

**CORNERSTONE CAPITAL MANAGEMENT LLC**

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**This Brochure provides information about the qualifications and business practices of Cornerstone Capital Management LLC. If you have any questions about the contents of this Brochure, please contact Kevin Rhodehouse, Chief Compliance Officer, at 212-576-4256 or [kevin\\_rhodehouse@newyorklife.com](mailto:kevin_rhodehouse@newyorklife.com).**

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

## **ITEM 2 – MATERIAL CHANGES**

In this Item we discuss the material changes we have made to our last annual update, which was dated March 25, 2014.

In addition to certain stylistic and technical changes, we have made changes to reflect the continued integration with our affiliate, Cornerstone Capital Management Holdings LLC, including adopting consistent language in our Forms ADV Part 2A where appropriate even where the existing language was adequate. The material changes are set forth below.

- Revised how we report assets under management to report account assets where we only provide investment recommendations as “Model Assets” rather than “Non-Discretionary Assets.”
- Deleted references to recommending affiliated securities products to advisory clients.
- Deleted references to the Dynamic strategy
- Added disclosure concerning a referral agreement between affiliated investment advisers
- Enhanced disclosures concerning conflicts attached to managing accounts for affiliates, the oversight of trading practices and the Investment Policy Committee, and proxy voting and portfolio manager overrides.

Form ADV Part 2A discusses an investment adviser’s business practices and matters that give rise to conflicts of interests. We encourage all clients and prospective clients to review this document and call us with any questions. To request another copy of this document, please contact Maryellen Higgins, Client Services at [maryellen.higgins@cornerstonecapital.com](mailto:maryellen.higgins@cornerstonecapital.com).

### **ITEM 3 – TABLE OF CONTENTS**

ITEM 2 – MATERIAL CHANGES .....	II
ITEM 3 – TABLE OF CONTENTS .....	III
ITEM 4 – ADVISORY BUSINESS .....	1
ITEM 5 – FEES AND COMPENSATION .....	4
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 .....	7
ITEM 9 – DISCIPLINARY INFORMATION .....	11
ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	11
ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING ....	13
ITEM 12 – BROKERAGE PRACTICES .....	15
ITEM 13 – REVIEW OF ACCOUNTS .....	25
ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION .....	25
ITEM 15 – CUSTODY .....	25
ITEM 16 – INVESTMENT DISCRETION .....	26
ITEM 17 – VOTING CLIENT SECURITIES .....	27
ITEM 18 – FINANCIAL INFORMATION .....	28

## **ITEM 4 – ADVISORY BUSINESS**

### **WHO WE ARE**

Cornerstone Capital Management, Inc. (“Cornerstone Inc.”) was founded in 1993 in Minneapolis, Minnesota by Mr. Andrew S. Wyatt. In 2006, Mr. Wyatt, as Chief Executive Officer, was joined by Mr. Thomas G. Kamp who became the firm’s Chief Investment Officer and President. In November 2012, Cornerstone Capital Management LLC (“Cornerstone” or “CCM”) succeeded to the business of Cornerstone Inc.

In January 2013, Cornerstone completed a transaction involving a change in ownership. Cornerstone Capital Management Holdings LLC (“CCMH”), became an owner of the firm along with existing owners Mr. Wyatt and Mr. Kamp. CCMH is deemed the principal owner of Cornerstone. CCMH is a wholly-owned subsidiary of New York Life Investment Management Holdings LLC (“NYLIM Holdings”) which in turn is a wholly-owned subsidiary of New York Life Insurance Company (“New York Life”). Additional information concerning NYLIM Holdings and CCMH is set forth in Item 10, “Other Financial Industry Activities and Affiliations,” below.

### **ADVISORY SERVICES**

#### ***Institutional Investment Management***

Cornerstone provides a broad array of investment advisory services to institutions, pension and profit sharing plans, trusts, and charitable organizations including foundations and non-profits, corporations and other business and government entities. Cornerstone also provides advisory or sub-advisory services to trust companies (see Item 7, “Types of Clients,” section below).

Cornerstone will accept separate account mandates for U.S. Large Cap Growth Equities (traditional and focused). Clients may tailor the investment advisory services. For example, a client may prohibit the purchase of specific securities, or may prohibit the purchase of securities within a specific sector or industry. Client imposed restrictions are detailed in the client’s investment management agreement. Cornerstone tailors its advice within the strategies mentioned above to the extent it agrees to investment restrictions set forth in a client’s investment guidelines or policies.

#### ***Investment Company***

Cornerstone provides sub-advisory services to both open and closed end mutual funds, including the Mainstay Cornerstone Growth Fund and the MainStay VP Growth Equity Portfolio, mutual funds sponsored and advised by New York Life Investments (“New York Life Investments”), an affiliate of Cornerstone. Further detail is provided in Item 10, “Other Financial Industry Activities and Affiliations,” below.

#### ***Wrap Programs/Model Portfolio***

Cornerstone provides advisory services using the Large Cap Growth Equities strategy through programs (“programs”) sponsored by broker-dealers or other financial intermediaries

("sponsors"). Thus, our services are limited to certain types of investments. Many programs offer comprehensive brokerage, custody, consulting and investment advisory services or some combination thereof for a fully bundled fee ("wrap fee programs" or "wrap"). In certain programs, Cornerstone's services are provided on a non-discretionary basis by providing a model to a program sponsor or overlay manager. In all such programs, clients typically pay the program sponsor a program fee and the program sponsor in turn pays Cornerstone a portion of the program fee as its advisory fee.

For wrap and similar programs, Cornerstone is appointed to act as an investment adviser through a process administered by the program sponsor. Clients participating in a program, generally with assistance from the sponsor, may select Cornerstone to provide investment advisory services for their account (or a portion thereof) for a particular strategy. For discretionary programs, Cornerstone provides investment advisory services based upon the particularized needs of the program client as reflected in information provided to Cornerstone by the sponsor, and will generally make itself available as reasonably requested by clients and/or sponsors. For wrap and certain other programs, Cornerstone will not be able to accommodate investment restrictions that are unduly burdensome or materially incompatible with Cornerstone's investment approach. Clients are encouraged to consult their own financial advisors and legal and tax professionals on an initial and continuous basis in connection with selecting and engaging the services of an investment manager in a particular strategy and participating in a wrap or other program. In the course of providing services to program clients who have financial advisors, Cornerstone may rely on information or directions communicated by the financial advisor acting with apparent authority on behalf of its client.

Under wrap and similar programs, clients are not charged separate commissions or other transaction costs on each trade so long as the program sponsor (or its broker-dealer affiliate) executes the trade. A portion of the wrap fee generally is considered as in lieu of commissions or other transaction costs. Where permitted by program terms, Cornerstone may execute a transaction through a broker-dealer other than the program sponsor where Cornerstone believes that such trade would result in the best price and execution under the circumstances. In such cases, transaction and other fees may be included in the net price of the security. However, it is expected that in most or all situations trades will be executed with the program sponsor (or its broker-dealer affiliate) so as to avoid incurring brokerage costs or other transaction costs by using other broker-dealers, in addition to the wrap or bundled fee, or to avoid other costs associated with trading away. Trades for wrap and similar account programs generally will not be aggregated with and will be executed after trades for Cornerstone's other accounts where it has full trading discretion. Wrap and similar account programs may impose certain investment or transaction limitations or restrictions on Cornerstone such that these accounts will be managed similarly, but not identically, to Cornerstone's non-wrap accounts.

Cornerstone also offers model-based managed account programs in which Cornerstone provides an advisor, program sponsor or overlay manager non-discretionary investment advice through model portfolios. The model-based advisor, program sponsor or overlay manager is responsible for investment decisions and performing many other services and functions

typically handled by Cornerstone in a traditional discretionary managed account program. Depending on the particular facts and circumstances, Cornerstone may or may not have an advisory relationship with model-based program clients. To the extent that this Form ADV Part 2A is delivered to program clients with whom Cornerstone has no advisory relationship or under circumstances where it is not legally required to be delivered, it is provided for informational purposes only. Furthermore, because a model-based program sponsor or overlay manager generally exercises investment discretion and, in many cases, brokerage discretion, performance and other information relating to Cornerstone's services for which it exercises investment and/or brokerage discretion is generally provided for informational purposes only and will not be representative of model-based program client results or experience. More information concerning Cornerstone's trading practices with respect to wrap fee and model portfolio programs is contained in Item 12, Brokerage Practices.

Clients should review all materials relating to their program (including Form ADV Part 2A Appendix 1 or the applicable wrap fee program brochure, as applicable) regarding a program's terms, conditions and fees, and consider the advantages and disadvantages and overall appropriateness of the program in light of the client's particular circumstances. Depending upon the level of the wrap fee charged by a program sponsor, the amount of portfolio activity in a client's account, the value of the custodial and other services that are provided under a program arrangement and other factors, a program client should consider whether the wrap fee would exceed the aggregate cost of such services if they were to be provided separately. Similarly, a non-wrap fee program client paying separate fees should consider whether the fees charged by different parties for custody, advisory services, portfolio management services and securities execution and other services would exceed the aggregate cost of such services if they were provided in a wrap fee arrangement. Some broker-dealers serving as custodian charge fees for settling transactions executed through other broker-dealers.

### ***Services Involving Legal Proceedings***

As a general matter, Cornerstone will not monitor, advise or act for a client in legal proceedings, including, without limitation, class actions and bankruptcies, involving securities purchased or held in client accounts. Clients should instruct their custodians where to promptly forward any communications relating to legal proceedings involving such assets.

### ***Reporting Assets under Management***

As of February 28, 2015 Cornerstone had the following client assets under management (Cornerstone had no non-discretionary assets under management) (rounded to nearest \$100,000):

Discretionary Assets	\$4,270,400,000
Model Assets Under Management	\$362,300,000
Total Assets under Management	\$4,632,700,000

Model assets are those where Cornerstone provides investment recommendations but the client is responsible for accepting the recommendation and then executing the resulting transaction. Cornerstone has no further involvement after providing the recommendations.

#### **ITEM 5 – FEES AND COMPENSATION**

The specific manner in which fees are charged by Cornerstone is established in a client's written agreement with Cornerstone. Clients may elect to be billed directly for fees or to authorize Cornerstone to directly debit fees from client accounts. Also, depending on the specifics of a client's investment management agreement, fees may be payable monthly or quarterly in arrears, based on the value of assets under management at the end of the applicable period. Management fees will be prorated for each capital contribution and withdrawal made during the applicable period (with the exception of *de minimis* contributions and withdrawals).

Cornerstone's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain additional charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. To the extent client assets are invested in mutual funds and exchange traded funds, such funds charge advisory, administrative and other fees, which are disclosed in a fund's prospectus. As a result, clients will pay two levels of advisory fees with respect to such assets, one to Cornerstone and one to the fund's investment adviser. Fund charges, fees and commissions are exclusive of and in addition to Cornerstone's fee, and Cornerstone does not receive any portion of these commissions, fees, or costs.

Advisory arrangements may be terminated by the client upon assignment or by either party upon prior written notice according to the termination provisions outlined in the investment management agreement. If a contract is terminated, advisory fees are subject to pro-rata adjustment based upon the date of termination.

#### **PORTFOLIO VALUATION**

Where Cornerstone is responsible to price a client's portfolio for fee billing or investment performance calculation purposes, Cornerstone will generally use pricing information provided by an independent pricing service (the "Primary Pricing Source").

Based on our investment style and the types of securities in which we generally invest on behalf of our clients (see "Methods of Analysis, Investment Strategies and Risk of Loss" for additional information), the Primary Pricing Source is typically able to provide pricing information for securities included within our clients' portfolios. In the event the Primary Pricing Source is unable to obtain a price, Cornerstone will determine a fair value for that security.

When determining a fair value, our objective is to identify a price we believe we could reasonably receive in a sale between market participants at the specific measurement date without forced liquidation.

We would encounter a clear conflict when fair valuing securities, as we have an incentive to value these securities higher in an effort to generate greater fees and higher investment returns. We have controls in place to mitigate this conflict, including: 1) responsibilities in establishing a fair valuation described above; 2) policies and procedures designed to provide reasonable assurance securities are valued properly; and 3) involvement of the Pricing Committee.

### **FEES FOR SERVICES**

Fee schedules are negotiable and can vary depending on a variety of factors such as the type of client, the size of the account, and the investment program selected.

#### ***Fees for Institutional Investment Management***

Cornerstone's advisory fees for the U.S. Large Cap Growth Equities mandate are based on a percentage of assets under management in accordance with the following fee schedule:

<b>Assets under management</b>	<b>Annual fee rate</b>
First \$50,000,000	.67%
Next \$25,000,000	.45%
Next \$25,000,000	.325%
Next \$100,000,000	.30%
on the balance	.25%

Cornerstone's advisory fees for the Focused U.S. Large Cap Growth Equities mandates are based on a percentage of assets under management in accordance with the following fee schedule:

<b>Assets under management</b>	<b>Annual fee rate</b>
First \$100,000,000	.75%
Next \$50,000,000	.50%
Next \$50,000,000	.375%
on the balance	.35%

Clients of Cornerstone prior to January 13, 2013 may be subject to a different fee schedule than that noted above. Certain exceptions to the fee schedule may apply depending on the particular circumstances involved.

In addition to the management fees described above, there are other fees associated with the management of your account. For example, the custodian for your account, which you independently select, charges a custodial fee that varies by custodian. In addition, the broker-



dealers that Cornerstone selects to execute transactions in your account charge a fee. Brokerage and custody fees are not included in the investment management fee that you pay to us. Instead, custodian fees are charged to you separately by your custodian and brokerage fees affect your account during the trade execution process. Please refer to the “Brokerage Practices” section below for additional information regarding our process for selecting brokers to execute transactions in client accounts.

If client assets are invested in other investment companies (including but not limited to exchange traded funds), the client becomes a shareholder of the investment company and bears its proportionate share of the investment company’s management fee and other expenses, as described within each fund’s prospectus. Such fees and other expenses are in addition to the advisory fees described above. As a result, clients will pay two levels of advisory fees with respect to such assets, one to Cornerstone and one to the fund’s investment adviser.

### ***Wrap Programs/Model Portfolios***

For wrap or model portfolio programs, Cornerstone’s fee is determined by agreement between the sponsor and Cornerstone. Cornerstone has no set fee schedule for such programs and will negotiate them on a case-by-case basis. Program sponsors typically collect the total program fee and remit our fee to us. The documents relating to each wrap or model portfolio program provide additional information regarding the timing and collection of fees, their negotiability, as well as the fees payable to Cornerstone in connection with the program.

### ***Investment Company***

With respect to the registered investment companies that we sub-advise (see the “Types of Clients” section below), we receive an asset-based fee from the investment advisers to those investment companies which is paid by the investment adviser out of its management fees. These fees may be described in the respective fund’s Prospectus and Statement of Additional Information.

## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Cornerstone currently has no performance-based fee arrangements with its clients. The following disclosure applies in the event Cornerstone has any such arrangements in the future. Performance-based fee arrangements may create an incentive for Cornerstone to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts that use the same investment strategy but only a charge an asset-based fee (known as “side-by-side management”). This incentive could cause an investment adviser to allocate the “best” investment opportunities only to the higher-fee account and the better-executed trades to the higher fee account.

In order to address these potential conflicts of interest, Cornerstone has procedures addressing the allocation of investment opportunities and the execution of client trades that are designed

and intended to ensure that all clients are treated fairly and equally over time and that no client is systematically disadvantaged. Such procedures are generally described in “Brokerage Practices” below. Cornerstone will review the investment performance of the performance-based fee account against the performance of similar accounts to identify any differences that might be caused by such favoritism.

## **ITEM 7 – TYPES OF CLIENTS**

Cornerstone provides investment management services and advice primarily to institutions, pension and profit sharing plans, trusts, estates and charitable organizations including foundations and non-profits, corporations and other business and government entities and investment companies.

### **MINIMUM ACCOUNT SIZE**

#### ***Institutional Investment Management***

Cornerstone’s investment minimum for institutional investment management services is \$50,000,000. Cornerstone reserves the right to waive this minimum at its sole discretion.

#### ***Wrap Programs/Model Portfolio***

Please see each program sponsor’s brochure for information concerning the minimum account size needed to participate in each specific program.

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **INSTITUTIONAL INVESTMENT STRATEGIES**

Cornerstone offers institutional investment management services in the following mandates: U.S. Large Cap Growth Equities, and Focused U.S. Large Cap Growth Equities. These services utilize a common investment philosophy and approach.

#### ***Investment Philosophy and Approach***

Cornerstone understands that markets as well as investment styles are cyclical, but believes that over the long-term an investor prospers by maintaining a disciplined and focused approach.

Cornerstone’s primary investment approach is to identify and trade on perception gaps. Perception gaps exist when the consensus expectations fail to recognize the true earnings power of a given company. These perception gaps are underappreciated opportunities. The greater the gap between the consensus expectations and the true earnings power of a given company, the greater the opportunity for profit as consensus realizes reality and the gap is

closed. Furthermore, Cornerstone employs an active trading methodology which trades around a core position as the gap widens and narrows with new information assimilated by the market.

Cornerstone gathers information data points from many sources. Such sources may include management teams, industry experts, sell side analysts, industry conferences, quantitative screens, and the macro environment (i.e. geopolitical, government policies, regulation and legislation, economic cycles, interest rates, inflation, commodities and currencies). The data points from these sources form a mosaic from which Cornerstone develops a clearer picture of reality. Financial modeling by Cornerstone is often an iterative process as new information is uncovered to quantify the perception gaps.

### ***U.S. Large Cap Growth Equities***

With respect to U.S. Large Cap Growth Equities, prospective clients may retain the firm to manage mandates in two strategies: traditional and focused. In each of these strategies, Cornerstone seeks long term growth of capital for its clients through the opportunistic selection of stocks expected to appreciate at a faster rate than the respective benchmark (e.g., the Russell 1000 Growth Index). These stocks are evaluated based on a variety of key factors where our research identifies a “perception gap” (an underappreciated opportunity for growth in one or more of those key factors). Perception gaps cause an asymmetrical reward/risk opportunity that when applied over an entire portfolio and over a full market cycle should generate strong risk-adjusted returns.

Stock selection is further based on the fundamentals of revenue, earnings, cash flow, and management depth and credibility. Sector allocation is a by-product of individual stock selection. Stocks will generally be selected from those which are primarily traded on US exchanges or markets.

Cornerstone’s objective is to outperform the benchmark over the long term by purchasing high growth companies where our research has identified one or more perception gaps.

Cornerstone invests predominantly in the equity securities of a limited number of large, carefully selected U.S. companies where Cornerstone believes it has identified one or more perception gaps. For these purposes, “large capitalization growth equities” are those stocks that, at the time of investment, have market capitalizations within the range of market capitalizations of companies appearing in the Russell 1000 Growth Index.

The traditional form of the strategy will normally invest in 35-55 companies, with the 25 most highly regarded of these companies usually constituting approximately 70% or more of the net assets. The focused form of the strategy will normally invest in 15-20 companies. Holdings in the focused strategy will tend to be somewhat more evenly weighted across the portfolio. Cornerstone’s investment strategy emphasizes stock selection and investment in the securities of a limited number of issuers. An emphasis is placed on identifying companies whose prospective earnings growth appears to not be fully appreciated by the market or reflected in current market valuations. In addition, Cornerstone seeks companies that have strong

management, superior industry positions, excellent balance sheets and superior earnings growth prospects.

Cornerstone seeks to utilize market volatility judiciously (assuming no change in company fundamentals), striving to capitalize on apparently unwarranted price fluctuations, both to purchase or increase positions on weakness and to sell or reduce overpriced holdings. The strategy normally remains nearly fully invested and normally does not take significant cash positions for market timing purposes. During market declines, while adding to positions in favored stocks, Cornerstone may become somewhat more aggressive, gradually reducing the number of companies represented in its portfolio. Conversely, in rising markets, while reducing or eliminating fully valued positions, investing becomes somewhat more conservative, gradually increasing the number of companies represented in the portfolio. Through this process, Cornerstone tends to add to positions on price weakness and tends to sell into price strength, assuming that the price change is greater than the change in long-term fundamentals. Cornerstone uses this active management and trading strategy to attempt to add incremental performance while seeking to mitigate risk by utilizing a buy low, sell high discipline. This active trading can affect investment performance by increasing brokerage and other transaction expenses for investors. Active trading also may result in the realization of substantial net short-term capital gains, which, when distributed, are taxable. However, Cornerstone believes that it adds significant value from its active trading.

## **MATERIAL RISKS**

Investing in securities involves risk of loss that clients should be prepared to bear. There is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results and different periods and market conditions may result in significantly different outcomes. The material risks presented by each strategy and its investments are set forth below, but this section does not attempt to identify every risk, or to describe completely those risks it does identify.

### ***Market Risk***

The market values of the securities owned in the strategy may decline, at times sharply and unpredictably. Market values of equity securities are affected by a number of different factors, including the historical and prospective earnings of the issuer, the value of its assets, management decisions, decreased demand for an issuer's products or services, increased production costs, general economic conditions, interest rates, currency exchange rates, investor perceptions and market liquidity.

Cornerstone does not offer any products or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices or investment products.

***Concentrated Portfolio Risk***

To the extent a strategy invests in a limited number of stocks, it may have more risk because changes in the value of a single security may have a more significant effect, either negative or positive, on the strategy's performance. This risk is enhanced for the U.S. Large Cap Growth Equities focused strategy due to the small number of holdings.

***Risks of Investing in Large Cap Growth Companies***

Stocks of large-cap companies tend to be less volatile than stocks of smaller companies. However, since many investors buy large-cap growth stocks for their anticipated earnings growth, earnings disappointments often result in sharp price declines. While large-cap companies often have greater resources to weather economic shifts than smaller companies, they may be slower to innovate and adapt to changing conditions than smaller companies. Stocks with growth characteristics can have sharp price declines as a result of earnings disappointments, even small ones. Since these companies usually invest a high portion of earnings in their businesses, they may lack the dividends of value stocks that can help to cushion stock prices in a falling market.

***Technology Stock Risk***

Technology companies are subject to risks such as those relating to the potential rapid obsolescence of technology, failure of the market to accept new technologies and difficulty obtaining financing for necessary research and development or expansion.

***Foreign Investment Risk***

Investments in the securities of foreign issuers may experience more rapid and extreme changes in value than funds with investments solely in securities of U.S. companies. This is because the securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. Additionally, foreign securities issuers may not be subject to the same degree of regulation as U.S. issuers. Reporting, accounting, and auditing standards of foreign countries differ, in some cases significantly, from U.S. standards. Also, nationalization, expropriation or confiscatory taxation, currency blockage, or political changes or diplomatic developments could adversely affect investments in a foreign country. In the event of nationalization, expropriation, or other confiscation, an investor could lose their entire investment. ADRs are U.S. dollar-denominated equity and debt securities of foreign issuers that are offered on U.S. exchanges. Interest or dividend payments on such securities may be subject to foreign withholding taxes.

***Economic Risk***

Changes in economic conditions, including, for example, interest rates, inflation rates, political and diplomatic events and trends, tax laws and innumerable other factors, can substantially and adversely affect investments.

***Management Risk***

This is the risk that Cornerstone will not successfully execute a strategy even after applying its investment process. There can be no guarantee that Cornerstone's decisions will produce the intended result, and there can be no assurance that an investment strategy will succeed.

**ITEM 9 – DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no such legal or disciplinary events to disclose.

**ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Cornerstone has the following relationships or arrangements with affiliates that are material to its advisory business or to its clients.

**INVESTMENT COMPANIES AND OTHER POOLED INVESTMENT VEHICLES**

We serve as the sub-adviser for two funds in New York Life's family of mutual funds known as the MainStay Funds - the MainStay Cornerstone Growth Fund and the MainStay VP Growth Equity Portfolio. We may in the future serve as investment adviser or sub-adviser to private investment funds sponsored and/or advised by New York Life affiliates.

Conflicts may arise as to the allocation of investment opportunities among The MainStay Funds and our other clients. We have Allocation Procedures in place to make sure that all of our clients are treated fairly and that over time no client's account receives preferential treatment in the allocation of investment opportunities and of executed trades. (see the "Brokerage Practices" section below).

**INVESTMENT ADVISERS**

New York Life Investment Management LLC ("New York Life Investments"): New York Life Investments serves as the investment adviser to the MainStay Cornerstone Growth Fund and the MainStay VP Growth Equity Portfolio and has retained Cornerstone to provide sub-advisory services to both funds. New York Life Investments has also designated certain officers to serve as two of the four members of Cornerstone's Board of Managers. Cornerstone also receives certain compliance, legal and other support services from New York Life Investments.

CCMH: As noted above, CCMH is an owner of Cornerstone, along with Andrew S. Wyatt and Thomas G. Kamp. Cornerstone receives certain legal, compliance, marketing and other administrative services from CCMH in exchange for a fee. In addition to this arrangement, Mr. Wyatt serves as Chief Executive Officer and Mr. Kamp serves as President and Chief Investment

Officer of CCMH. In these roles, each of Mr. Wyatt and Mr. Kamp face conflicts, including the allocation of time, regarding his respective responsibilities to Cornerstone and CCMH. Each firm's management team and board, as well as New York Life Investments, are cognizant of these potential conflicts, and strive to ensure that each individual's CCMH responsibilities do not impair his responsibilities and obligations to Cornerstone.

As an affiliate of New York Life, Cornerstone is affiliated with other investment adviser subsidiaries of New York Life, which are disclosed in Form ADV Part 1. Cornerstone has no material arrangements or relationships with such other advisers other than as discussed in "Client Referrals and Other Compensation" below.

#### **BROKER-DEALERS**

NYLIFE Distributors LLC serves as the principal underwriter and distributor of the MainStay Funds.

We do not use any affiliated broker-dealers to execute securities transactions for our client accounts.

#### **BANKING INSTITUTIONS**

Cornerstone may in the future provide investment advisory services or personnel to New York Life Trust Company, a related person and a New York State chartered trust company, for a collective investment trust.

#### **INSURANCE COMPANY OR AGENCY**

Cornerstone is affiliated with New York Life and may in the future provide investment advice to certain New York Life accounts.

#### **POTENTIAL CONFLICTS RELATING TO MANAGING ACCOUNTS FOR AFFILIATES**

With respect to the affiliates identified above, where Cornerstone provides advisory services, a potential conflict exists relating to providing preferential treatment to the affiliate's account. This conflict could cause Cornerstone to allocate the "best" investment opportunities only to the affiliated accounts and the better-executed trades to the affiliated accounts. Cornerstone has procedures addressing the allocation of investment opportunities and the execution of client trades that are designed and intended to ensure that all clients are treated fairly and equally over time and that no client is systematically disadvantaged. Such procedures are generally described in "Brokerage Practices" below. Cornerstone also reviews the investment performance of all accounts to identify any differences that might be caused by such favoritism.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **CODE OF ETHICS AND PERSONAL TRADING**

Cornerstone has a fiduciary relationship with our clients that requires that we and our employees place the interests of our clients first and foremost. As such, our Code of Ethics (“Code”) covers all employees and sets forth guidelines that promote ethical conduct. In addition to the Code’s policies regarding personal securities trading, the Code requires our employees to follow policies and procedures relating to the Code’s conduct standards including: conflicts of interest, inside information and information barriers, gifts and entertainment, personal political contributions, and selective disclosure of mutual fund portfolio holdings. A copy of our Code is available upon request. Our contact information appears on the cover page of this brochure.

Although we permit our employees to engage in personal securities transactions, as a company we recognize that these transactions may raise potential conflicts of interests. This is particularly true when they involve securities owned by, or considered for purchase or sale by, a client account.

We address potential conflicts of interests in our Code by requiring that, with regard to investments and investment opportunities, our employees’ first obligation is to our clients. Our Code requires that all of our employees adhere to the highest duty of trust and fair dealing. In addition, all employees must conduct their personal securities transactions in a manner that does not interfere with any client’s portfolio transactions, or take inappropriate advantage of an employee’s relationship with a client.

The Code covers all Cornerstone employees, and all employees are considered “Access Persons” under the Code. Specifically, all employees are subject to the following restrictions:

- May not purchase or sell “Covered Securities” without pre-clearance through our Compliance Department. Covered Securities include everything except: i) transactions involving direct obligations of the US Government; ii) shares of unaffiliated open end investment companies; iii) commercial paper; iv) certificates of deposit; and v) high quality short term investments and interests in qualified state college tuition programs.
- May not profit from the purchase and sale or sale and purchase of the same Covered Security within 60 days.
- May not trade in securities of issuers that appear on our restricted list.
- May not trade while in possession of material, non-public information.
- May not engage in short-term trading (the purchase and sale or sale and purchase within 30 days) of any mutual fund advised or sub-advised by us.
- Must complete an annual Conflicts of Interest Questionnaire concerning any potential conflicts.



- Must adhere to restrictions regarding the receipt and giving of gifts and entertainment.
- May not purchase securities in initial public offerings or in connection with private placements except with the express written prior approval of our Chief Compliance Officer.
- May not participate in Investment Clubs.
- Must file quarterly reports and certifications of covered trading activity.

Further, we require “Investment Personnel” to adhere to additional provisions in the Code as described below. Investment Personnel are defined as employees who in connection with their regular functions make or participate in making recommendations regarding the purchase or sale of securities for client accounts (i.e., portfolio managers, traders and analysts):

- May not purchase or sell securities (subject to a *de minimis* threshold) for their own account if such securities have been purchased or sold for a client account in the prior seven days.
- May not trade in certain options with respect to individual securities.

#### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

In the ordinary course of providing its investment advisory services, Cornerstone may recommend that clients purchase or sell securities or interests in which our affiliates have a material financial interest. For example:

- We may recommend investments to our clients that the clients of our advisory affiliates also own.
- We may, at times, provide investment advice to certain New York Life accounts including separate accounts that are investment vehicles for the assets of pension and profit-sharing plans. At times, we may recommend that clients purchase or sell securities that are held in these affiliated accounts or take positions in these affiliated accounts with an opposite conviction from client accounts.

As a result of these recommendations and potential transactions, potential conflicts of interest could arise between our clients and us. These potential conflicts may include:

- Preferential allocation of investment opportunities to client accounts that pay a performance-based management fee.
- Using information concerning transactions in our advisory affiliate’s client accounts, or in The MainStay Funds, to the benefit of our client accounts.
- Placing trades for affiliated accounts, if any, before or after trades for our other accounts to take advantage of (or avoid) market impact.

- Favoring affiliated accounts in the allocation of limited investment opportunities between our affiliated and unaffiliated accounts.

To mitigate these potential conflicts of interest, Cornerstone has adopted trading procedures that are intended to ensure that all client accounts are treated fairly and equitably (see the “Brokerage Practices” section below).

In addition, to address potential conflicts of interest across affiliates, each adviser affiliate, except between CCMH and Cornerstone as described within Item 10 above operates independently with respect to investment strategy, trading and operations. Furthermore, affiliates are generally not privy to another affiliate’s information (i.e. investment decisions, research, client information) that may potentially pose conflicts of interest. Specifically, Cornerstone has established information barrier policies between Cornerstone and its affiliated advisers, with the exception of CCMH, that serve to limit the dissemination of material non-public information. In the event such information is shared, appropriate controls are placed around the information in order to limit any potential conflicts of interest.

Our employees may invest in mutual funds sponsored by our affiliate, New York Life Investments, which could create an incentive for us to favor our affiliate’s mutual fund client over other clients. While presenting an inherent conflict, these clients receive standard reporting, are not involved in our day-to-day operations and have no knowledge of our trading or investment activities. We maintain investment, trade allocation and account valuation policies and procedures designed to address such conflicts of interest. Further, our Code of Ethics and Personal Trading Policy require employees to report investments in the mutual funds we manage.

## **ITEM 12 – BROKERAGE PRACTICES**

### **SELECTION OF BROKERS**

When we select or recommend a broker-dealer for transactions in our clients’ accounts, we consider a number of factors regarding the broker-dealer and the reasonableness of its compensation. The factors we consider in selecting a broker-dealer and determining the reasonableness of its compensation include:

- Security price and spreads;
- Commission rates, if applicable;
- Pre-trade and post-trade analysis;
- Available Algorithm Performance;
- Size of the order;
- Integrity, reputation, financial responsibility and stability;

- Market knowledge and ability to understand trading characteristics of the security and overall performance (i.e., trading expertise);
- Nature and extent of services and frequency of coverage;
- Ability of counterparty to execute in desired volume and act on a confidential basis;
- Willingness of the Broker to commit capital;
- Access to underwritten offerings and secondary markets;
- Operational efficiency and facilities that the broker makes available (including trading networks, access to multiple floor brokers and markets, and significant resources for positioning as principals); and
- Nature and extent of services (i.e. proprietary research and access to third party research).

All of these considerations (and others as relevant) guide CCM in selecting the appropriate venue (e.g., an Electronic Communications Network ("ECN") or Alternative Trading System ("ATS"), a traditional broker, a crossing network, etc.) in which to place an order and the proper tactics with which to trade.

When selecting broker-dealers to execute transactions on behalf of our clients' accounts, our policy is to seek to obtain the best net results based on the factors noted above. This is commonly referred to as "best execution." After due consideration is paid to all of these factors, it may be in a client's best interest to pay a higher commission, spread or other compensation in order to receive best execution. We continually evaluate brokerage activity and periodically may re-negotiate commission rates.

We may also effect transactions in over-the-counter (OTC) securities directly with principals or market makers by paying a mark-up within the spread of the bid and ask prices of the security and without incurring a commission charge. In addition, we may effect transactions in OTC securities on an agency basis when liquidity permits. The purchase price of an OTC security acquired in an agency transaction could include compensation to the broker-dealer in the form of a mark-up relative to the broker-dealer's original cost in addition to a commission.

Transactions executed for clients may be executed either on an agency or principal basis. Agency trades are executed through a broker's trading desk or using a broker's electronic algorithms. Principal trades are executed when a broker agrees to purchase or sell a specific quantity of shares at a negotiated price. In a principal trade, market impact and volatility risks are effectively transferred from Cornerstone to the executing broker.

Cornerstone will generally effect transactions with broker-dealers on an agency basis. However, when situations arise in which a principal execution would result in better execution, Cornerstone will seek broker-dealers to effect the transaction on a principal basis.

In selecting a broker, Cornerstone may also consider research or brokerage services provided by the broker-dealer, consistent with the requirements of Section 28(e) of the Securities Exchange Act and related interpretative guidance. More information on Cornerstone's client commission policies and procedures is contained in the section "Use of Client Commissions" below.

Another factor Cornerstone may consider in selecting broker-dealers is when a client directs Cornerstone in writing to execute a portion of the client's trades through a particular broker-dealer. See the section "Directed Brokerage" below.

When selecting a broker-dealer, we do not consider its referral of clients to us. We also do not consider its sale of shares of The MainStay Funds, any other mutual funds we subadvise, or of any private funds that any of our affiliates sponsor and advise. While we may direct brokerage to broker-dealers that have consulting divisions that might refer clients or investors to us, we have no agreements to do so. In no case will CCM make binding commitments as to the level of the brokerage commissions it will allocate to a broker. Nor does CCM "backstop" or otherwise guarantee any broker's financial obligation to a third party for such research or services. Cornerstone also has policies and procedures in place to limit and monitor gifts and entertainment received from third parties, including broker-dealers that do business with Cornerstone or wish to do business with Cornerstone.

Cornerstone's Broker Review Committee routinely reviews its broker-dealers and its efforts to seek best execution in light of current market circumstances and published statistical studies and other available information.

### **USE OF CLIENT COMMISSIONS**

Subject to the criteria of Section 28(e) of the Securities Exchange Act of 1934, as amended, and regulatory guidance from the SEC, Cornerstone may pay a broker a brokerage commission higher than that which another broker might have charged for effecting the same transaction in recognition of the value of the brokerage and research services provided by the broker. In other words, Cornerstone may "pay up" using client commissions or "soft dollars" to obtain research or brokerage services that benefit Cornerstone and its accounts.

As a general matter, many of the research services Cornerstone receives from broker-dealers are used to service all of Cornerstone's accounts. However any particular research service may not be used to service each and every client account, and may not benefit the particular accounts that generated the brokerage commissions. Cornerstone does not try to allocate soft dollar benefits to client accounts proportionately to the soft dollar commissions the accounts generate.

When Cornerstone uses client brokerage commissions to obtain research or research services, Cornerstone receives a benefit because it does not have to produce or pay for the research or research services. As a result, Cornerstone may have an incentive to select a broker-dealer

based its interest in receiving the research or other products or services, rather than on clients' interest in receiving most favorable execution. Because the use of client commissions to pay for research or brokerage services for which Cornerstone would otherwise have to pay presents a conflict of interest, Cornerstone has adopted policies and procedures concerning soft dollars, which address all aspects of its use of client commissions and requires that such use be consistent with Section 28(e), that it provide lawful and appropriate assistance to Cornerstone in the investment decision-making process, and that it help Cornerstone determine that the value of the research or brokerage service obtained be reasonable in relation to the commissions paid.

To the extent that a certain group of Cornerstone's clients are not available to pay for soft dollar benefits (e.g., clients that direct brokerage commissions and wrap account program clients), clients who give Cornerstone brokerage discretion will support a disproportionate share of Cornerstone's soft dollar benefits.

During its last fiscal year Cornerstone received the following types of research and research services: both as prepared by broker-dealers that execute client transactions ("proprietary research") and as prepared by third parties but for which the executing broker-dealers are obligated to pay ("third-party research"): information on the economy, industries, groups of securities, individual companies, technical market information, stock quotes, analytic tools, risk measurement analyses, performance analyses, analyses of corporate responsibility issues, index holdings and data, earnings and revenue estimates, as well as company presentations and access to various brokers' published research, their research analysts, strategists and economists. Such research services were received in the form of written reports, telephone contacts and personal meetings with securities analysts. In addition, such research services were provided in the form of access to various types of computer-generated data and meetings arranged with corporate and industry spokespersons.

To facilitate best execution of trades, Cornerstone uses order and report processing services offered by brokers who otherwise meet Cornerstone's selection criteria. Cornerstone and its affiliated adviser CCMH participate in a Broker Review Committee which is responsible for its procedures concerning the use of client commissions. The Committee is responsible for reviewing all research and brokerage services quarterly to make a determination as to the reasonableness of the brokerage allocation as well as the price for such services versus the value received. Where necessary, the Broker Review Committee makes the good faith allocation between hard and soft dollars with respect to mixed-use services, as described below.

With respect to directing client transactions to particular broker-dealers in exchange for soft dollar benefits, Cornerstone first ensures such direction is consistent with its obligation to seek best execution. In connection with third-party benefits, Cornerstone participates in commission sharing arrangements to receive research services. In commission sharing arrangements, an adviser effects transactions, subject to best execution, through a broker and request that the broker allocate a portion of the commission or commission credits to a

segregated “research pool” maintained by the broker. An adviser may then direct such broker to pay for eligible products and services from the “research pool”. Cornerstone has such arrangements with Instinet LLC. Participating in commission sharing arrangements enables Cornerstone to (1) strengthen its key brokerage relationships; (2) consolidate payments for eligible research and research services; and (3) continue to receive a variety of high quality eligible research services while facilitating best execution in the trading process.

The Broker Review Committee also oversees the annual process used to set informal, non-binding soft dollar targets for the following year, which involves a review of the previous year’s budget vs. actual; a review and evaluation of all current and contemplated services for their soft dollar eligibility; negotiations where possible of the cost of service; and consideration of investment and trading professional feedback concerning the execution service and proprietary research provided by brokers.

In no case will Cornerstone make binding commitments as to the level of the brokerage commissions it will allocate to a broker. Nor does Cornerstone “backstop” or otherwise guarantee any broker’s financial obligation to a third party for such research or services.

#### **MIXED-USE SERVICES**

Sometimes a portion of the brokerage and research products and services we use are eligible under Section 28(e) and another portion is not eligible. These are referred to as “mixed-use” products and services.

In such cases, where Cornerstone receives both administrative or marketing benefits and research and brokerage services from the services provided by brokers, a good faith allocation between the marketing and administrative benefits and the research and brokerage services will be made, and Cornerstone will pay for any marketing or administrative benefits with hard dollars. In making good faith allocations between marketing or administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the allocation by Cornerstone of the costs of such benefits and services between those that primarily benefit Cornerstone and those that primarily benefit clients.

#### **DIRECTED BROKERAGE**

In limited instances, Cornerstone will accept direction from clients as to which broker-dealers are to be used to execute trades for their account, or they may designate the commission rates to be paid. These types of requests from a client may relate to all of the transactions in the client’s account, a specific portion of transactions in its account, or the client may require that we use our best efforts to satisfy its request. Typically, the client has an arrangement with such broker-dealer which results in the client receiving some benefit from the broker-dealer in exchange for the directed brokerage. Any such direction must be in writing and accepted by Cornerstone before it will be effective. Although Cornerstone generally discourages such direction, Cornerstone does permit client direction in certain circumstances, ensuring that

clients are apprised of the potential risks associated with directed brokerage, including that it may cost the client more money.

Other risks related to directed brokerage include the following:

- the direction may result in higher commissions, greater spreads or less favorable net prices than would be the case if Cornerstone selected the brokers;
- the direction may result in trades for the client's account not being aggregated with similar trades for other client accounts and thus not eligible for the benefits that accrue to such aggregation of orders;
- that as a result of not being aggregated, client transactions will generally be executed after client accounts whose trades are aggregated and may receive less favorable prices; and
- that because of the direction the client's account may not generate returns equal to those of other client accounts which do not direct brokerage.

Similarly, in the case of client accounts that are maintained at broker-dealers, Cornerstone may have discretion to select brokers or dealers other than the custodians when necessary to fulfill its duty to seek best execution of transactions for clients' accounts. However, brokerage commissions and other charges for transactions not effected through the custodian, may be charged to the client. We will generally treat the custody of client assets by a broker-dealer as a direction by the client to execute all transactions through that broker dealer.

Cornerstone is generally not in a position to negotiate commission rates with the custodians in these arrangements. A client who participates in these arrangements should consider that, depending on the level of the fee charged by the broker-dealer custodian, the amount of portfolio activity in the client's account, the value of the custodial and other services that are provided under the arrangement, and other factors, the fees may exceed the aggregate cost of such services if they were to be provided separately.

A directed trade may be executed directly with the broker-dealer or it may be "stepped out" to that broker-dealer. In a step-out transaction, we bunch client directed broker accounts with non-directed broker accounts and request that the executing broker allocate a portion of the transaction and resulting commission to the directed broker. In that event, the broker providing execution services would differ from a particular client's directed broker.

#### **ALLOCATION OF INVESTMENT OPPORTUNITIES AMONG CLIENTS**

Cornerstone provides investment management services to a wide variety of accounts, including institutional clients, two MainStay Funds, and other sub-advised mutual funds. This presents certain actual and potential conflicts of interest including showing favoritism to affiliated accounts, a direct economic incentive to favor higher fee paying accounts over lower fee paying accounts; a marketing incentive to favor new investment strategies over existing investment strategies and a trading incentive to manage one type of an account in a manner that harms or has the potential to harm the interests of other accounts being managed.

It is Cornerstone's policy to allocate suitable investment opportunities fairly and equitably to clients with the same or similar investment objectives over time. A security will be suitable for an account if it is consistent with the investment objectives, strategies and risk tolerance of the account and permitted by the investment restrictions and limitations applicable to the account. Where an investment opportunity is suitable for all accounts, it is Cornerstone's policy that all such accounts shall participate in the transaction, subject to Cornerstone's determination that participating in the transaction is not in the account's best interest for reasons such as:

- Lack of available cash
- Net exposure to holding, industry or sector is higher than desired
- Specific client restrictions, e.g., industry or sector limits

Cornerstone may invest in securities being offered in an initial public offering ("IPO" or "new issue"), if it determines that such an investment is desirable for one or more clients. In making this judgment, Cornerstone shall consider, among other things, a client's investment objectives, restrictions and tax circumstances; a client's tolerance for risk and high portfolio turnover; the nature, size and investment merits of the IPO; the size of a client's account and the client's cash availability and other holdings; and other current or expected competing investment opportunities that may be available for the account.

Sometimes the demand for new issues exceeds the supply, and the amount of certain new issues made available to Cornerstone may be limited. If Cornerstone is not able to obtain the total amount of securities needed to fill all orders, Cornerstone allocates the shares actually obtained on a pro rata basis. Based on the circumstances of the transaction, Cornerstone may establish a minimum lot size and then allocate pro rata accordingly. All such allocations are monitored to ensure that clients are treated fairly and equitably over time and that no clients are systematically disadvantaged.

#### **AGGREGATION OF TRADES**

Generally, trading orders are processed and executed in the order received by the trading desk. However, when Cornerstone purchases or sells the same securities for two or more accounts, Cornerstone may bunch orders where it deems this to be appropriate, in the best interests of clients and consistent with Cornerstone's fiduciary duties. The decision to aggregate is only made after Cornerstone determines that: it does not intentionally favor any account over another; it does not systematically advantage or disadvantage any account; Cornerstone does not receive any additional compensation or remuneration solely as the result of the aggregation; and each participating account will receive the average share price and will share pro rata in the transaction costs. Trades of directed brokerage accounts (where Cornerstone is directed to trade with specific brokers) and Wrap Accounts are generally not aggregated for trade execution purposes – see related disclosure under "Non-Aggregated Trades" below for more information.



When a bunched order is filled in its entirety, each participating client account will participate at the average share price for the bunched order on the same business day. Transaction costs generally will be shared pro rata based on each client's participation in the bunched order. However, there may be occasions when clients may pay disparate transaction costs due to minimum charges per account imposed by either the broker effecting the transaction or the client's custodian.

When a bunched order is only partially filled, the securities purchased will be allocated on a pro rata basis to each account participating in the bunched order based upon the initial amount requested for the account, subject to the exception set forth below, and each participating account will participate at the average share price for the bunched order on the same business day.

If Cornerstone is able to purchase only a *de minimis* percentage of the securities sought, in some cases the value of the few shares a client would receive would be less than the amount of the client's custody fees. In such cases, Cornerstone will allocate the shares using a method it deems fair and equitable, generally allocating the *de minimis* fill to its largest accounts. If Cornerstone is able to purchase only a *de minimis* percentage of the securities sought on the following day as well, the next largest accounts will be allocated shares. Cornerstone's objective is to allocate these *de minimis* fills to those accounts where the position will have a minimal impact on the portfolio. Cornerstone may use other methods it deems fair and equitable, such as a pro rata allocation with a minimum lot size, a rotational system, or some other methodology. Cornerstone monitors this practice to ensure that no accounts are systematically disadvantaged over time.

Cornerstone may determine that an order will not be aggregated for a number of reasons. These reasons include, but are not limited to:

- the account's governing documents do not permit aggregation or impose significant restrictions on Cornerstone's core investment process, including limiting Cornerstone's ability to purchase certain types of securities (Restricted Accounts);
- the client has directed that trades be executed through a specific broker-dealer;
- aggregation is impractical because of directions received from the portfolio manager, e.g., a limit order or orders with different strategies; and
- a determination by the trader that aggregation is not consistent with seeking best execution.

Cornerstone assigns client accounts to distinct account trade groups based on investment mandates, styles, account restrictions or custodial platforms. For non-aggregated trades, Cornerstone applies a sequencing process in trading these account trade groups, as follows (subject to the exception that follows):

1. Fully discretionary account trade groups (defined as those accounts where Cornerstone has full brokerage and investment discretion. Restricted Accounts are often traded with this account trade group; if not, trades in Restricted Accounts are executed next.
2. Trades in directed brokerage accounts, where Cornerstone is directed to trade with specific brokers are executed next. Cornerstone may merge directed brokerage account trades with our discretionary account trades (where Cornerstone has full brokerage and investment discretion) when trading through the same broker.
3. Wrap platform trades are generally executed last.

When implementing a particular trade, Cornerstone in its professional judgment may determine that best execution should be sought by separating the overall trade into segments (“tranches”). Depending on various trading considerations, all tranche trades for the fully discretionary accounts may or may not be completed before the tranche trades for the directed brokerage accounts begin. These segmented trades are all completed before the wrap platform trades are executed, however. Also, if the market moves against a particular tranche trade while it is intended or is outstanding, Cornerstone in its professional judgment may determine to not go forward with such trade. If the tranche trade was for a directed brokerage account, such account may participate later or not at all. Cornerstone maintains records of this trading activity and reviews them in connection with the Broker Review Committee’s assessment of best execution, as described below.

Where account trade groups contain more than one account and trades are not aggregated within these account trade groups, Cornerstone randomly determines the order in which specific accounts within each account trade group trades in an effort to ensure equitable treatment over time.

With respect to wrap account trades, Cornerstone will typically execute trades through the program sponsor so as not to incur extra trading expenses for the client’s account. Currently, where Cornerstone is transacting in the same securities for wrap and non-wrap account clients, Cornerstone executes wrap account trades after Cornerstone’s non-wrap client account trades consistent with the instructions of the wrap account sponsor. With respect to the model portfolio recommendations, pursuant to instructions from the program sponsor, Cornerstone communicates trades to the sponsor’s overlay manager the business day following the day in which Cornerstone executes similar trades for its other accounts or such other date as agreed with the program sponsor. Cornerstone has no influence over when or even whether model changes are implemented.

#### **INTERNAL CROSS TRANSACTIONS AND PRINCIPAL TRANSACTIONS**

Internal cross transactions are trades between advisory client accounts. Principal transactions are trades between a client account and an account deemed owned by Cornerstone or its employees. It is Cornerstone’s policy to prohibit principal transactions. Cornerstone reserves the right to effect cross transactions where Cornerstone has determined it is in the clients’ best interest to do so. When coordinating cross trades, however, Cornerstone faces an inherent

conflict, as two advisory client accounts represent both sides of the trade and the adviser generally has the ability to influence the price at which the trade occurs for both clients. As Cornerstone is typically able to locate the securities (both size and type) it desires for clients and in an effort to avoid this conflict, it is Cornerstone's policy generally not to engage in cross transactions on behalf of its client accounts.

#### **TRADE ERRORS**

On occasion, a mistake may occur in the execution of a trade. As a fiduciary, Cornerstone owes clients duties of loyalty and trust, and as such must treat trade errors in a fair and equitable manner. Errors may occur for a number of reasons, including human input error, systems error, communications error or incorrect application or understanding of a guideline or restriction. Examples of errors include, but are not limited to the following: buying securities not authorized for a client's account; buying or selling incorrect securities; buying or selling incorrect amounts of securities; and buying or selling in violation of one of our policies. In correcting trade errors, Cornerstone does not make the client account absorb any financial loss due to the trade error; use soft dollars or directed trades to fix the error; or attempt to fix the error using another client account. To the extent correction of the error results in a loss to the client's account, Cornerstone reimburses the account. To the extent correction of the error results in a gain to the client's account, Cornerstone allows the client to keep the benefit.

#### **OVERSIGHT OF TRADING PRACTICES**

A supervisor or his delegate reviews all Cornerstone trading activity to ensure that all trading has been conducted in accordance with the firm's policies and procedures. In all cases, accounts are subject to review by Compliance Personnel who monitor account trading on a daily basis with the assistance of the Charles River Development Trading System ("CRD"). CRD is our front-end trade order management and compliance system that incorporates pre-trade and post-trade compliance testing against account restrictions. Our Compliance Personnel review and investigate any alerts or breaches identified by the system.

Our Broker Review Committee also oversees our brokerage and trading practices as well as our soft dollar program. The Broker Review Committee typically meets on a quarterly basis and consists of portfolio managers, traders, research analysts, operations and compliance personnel. The Committee reviews the quality of services received from brokers taking into account factors such as coverage, research, and execution. Actual brokerage activity relative to the projected brokerage activity is reviewed and activity that is not consistent with the related projections is discussed. In addition, the Broker Review Committee, with the assistance of the portfolio managers, reviews each soft dollar service to confirm that the soft dollar commissions are reasonable in light of the value of services being provided.

## **ITEM 13 – REVIEW OF ACCOUNTS**

### **MONITORING**

Cornerstone continuously monitors all managed accounts in an effort to ensure that client objectives are being achieved. The portfolio management team has primary responsibility for reviewing their accounts, including reviewing the appropriateness of portfolio holdings and transactions in light of each account's investment objectives, guidelines and restrictions.

The portfolio management team holds meetings frequently to discuss portfolio positions, strategies, trends and factors. Cornerstone and its affiliate CCMH have a joint Investment Policy Committee chaired by the Chief Investment Officer whose other voting members are the CEO and the heads of the Global Systematic Equity and the Global Fundamental Equity investment teams as well as the Head of Trading. The Investment Policy Committee generally conducts quarterly strategy reviews which usually involve a review of a variety of investment issues, including account performance versus portfolio benchmarks and performance dispersion.

### **CLIENT REPORTING**

The content and frequency of client reports varies by client. Cornerstone typically discusses a client's reporting requirements as part of the contract negotiations. Generally the client's requirements are included in the investment management agreement signed by Cornerstone and the client. Our client reports typically include portfolio holdings, transaction and performance information, and may include information covering capital markets and portfolio outlook. Customized reporting is typically provided as frequently as desired by clients.

## **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

Please refer to the discussion related to use of client commissions in "Brokerage Practices" for information about other compensation.

Cornerstone and certain of its advisory affiliates are entering into a referral agreement to recommend clients to each other. Such agreement generally provides for the payment of a percentage of the first year's net revenues received from the referred client. In connection with such a referral, the referring affiliate is required to disclose its affiliation to the referred adviser.

## **ITEM 15 – CUSTODY**

Cornerstone does not maintain custody of client assets, although Cornerstone is deemed by the applicable regulations to have custody of assets if clients give it authority to withdraw quarterly

fees directly from their custodial accounts. Client assets must be maintained in an account at a qualified custodian; generally a broker dealer or bank. A custodian is appointed by each client to have possession of the assets of the account, settle transactions for the account and accept instructions from Cornerstone regarding the assets in the account, subject to certain procedural restrictions.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains their investment assets. Cornerstone urges clients to carefully review such statements and compare such official custodial records to the account statements that Cornerstone may provide. Cornerstone statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Clients should contact Cornerstone using the information on page 1 if they have any questions about their statements or if their qualified custodians stop sending them at least quarterly statements.

#### **ITEM 16 – INVESTMENT DISCRETION**

Cornerstone receives discretionary authority in the investment management agreement executed with the client at the outset of an advisory relationship. The accounts over which Cornerstone exercises investment discretion are generally subject to investment restrictions and guidelines developed in consultation with clients. These restrictions and guidelines customarily impose limitations on the types of securities that may be purchased and also generally limit the percentage of account assets that may be invested in certain types of securities. Additional policies may be set by a client's board or investment committee. Cornerstone is generally authorized to make the following determinations, consistent with the each client's investment goals and policies, without client consultation or consent before a transaction is effected:

- Which securities or other investments to buy or sell;
- The total amount of securities or other investments to buy or sell;
- The broker or dealer through whom securities are bought or sold;
- The commission rates at which securities or other investment transactions for client accounts are effected; and
- The price at which securities or other investments are to be bought or sold, which may include dealer spreads or mark-ups and transactions costs.

However, from time to time, Cornerstone may accept accounts for which it has discretionary authority to purchase securities for the account, but not to select broker-dealers for transactions. Cornerstone may also accept non-discretionary arrangements, where clients retain investment discretion with respect to transactions in the account. In these situations, the client's retention of discretion may cause the client to lose possible advantages that discretionary clients may derive from factors that result from our ability to act on its recommendations for those discretionary clients in a more timely fashion, such as the aggregation of orders for several clients as a single transaction.

Cornerstone may act as investment manager to other clients (including funds) now or in the future and each account's investment restrictions and guidelines may differ. All investment decisions for an account are made in accordance with the investment restrictions and guidelines of that account. Investment decisions for each account are made with a view to achieving the account's investment objectives and after consideration of such factors as the account's current holdings, the current investment views of the portfolio manager, availability of cash for investment, and the size of the account's positions generally.

#### **ITEM 17 – VOTING CLIENT SECURITIES**

Cornerstone has adopted a Proxy Voting Policy. This Policy is designed to ensure that all proxies are voted in the best interest of our clients without regard to our interests or the interests of our affiliates.

To assist us in researching and voting proxies, we have engaged Institutional Shareholder Services ("ISS") which is a third party proxy service provider. Where a client has contractually delegated proxy voting authority to us, we vote proxies in accordance with ISS' standard voting guidelines unless the client provides us with alternative guidelines. Alternative guidelines must be detailed in the client's investment advisory agreement.

There may be conflicts related to the voting of proxies, such as when we or one of our affiliates:

- Manages the issuer's or proponent's pension plan.
- Administers the issuer's or proponent's employee benefit plan.
- Provides brokerage, underwriting, insurance or banking services to the issuer or proponent.
- Manages money for an employee group.

Additional conflicts may exist if one of our executives is a close relative of, or has a personal or business relationship with:

- An executive of the issuer or proponent.
- A director of the issuer or proponent.
- A person who is a candidate to be a director of the issuer.
- A participant in the proxy contest.
- A proponent of a proxy proposal.

If a material conflict of interest is identified regarding proxy voting, it will generally be addressed in one of the following ways by the Investment Policy Committee:

- The proxy will be voted according to the proxy voting guidelines, provided that the proposal at issue is not one which the guidelines require to be considered on a case-by-case basis.
- In conflict situations which cannot be addressed using the guidelines, the Investment Policy Committee will follow the recommendation of ISS or another third party proxy voting service if ISS is abstaining or being overridden (see below).
- If neither of the previous two procedures provides an appropriate voting recommendation, the Investment Policy Committee may obtain voting instructions from clients.

A portfolio manager can override an ISS voting recommendation if he/she believes it is in the best interest of our clients to vote otherwise. This override process is subject to the review and oversight of our Investment Policy Committee. If an override is requested in the case of a conflict, the Investment Policy Committee, or its designee, considers the facts and circumstances of the potential conflict, and determines how to vote consistent with the above considerations.

A copy of our Proxy Voting Policy and information as to how proxies, if any, were voted is available upon client request. Our contact information appears on the cover page of this brochure.

Clients for whom Cornerstone does not have proxy voting authority should ensure that they receive proxies and other solicitations from their custodian or transfer agent. Clients may contact Cornerstone with questions regarding a proxy solicitation.

#### **ITEM 18 – FINANCIAL INFORMATION**

Registered investment advisers are required to provide certain financial information or disclosures about their financial condition. Cornerstone has no financial condition that impairs its ability to meet contractual commitments to clients, and has never been the subject of a bankruptcy proceeding.