



**FORM ADV – PART 2A**  
(Brochure)

October 30, 2014

---

**Item 1. Cover Page**

**Principle Business Office Address:**

701 Fifth Avenue, Suite 7400  
Seattle, Washington 98104

T 206.707.7300 | 800.990.3001

F 206.707.7399

E [compliance@freestonecapital.com](mailto:compliance@freestonecapital.com)

[WWW.FREESTONECAPITAL.COM](http://WWW.FREESTONECAPITAL.COM)

In this Brochure, we use the terms Freestone, us, we and our to refer to Freestone Capital Management, LLC. As discussed in Item 4, we generally provide investment advisory services to individuals and to certain private pooled investment vehicles for which an affiliate of ours serves as general partner. In this Brochure, we refer to clients who are individuals or institutions investing through managed accounts as advisory clients and we refer to the pooled investment vehicles as the private funds. References to clients generally include our advisory clients and the private funds.

This Brochure provides information about our qualifications and business practices. If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer at 206.707.7300 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. We are 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**

This Item 2 lists material changes to the Brochure we filed with the SEC on March 31, 2014.

### July 1, 2014 Amendment

We updated Item 5 to include a “Less than \$500,000” management fee tier and a minimum annual management fee of \$4,000 per year.

### October 2, 2014 Amendment

We updated Item 7 to reduce the size of discretionary investment management relationships we generally seek to at least \$500,000.

### October 30, 2014 Amendment

We updated the Cover Page to reflect our new address, phone number and facsimile number.

### Item 3. Table of Contents

### Page

Item 1. Cover Page .....	i
Item 2. Material Changes .....	ii
Item 3. Table of Contents .....	iii
Item 4. Advisory Business .....	1
Item 5. Fees and Compensation .....	3
Item 6. Performance-Based Fees and Side-by-Side Management .....	6
Item 7. Types of Clients .....	7
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	8
Item 9. Disciplinary Information .....	18
Item 10. Other Financial Industry Activities and Affiliations .....	19
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	21
Item 12. Brokerage Practices .....	25
Item 13. Review of Accounts .....	32
Item 14. Client Referrals and Other Compensation .....	33
Item 15. Custody .....	36
Item 16. Investment Discretion .....	37
Item 17. Voting Client Securities .....	38
Item 18. Financial Information .....	39

## **Item 4. Advisory Business**

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

Freestone Capital Management, LLC (“Freestone,” “us,” “we,” or “our”) is a comprehensive wealth management firm founded in 1999. We are headquartered in Seattle, Washington, and have offices in San Francisco, California, Santa Barbara, California and Portland, Oregon. Freestone, or our predecessor company, Freestone Capital Management, Inc., has been registered as an investment adviser with the SEC since 1999. We had 55 employees as of June 15, 2014.

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

Freestone Investments LLC, our affiliate, is general partner of the private funds. To the extent Freestone Investments may be deemed to be acting as an investment adviser, it is registered with the SEC in reliance on Freestone’s Form ADV under the January 18, 2012 no-action letter issued to the American Bar Association. In addition, we are affiliated with Freestone Securities LLC, a limited purpose broker-dealer offering mutual funds, fixed and variable annuities, insurance solutions and 529 Plans through direct application. Freestone Securities LLC also acts as the placement agent for the private funds, as well as private investment vehicles not affiliated with us. Please see Item 10 (Other Financial Industry Activities and Affiliations) for additional information regarding these and other affiliations.

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

We provide ongoing and comprehensive wealth management and investment advisory services to advisory clients on a discretionary or non-discretionary basis, typically through managed accounts. We also provide asset management and investment advisory services to the private funds. The detailed terms, strategies and risks applicable to investors in the private funds are described in each private fund’s organizational and offering documents.

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

Through our discussions with each advisory client, we develop a wealth management and investment plan for that client based on, among other things, the client’s particular circumstances, financial goals or objectives, risk tolerance, time horizon and liquidity needs. We then manage that client’s assets using a combination of one or more of the following investment solutions:

- Internally managed model portfolios developed by us;
- Model portfolios developed by parties not affiliated with us and managed by us or by those unaffiliated parties; and
- Alternative investments, including investments in the private funds and funds not managed or controlled by our affiliates or us.

We manage most assets on a discretionary basis, meaning we have investment control to implement the investment plan we have developed with an advisory client without obtaining the client's consent prior to making a trade or allocation. For advisory clients, typically this involves allocating the advisory client's assets among the above-described investment solutions. For the private funds, this generally involves investing a private fund's assets in accordance with the private fund's organizational and offering documents. Advisory clients may impose reasonable restrictions on the way we manage assets held in their accounts, such as prohibiting the purchase of tobacco stocks.

We only make recommendations to advisory clients regarding investing in the private funds on a non-discretionary basis, meaning that an advisory client must decide on a case-by-case basis whether to accept or reject our recommendations regarding making an investment in a private fund. Investors in the private funds generally cannot impose restrictions on the way we manage the private funds or the assets held by the private funds.

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

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

We do not participate in wrap fee programs.

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

As of March 31, 2014, our total regulatory assets under management were approximately \$3,165,285,000. Of this amount, we managed approximately \$2,662,194,000 on a discretionary basis and approximately \$503,091,000 on a non-discretionary basis.

## Item 5. Fees and Compensation

### A. Discretionary Advisory Client Accounts

In general, we charge fees on advisory client accounts for which we have investment discretion based on the specific portfolio model or investment class (e.g., equity, fixed income, cash) to which the assets in the account are allocated. Generally, we charge an annualized management fee based on the amount of the client's assets that we manage. We assess management fees quarterly. Depending on the terms of the investment management agreement we have entered into with the client, we typically calculate quarterly management fees based on the value of the client's accounts on the last day of a quarter or the first day of the following quarter. Management fees are payable either in advance or in arrears. In either case, we typically deduct the management fee directly from the client's accounts. If a client who pays management fees in advance terminates our relationship at any time other than the end of a calendar quarter, then that client may obtain a refund of a portion of the pre-paid fees, calculated on a pro-rata basis to reflect the number of days remaining in the quarter. Fee amounts and payment provisions are included in the investment management agreement we enter into with our advisory clients. Except as set forth below, our standard maximum annual management fee schedule is as follows:

Household Assets Managed by Freestone	Freestone Fee
Less than \$500,000	1.50% (subject to a minimum annual fee)
\$500,000 up to \$2 million	1.25%
\$2 million up to \$5 million	1.00%
\$5 million up to \$10 million	0.90%
More than \$10 million	0.80%

In general, we charge advisory clients a minimum annual Freestone fee of \$4,000 per year, though we may choose to waive the minimum from time to time. Accordingly, advisory clients typically will agree to pay to Freestone the greater of (a) the applicable Freestone fee percentage multiplied by the household assets managed by Freestone and (b) \$4,000.

In some cases, we have engaged parties not affiliated with us (sub-advisers) to manage or otherwise provide advisory services or investment advice, including individual model portfolios, with respect to certain of our model portfolios. Generally, clients bear the additional costs, fees and expenses associated with investments in these portfolios, including fees of the sub-advisers. The amount of the costs, fees and expenses associated with such model portfolios will fluctuate, but our management fee percentage will remain the same. All such costs, fees and expenses are passed through at cost and are borne by the clients. We disclose the additional costs, fees and expenses in the investment management agreement we enter into with the client.

We negotiate fees with advisory clients that are lower than the fees disclosed above based on factors such as client type, account size and anticipated increases in account size, pre-existing relationship or other factors. We typically combine certain related advisory client accounts for purposes of calculating a client's aggregate account size and/or management fee. Some existing advisory clients are governed by fee schedules different from the above schedule and, therefore, those existing clients may pay higher or lower fees than new clients. Generally, we charge lower or no management fees to Freestone employees and their family members.

Advisory clients generally are responsible for all fees and expenses incurred by or arising in connection with an account, including custodial fees, brokerage commissions, fees and expenses charged by mutual funds and exchange traded funds, trade-away fees, clearing fees, interest and taxes incurred in connection with trading. Advisory clients pay these fees and expenses in addition to the management fee we charge. We discuss brokerage and other transaction costs incurred by advisory client accounts in more detail in Item 12 (Brokerage Practices).

Occasionally, we may recommend that an advisory client invest in a private fund or account not managed by our affiliates or us. In that case, in addition to our management fee, the client will be responsible for all fees, allocations and other costs and expenses charged by or payable to the unaffiliated third-party manager and/or private fund.

## **B. Private Funds**

Fees associated with the private funds generally include an annual management fee of 1%, as well as a performance-based fee or allocation. In most cases, Freestone or our affiliates deduct those fees and/or allocations from the private funds. In addition, each private fund pays all operating expenses and other costs of the fund, including fund formation costs, custodial fees, brokerage commissions, fees and expenses charged by mutual funds and exchange traded funds (if any), clearing fees, interest and taxes incurred in connection with or related to its investments. If one of the private funds invests into a private fund not managed by our affiliates or us, or if one of the private funds enters into a managed account or other arrangement in which an unaffiliated third-party provides investment advisory or other services to the private fund, then an investor in the private fund effectively will incur two levels of advisory fees: (1) the private fund's management fee and performance-based fee or allocation; and (2) any management fee or performance-based fee or allocation paid by the fund to the unaffiliated third party. Each private fund's organizational and/or offering documents includes details regarding the fees, costs and expenses associated with that private fund.

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

The financial planning and wealth management services we provide are in conjunction with our investment advisory services, and we generally do not charge additional fees for any of these services. We may also recommend outside professionals to provide services to an advisory client. The client will be responsible for any fees charged by outside professionals, in addition to our management fee. In connection with our financial planning and wealth management services, we may recommend on a non-discretionary basis the purchase of mutual funds or

other securities, 529 plans or fixed or variable life insurance products or annuities. Freestone Securities, LLC, our affiliated broker-dealer, and its registered representatives (who are also client advisers) typically receive 12b-1 fees and/or commissions in connection with the client's purchase of such securities or products. This practice presents a conflict of interest because we may have an incentive to recommend products based on the compensation Freestone Securities will receive rather than on the client's needs. We seek to mitigate this conflict by putting the interests of our clients first. In addition, in most cases, if Freestone Securities receives any ongoing 12b-1 fees and/or commissions in respect of a product, we seek to reduce our management fee by an amount equal to the 12b-1 fees and/or commissions generated by such products.

An advisory client may purchase similar products or various other products we recommend through other brokers or agents not affiliated with us.

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

We may occasionally charge an advisory client an hourly fee or a flat fee for advice regarding investment or related planning. We negotiate the fees associated with these arrangements with the client on a case-by-case basis.



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

As described in Item 5 (Fees and Compensation), Freestone or our affiliates may receive performance-based fees or allocations from the private funds. Each private fund's organizational and offering documents describe in detail any performance-based fee or allocation arrangements.

Differences exist across the private funds in the total fees paid by each private fund, the amount of assets in each private fund and in the amount of our investments (or investments by our affiliates) in each private fund. These differences could create an incentive to favor one private fund over other private funds when allocating investment opportunities, or to direct the best investment ideas to, or allocate or sequence trades in favor of, one private fund over the other private funds. We are committed to allocating investment opportunities on a fair and equitable basis over time and we have established policies and procedures designed to address associated conflicts of interest. We discuss these issues in more detail in Item 12 (Brokerage Practices).

In addition, on occasion we charge advisory clients a performance-based management fee, as opposed to an asset-based management fee. We negotiate the terms of these performance-based arrangements on a case-by-case basis and include such terms in the investment management agreement we enter into with the applicable advisory clients.

A conflict of interest exists because we generally charge advisory clients an asset-based fee for the advisory services we provide, but we (or our affiliates) are entitled to receive performance-based fees or allocations from the private funds and, in some cases, we charge advisory clients performance-based management fees. As a result, we may have an incentive to recommend that an advisory client invest in a private fund, as opposed to holding assets only in separate accounts and allocating those assets to investment solutions through which we (or our affiliates) would not be entitled to receive performance-based fees or allocations. In addition, for those advisory clients to whom we have agreed to charge performance-based management fees, we may have an incentive to favor those advisory client accounts so they perform better and, in turn, we receive a greater amount of management fees.

We seek to address these conflicts of interest by emphasizing our duty to place the interests of our clients first. In those instances where we charge performance-based management fees on advisory client accounts, those accounts are invested in one or more of our investment models and are treated like other advisory client accounts invested in the same model. In addition, the performance of the private funds does not drive the compensation structure of our client advisers, though client advisers who indirectly have an equity interest in Freestone will derive indirect benefits from performance-based fees or allocations received by our affiliates or us.

## Item 7. Types of Clients

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

We also serve as investment manager to the private funds. Any minimum investment amount or other qualification requirements related to an investment in the private funds are set forth in the applicable private fund's offering documents.

We do not require a minimum account size, though in general we seek advisory clients that desire to establish a discretionary investment management relationship with us involving at least \$500,000. In addition, we generally charge advisory clients a minimum annual fee of \$4,000 per year, though we may choose to waive the minimum from time to time. See Item 5 (Fees and Compensation) for additional information regarding the fees and compensation we receive.

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

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

Our investment solutions are designed to manage the financial assets of our clients by combining our internal expertise in traditional and alternative asset categories with external expertise in domestic and global equity, domestic and 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, press releases and filings with the SEC, including prospectuses and annual reports.

### **B. Investment Solutions**

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 advisory clients. We remain steadfast in our “Stay Wealthy” approach to investment management by focusing on downside risk as well as upside opportunity.

We base the investment advice we provide to advisory clients on a number of factors, including the client’s investment objectives, risk tolerances, asset-class preferences, time horizons, liquidity needs, expected returns, current economic and market conditions and views on future economic and market conditions. We attempt to achieve diversification for advisory clients by investing over time, across asset classes, within asset classes, across geographies and across various investment styles.

Generally, our investment solutions emphasize long-term investments in a diversified portfolio intended to meet the advisory client’s long-term financial objectives. Nevertheless, investment solutions may include short-term purchases (instruments sold within one year), trading (instruments sold within 30 days), long-term purchases (instruments held at least one year), concentrated positions, short sales and other techniques, including some of those discussed below.

In addition, investors in the private funds (including any advisory clients who elect to invest in the private funds) are exposed to the investment strategies described in the applicable private fund’s offering documents, which may be materially different from the solutions described above and below. For further information regarding a private fund’s strategies and the risks involved, please see the organizational and offering documents for the applicable private fund.

Based upon our discussions with each advisory client, and depending upon each advisory client’s particular circumstances and the investment policy that we establish with each advisory client, we typically manage new advisory client discretionary account assets using some combination of the following three investment solutions:

1. Internally Managed Model Portfolios
2. Model portfolios developed by parties not affiliated with us and managed by us or by those unaffiliated parties (External Model Portfolios)
3. Alternative Investments

From time to time, our client advisers may create customized solutions that are not comprised of these investment solutions on a case-by-case basis for a particular advisory client. The number of clients and the amount of assets associated with those types of solutions are relatively small and immaterial. In addition, some existing advisory clients may have assets invested using one or more of our legacy model portfolios. We are in the process of, and intend to continue, transitioning clients invested using legacy model portfolios to our current model portfolios and, accordingly, we have not described the legacy investment solutions below. A portion of each of the below model portfolios may be invested in cash from time to time, in which case the applicable model portfolio will not be fully invested.

#### **1. Internally Managed Model Portfolios**

- » ***Equity Model Portfolio*** – We offer an internally managed equity offering called All-Cap Core. The objective of our All-Cap Core model portfolio is to achieve growth in capital with market-like returns and below market risk. Income is a secondary consideration. Our All-Cap Core model portfolio may consist of, among other things, individual equities (including common and preferred stock), exchange-traded mutual funds, index funds, mutual funds, real estate investment trusts, options, other derivatives or a combination of any of the foregoing. The primary focus, however, is on seeking to invest in businesses that historically exhibit relatively high return on capital (quality) and relatively high earnings yield (value). We consider various other factors in the investment selection process, including businesses that have a history of relatively consistent earnings and identifiable catalysts.
- » ***Balanced Model Portfolios*** – The objective of the Balanced model portfolios is to achieve moderate growth in capital while incorporating modest income and stability. Our Balanced model portfolios may consist of the same types of instruments found in the All-Cap Core model portfolio, along with individual taxable or tax-exempt bonds or funds comprised of income-oriented investments. Generally, the equity portion of this model portfolio will follow the All-Cap Core model portfolio.
- » ***Fixed Income Model Portfolios*** – The objective of the Fixed Income model portfolios is to generate current income and to provide relative stability. Our Fixed Income model portfolios may consist of individual taxable and tax-exempt investments and may include income-oriented mutual funds and equity securities. These model portfolios generally invest in U.S. instruments of investment-grade quality, but may include below investment-grade instruments (often referred to as “junk bonds”), international instruments and other income-oriented instruments when we believe economic conditions and valuation spreads, among other things, make such asset classes attractive.

- » ***Multi-Asset Model Portfolios*** – The objective of the Multi-Asset model portfolios is to provide broad exposure to various equity, fixed income and non-traditional investment solutions, but in a single account format. The Multi-Asset model portfolios generally are composed of exchange-traded mutual funds, index funds and mutual funds, but may include individual equities and other instruments as deemed appropriate by the portfolio manager. The portfolios typically include an allocation to our All-Cap Core model portfolio.
- » ***Freestone Strategies Model Portfolios*** – Our Freestone Strategies model portfolios provide exposure to various equity and fixed income investment solutions we employ. The Freestone Strategies model portfolios generally are composed of mutual funds, index funds and exchange-traded funds, but may include individual equities and other instruments as deemed appropriate by the portfolio manager. Some of the Freestone Strategies model portfolios comprise components of the Multi-Asset model portfolios, in addition to providing specialized exposure to asset classes or investment styles.

## **2. External Model Portfolios**

We have entered into relationships with investment managers not affiliated with us who provide us with their individual model portfolios and act as sub-advisers in respect of these model portfolios. We combine these sub-adviser portfolios into a single custodial account for a advisory client utilizing a Unified Managed Account (UMA) approach. These sub-advisers represent different investment styles and strategies that we believe offer clients diversification outside of our proprietary solutions. This approach offers clients the ability to access a group of sub-advisers that clients may not otherwise be able to access. These sub-advisers may employ strategies and techniques that differ materially from others we employ.

We select sub-advisers through a screening and due diligence process. We have sole discretion over the UMA and may add and/or remove any sub-adviser at any time. UMA sub-advisers may provide trade execution services to us in connection with the implementation of their particular model portfolio, but only with our consent. We also have sole discretion with regard to implementation of any sub-adviser's particular model. Accordingly, while we typically follow each sub-adviser's model portfolio, there may be circumstances that cause us not to follow a particular sub-adviser's model recommendations.

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

- » ***Global Equities Model Portfolios*** – The Global Equities model portfolios utilize style-oriented sub-advisers designed to provide broad global diversification across styles, sectors and global markets. The portfolios use individual equity models provided by the sub-advisers, as well as mutual funds and exchange-traded funds, to provide exposure to emerging markets, provide for style diversification (e.g., passive versus active) and facilitate

access to liquidity. The portfolios typically include an allocation to our All-Cap Core model portfolio.

- » ***Fixed Income Model Portfolios*** – Externally managed Fixed Income model portfolios do not utilize our UMA approach. Rather, we manage these accounts by retaining a sub-adviser and providing that sub-adviser with discretion to manage the applicable portion of the assets in a client’s account for which we have investment discretion. These model portfolios may consist of individual taxable and tax-exempt instruments and may include income-oriented mutual funds and equity instruments. Instruments in these model portfolios generally will be of investment-grade quality, but may include below investment-grade instruments (often referred to as “junk bonds”), international instruments and other income-oriented instruments.
- » ***Specialty Externally Managed Portfolios*** – On a case-by-case basis, with the agreement of the client, we may design individual portfolios that do not use the Internally Managed portfolios, the Externally Managed model portfolios, or that use the Internally Managed model portfolios or Externally Managed 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 multiple investment sub-advisers not affiliated with us. In addition, in some circumstances, a client may opt to have a direct separate account managed portfolio that is managed on a dual contract basis.

### **3. Alternative Investments**

Affiliates of ours form and control various private funds designed primarily to provide our advisory clients with exposure to alternative investment strategies, though investors that are not advisory clients also invest in the private funds from time to time. In general, we do not tailor the strategy of any private fund to the needs of individual investors in the private fund, regardless of whether the investor is an advisory client of ours. Private funds may employ a variety of investment strategies and techniques, including, among others:

- long/short equity strategies, where the portfolio has both long and short positions;
- distressed investing or arbitrage strategies, including equity-related investments, loans or other debt, structured finance, real estate, bonds or other asset classes and types;
- private placements and other restricted securities, which may include securities of private or public companies with limited or no trading market;
- 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 or real estate operators, joint ventures, and other vehicles for the acquisition of real estate and real estate-related assets;

- private equity investments; or
- cleared and over-the-counter financial instruments, including options on securities or groups of securities, swaps, futures and other derivatives, designed to increase return or act as a 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 to most of our advisory clients. Our process focuses on the integration and coordination of financial issues that an advisory client may face. Among other things, these services typically 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 offer these services in conjunction with our investment advisory services, and we generally do not charge additional fees for any of these services. We may also recommend outside professionals to provide services to an advisory client. The client will be responsible for any fees charged by outside professionals, in addition to our management fee.

### **D. Material Risks**

*Any investment activity, including investing in securities, involves risk of loss that clients should be prepared to bear. All investments carry the risk of loss, including complete loss, and there is no guarantee that any investment strategy will meet its objective. Any past success of a particular investment strategy or methodology does not imply or guarantee future success.*

Depending on the investment strategy and the type of financial instruments used at any given time to implement that strategy, advisory clients and investors in the private funds may face the following material investment risks:

» **Equity Instruments.** Investments in equity securities generally involve a high degree of risk. Stock prices are volatile and change daily, and market movements are difficult to predict. Movements in stock prices and markets may result from a variety of factors, including those affecting individual companies, sectors or industries. Such movements may be temporary or last for extended periods. The price of an individual stock may fall or fail to appreciate, even in a rising stock market. A client could lose money due to a sudden or gradual decline in a stock's price or due to an overall decline in the stock markets generally.

Growth stocks can have relatively high valuations, which, among other things, may result in the prices of growth stocks being more sensitive to changes in current or expected earnings



than prices of other stocks. Accordingly, investing in growth stocks can be more risky than investing in a company with more modest growth expectations.

- » Fixed Income Instruments. Generally, prices of fixed income instruments are volatile and change daily. Investments in fixed income instruments present numerous risks, including credit, interest rate, reinvestment and prepayment risk, all of which affect the price (i.e., value) of the instruments. For instance, a rise in interest rates may cause fixed income instruments to lose value. We make certain assumptions regarding interest rates when evaluating fixed income securities regarding, among other things, the yield curve of the security. A variation in the slope of a fixed income security's yield curve from the slope we assumed in purchasing the security for client accounts could have a material adverse affect on the value of the client's account. In addition, the value of fixed income instruments may decline in response to events affecting the issuer, its credit rating or any underlying assets backing the instruments.

High-yield fixed income instruments (often referred to as "junk bonds") are speculative and involve a greater risk of default and price change than investment grade fixed income instruments. Prices of high-yield instruments are especially sensitive to developments affecting the issuer's business and to changes in the ratings assigned to the issuer by rating agencies. High-yield instruments can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, sales by major investors, default, perceived creditworthiness or other factors. The secondary market for high-yield fixed income instruments may be less liquid than the market for investment grade instruments, and a client's account may be unable to sell illiquid high-yield instruments at an advantageous time or price.

In all cases, developments in the credit markets may adversely affect fixed income instruments held in a client's account and could result in substantial losses in a client's account. An event of default by an issuer may result in the issuer's fixed income instruments being worthless.

- » Small- and Mid-Capitalization Companies. Depending on the investment strategies we use to manage a client's account, we may invest a substantial portion of the client's account in smaller and less established companies (i.e., small-capitalization and mid-capitalization companies). These smaller companies may present greater opportunities for capital appreciation, but typically are more volatile and involve greater risk than companies that are larger and more established. Such smaller companies may have limited product lines, markets or financial resources and their securities may trade less frequently and in more limited volumes than the securities of larger, more mature companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of the securities of other issuers and these companies may be more likely to fail, which could result in substantial losses.



- » Non-U.S. Investments. We may invest client accounts in instruments issued by non-U.S. companies and governments, including those in developing nations and emerging markets. Such investments involve a number of risks not usually associated with investing in securities of U.S. companies or the U.S. government. Those 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 repatriation of funds or other assets to the U.S., possible nationalization of assets or industries, political difficulties and political instability, any of which could lead to substantial losses.
- » Turnover. We may trade in a client's account many times per month. A higher turnover rate of instruments in a client's account, or increased trading in a client's account, may result in higher transaction costs and higher taxes in taxable accounts, and may materially affect performance.
- » Management. Our judgments regarding the attractiveness, value or potential appreciation of a particular asset class or investment instrument may be incorrect and there is no guarantee that any asset class or instrument will perform as we expect. We may fail to implement a strategy as we intended or we may not identify all risks associated with a strategy or a shift in strategy, all of which may cause substantial losses.
- » Market Risk; Liquidity. General economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barriers, currency fluctuations and controls, and national and international political circumstances can materially affect a client's account. For example, any of these factors may affect price volatility and the liquidity of instruments held in a client's account. Even an instrument that generally is, or recently was, liquid may unexpectedly and suddenly become illiquid. Such volatility or illiquidity could result in substantial losses.
- » Extraordinary Events. Global terrorist activity and armed conflicts may negatively affect general economic conditions, including sales, profits and production, and may materially affect prices and/or impair our trading facilities and infrastructure or the trading facilities and infrastructure of our counterparties or the exchanges or markets on which we trade.
- » Regulatory Developments. The legal, tax and regulatory environment worldwide in the financial industry is evolving, and changes in regulations affecting the financial industry, including Freestone and the issuers of financial instruments held in client accounts, may have a material adverse effect on our ability to pursue the investment strategies described above or the value of the instruments held in client accounts. There has been an increase in scrutiny of the financial industry by governmental agencies and self-regulatory organizations. Various national governments have expressed concern regarding the disruptive effects of speculative trading and the need to regulate the financial markets in general. New laws and regulations or actions taken by regulators that restrict our ability to

pursue our investment strategies or conduct business with broker-dealers and other counterparties could adversely affect client accounts.

- » Concentration. Client accounts 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.
- » Derivatives. Derivatives (a term that includes a broad range of investments, including futures, options, forward contracts and swaps) may move in unexpected ways due to the use of leverage and other factors and may result in increased volatility or losses. Many derivatives, particularly those negotiated over-the-counter, are substantially illiquid or could become illiquid under certain market conditions. Use of derivatives also involves counterparty risk, meaning that the counterparty to a derivative contract may fail to comply with the terms of the contract. Any dispute concerning a derivative contract could be expensive and time consuming to resolve, and even a favorable resolution could come too late to prevent liquidity problems and substantial losses.
- » Short Sales. The model portfolios we use do not sell securities short, so any short sale in a advisory client's account must be made with assets not allocated to the model portfolios. Accordingly, we very rarely sell securities short in an advisory client's account. Nevertheless, with the consent of an advisory client, and if appropriate given the size and sophistication of the advisory client, we may sell securities short in that client's account. In addition, the private funds may sell securities short.

Short sales can result in profits to a client's account if the price of the securities sold short declines. In a short sale, securities are sold that have been borrowed, usually from a broker. To obtain the borrowed shares, we typically will pledge cash or securities held in the client's account in an amount equal to or exceeding the value of the borrowed securities. The amount of the deposit may increase or decreased to reflect changes in the market value of the borrowed securities, and the lender generally may demand the return of the borrowed securities at any time. The client's account will profit only if it repays the lender with securities purchased at a lower price than it borrowed them. The client's account could experience losses if it is required to replace borrowed securities by purchasing them in the market at a time when the market price is higher than the price at which it borrowed them. Accordingly, short sales generally involve the potential for unlimited loss.

- » Leverage. We very rarely employ leverage (i.e., borrowing cash or securities in connection with an investment position) in an advisory client's account. Nevertheless, at the request of an advisory client, and if appropriate given the size and sophistication of the advisory client, we may employ leverage in that advisory client's account, typically for a relatively brief period of time. The private funds may employ leverage on a more regular basis than advisory client accounts.

Some examples of investment positions that use leverage include derivatives, short sales and purchasing securities on margin. The use of leverage generally involves a high degree

of risk. Typically, a client's account will be required to post cash or securities as collateral against the amount borrowed. If the value of the derivatives or securities in the client's account that have been posted as collateral falls below the margin or collateral levels required by the lender, then additional margin or collateral would be required. Failing to post additional margin or collateral could cause the lender to terminate the transactions and liquidate or retain the collateral and margin. In addition, because the use of leverage allows the client's account to hold a position worth more than the amount of the client's investment in the position, the amount the client's account may lose if the price moves against the client's position will be high in relation to the amount invested.

» Alternative Investments (Private Funds) Risk. In addition to the above risks, the private funds and the strategies they use include additional risks, including:

- Many of the private funds use derivatives, short sales and/or leverage regularly, and the risks associated with those instruments and investment practices are much greater in the private funds than in advisory client accounts.
- The private funds are exempt from SEC registration and only available to "accredited investors" or "qualified purchasers" 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.
- Limited withdrawal rights and restrictions on transfer create higher liquidity risk and investors should view an investment in the private funds as a long-term investment.
- Fund fees and expenses may be a higher percentage of net assets than traditional investment strategies, and investors typically are subject to performance or incentive fees or allocations in addition to management fees.
- Private fund investments may be more sensitive to interest rates and include the possibility of more volatility than other investments.
- Generally, we determine the value of investments held by the private funds or, if the private fund has invested in a third-party fund, the investment manager of that fund.

*The various risks briefly summarized above and in this section D are not the only potential or actual risks associated with an investment in any of the private funds. Before making any investment decision regarding any of the private funds, an investor must carefully review and evaluate all of the applicable fund documents, including the private fund's private offering memorandum, and the specific disclosures regarding risk factors and conflicts of interest applicable to a particular private fund.*

» Other Funds. In addition to the private funds, we may invest a portion of a client account in funds not managed by our affiliates or us. Examples of these types of funds include U.S. and non-U.S. 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, exchange-traded funds, or other private alternative or other investment funds. These

other funds and accounts have their own fees (including management fees) and expenses and may have separate incentive or performance fees or allocations. Accordingly, if a client or one of the private funds invests in these other funds or accounts, the client or private fund will bear the fees and expenses of the other fund or account, in addition to our management fee (or, in the case of a private fund, the management fee and performance fee or allocation in respect of that particular private fund). 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.

### **Item 9. Disciplinary Information**

We are required to disclose legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. We do not have any information to disclose in response to this Item.

## **Item 10. Other Financial Industry Activities and Affiliations**

### **A. Broker-Dealer Affiliation**

We are affiliated with Freestone Securities LLC (“Freestone Securities”), 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) ). We share resources with Freestone Securities, including offices and staff. All of the persons licensed as principals or representatives of Freestone Securities are also employees of ours.

Freestone Securities was formed in 2002 primarily to accommodate client needs regarding mutual funds, 529 Plans and variable or fixed annuities. Freestone Securities also acts as the placement agent for the private funds 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 of the private 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 underlying product level fees paid by advisory clients through a selling agreement. This creates a conflict of interest because our affiliate, Freestone Securities, receives compensation derived from our recommendation. We generally view any commission associated with these types of activities as immaterial in relation to a client’s overall asset allocation, and only recommend products that we believe are in the best interests of our clients.

### **B. Commodity Pool Operator Affiliation**

Freestone Investments LLC (“Freestone Investments”), our affiliate and general partner of the private funds, is a commodity pool operator registered with the U.S. Commodity Futures Trading Commission.

### **C. Material Relationships or Arrangements with Industry Participants**

Freestone Investments, our affiliate and general partner of the private funds, generally has the right to receive a performance-based fee or allocation from the private funds and has the power to determine who will serve as the investment manager to the private funds. Because of the forgoing, Freestone Investments may be considered to be acting as an investment adviser. To the extent that is true, Freestone Investments and we collectively conduct a single advisory business. Accordingly, Freestone Investments is registered with the SEC as an investment adviser in reliance on our Form ADV. We have disclosed in the Miscellaneous Section of Schedule D of Part 1A of our Form ADV that Freestone Investments and we are together filing a single Form ADV in reliance upon guidance expressed in a SEC no-action letter.

As discussed above, our affiliate, Freestone Investments is general partner of the private funds. In addition, we provide investment advisory services to approximately 1,150 advisory clients and serve as investment manager to the private funds. Freestone and our affiliates may participate in or sponsor other investment vehicles and service additional advisory clients in the future.

In some cases, a particular investment opportunity is desirable and appropriate for all or some of our advisory clients and the private funds, but the amount of capital that may be allocated to the investment opportunity is limited. Those circumstances create the potential for a conflict of interest between and among the advisory clients and the private funds. We intend to allocate the opportunity among the advisory clients and the private funds in a manner we believe is fair and equitable over time. We discuss allocation in more detail in Item 12 (Brokerage Practices).

In addition, many times we recommend that advisory clients invest in the private funds. Because Freestone and our affiliates serve as investment manager and general partner of the private funds, we and/or our affiliates are entitled to receive a management fee and a performance-based fee or allocation. This creates a conflict of interest because we have an incentive to recommend an investment in the private funds based on our own financial interests, rather than solely based on the interests of our clients. Please see Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) for further discussion of this and other conflicts of interest and how we seek to address them.

#### **D. Other Relationships**

We have an agreement with Fidelity to participate in Fidelity Institutional Wealth Services Smart Connections. Smart Connections is a service designed to introduce advisers to prospective merger and acquisition transaction counterparties. We are not affiliated with Fidelity, and Fidelity is not entitled to any compensation under the Smart Connections agreement.

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

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

We have established a Code of Ethics for our personnel that imposes a high standard of business conduct on us and our employees and emphasizes our fiduciary duty to our clients. The Code includes provisions regarding prohibitions on insider trading, personal trading activity in employee and employee-related accounts, and compliance with laws. Our Code of Ethics emphasizes that employees have a duty to place the interests of our clients first. A copy of our Code of Ethics is available to current or prospective clients upon request by contacting our Chief Compliance Officer.

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

In some cases, we implement investment ideas across the model portfolios and the private funds. We have adopted allocation policies designed to distribute the execution of these ideas among the applicable parties in a fair and equitable manner over time.

We allocate securities purchased across the model portfolios and to the private funds in accordance with an order allocation statement we prepare. The order allocation statement specifies how we intend to allocate the order among the clients participating in the transaction. Each private fund may participate in allocations along with advisory clients. If an order to purchase securities is partially filled, we generally allocate the filled portion of the order on a pro-rata basis based on account size.

Although we may allocate on a pro-rata basis, we will not always do so. There are instances where, in our judgment, allocating an order on a pro-rata basis is not desirable or appropriate for clients. For example, filling a relatively small or large percentage of an order may result in the potential for clients to receive multiple statements and/or trade confirmations reflecting the allocation of a relatively small number of shares over the course of multiple days. In that case, we may allocate the partially filled order on a random and full basis. Our order management system randomly will select a portion of the participating client accounts and fill the order in full for each of those accounts, based on an algorithm we do not control. Typically, we seek to fill the remaining portion of the order during subsequent trading days. However, it is possible that the security will not trade at a price that is desirable for future buys or sales, as the case may be, in which case client that were not filled in full will not trade any amount of the security. In addition, a partially filled buy order may cause or contribute to an increase in the price of the security during subsequent trading days, and a partially filled sell order may cause or contribute to a decrease in the price of the security during subsequent trading days. In addition to the foregoing, we may allocate orders on a basis different from that specified in the order allocation statement if all client accounts receive fair and equitable treatment.

Employees often buy or sell securities or assets identical to those recommended to or purchased for clients, including the private funds. This may result in a conflict of interest. For example, many employees are investors in our model portfolios, alongside the client accounts also invested in those model portfolios. All client accounts (including employee accounts)



participate in any trade allocation consistent with the methodology discussed above, including being eligible for any random and full allocation. Consequently, there may be situations where an employee account is filled before and at a more advantageous price than an advisory client account. In addition, employees, for their own account and not through a model portfolio, may buy or sell securities or assets identical to those recommended to or purchased for clients.

Our employees may have interests or positions in certain securities that we recommend to clients. For example, we may recommend that a client invest in the private funds. Our affiliate, Freestone Investments, is general partner of the private funds and controls the funds. In many cases, employees are investors in the private funds. Another example occurs when a portfolio manager personally purchases one or more securities to test an investment thesis or strategy to ascertain whether it behaves as expected prior to recommending that thesis or strategy to clients. In addition, in some circumstances, we or our affiliates or employees may invest alongside clients in securities or other positions, including real estate investments.

As discussed above, our affiliate, Freestone Investments, is general partner of the private funds. We serve as the investment manager to the private funds and are entitled to receive a management fee and a performance fee or allocation. We may recommend that clients invest in the private funds. This creates a conflict of interest because we have an incentive to recommend an investment in the private funds based on our own financial interests, rather than solely the interests of our clients. For other disclosures relating to conflicts of interest associated with the private funds, please see Item 6 (Performance-Based Fees and Side-by-Side Management).

In addition, from time to time we recommend that certain advisory clients invest directly in private funds not affiliated with us. In some cases, the private funds and/or our affiliates or employees invest in the unaffiliated fund alongside our advisory clients. In certain instances, the private funds and/or our affiliates or employees have entered into agreements with the unaffiliated fund that permit the private funds and/or our affiliates or employees to invest on more favorable terms than the advisory clients. Such terms include reduced management fees and performance fees or allocations, more frequent or greater liquidity and a revenue share based on the management and performance fees and allocations received by the unaffiliated fund, including fees paid by our advisory clients. We may not offer these terms to our advisory clients that invest in the unaffiliated fund, or such terms may not be available for our advisory clients. This creates a conflict of interest because we have an incentive to recommend an investment in the unaffiliated fund to increase the amount of the revenue share paid to our affiliates or us and to garner goodwill with the unaffiliated fund.

Among other things, we have established the following policies designed to address these conflicts of interest:

- No employee may prefer his or her own interest to that of any client.
- We are aware of all securities holdings that we manage on behalf of clients, and we have implemented procedures to stay informed as to the securities holdings of

employees that have access to advisory recommendations. We review securities holdings of such persons on a regular basis.

- We emphasize the unrestricted right of the client to decline any recommendation we provide, except in situations where we have discretionary authority with respect to the client's account. For instance, we do not have investment discretion over advisory client accounts in respect of decisions regarding an investment in the private funds. We may recommend that an advisory client invest in the private funds, but the advisory client has ultimate discretion regarding whether to execute on our recommendation.
- We strongly encourage employees to hold all of their personal accounts (i.e., accounts not invested in one of our models) at our primary custodians. Our policies require that any employee trades in personal accounts at our primary custodians must be done through our trading desk. If an employee is seeking to trade a security in the employee's personal account that is not invested in one of our model portfolios on the same day that client accounts are seeking to trade the same security, then we generally will give the client accounts the best price for any trades in the security during that day. If an employee has an account at a custodian other than our primary custodians, our policies require that the employee generally must obtain prior approval of any trades in that account. We also review duplicate statements of any such accounts on a periodic basis.
- We evaluate opportunities for advisory clients to invest alongside the private funds on a case-by-case basis, taking into account the relevant facts and circumstances of the particular opportunity. Some of the factors we consider in our evaluation include the following: the size of the opportunity; whether the opportunity is appropriate for the client; the amount of the opportunity that is appropriate for the client based on a variety of factors (e.g., risk profile, asset class); the structure of the opportunity; how the client would access the opportunity; and any additional administrative or other burdens of evaluating, investing in and monitoring the opportunity. In general, we believe advisory clients should access investments made by, or investment opportunities presented to, the private funds by making an investment in the private funds. Accordingly, typically we will not provide advisory clients the opportunity to invest directly alongside the private funds, though, in some cases, our model portfolios may invest alongside our private funds. We discuss this in more detail in Item 12 (Brokerage Practices).

This approach creates a potential conflict of interest because we generally charge advisory clients an asset-based fee for the advisory services we provide, but we (or our affiliates) are entitled to receive performance-based fees or allocations from the private funds and, in some cases, we charge advisory clients performance-based management fees. As a result, we may have an incentive to recommend that an advisory client invest in a private fund, as opposed to holding assets only in separate accounts and allocating those assets to investment solutions through which we (or our affiliates) would not be entitled to receive performance-based fees or allocations.

We discuss this conflict and the steps we take to mitigate it in Item 6 (Performance-Based Fees and Side-by-Side Management).

- We require employees to act in accordance with applicable federal and state laws, rules and regulations governing investment advisory practices.
- Employees who fail to observe of the above policies are subject to remedial measures and/or termination.

## Item 12. Brokerage Practices

### A. Discretionary Advisory Client Accounts

#### » Brokerage

Unless otherwise designated in a client's investment management agreement, we will determine the brokers used and the commissions paid in connection with transactions for a client's account. We have a duty to seek to obtain "best execution" for a client on each brokerage transaction. We believe that the ability to execute through a wide network of broker-dealers provides us with the flexibility to seek best execution. We will allocate brokerage transactions to those brokers, dealers and markets, and at such prices and commission rates, as in our good faith judgment we expect to be in the best interest of our clients. In making such allocations, we may take into account a variety of factors, including execution capabilities and research, transaction size, quality of execution and services (including research services) provided by the broker-dealer, block positioning, custodial and other services provided by the broker-dealer that we believe could enhance our general portfolio management capabilities and the value of ongoing relationships with the broker-dealer. It is not necessary that such factors provide a direct benefit to a particular client, and we do not have any duty or obligation to seek advanced competitive bidding for the most favorable commission rate. Accordingly, although we will seek competitive commission rates, we will not necessarily obtain the lowest possible commission rate in respect of a transaction.

As discussed in Item 14, we typically require that clients maintain accounts over which we have discretion at one of our two primary custodians, Fidelity or Charles Schwab. We receive client referrals from Fidelity and Schwab. As a result, when we select a broker-dealer with which to trade, we may have an incentive to select Fidelity or Schwab based on our interest in receiving client referrals, rather than on our clients' interest in receiving most favorable execution. We are conscious of this conflict of interest and, in practice, we make many large trades away from Fidelity and Schwab in consideration of the best execution factors discussed above. We do not have any obligation to place trades with Fidelity or Schwab. Many times, we will execute smaller trades (e.g., rebalancing trades, trades that are not aggregated or small aggregated block trades) through Fidelity or Schwab, consistent with our duty to seek best execution. In addition, if an advisory client account held at Fidelity or Schwab does not meet the minimum asset size to be prime broker eligible (at least \$100,000), then we would not be able to effect trades in that account away from the applicable custodian. In an effort to ensure all advisory client accounts receive the same trade price on trades made away from Fidelity or Schwab, we typically trade prime broker eligible accounts directly with the executing broker-dealer (i.e., away from Fidelity or Schwab) and non-prime broker eligible accounts are bundled together by the applicable custodian and traded by the custodian directly with the executing broker-dealer (i.e., the non-prime broker eligible trade is "stepped-out"). In that case, the advisory client accounts included in the stepped-out portion of the trade do not pay a commission to the

executing broker-dealer, but those accounts will pay the applicable custodian a commission based on the custodian's commission schedule.

We may use sub-advisers to provide trade execution services in connection with the implementation of the model portfolios developed by those sub-advisers. In those circumstances, we will have sole investment discretion regarding implementation of the model portfolios and may place restrictions on the types of securities that may be purchased and sold on behalf of an advisory client account. In some cases, a sub-adviser will not effect any trades for an advisory client account without our express instruction. In other cases, a sub-adviser may effect trades for an advisory client account without our instruction as long as the sub-adviser complies with certain guidelines we provide.

#### » Soft Dollars

Subject to meeting our fiduciary responsibility to seek best execution for all client transactions, we may obtain research products or services that fall within the "safe harbor" established by Section 28(e) of the Securities Exchange Act of 1934. We may purchase brokerage or research services consistent with the requirements of Section 28(e) with soft-dollar commissions generated by trades for clients (including the private funds), even if that service may not be directly or fully useful to that client, as long as we have determined that the service would be useful to our clients (including the private funds) as a whole. 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.

In general, we use soft dollar benefits to service all client accounts, including those accounts that do not generate the soft dollar credits. This creates a conflict because some clients may receive the benefit of research or services received due to another client's commission dollars. For instance, we treat the private funds as a client account for these purposes. In many cases, trades placed by a private fund are larger than those placed by advisory client accounts or, if the private fund and the advisory client accounts trade on an aggregated basis, the portion of the trade allocable to the private fund is larger than the portion of the trade allocable to the advisory client accounts. Nevertheless, we use any soft dollars generated by private fund trades to benefit the advisory client accounts without regard to whether or to what extent advisory client accounts participated in the trade. We do not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits generated by such client accounts. We have various controls in place designed to manage these conflicts, including the following:

- On a periodic basis, we review soft dollar practices to determine that commissions paid were reasonable in relation to the value of research or services received;
- We review commission rates periodically relative to peers; and
- We periodically review products and services acquired with soft dollar commissions to assess their benefit to clients.

Because the research and services received could benefit us, we may face a conflict of interest when choosing how to allocate brokerage business for client accounts. In other words, we could have an incentive to execute client transactions through a broker-dealer that provides valuable services or products to us and pay transaction commissions charged by that broker-dealer, rather than based on a client account's interest in receiving most favorable execution. We could also have an incentive to cause client accounts to engage in more securities transactions than would otherwise be optimal in order to generate soft dollars with which to acquire research products and services. Additionally, in some cases, a client's transaction may be executed by a broker-dealer in recognition of services or products that are not used in managing that client's account. We do not exclude a broker-dealer from consideration when making a trading decision regarding a client's account simply because the broker-dealer has not provided research services or products to us, although we may not be willing to pay the same commission to that broker-dealer.

We seek to address some of these conflicts of interest by "unbundling" the commission amounts we pay to many of our broker-dealers. In other words, we have agreed with those broker-dealers that a predetermined amount (e.g., 1.5 cents) of commission will represent execution services provided by the broker-dealer and the remainder of the commission (e.g., 1.5 cents) will be allocated to soft dollars. Pursuant to commission sharing agreements (CSAs) we have with those broker-dealers, each broker-dealer places the amount of commissions allocated to soft dollars in an account for our benefit. We then periodically direct the applicable broker-dealer to pay itself or third parties out of the account for products or research created or developed by it or those third parties.

We may cause client accounts to pay a brokerage commission higher than another broker-dealer might have charged for effecting the same transaction. We would do this if we determine in good faith that the commission is reasonable in relation to the value of the brokerage and/or research services provided by the broker-dealer, viewed in terms of either the particular transaction or our overall responsibilities with respect to our client accounts.

If we receive a product or service that has a research or brokerage use and a non-research or non-brokerage use, we will use our judgment to make a reasonable allocation of the cost of the product or service according to its use (i.e., the component that relates to research or brokerage use vs. the component that relates to non-research or non-brokerage services). We would then pay the portion allocable to research or brokerage using soft dollars, while paying the portion allocable to non-research or non-brokerage portion using hard dollars paid by us. In making an allocation, we will consider users of the product or service and usage, including relative importance, costs of use, frequency of use, and available substitutes.

Services we may acquire with soft dollars include research reports, counsel on market analysis and execution strategies, discussions with research analysts, research related to the market for securities, including pre- and post-trade analytics, meetings with corporate executives to obtain verbal reports, seminars or conferences, software that provides analysis of portfolios, corporate governance research and market data, company financials and economic data. We allocate soft

dollars to a broker-dealer to receive the broker-dealer's proprietary research (i.e., researched created or developed by the broker-dealer to which we are allocating soft dollars), and we also use soft dollars generated with a broker-dealer to pay for research created or developed by a third-party. In the case of a third-party, the broker-dealer may provide us with such third-party research or may pay such third-party directly and instruct the third-party to deliver the research to us.

We might also receive brokerage-specific services, including communication services related to execution, clearing and settlement of transactions and other functions incidental to effecting securities transactions, post-trade matching, electronic communication of allocations routing and settlement instructions, trading software to route orders to market centers or brokers and direct market access.

In our last fiscal year, we used soft dollars to pay for many of the above-listed items, including Bloomberg software, research regarding external managers and general research services such as Thomson Reuters, CapitalIQ and Morningstar.

#### » Aggregation

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 for a variety of reasons, including seeking best execution. In such situations, we typically will allocate any securities purchased or sold as discussed below. We strongly prefer to allocate all transaction costs (including commissions) for aggregated orders pro-rata based on each client's participation in the aggregated order. Many times, however, it is not possible or practical to share all costs pro-rata due to the nature of the client accounts participating in the order. For example, as discussed above, we may aggregate prime broker eligible and non-prime broker eligible accounts so all accounts participating in the aggregate order receive the same execution price and/or for purposes of best execution. In such cases, the prime broker eligible accounts would pay the executing broker's commission on a pro-rata basis. The non-prime broker eligible accounts would pay a fee to the applicable custodian on such account according to each account's custodial fee schedule, because such accounts cannot pay or participate in the payment of the executing broker's commission.

Any aggregation or bunching of trades will be consistent with our duty to seek best execution.

#### » Allocation

We allocate securities purchased across the model portfolios and to the private funds in accordance with an order allocation statement we prepare. The order allocation statement specifies how we intend to allocate the order among the client accounts participating in the transaction. Each private fund is treated as a client account for this purpose and may participate in allocations along with advisory client accounts. If an order to purchase securities is partially filled, we generally allocate the filled portion of the order on a pro-rata basis based on account size.

Although we may allocate on a pro-rata basis, we will not always do so. There are instances where, in our judgment, allocating an order on a pro-rata basis is not desirable or appropriate for client accounts. For example, filling a relatively small or large percentage of an order may in the potential for clients to receive multiple statements and/or trade confirmations reflecting the allocation of a relatively small number of shares over the course of multiple days. In that case, we may allocate the partially filled order on a random and full basis. Our order management system randomly will select a portion of the participating client accounts and fill the order in full for each of those accounts, based on an algorithm we do not control. Typically, we seek to fill the remaining portion of the order during subsequent trading days. However, it is possible that the security will not trade at a price that is desirable for future buys or sales, as the case may be, in which case client accounts that were not filled in full will not trade any amount of the securities. In addition, a partially filled buy order may cause or contribute to an increase in the price of the security during subsequent trading days, and a partially filled sell order may cause or contribute to a decrease in the price of the security during subsequent trading days. In addition to the foregoing, we may allocate orders on a basis different from that specified in the order allocation statement if all client accounts receive fair and equitable treatment over time.

No client will be favored over another client, though each client will not necessarily be offered or participate in every investment opportunity. We will endeavor to make all investment allocations in a manner that we consider to be fair and equitable over time.

From time to time, we or our affiliates are presented with investment opportunities in connection with our and their management and control of the private funds. For various reasons, we may determine that those opportunities are not appropriate or desirable investments for the private funds, or that only a portion of an available opportunity is appropriate or desirable for the private funds. In general, we believe advisory clients should access investments made by, or investment opportunities presented to, the private funds by making an investment in the private funds. Accordingly, in such cases we or our affiliates may, but are not obligated to, in our discretion offer the available investment opportunity to any one or more persons, including: investors in the private funds; persons or entities that are not investors in the private funds; any other private fund or client; and/or personnel employed by our affiliates or us. In each of the foregoing cases, any such offer will be on such terms and conditions as we determine in our discretion. We may not, and are not obligated to, offer such available investment opportunities to advisory clients, and we, our affiliates and/or personnel employed by our affiliates or us may invest in such investment opportunities without allocating any portion of the investment opportunity to advisory clients and without providing notice to, or obtaining consent from, any advisory clients. In addition, we, our affiliates and/or personnel employed by our affiliates or us may invest in the same investment opportunities as our clients on more favorable terms than our clients, including fee and liquidity terms that are more favorable than the terms on which our clients invest. See the section regarding Participation or Interest in Client Transactions and Personal Trading in Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) for additional information.



## » Trade Errors

If a trade error occurs in a client account, it is our policy to correct the error at no cost to the client and to restore the client account to the position it should have been in had the trade error not occurred. We will not use any soft dollars to correct trade errors, and we will not use the promise of future brokerage commissions to compensate a broker-dealer for absorbing the cost of a trade error. If a trade error results in a loss, we will retain the loss so it will not be borne by the client. If a trade error results in a gain, we will retain it, as well. At the end of each year, if the aggregate net amount attributable to trade errors is positive, we will donate that amount to the Freestone Charitable Foundation or another charitable organization.

## **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 by making investments in vehicles managed or controlled by the third-party or its affiliates). Certain of the private funds allocate substantially all of their capital to third-party investment advisers. In addition, many times we invest a portion of the funds’ capital directly in securities and other investments. See the section regarding Alternative Investments in Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) for further information.

## » Investment/Brokerage Discretion – Private Fund Capital Invested by 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 in a manner that is consistent with its duty to seek best execution in respect of transactions for the private fund accounts.

## » Investment/Brokerage Discretion – Private Fund Capital Invested Directly by Us

With regard to that portion of the private fund capital invested directly by us, we will have full investment discretion with respect to all portfolio securities transactions and full authority to select broker-dealers to execute such transactions. Allocation of investment opportunities and investments will be determined in accordance with the provisions of the private fund offering documents and our allocation policies and procedures. In general, we endeavor to allocate liquid market transactions under guidelines materially similar to those described in Item 12A above, in the section regarding Discretionary Advisory Client Accounts. In addition to such market transactions, the private funds make many substantial investments in financial instruments and other asset classes, such as real estate, for which we may determine the

allocation guidelines described above are not applicable or desirable. In such cases, we intend to allocate such opportunities and investments in a manner we believe is fair and equitable over time.

Notwithstanding the forgoing, none of our affiliates or us are precluded from directly or indirectly purchasing, selling or holding assets or investments for our or their own accounts, regardless of whether any private fund also purchases, sells or holds the same assets or investments.

### **C. Directed Brokerage**

We do not routinely recommend, request or require that a client direct us to execute transactions through a specified broker-dealer, and we generally do not permit clients to direct us to use a particular broker-dealer. In the event a client does direct us to use a particular broker-dealer, and we agree to do so, 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. Advisory Client Accounts**

One of our client advisors is primarily responsible for our relationship with each advisory client. Each client advisor has one or more members of our client advisor support team that assists with servicing and monitoring the client's account. In most cases, we review each advisory client's goals and objectives annually in an effort to assure proper asset allocation. We may review an advisory client's goals and objectives more frequently in response to various events, including a change in market, political or economic conditions, or a change in a client's circumstances or financial goals, among other things. The applicable portfolio manager or one or more analysts regularly reviews the securities held in the model portfolios.

The account custodian sends brokerage statements to clients no less frequently than quarterly. These statements list the account positions and activity in the account over the covered period, as well as other related information. The custodian also sends trade confirmations to the clients following each transaction or on a consolidated basis as requested by the client.

In addition to the statements and confirmations that clients receive from their custodian, we provide quarterly written reports that include details regarding investment holdings and portfolio performance.

### **B. Private Funds**

The portfolio manager(s) of each private fund review the applicable private fund's portfolio at least monthly. Reviews of private funds consist of an analysis of the portfolio holdings (when available) and performance to-date in light of the applicable private fund'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.

Investors in a private fund receive the fund's annual audited financial statements. In addition, we generally provide written reports to investors that may include, among other things, unaudited values, performance data, information regarding the status of the investor's account and certain tax reporting information to a private fund investor on an interim basis. The organizational and offering documents for each private fund describes the nature and frequency for which private fund investors receive information from us.

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

### **A. Custodians**

We generally require that clients open brokerage/custodial accounts at custodians not affiliated with our affiliates or us, typically Fidelity or Charles Schwab. We are not compensated directly for recommending custodians to clients, though we may receive indirect economic benefits from those custodians (“Additional Services”). For example, the custodians, at no cost or at a discount, may provide us with support services or products. Some of those services help us manage or administer client accounts, while others help us manage and grow our business. For instance, the custodians make available software and other technology to us that provide access to client account data, facilitate trade execution and provide pricing and other market data. The custodians also provide, among other things, educational conferences, events and publications and technology, compliance, legal and business consulting. In addition, the custodians may sponsor and pay all or a portion of the expenses associated with events we host for clients or prospective clients or our employees.

We describe additional services received and related conflicts of interest in the Brokerage and Soft Dollar portions of Item 12 (Brokerage Practices).

We participate in the Fidelity Wealth Advisor Solutions program, a referral program designed to introduce high net worth individuals to independent investment advisers. We are not affiliated with Fidelity, and Fidelity does not supervise Freestone or have any responsibility for our management of client portfolios or our other advice or services.

Under the Wealth Advisory Solutions program, we pay referral fees to Fidelity for each referral received based on the amount of assets we manage attributable to advisory clients referred by Fidelity to us under the program. We, not the client, pay the fees to Fidelity, and we do not charge clients referred to us by Fidelity any fees or costs greater than the fees or costs we charge clients with similar portfolios who were not referred by Fidelity. Among other things, a client referred by Fidelity must sign a form confirming the client’s knowledge of the referral arrangement, the parties involved and that we pay Fidelity a fee for referring the client to us.

To participate in the Wealth Advisory Solutions Program, we must meet certain minimum participation criteria, but we may have been selected to participate in the program because of our other business relationships with Fidelity and its affiliates, including our use of Fidelity’s custody and brokerage services. In addition, we have agreed not to solicit advisory clients referred by Fidelity to transfer their accounts from Fidelity or its affiliates or to establish accounts at other custodians, other than when our fiduciary duties would require us to do so. Accordingly, we may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with Fidelity or its affiliates.

Our participation in the Wealth Advisory Solutions Program raises a potential conflict of interest with respect to our decision to use Fidelity’s trade execution and custody services because we may have an incentive to use Fidelity’s services in respect of advisory clients,

regardless of whether Fidelity referred those clients to us through the program, to gain additional referrals. In addition, we may have an incentive to recommend that clients custody assets with Fidelity so we can receive Additional Services and referrals.

We also participate in the Schwab Advisor Network, a referral service designed to help high net worth individuals find an independent professional investment manager. We are not affiliated with Schwab, and Schwab does not supervise Freestone or have any responsibility for our management of client portfolios or our other advice or services. We pay Schwab “participation fees” on all referred advisory client accounts that Schwab maintains. We generally pay Schwab a non-affiliated custody fee if Schwab does not maintain a referred client’s account. The non-affiliated custody fee is a one-time payment equal to a percentage of the assets held with a different custodian, and is higher than the annual participation fees we generally would pay to Schwab in respect of the same account. Among other things, a client referred by Schwab must sign a form confirming the client’s knowledge of the referral arrangement, the parties involved and that we pay Schwab a fee for referring the client to us. We, not the advisory client, pay the fees to Schwab, and we do not charge clients referred to us by Schwab any fees or costs greater than the fees or costs we charge clients with similar portfolios who were not referred by Schwab. Accordingly, we have an incentive to recommend that clients referred by Schwab maintain their accounts at Schwab. In addition, the fees charged by Schwab are based on the amount of assets in advisory client accounts referred by Schwab. Thus, our participation in the referral program raises potential conflicts of interest because we have an incentive to encourage clients referred by Schwab to maintain custody of their accounts at Schwab. We may also have an incentive to recommend that clients custody assets with Schwab so we can receive Additional Services and referrals.

To participate in the Schwab Advisor Network, we must meet certain minimum participation criteria, but we may have been selected to participate in the program because of our other business relationships with Schwab and its affiliates, including our use of Schwab’s custody and brokerage services. In addition, we have agreed not to solicit advisory clients referred by Schwab to transfer their accounts from Schwab or its affiliates or to establish accounts at other custodians, other than when our fiduciary duties would require us to do so. Accordingly, we may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with Schwab or its affiliates.

Advisory client accounts maintained by Fidelity or Schwab are not charged separately for custodial services. Instead, the custodians receive compensation from the client accounts in the form of commissions, asset-based pricing fees, or a combination of both. For those client accounts that are subject to asset-based pricing, Fidelity and Schwab do not charge any additional fees for trades executed at other broker-dealers (i.e., a trade that “trades away”), however, those executing brokers may charge a commission, which will be disclosed on the client trade confirmation. For those client accounts that are subject to commission-based pricing only, Fidelity and Schwab typically will charge a prime broker fee for trades that trade away, in addition to any commission charged by the executing brokers (which will be disclosed on the

client's trade confirmation). In each case, commissions charged by executing brokers will vary in respect of trades that trade away.

Our receipt of Additional Services and our participation in the referral programs described above does not diminish our duty to act in the best interests of our clients, including seeking best execution of trades for our client accounts.

In addition, from time to time representatives of Fidelity and Schwab who refer advisory clients to us approach us regarding employment opportunities at Freestone. This creates a potential conflict of interest because the representatives may have an incentive to refer advisory clients to us with the goal of obtaining a position with us.

#### **B. Channel Partners**

We have entered into written agreements with parties not affiliated with us pursuant to which those parties refer new clients to us. We pay fees to the referring party on an ongoing basis based upon a percentage of the management fees we receive with respect to each client that the referring party referred to us. The referring party or Freestone discloses the compensation arrangement between Freestone and the referring party to a prospective client before the client enters into an investment advisory relationship with us. We do not charge clients referred to us by a referring party any fees or costs greater than the fees or costs we charge clients with similar portfolios who were not referred to us by a referring party.

## Item 15. Custody

To comply with the requirements of the SEC's custody rule, we have arranged for advisory clients to receive at least quarterly account statements from their custodian (typically Fidelity or Charles Schwab). Freestone urges advisory clients to carefully review those statements and compare the official custodial records to the account statements provided by us, as described in Item 13 (Review of Accounts). Our statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities. Clients should contact us immediately if they do not receive account statements from their custodian on at least a quarterly basis.

We are also subject to the SEC's custody rule in respect of the private funds. However, we are not required to comply with certain requirements of the custody rule with respect to the private funds because we comply with the provisions of the so-called "audit exception" for pooled investment vehicles. Among other things, the exception requires that each private fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that the private fund distribute its audited financial statements to all investors within 120 days (or 180 days for fund of funds) after the end of its fiscal year.

Investors in the private funds receive periodic reports from us or our affiliates, as described in Item 13 (Review of Accounts). Freestone urges investors in the private funds to carefully review those reports and compare the audited financial statements of the private funds to the reports provided by us.

## **Item 16. Investment Discretion**

Details regarding the investment discretion that we exercise with respect to our advisory clients are included in Item 4 (Advisory Business). We usually receive discretionary authority from an advisory client at the outset of the advisory relationship to select the identity and amount of securities to be bought or sold on behalf of a client's accounts. Advisory clients grant us this authority in the investment management agreement we enter into with them and in their custodial paperwork. In all cases, however, we will only exercise discretion in a manner consistent with the goals and investment objectives expressed to us by the advisory client. Advisory clients must provide investment guidelines and restrictions to Freestone in writing.

For a private fund, we generally invest its assets in accordance with the private fund's organizational and offering documents.

We only make recommendations to advisory clients regarding investing in the private funds on a non-discretionary basis, meaning that an advisory client must decide on a case-by-case basis whether to accept or reject our recommendations regarding making an investment in a private fund.

We have discretionary authority to invest and reinvest the assets of the private funds, subject to the control of each private fund's general partner, which is an affiliate of ours.



## 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 us in writing at the time we establish our relationship. Each client may at anytime change his or her decision regarding proxy voting by notifying us in writing. We have 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.

We have adopted written policies and procedures regarding the voting of account proxies. We have designed these policies and procedures to fulfill our obligation to vote proxies in our clients’ best interest. We address items not specifically addressed in the policies and procedures on a case-by-case basis.

Freestone and its employees have many varied business and personal relationships. From time to time, one of these business or personal relationships may have an interest in the outcome of a given vote. Such circumstances create the potential for a conflict of interest because we may be motivated to vote client securities in a way that furthers our business or personal relationship as opposed to voting in the client’s best interests. Also, it is possible that Freestone on its own behalf may have an interest in the outcome of a particular vote because it would further our interests or a matter about which we are concerned on our own, as opposed to on behalf of our clients. We have sought to eliminate the potential for such conflicts to influence the manner in which we vote client proxies by engaging Glass Lewis. In general, we require all proxies to be voted in accordance with Glass Lewis’s recommendation.

If we determine that the cost of voting proxies exceeds the anticipated benefit to one or more of our advisory clients, we may refrain from voting proxies with respect to those accounts.

A client may obtain a copy of our 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**

We do not require or solicit prepayment of fees six months or more in advance. We are not aware of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients. We have never been the subject of any bankruptcy petition.