.
- » Non-U.S. Investments. We may invest client funds in securities (e.g., debt, equity, currencies, derivatives, etc.) domiciled outside the United States. Such investments expose the portfolio to a number of risks that may not exist in the domestic market alone. Such risks include, among other things, trade balances and imbalances and related economic policies, currency exchange rate fluctuations, imposition of exchange control regulation, withholding taxes, limitations on the removal of funds or other assets, possible nationalization of assets or industries, political difficulties, and political instability in foreign nations.
- » Short Sales, Leverage and Derivatives. Short sales, leverage and derivatives all represent substantial risks given their inherent heightened risk of loss. Leverage and derivatives imply borrowing capital. When such borrowing is deployed, losses can escalate quickly should investments suffer even small losses. Short sales involve a finite opportunity for appreciation, but a theoretically unlimited risk of loss. Short positions are also subject to a “short squeeze” that could lead to accelerating losses for those short that particular security.
- » Alternative Investments (Private Funds) Risk. Private funds and the strategies used within these funds include the risks above, but have additional risks as follows:
  - The private funds are exempt from SEC registration and only available to “accredited” or “qualified investors,” who are assumed to be sophisticated purchasers who have little or no need for liquidity from such investments, and are able to withstand the loss of some or all of their investment.
  - Limitations exist on withdrawal rights and non-tradability of interests create higher liquidity risk and such investments should be viewed as long-term investments.

- Partnership and fee expenses may be a higher percentage of net assets than traditional investment strategies and may include performance or incentive fees.
- The duration of private fund investments with longer-term securities are more sensitive to interest rates and include the possibility of more volatility than other investments.
- Generally, the value of investments held by private funds is determined by the firm or the underlying fund for third-party investment funds.
- This is not an exclusive list of potential or actual risks in any particular private fund. Potential private fund investors should review the particular fund's private offering memorandum for more complete risk and strategy information.

## **Item 9. 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 the firm or the integrity of the firm's management. The firm has no information applicable to this Item.



## Item 10. Other Financial Industry Activities and Affiliations

### A. Broker-Dealer Affiliation

The firm is affiliated with Freestone Securities LLC, a registered broker-dealer and member of FINRA (the Financial Industry Regulatory Authority; [www.finra.org](http://www.finra.org)) and SIPC (Securities Investors Protection Corporation; [www.sipc.org](http://www.sipc.org)). The firm shares resources with Freestone Securities, including offices and staff. All or a majority of the persons licensed as principals or representatives of Freestone Securities also serve as employees or consultants of the firm.

Freestone Securities formed in 2002 primarily to accommodate client needs regarding mutual funds, 529 Plans, and variable or fixed annuities. Freestone Securities also acts as the selling agent for the private funds we manage as well as unaffiliated and independent third party manager limited partnerships. Freestone Securities receives no commissions or added fees associated with the sale of any affiliated funds. However, for many third party funds, load mutual funds, 529 Plans or annuities, or other commission based outside investments, Freestone Securities does receive a portion of the fees paid by clients through a selling agreement. This creates a conflict of interest and may lead to additional compensation to the firm, however these types of offerings and any commission associated with them tend to be small in relation to a client's overall asset allocation.

### B. Potential Conflicts of Interest

In addition to the private funds and our current separate account clients, we may in the future participate in or sponsor other investment vehicles, and service additional advisory accounts or clients. We may also determine to engage in other businesses. The existence of such present and future multiple investment vehicles and accounts, or other businesses, may create material conflicts of interest, described below.

- » Other Investment Vehicles or Adviser Clients. The firm is affiliated with Freestone Investments LLC, a Washington limited liability company, which serves as the general partner of most of our affiliated private funds, and Freestone Advisors LLC, a Delaware limited liability company, which serves as the general partner of Freestone Opportunity Partners LP and Freestone Opportunity Qualified Partners LP. In addition, the firm provides investment advisory services to more than 900 clients and serves as investment adviser to a number of private funds. The firm and our affiliates may participate in or sponsor other investment vehicles and service additional advisory clients in the future. The private fund, its affiliates, and/or the Portfolio Manager(s) may also determine to engage in other businesses. The existence of such multiple entities or clients, or other businesses, necessarily creates a number of conflicts of interest.

When the availability of an investment with a particular third-party investment adviser is limited, the firm intends to allocate such opportunity as the firm deems equitable to all parties. A private fund will not be entitled to priority of choice and may not participate as a client of every third-party investment adviser selected by the firm or our affiliates for their respective managed vehicles.

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

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

Freestone has established a Code of Ethics for all firm personnel for describing and creating expectations of our high standard of business conduct and fiduciary duty to our clients. The Code includes provisions relating to the confidentiality of client information, prohibitions of insider trading, activities in employee-related accounts, “front running,” rumor-mongering, the acceptance and reporting of gifts and business entertainment, among other things. A copy of the Code of Ethics will be provided to current or prospective clients upon request by contacting the firm’s Chief Compliance Officer.

Copies of our Privacy Policy, with respect to client information confidentiality, and our Business Continuity Plan summary, with respect to potential business or market disruptions, are available to prospective or current clients at account opening, in annual mailing(s), and/or upon request.

### **B. Participation or Interest in Client Transactions and Personal Trading**

Due to an overlap in analysts and Portfolio Managers, investment ideas will occasionally be implemented across the model portfolios and the private funds. In an effort to equally and equitably distribute executions we receive amongst all accounts involved, we have implemented allocation policies.

Securities purchased across the model portfolio(s) and for the affiliated private fund(s) will be allocated among clients in accordance with the order allocation statement prepared by the Firm specifying the participating client accounts and how we intend to allocate the order among those clients. If the order to purchase securities is partially filled, it will be allocated either on a random and full basis or on a pro rata basis on the order allocation statement provided sufficient shares were traded to justify partial allocations. Each private fund is treated as a client account for this purpose and may participate in allocations along with firm accounts. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the order allocation statement if all client accounts receive fair and equitable treatment.

A periodic review of executions will be conducted by the firm to confirm that no client account or private fund is disadvantaged by specific allocations or execution. The firm reviews employees’ personal and related accounts, whether held at the firm or with unaffiliated firms, for potential prohibitive trading practices. Further, the firm’s proprietary trades and accounts are reviewed and approved by the firm’s Director of Trading and/or Chief Compliance Officer.

For other disclosures relating to conflicts of interest relating to the private funds, please see Item 6 (Performance-Based Fees and Side-by-Side Management) above.

Individuals associated with the firm or our affiliates (collectively, “firm personnel”) may buy or sell securities identical to those recommended to clients or purchased for the private funds. In addition, firm personnel may have interests or positions in certain securities, which may also be recommended

to a client or purchased by the private funds. Excluding those employees whose accounts are managed by the firm, and as such may have overlapping strategies, no firm personnel may enter orders in advance of the private funds' transactions. Firm personnel are investors in all of the model portfolios. All employees' accounts are included in any random allocation. Consequently there may be situations whereby an employee order is executed before and for a more advantageous price than a client order.

The firm has established, through our association with our affiliates, the following policies in order to ensure we fulfill our fiduciary responsibilities:

1. Firm personnel may not buy or sell securities for their personal portfolios where their decisions are substantially derived, in whole or in part, by reason of their employment, unless the information is also available to the investing public on reasonable inquiry. No such person shall prefer his/her own interest to that of any client.
2. The firm will maintain knowledge of all securities holdings for itself, and has implemented procedures to inform itself as to the securities holdings of firm personnel that have access to advisory recommendations. Securities holdings of such persons are reviewed on a regular basis by an appropriate officer/individual associated with the firm.
3. The firm emphasizes the unrestricted right of the client to decline to implement any advice provided by the firm, except in situations where the firm is granted discretionary authority with respect to the client's account.
4. The firm and its affiliates require firm personnel to act in accordance with applicable federal and state laws, rules and regulations governing investment advisory practices.
5. Firm personnel not in observance of the above policies may be subject to remedial measures and/or termination.

## Item 12. Brokerage Practices

### A. Discretionary Accounts

For discretionary separate accounts, we request written authority to determine which securities to buy or sell, the amounts of securities that are bought or sold, the broker-dealer(s) to use for transactions, and the commission costs, if any, related to those transactions. Any limitations on this discretionary authority will be included in the respective investment management agreement.

The firm may utilize the Global Equities model sub-advisers to provide trade execution services in connection with the implementation of the Global Equities model portfolio(s) developed by them. In those circumstances, the firm will have sole discretion regarding implementation of the Global Equities model portfolio(s) and determination of the securities to be purchased and sold on behalf of a separate account. The Global Equities sub-advisers will not effect any trades for the firm's separate accounts without our express instruction. Our Global Equities sub-advisers have agreed to follow procedures and take into account considerations with respect to brokerage allocation, receipt and utilization of research, and other services and aggregation of trades, that are generally consistent with the descriptions below of the considerations and procedures we follow.

The firm may allocate brokerage business to broker-dealers on the basis of certain considerations. These may include:

- commission rates;
- quality of executions;
- reputation, experience, and financial stability;
- quality of service;
- familiarity with the securities markets and investment techniques we employ;
- research and analytic services;
- clearing and settlement capabilities;
- availability of margin or other leverage;
- block positioning; and
- other special execution capabilities or services provided by the broker-dealer.

Accounts maintained as commission-based may be charged a "prime broker fee" for any transactions executed away from primary custodians. We believe that the ability to execute through a wide network of broker-dealers allows us the flexibility to seek best execution. Trades for firm accounts held by our primary custodians that do not meet the minimum asset size to be prime broker-eligible (at least \$100,000) may be executed at different times and different prices than trades for other prime broker-eligible accounts that are executed at other broker-dealers.

Any commission a separate account pays to such broker-dealers will not necessarily represent the lowest commission rates available. They will reflect the firm's evaluation of the research and other brokerage-related services supplied and if they are of any benefit to a separate account, either alone

or together with other clients of the firm and our affiliates. In each case, we make a determination that the amount of any increased commission costs due to such research or other services is reasonable relative to the value of services provided.

In certain instances, the firm receives from broker-dealers or other service providers, products or services that are used both for investment research and for administrative, marketing, or other non-research purposes. In such instances, we make a good faith effort to determine the percentage of such products or services that may be considered research. The portion of the costs of such products or services attributable to research usage may be defrayed by the firm through directing brokerage commissions generated by client transactions (known as “soft dollars”). The portion of the cost attributable to non-research usage of such products or services is paid by the firm to the broker-dealer or other service provider.

When we deem the purchase or sale of securities to be in the best interest of one or more accounts, we may aggregate the securities to be purchased or sold by all such clients in order to obtain superior execution or lower brokerage expenses. In particular, execution prices for identical securities purchased or sold on behalf of multiple accounts in any one business day may be averaged. In such situations, we will allocate any securities purchased or sold, and any expenses incurred will be shared among all clients participating in that particular allocation. The firm may apply other considerations to a particular allocation, including:

- relative account size,
- amount of available capital,
- size of existing position in the same or similar securities,
- impact of leverage,
- investment objective and strategy considerations,
- concentration parameters, and
- tax considerations, among others.

Generally, allocations made among accounts with a similar strategy on a pro rata basis, based on the size of the account. Explanations for infrequent variations from this approach must be approved and documented and are subject to the periodic review of our Chief Compliance Officer to ensure that all accounts are being treated fairly. Further, the Client Advisors conduct a suitability review with respect to each client’s unique asset allocation. Although we may allocate on a pro rata basis, we will not always do so. No client will be entitled to investment priority over another client, and each client may not necessarily participate in every investment opportunity. The firm will endeavor to make all investment allocations in a manner that we consider to be the most equitable to all managed entities and clients.

In our last fiscal year, we used soft dollars to pay for research, research services, equipment (such as Bloomberg terminals), and research-related software. When using client brokerage commissions to obtain research or other products or services we receive a benefit because we do not have to produce or pay for the research, products or services. We may have an incentive to select or recommend a broker-dealer based on our interests in receiving the research or other products or

services, rather than on our clients' interest in receiving most favorable execution. Soft dollar benefits are used to service all clients' accounts.

## **B. Private Funds**

The investment strategies of a number of the private funds involve primarily "multi-manager" investment approaches in which the private funds allocate a portion of their capital to third-party investment advisers (either directly on a managed account basis or through investee funds). Certain of the private funds allocate substantially all of their capital to third-party investment advisers. In addition, the firm may occasionally determine, at our discretion, to invest a portion of the funds' capital directly in securities and other investments. See Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) in the section regarding Alternative Investments for further information.

### ***1. Investment/Brokerage Discretion – Private Fund Capital Allocated to Third-Party Investment Advisers***

Subject to the investment management agreement or comparable document entered into by a third-party investment adviser and a private fund, each third-party investment adviser will have the authority to buy and sell any securities at its discretion. In addition, the third-party investment advisers will have complete discretion as to the selection of broker-dealers for execution of transactions. Each third-party investment adviser will be required to select broker-dealers that will execute individual transactions at the best available execution prices, after consideration of all services and value provided by each broker-dealer.

### ***2. Investment/Brokerage Discretion – Private Fund Capital Allocated to the Firm***

With regard to that portion of the private fund capital invested directly by the firm, the firm will have full investment discretion with respect to all portfolio securities transactions and full authority to select broker-dealers to execute such transactions. These transactions will be allocated under guidelines materially similar to those described in Item 12A above, in the section regarding Discretionary Accounts.

## **C. Directed Brokerage**

A client's account may already have a pre-established relationship with another broker-dealer and may instruct us to execute all transactions through that broker-dealer. In the event that we are directed to use a particular broker-dealer, we will not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. In addition, under these circumstances, a disparity in commission charges may exist between the commissions charged to other clients.

## **Item 13. Review of Accounts**

### **A. Private Funds**

The firm provides audited financial statements for the private funds to the funds' investors on an annual basis. In addition, we generally provide unaudited values, performance data, information regarding the status of the investor's account, and certain tax reporting information to the private funds' investors on an interim basis. The offering memorandum for each private fund describes the exact frequency for which private fund investors receive statements from the firm. The statements include a summary of assets, realized and unrealized capital gains and losses, and an estimate of income. Clients may request additional reviews at no cost.

Each private fund portfolio is reviewed on a regular (at least monthly) basis by its Portfolio Managers. The portfolios of Freestone Opportunity Partners LP and Freestone Opportunity Qualified Partners LP are reviewed by their Portfolio Managers on a daily basis. Reviews consist of an analysis of the portfolio holdings (when available) and performance to date in light of the portfolio's investment objective, portfolio risk exposure, and diversification among sub-advisers and investment strategies, as well as an evaluation of any appropriate changes to be implemented with respect to the portfolio.

### **B. Separate Accounts**

Brokerage statements are generated by the account custodian no less frequently than quarterly. These reports list the account positions, activity in the account over the covered period, and other related information. Clients are also sent trade confirmations by the account custodian following each transaction or on a consolidated basis as requested by the client.

The firm reviews each separate account's goals and objectives annually to assure proper asset allocation within separate accounts, including the model portfolios, and, if applicable, the Global Equities model. The firm reviews the securities held in the model portfolio separate accounts regularly. More frequent reviews may be triggered by a change in market, political, economic, or a client's individual circumstances. Further, reviews of the suitability of individual accounts and asset allocations are conducted by each client's Client Advisor, generally no less than annually. The firm's Chief Compliance Officer also conducts suitability reviews of certain client accounts and/or transactions on a regular basis.

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

### **A. Outside Custodians**

The firm requires that clients open brokerage/custodian accounts at outside custodians. The firm is not compensated directly for recommending custodians. Custodians may provide software to monitor accounts and some research on securities, but these are not conditioned upon business referrals.

The firm receives client referrals from certain custodians through our participation in their referral network(s), designed to help investors find an independent investment adviser. The firm is not affiliated with such custodians. Custodians do not supervise the firm and have no responsibility for our management of client portfolios or our other advice or services. The firm pays custodians fees to receive client referrals through their referral networks). Our participation in the referral networks may raise potential conflicts of interest, which are described below.

In certain situations, the firm pays custodians “participation fees” on all referred clients’ accounts that are maintained in custody and a non-affiliated custody fee on all accounts that are maintained at, or transferred to, another custodian. The participation fee is paid by the firm and not by the client. The firm does not charge clients referred through the networks fees or costs greater than the fees or costs we charge clients with similar portfolios who were not referred through the networks.

The firm generally pays custodians a non-affiliated custody fee if the custody of a referred client’s account is not maintained by, or assets in the account are transferred from the custodian. The non-affiliated custody fee is a one-time payment equal to a percentage of the assets placed with a different custodian. The non-affiliated custody fee is higher than the participation fees the firm generally would pay in a single year. Thus, we will have an incentive to recommend that client accounts be held in custody at our primary custodians.

For accounts of the firm maintained in custody, our primary custodians will not charge the account separately for custody but will receive compensation from accounts in the form of commissions, asset based pricing fees or a combination of both. Excluding those clients with accounts that are strictly commission-based, custodians do not charge for trades executed at other broker-dealers, however, those executing brokers may charge a commission, which will be disclosed on the client trade confirmation. These fees will vary.

### **B. Co-Service Providers**

The firm has entered into written agreements with third-party investment advisers pursuant to which they refer investors to the firm and, on an ongoing basis, share in fees paid to the firm by referred clients as well as providing certain services to those investors.

The firm has entered into separate written agreements with C & H Partners, LLC, Berntson Porter Wealth Management, LLC, and Robert A. Underhill, PC, each a registered investment adviser as “co-providers” of services to clients referred to the firm, and we contemplate entering into similar agreements with other entities or individuals in the future. After a co-provider refers investors, the co-provider, the investor, and Freestone enter into a three-party investment management agreement



and provide appropriate disclosure materials. Current co-providers do not provide our clients with any asset allocation or investment advice. The firm pays fees to the co-provider based upon a percentage of the assets under management with respect to each investor that the co-provider refers to the firm.

## **Item 15. Custody**

The firm urges each client to carefully review his or her statements and compare the official custodial records to the account statements distributed by us. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Investors in private funds will receive annually audited financial statements.

## **Item 16. Investment Discretion**

Details regarding the investment discretion that we exercise with respect to the accounts are included in Item 4 (Advisory Business). The firm usually receives discretionary authority from a separate account client at the outset of the advisory relationship to select the identity and amount of securities to be bought or sold on behalf of account(s). With respect to investors in private funds, this authority is established through the subscription documents signed by each investor. In all cases, however, we will only exercise discretion in a manner consistent with each account's stated goals and investment objectives. Investment guidelines and restrictions must be provided to Freestone in writing. Additional details regarding these practices are included in Item 12 (Brokerage Practices).

## Item 17. Voting Client Securities

As a general matter, we have the authority to vote proxies relating to securities owned by the accounts we advise. Clients may also elect to retain proxy voting authority. This must be communicated to the firm in writing at the time we establish our relationship. Each client may at anytime, however, change his or her decision by notifying us in writing and/or direct the firm how to vote proxies on his or her behalf. The firm has engaged Glass, Lewis & Co., LLC (“Glass Lewis”) to assist with the analysis and voting of proxy ballots and related record keeping. Glass Lewis provides independent assessment and recommendations with regard to all proxy items for securities held in accounts.

The firm has adopted written policies, the form of which was provided by Glass Lewis, regarding the voting of account proxies. These procedures are designed to ensure that we fulfill our fiduciary obligation to clients in connection with proxy voting. The written policies are designed to address a wide range of common business and social issues often contained in proxy statements and vote them in our clients’ best interest. Items not specifically addressed in the policies will be dealt with on a case-by-case basis with guidance from Glass Lewis. If a material conflict of interest does present itself, we will notify the client(s) or refrain from voting the shares affected by the conflict of interest. If the firm determines that the cost of voting proxies exceeds the expected benefit to one or more of our accounts, we may, with proper notification, refrain from voting proxies with respect to those accounts.

A client may obtain a copy of our complete proxy voting policies and procedures and information about how any proxies were voted on the client’s behalf upon request. Any such request must be made in writing and directed to [compliance@freestonecapital.com](mailto:compliance@freestonecapital.com).

## **Item 18. Financial Information**

Freestone has no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients and we have not been the subject of any bankruptcy proceeding. We do not require or solicit prepayment of more than \$1,200 in fees from the private funds or separate accounts, six months or more in advance, and therefore are not required to provide financial information or disclosures in this section.