

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

**CORNERSTONE ADVISORS, INC.**

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This brochure provides information about the qualifications and business practices of Cornerstone Advisors Inc. (hereinafter “CAI” or “firm” or “we”). If you have any questions about the contents of this brochure, please contact us at (425) 646-7600 or at [info@buildbeyond.com](mailto:info@buildbeyond.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about CAI is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for CAI is 110908.

## **Item 2. Summary of Material Changes**

On July 21, 2010, the U. S. Securities and Exchange Commission (the "SEC") unanimously adopted changes to Form ADV, Part II. All fifty states have also adopted the new format, with some additional state-specific disclosures mandated. The new Part 2, also known as the "Brochure" has 18 separate items that our firm must address (19 for state-registered advisers), each of which requires disclosure on a distinct topic, and answers must be presented in the order of the items in the form, using the headings in the form. Our goal is to provide you with easy-to-understand "plain-English disclosure," using an easy-to-read format and definite, concrete, everyday words.

Our current (updated) Form ADV Part 2 is available to our existing and prospective clients 24 hours a day through the Investment Adviser Public Disclosure website. Additionally, we will annually and within 120 days of the end of our fiscal year, provide you either: (i) a copy of our Form ADV, Part 2 that includes or is accompanied by a summary of material changes; or (ii) a summary of material changes that includes an offer to provide a copy of the current Form ADV, Part 2. We urge you to carefully review all subsequent summaries of material changes, as they will contain important information about any significant changes to our advisory services, fee structure, business practices, conflicts of interest, and disciplinary history.

### **Material Changes since the Last Update:**

This Brochure dated December 31, 2014 does not differ from the firm's previous Brochure in a material way.

**Item 3. Table of Contents**

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#### **Item 4. Advisory Business**

Cornerstone Advisors, Inc. is a fee-based SEC-registered investment adviser (SEC file number 801-20509). Our principal place of business is located in Bellevue, Washington. We have been in business since 1984. Cornerstone is owned by a group of employee shareholders. No single individual owns over 25% of the firm.

Discretionary assets under our firm's management were \$3,368,357,425 as of December 31, 2014.

##### Wealth Management Services (Portfolio Management Services)

Our firm provides continuous advice to clients (including individuals, families, related entities, tax-exempt and corporate/institutional organizations) regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy statement ("IPS") and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. We may also review and discuss a client's prior investment history, as well as family composition and background.

We will manage advisory accounts on a discretionary basis only. For these discretionary accounts, we may implement transactions without seeking prior client consent. Account supervision is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker dealer or insurance company and will primarily include advice regarding no-load or load-waived mutual funds, exchange traded funds (ETFs) and private placement funds. Our firm serves as the managing member or general partner to some private funds that are created by CAI for the purpose of facilitating investments by our clients in various private equity investments or marketable equity securities on a pooled basis. This affiliate, Cornerstone Portfolio GP, LLC, acts as the general partner to these privately pooled investment vehicles ("the private funds") for which we provide investment advisory services. In addition, CAI is the adviser to four public mutual funds: Cornerstone Advisors Global Public Equity Fund, Cornerstone Advisors Income Opportunities Fund, Cornerstone Advisors Public Alternatives Fund, and Cornerstone Advisors Real Assets Fund. These funds are multi-manager funds invested in other registered investment companies and separate accounts.

Additional information about the fees related to such fund investments is included in the offering documents provided to prospective investors. Because these types of investments involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

##### Third Party Manager Selection and Monitoring Services

We will recommend investments with independent third-party managers who demonstrate knowledge and expertise in a particular investment strategy.

As part of this service, we perform management searches of various unaffiliated third-party managers. Based on a client's individual circumstances and needs (as exhibited in the client's IPS) or the overall

objective the model selected by a client or the funds' investment objectives, as outlined in their private placement memoranda and/or offering documents (hereinafter collectively "Offering Documents") we will determine which selected third-party manager's portfolio management style is appropriate for that client or model. Factors considered in making this determination include account size, risk tolerance, suitability for the client and the investment philosophy of the selected third-party manager. We encourage clients to review each third-party manager's disclosure document regarding the particular characteristics of any program of the managers selected by us.

Once we determine which third-party managers are most appropriate for the client or specific model a client selects, we will provide the selected managers with the client's IPS requirements or the funds' Offering Documents. For certain separate accounts, the selected managers will then create and manage the client's portfolio based upon the client's individual needs as exhibited in the client's IPS or the fund's investment objectives as outlined in its Offering Documents.

We will regularly and continuously monitor the performance of the selected third-party managers. If we determine that a particular selected manager is not providing sufficient management services to the client, or is not managing the client's portfolio in a manner consistent with the client's IPS and/or the fund's Offering Documents, we will remove the client's/fund's assets from that selected manager and place the client's/fund's assets with another manager at our discretion and without prior consent from the client.

Our firm will conduct appropriate due diligence on all independent third-party managers, making reasonable inquiries into their performance calculations, policies and procedures, Code of Ethics, and other operational and compliance matters deemed important to account performance and risk management.

Employees and/or owners of approved third party managers may become Cornerstone clients and receive services on the same terms and conditions as other Cornerstone clients.

#### Family Office Services

In addition to or in combination with the Wealth Management services described above, our firm provides family office services to target high net worth individuals and families to assist them in achieving their goals. Family Office services are structured to managing our clients' investments and financial affairs. Our Family Office services provide family-specific, custom solutions and relationship management and may include:

- Wealth Management Services (as separately described above)
- Comprehensive Risk Management Consulting
- Integration of strategic Income Tax and Estate Planning considerations into implementation of a comprehensive financial plan
- Bill Paying Services
- Philanthropy Planning/Charitable Giving
- Coordination of outside consultants, including bookkeepers and bookkeeping services, attorneys, private bankers, accountants, insurance advisors, family education advisors, and ad hoc concierge services that are typically requested by family offices

#### Consulting/Specialty Services

Clients can also receive financial advice and services on a more limited basis. This may include

advice on only an isolated area(s) of concern such as estate planning, retirement planning, insurance issues, annuity advice, bill paying services, or any other specific topic or service.

We tailor our portfolio management, family office and consulting recommendations to the individual needs of each client. All consulting recommendations are based on information gathered through client questionnaires, electronic communications, telephone and in-person discussions.

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

### Wealth Management Services

Our fees for Portfolio Management services for individuals, families, and related entities are based upon a percentage of assets under management, in accordance with the following fee schedule:

<u>Assets Under Management (\$)</u>	<u>Annual Fee (%)</u>
\$1M - \$3M	\$10,000 plus 1.00% of amount over \$1M
\$3M - \$5M	\$30,000 plus 0.60% of amount over \$3M
\$5M – \$10M	\$42,000 plus 0.50% of amount over \$5M
\$10M - \$25M	\$67,000 plus 0.35% of amount over \$10M
Above \$25M	\$119,500 plus 0.20% of amount over \$25M

Our fees for Portfolio Management services for tax-exempt organizations (RISE and corporate or institutional services) are based upon a percentage of assets under management, in accordance with the following fee schedule:

<u>Assets Under Management (\$)</u>	<u>Annual Fee (%)</u>
\$5M - \$10M	\$33,000 plus 0.35% of amount over \$5M
\$10M - \$25M	\$50,500 plus 0.25% of amount over \$10M
\$25M - \$50M	\$88,000 plus 0.20% of amount over \$25M
Above \$50M	\$138,000 plus 0.10% of amount over \$50M

### Family Office Services

Our fees for Family Office services are based upon a percentage of assets under management or advisement, in accordance with the following fee schedule:

<u>Assets Under Management (\$)</u>	<u>Annual Fee (%)</u>
\$5M - \$10M	\$50,000 plus 0.60% of amount over \$5M
\$10M – \$25M	\$80,000 plus 0.40% of amount over \$10M
\$25M - \$50M	\$140,000 plus 0.30% of amount over \$25M
Above \$50M	\$215,000 plus 0.20% of amount over \$50M

### Consulting/Specialty Services

For any ad-hoc consulting services delivered separately or found to be outside the scope of Wealth Management or Family Office services, we will charge based on an hourly rate ranging from \$60 to \$500 or mutually agreed upon fixed fee (subject to an annual minimum fee of \$5,000), depending on the staff member performing the work. The length of time it will take us to complete a particular

consulting project will depend on the nature and complexity of the individual client's personal circumstances. An estimate for total hours will be determined at the start of the consulting relationship.

#### Fees in General

Advisory fees are charged in advance at the beginning of each quarter, based upon the net value of the managed assets in the client account on the last business day of the previous quarter. If significant assets are added or subtracted during the quarter, Cornerstone may negotiate an adjusted fee.

Consulting fees are due and payable upon completion of the consulting service. We may request an initial retainer deposit upon completion of our fact-finding session with the client.

Depending on the particular arrangement with each client, we will either invoice clients or directly debit their custodial accounts for wealth management and family office fees.

Fees and account minimums for all services are negotiable based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Discounts, not generally available to our advisory clients, may be offered to Cornerstone employees and family members of Cornerstone employees.

We may aggregate certain related client accounts for the purposes of determining the account size and/or annualized fee.

Legacy client agreements are governed by fee schedules different from those listed above.

If Cornerstone chooses to accept a portfolio below our stated account sizes, we can or will charge a fee based upon a percentage of assets under management or advisement of 1.25% until such time the portfolio meets fee schedule guidelines.

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.

#### Account Termination

Clients will have a period of five (5) business days from the date of signing the agreement to unconditionally rescind the agreement and receive a full refund of all fees. Thereafter, the client may terminate the agreement by providing us with a written notice at our principal place of business. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. Clients who invested in certain private funds sponsored by our firm will continue to pay us fees on these investments from the date of termination to the date of client's interest liquidation.

**Mutual Fund and ETF Fees and Expenses:** All fees paid to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. A client could invest in a mutual fund or and ETF directly, without the services of our firm. In that case, the client would not receive the services provided by us which are designed, among other things, to assist

the client in determining which mutual fund or funds or ETFs are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and ETFs and the fees charged by us to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

#### Brokerage, Custodial, and Third-Party Manager Fees

In addition to advisory fees paid to our firm, clients will also be responsible for all transaction, brokerage, trade-away and custodial fees incurred as part of their account management. Please see Item 12 of this Brochure for important disclosures regarding our brokerage practices. All fees charged by selected third-party managers and funds are incurred by clients in addition to our advisory fees.

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

We do not charge any fees based on a share of capital gains on or capital appreciation of the assets of a client.

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

Our firm generally provides advisory services to individuals, family offices, pension and profit sharing plans, trusts, estates and charitable organizations.

As mentioned in Item 5, we require a minimum annual fee of \$10,000 for Wealth Management Services and \$50,000 for Family Office Services. We also require a minimum engagement fee of \$5,000 for Consulting/Specialty Services; however, we may waive the minimum at our discretion.

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

Our firm employs the following types of analysis to formulate client recommendations.

Asset Allocation: Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of equity securities, fixed income, alternative assets and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of holdings will change over time due to market movements and, if not corrected, will no longer be appropriate for the client's goals.

Mutual Fund and/or ETF Analysis: We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated a persistent ability to invest successfully over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in other fund in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the



risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the fund or ETF less suitable of the client's portfolio.

Third-Party Manager Analysis: We examine the experience, expertise, investment philosophies, and past performance of independent third-party investment managers in an attempt to determine if that manager has demonstrated a persistent ability to invest successfully over a period of time and in different economic conditions. We monitor the manager's underlying holdings, strategies, concentrations and leverage as part of our overall periodic risk assessment. Additionally, as part of our due-diligence process, we survey the manager's compliance and business enterprise risks.

A risk of investing with a third-party manager who has been successful in the past is that he/she may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a third-party manager's portfolio, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for our clients. Moreover, as we do not control the manager's daily business and compliance operations, it is possible for us to miss the absence of internal controls necessary to prevent business, regulatory or reputational deficiencies.

Risks for all forms of analysis: Our securities analysis method relies on the assumption that the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Our firm employs the following investment strategies to implement investment advice given to clients:

Long-term purchases: We mostly purchase securities with the idea of holding them in the clients account for a year or longer. We may do this because we believe the securities to be currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the current short-term projection for this class.

A risk in a long-term purchase strategy is that, by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases: At times, we may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

***Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal that a client must be prepared to bear.***

## **Item 9. Disciplinary Information**

Our firm has no reportable disciplinary events to disclose.

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

As is disclosed in Item 4 of this Brochure, our firm serves as a sponsor and General Partner or Manager to certain private funds that are created for the purpose of facilitating investments by our clients in various private equity investments or marketable equity securities on a pooled basis. This affiliate, Cornerstone Portfolio GP, LLC, acts as the general partner to these privately pooled investment vehicles ("the private funds") for which we provide investment advisory services. In addition, as disclosed in Item 4, we are the adviser to four private-label mutual funds. Our firm, principals and/or employees may have invested their own funds into these investment vehicles on the same terms and conditions as our clients. We may also be paid administrative fees and/or management fees for the cost of administering the business affairs of the investment entities (so far our practice has been to waive the management fees and instead include the clients' interest in these entities as managed assets subject to the firm's advisory fee schedules). Also, as mentioned in Item 4, employees and/or owners of approved third party managers may become Cornerstone clients and receive services on the same terms and conditions as other Cornerstone clients.

Clients should be aware that proprietary investment in the above-mentioned investment vehicles may create an incentive for us to favor these accounts because our overall financial interest is more directly tied to the performance of these accounts. Consequently, we have an inherent incentive to favor vehicles and managers with higher levels of proprietary investment. Since we endeavor at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts:

1. We disclose to clients the existence of all material conflicts of interest, including the potential for our firm to earn direct compensation from pooled investment vehicles with a level of proprietary investment (albeit such compensation should not exceed what would otherwise be paid if the clients' interest were instead simply included as managed assets subject to our advisory fee);
2. We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
3. We collect, maintain and document accurate, complete and relevant third party manager background information and complete relevant due diligence selection procedures, prior to third party manager consideration as a client;
4. Our client management team conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
5. We have implemented policies and procedures for fair and consistent allocation of investment opportunities among all client accounts managed by our firm;
6. We periodically compare holdings and performance of all accounts with similar strategies to identify significant performance disparities indicative of possible favorable treatment; and
7. We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients and equitable treatment of all clients, regardless of the overall compensation arrangement or outcome.

Cornerstone Advisors Trust Services is a Trust Representative Office of National Advisors Trust Company, an independent, federally chartered savings bank that provides trust and custodial services. The name "Cornerstone Advisors Trust Services" is used pursuant to an agreement between Cornerstone Advisors and National Advisors Trust. To the extent a client determines to retain Cornerstone Advisors, the client will enter into a separate and distinct agreement with National Advisors Trust Company for trust administration, distribution and custodial services and will pay a separate fee for such services. Any trust administration fees are in addition to the advisory fees paid for advisory services. Such trust administration fees are paid directly to NATC by the client, and Cornerstone does not share in these fees. National Advisors Trust Company, one of the largest independent trust companies in the country, is owned by a diversified group of independent registered investment advisers.

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

##### Code of Ethics Disclosure

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code provides for oversight, enforcement and recordkeeping provisions. A copy of our Code of Ethics is available to our advisory clients and prospective clients upon request to Kristin Reed, Chief Compliance Officer, at the firm's principal office address.

Although we typically only purchase exchange-listed equity securities or privately held securities for clients through third-party managers, our firm or individuals associated with our firm may buy or sell mutual funds, ETFs, and privately held securities identical to those recommended to or purchased for customers for their personal accounts. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client. This practice results in a potential conflict of interest, as we may have an incentive (to the extent possible) to manipulate the timing of such purchases to obtain a better price or more favorable allocation in rare cases of limited availability.

To mitigate these potential conflicts of interest and ensure the fulfillment of our fiduciary responsibilities, we have established the following restrictions:

1. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No principal or employee of our firm may prefer or sell his or her own interest to that of the advisory client;
2. It is the policy of our firm that no person employed by us may, without the express consent of the firm's Chief Compliance Officer, purchase or sell any security prior to a transaction(s) being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts;

3. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice with access to advisory recommendations. These holdings are reviewed on a regular basis by Kristin Reed, Chief Compliance Officer;
4. We do not aggregate employee trades with client trades;
5. We emphasize the unrestricted right of the client to decline to implement any advice rendered, except in situations where our firm is granted discretionary authority;
6. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices; and
7. Any individual not in observance of the above may be subject to disciplinary action or termination.

## **Item 12. Brokerage Practices**

We do not have any formal or informal soft-dollar arrangements and do not receive any soft-dollar benefits.

We do not request or accept the discretionary authority to determine the broker dealer to be used for client accounts. Clients may direct us as to the broker dealer to be used for all client securities transactions. In directing the use of a particular broker or dealer, it should be understood that we will not have the ability to negotiate commissions among various brokers, and best execution may not be achieved, resulting in higher transaction costs for clients. *Not all advisers require their clients to direct brokerage.*

Our firm participates in the Schwab Institutional (SI) services program offered to independent investment advisers by Charles Schwab & Company, Inc. ("Schwab"), an unaffiliated FINRA-registered broker dealer. Clients in need of brokerage and custodial services may have Schwab recommended to them. As part of the SI program, our firm receives benefits that it would not receive if it did not offer investment. These benefits include: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk serving SI participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client account; access, for a fee, to an electronic communication network for client order entry and account information; receipt of compliance publications; and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors. The benefits received through participation in the SI program may or may not depend upon the amount of transactions directed to, or amount of assets custodied by, Schwab.

Schwab also makes available to Cornerstone other services intended to help Cornerstone manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, regulatory compliance, and marketing. In addition, they may make available, arrange, and/or pay for these types of services rendered to Cornerstone by independent third parties. The Custodian may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to Cornerstone.

Participation in the SI program results a potential conflict of interest for our firm, as the receipt of the above benefits creates an incentive for us to recommend Schwab to clients.

Nonetheless, we have reviewed the services of Schwab and recommend their services based on a number of factors. These factors include the professional services offered, commission rates, and the custodial platform provided to clients. While, based on our business model, we will not seek to exercise discretion to negotiate trades among various brokers on behalf of clients, we will, however, periodically attempt to negotiate lower commission rates for our clients with Schwab.

In addition, Ken Hart, CEO of Cornerstone Advisors, serves on the Schwab Advisor Services Advisory Board (the "Board"). The Board consists of approximately 20 representatives of independent investment advisory firms who have been invited by Schwab management to participate in meetings and discussions of Schwab Advisor Services' services for independent investment advisory firms and their clients. Board members serve for two-year terms. Mr. Hart's term ends December 31, 2015. Board members enter nondisclosure agreements with Schwab under which they agree not to disclose confidential information shared with them. This information generally does not include material nonpublic information about the Charles Schwab Corporation, whose common stock is listed for trading on the New York Stock Exchange and the NASDAQ stock market (symbol SCHW). The Board meets in person approximately twice per year and has periodic conference calls scheduled as needed. Board members are not compensated by Schwab for their service, but Schwab does pay for or reimburse Board members' travel, lodging, meals and other incidental expensed incurred in attending Board meetings.

If a client, when undertaking an advisory relationship with our firm, already has a pre-established relationship with a broker and instructs us to execute all transactions through that broker, it should be understood that under those circumstances, we will not have the ability to negotiate commissions, 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 since our firm may not be able to aggregate orders to reduce transaction costs or the client may receive less favorable prices.

We reserve the right to decline acceptance of any client account for which the client directs the use of a broker if we believe that this choice would hinder our fiduciary duty to the client and/or our ability to service the account.

#### Trade Aggregation

We may aggregate client trades when doing so is advantageous to our clients. Mostly, we will batch client transactions to receive volume discounts and to obtain better and more uniform pricing across client accounts. If we determine that aggregation of trades in a certain situation will be beneficial to our clients, transactions will be averaged as to price and will be allocated among our clients in proportion to the purchase and sale orders placed from each client account on any given day. Any exceptions from the pro-rata allocation procedure will be carefully explained and documented. Such exceptions may occur due to varying cash availability across accounts, divergent investment objectives and existing concentrations, and desire to avoid "odd lots," (an amount of a security that is less than the normal unit of trading for that particular security). It is Cornerstone's policy not to engage in any principal transactions.

#### Trade Error

In the rare occurrence of a trade error in a client account, it is Cornerstone's policy to restore the account to the position it should have been in had the trading error not occurred. Specifically, if Cornerstone makes an error in a client account that results in a loss, Cornerstone will retain the loss in an error account that Schwab has established in our name so that it is not borne by the client. If the error results in a gain, Cornerstone will retain the gain in an error account that Schwab has established in our name. This error account was established at our request to facilitate the correction and resolution of any client trade errors caused by Cornerstone.

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

#### Portfolio Management/Model Portfolio Management Services

The following individuals are responsible for client account reviews:

- Kenneth Hart, CEO
- Douglas Haack, Chief Client Relationship Officer
- Charles Hammond, Client Manager
- Susan Peterson, Client Manager
- David Drews, Client Manager
- Daniel Kwon, Client Manager
- David Stanley, Client Manager
- Michael Milojevich, Client Manager
- Benjamin Wicks, Client Manager
- Scott Dowling, Client Manager
- Linda Olson, Client Manager
- Dave Jackson, Client Manager

The above individuals will continuously monitor the underlying securities in client accounts and perform regular reviews of account holdings for all clients. Family Office client reviews and accompanying reports undergo at least two additional levels of scrutiny at least twice per year – a high level review by senior level client management personnel and a peer group review. All accounts are reviewed for consistency with client investment strategy, asset allocation, risk tolerance and performance relative to the appropriate benchmark. More frequent reviews may be triggered by changes in an account holder's personal, tax or financial status. Geopolitical and macroeconomic specific events may also trigger reviews.

Certain members of our Investment Team, Michael Hughes, CIO, Dave Freudenberg, Managing Director Real Estate Investments, Paul Pedalino, Managing Director Head of Research, and Katie Robinette, Managing Director Private Equity Investments will monitor the performance of third-party managers on a continuous basis.

In addition to the monthly statements and confirmations of transactions that clients receive from their broker dealer, our firm will provide quarterly reports which detail investment holdings and portfolio performance. We will also provide Family Office clients with a net worth statement, asset detail schedules, tax projections, summary of insurance coverage, sources and uses of cash flow, and other schedules as appropriate.

Consulting/Specialty services clients will receive reports as contracted for at the inception of the advisory relationship.

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

Other than that already described in this Brochure, our firm does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

#### **Item 15. Custody**

Custody is defined as any legal or actual ability by our firm to access client funds or securities. Since all client funds and securities are maintained with a qualified custodian, we don't take physical possession of client assets. However, under the current SEC rules, our firm is deemed to have constructive custody of client assets due to various arrangements which give us legal access to client funds. Therefore, we urge all of our management clients to carefully review and compare their reviews of account holdings and/or performance results received from us to those they receive from their custodian(s). Should you notice any discrepancies, please notify us and/or your custodian as soon as possible.

#### **Item 16. Investment Discretion**

For clients granting us discretionary authority to determine which securities and the amounts of securities that are to be bought or sold for their account(s), we request that such authority be granted in writing, typically in the executed investment management agreement and custodial paperwork.

Should the client wish to impose reasonable limitations on this discretionary authority, such limitations shall be included in this written authority statement. Clients may change/amend these limitations as desired. Such amendments must be submitted to us by the client in writing.

#### **Item 17. Voting Client Securities**

Advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may, at their election, choose to receive proxies related to their own accounts, in which case we may consult with clients as requested. (With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies). To direct us to vote a proxy in a particular manner, clients should contact Kristin Reed, Chief Compliance Officer, by telephone, electronic mail, or in writing.

When we have discretion to vote proxies for our clients, we will vote those proxies in the best interests of its clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote. Third party managers have discretion to vote proxies for separately managed accounts, which they advise for Cornerstone's mutual funds.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Kristin Reed directly. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.



Other than for our pooled investment vehicle and mutual fund clients, we will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

**Item 18. Financial Information**

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.