



**6 Eagle Sq., 3<sup>rd</sup> Floor  
Concord, NH 03301  
Phone: 800-851-8431  
Fax: 603-226-7200**

**Website: [www.graniteinvestmentadvisors.com](http://www.graniteinvestmentadvisors.com)**

**Firm Brochure for Clients  
(Part 2A of Form ADV)**

**Updated: November 25, 2015**

This Brochure provides information about the qualifications and business practices of Granite Investment Advisors, Inc. (Granite). If you have any questions regarding the contents of this Brochure, please contact Debra Wentworth, Principal, Chief Compliance Officer (CCO) & VP Operations at 800-851-8431 or via email at [debbie@graniteinv.com](mailto:debbie@graniteinv.com).

Granite is a registered investment advisor. Registration does not imply any level of skill or training. The oral and written communications of an Advisor are intended to provide you with information about which to determine whether or not to hire.

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 Granite is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

---

## Material Changes

---

This item will only discuss specific material changes that are made to the Brochure and provide clients with a summary of such changes. Our last annual update was on March 31, 2015.

Item 4 – Assets Under Management increased after asset purchase

Item 8 – New strategy offered – The Granite Dividend Growth Strategy

Our brochure is always available by contacting Debra Wentworth, Principal, Chief Compliance Officer (CCO) & VP Operations at 800-851-8431 or [debbie@graniteinv.com](mailto:debbie@graniteinv.com). The Brochure is also available electronically using the link on our website: [www.graniteinvestmentadvisors.com](http://www.graniteinvestmentadvisors.com).

## Table of Contents

<b>ADV Part 2A</b>	<b>Page</b>
Item 4 – Advisory Business .....	4
Firm Description .....	4
Principal Owners .....	4
Research Services .....	4
Item 5 – Fees and Compensation .....	5
Item 6 – Performance Fees and Side-by-Side Management .....	6
Item 7 – Types of Clients .....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Equity Investment Process .....	7
Fixed Income Process .....	7
Item 9 – Disciplinary Information .....	8
Item 10 – Other Financial Industry Activities and Affiliations .....	8
Item 11 – Code of Ethics .....	9
Item 12 – Brokerage Practices .....	9
Research and Other Soft Dollar Benefits .....	9
Choosing a Custodian .....	9
Directed Brokerage .....	13
Trade Allocations .....	13
Item 13 – Review of Accounts .....	13
Item 14 – Client Referrals and Other Compensation .....	14
Solicitor Arrangements - External .....	14
Solicitor Arrangements - Internal .....	14
Item 15 – Custody .....	14
Item 16 – Investment Discretion .....	14
Item 17 – Voting Client Securities .....	15
Proxy Voting Policy .....	15
Class Action Filing .....	21
Item 18 – Financial Information .....	21
Privacy Notice .....	21

---

## Item 4 – Advisory Business

---

### Firm Description

Granite was founded in 1983 as E. R. Taylor Investments. In 2001, the firm was acquired by the publicly traded firm Boston Private Financial Holdings, Inc. It was a wholly owned subsidiary. In April 2009, Granite Investment Advisors Holdings, Inc. purchased the firm from Boston Private Financial Holdings, Inc. and changed the name to Granite Investment Advisors, Inc. The firm has offices in Concord and Canaan NH.

---

### Principal Owners

Granite is owned by its three principals including Scott Schermerhorn, CEO and Timothy Lesko who own 25% or more of the parent company, Granite Investment Advisors Holdings, Inc.

---

### Types of Advisory Services

#### Investment Management Services – Separate Accounts

Granite is an investment advisor that manages client portfolios on a discretionary basis. Discretionary means that upon signing a contract with Granite, clients give us the authority to execute trades (buys and sells) of securities on their behalf. Granite will take instruction to restrict certain securities from being traded on the client's behalf. With the completion of the asset purchase of PEG Capital Management on 6/30/15, the assets under management was \$715,234,166, with \$8,447,101 being non-discretionary.

Granite builds and manages customized investment portfolios for affluent individuals, corporations and non-profit institutions. Clients may impose restrictions on our ability to implement particular types of investments.

Granite also offers financial planning services to our investment management clients.

#### Investment Management Services – The Granite Value Fund

Granite has been retained to serve as investment advisor to the Granite Value Fund ("the Fund"). Granite has overall supervisory management responsibility for the general management and investment of the Fund's portfolio. Huntington Asset Services, Inc. and its affiliates provide administration, accounting, transfer agency and custodial services to the Fund. ***Distributed by Unified Financial Securities, Inc., 2960 North Meridian Street, Suite 300, Indianapolis, IN 46208. (Member FINRA).***

***You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus contains this and other information about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus by calling 1-888-442-9893 or by writing Huntington Asset Services, Inc., the Fund's transfer agent, at P.O. Box 6110, Indianapolis, Indiana 46206-6110. Past performance is no guarantee of future results.***

### Research Services

Granite provides research and portfolio investment recommendations to certain institutions for use and implementation by the institution's trust department or internal investment management department.

---

## Item 5 – Fees and Compensation

---

Fees are determined based on the type, size and composition of the account. Fees are billed quarterly for all clients.

### Private Clients

Fees payable by the **clients** for the services of Granite shall be calculated on the assessed market value of all assets. Any mutual funds managed by Granite will be deducted from the assessed market value of assets. Fees will be based on the tiered schedule as follows:

First \$500,000 – 140 basis points (1.40% annually)  
Next \$500,000 – 120 basis points (1.20% annually)  
Next \$1 million – 100 basis points (1.000% annually)  
Balance over \$2 million – 75 basis points (0.750% annually)

### Institutional Clients

Fees payable by the **institutional client (introduced by a professional investment consultant)** for the services of Granite shall be calculated on the assessed market value of all assets. Any mutual funds managed by Granite will be deducted from the assessed market value of assets. Fees will be based on the tiered schedule as follows:

First \$10 million - 75 basis points (0.75% annually)  
Next \$15 million - 65 basis points (0.65% annually)  
Next \$25 million - 55 basis points (0.55% annually)  
Next \$50 million - 45 basis points (0.45% annually)  
Balance over \$100 million - 35 basis points (0.35% annually)

### Broker-Dealer Clients

Fees payable by the **broker-dealer platform client (accounts from Broker Dealer referral platforms)** for the services of Granite shall be calculated on the assessed market value of all assets. Any mutual funds managed by Granite will be deducted from the assessed market value of assets. Fees will be based on the tiered schedule as follows:

First \$1 million – 95 basis points (0.95% annually)  
Next \$1.5 million – 85 basis points (0.85% annually)  
Next \$7.5 million – 75 basis points (0.75% annually)  
Balance over \$10 million – 50 basis points (0.50% annually)

It is agreed by the Client that the fee will be payable in advance. Clients can either pay directly or authorize Granite to have the fees debited directly from their account with their custodian (broker/bank). Invoices are typically generated in the first month of the quarter and fees are payable upon receipt of invoice. Accounts not managed for a full quarter are billed on a prorated basis. If an account closes in a quarter, the fee will also be prorated and the client will be issued a refund for any fee paid in advance, as applicable. Accordingly, any earned, unpaid fees will be due and payable. All relationships are “at will” and a client may terminate their account at any time by notifying this office - preferably in writing.

Granite's fees do not include brokerage commission or other fees or charges associated with securities transactions implemented with or through a brokerage firm, markups or mark-downs in principal transactions, deferred sales charges, stock exchange fees, wire transfer or related processing fees, transfer taxes or other charges mandated by law or regulation, all of which will be charged to the Client in addition to our fee. Granite does not receive any portion of these fees but may receive research services (see Brokerage Practices).

Granite may negotiate the amount of the Client's fee depending upon circumstances including but not limited to account composition and complexity, other client, employee, or family relationships, etc. which may result in different fees being charged by Granite for Client accounts similar in composition and objective.

Granite may also manage accounts beneficially owned by employees or family members and may reduce or waive its normal fee in these circumstances. Granite may modify its standard fee arrangement causing certain clients to pay lower or no management fees.

---

#### Item 6 – Performance Fees and Side-by-Side Management

---

Granite does not charge any performance-based fees.

---

#### Item 7 – Types of Clients

---

Our clients include private individuals, couples, and families, foundations, endowments, corporations, investment companies, pension plans, profit sharing plans, and public employee retirement funds.

Generally, a minimum investment of \$1,000,000 is required. The acceptance of a client below this minimum will be determined by a number of factors including but not limited to: client's assets available for management, choice of custodian, expected level of service, preexisting account relationships, and minimum account fees.

---

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

---

Granite offers the following investment strategies:

1. The **Equity Strategy** is comprised mainly of individual stock holdings. Equity accounts typically hold stocks in a range of 90 to 100% of the total portfolio.
2. The **Balanced Strategy** is comprised of a mix of individual stock and bond holdings. Balanced accounts typically hold stocks in a range of 40 to 70%, and bonds and cash in a range of 30 to 60% of the total portfolio.
3. The **Dividend Growth Strategy** is comprised of individual stock and bond holdings with an emphasis on companies that offer unique and distinctive products and services that give them a strong market franchise.
4. The **ETF Strategy** is comprised of a mix of exchange traded funds ("ETF's") representing an asset allocation based on client needs. Based on our research we choose specific ETF's for fixed income and equity asset classes using sector diversification and complimented by tactical asset reallocation.
5. The **Mutual Fund Strategy** is comprised of the Granite Value Fund as the core equity component. Based on client needs we may incorporate individual fixed income securities or ETF's to achieve an appropriate tactical asset allocation.
6. The **Global Asset Allocation Strategy** is comprised of any other Granite strategy with the addition of global ETF's
7. The **Domestic Large Cap Strategy** is comprised of a mixture of individual stocks, ETF's and mutual funds including but not limited to the Granite Value Fund representing an asset allocation based upon the client's needs and account size.

8. The **Domestic All Cap Strategy** is comprised of a mixture of individual stocks, ETF's and mutual funds including but not limited to the Granite Value Fund representing an asset allocation based upon the client's needs and account size.

9. The **Global Strategy** is comprised of a mixture of individual stocks, ETF's and mutual funds including but not limited to the Granite Value Fund representing an asset allocation based upon the client's needs and account size.

We work with each client to evaluate which strategy is best for them based on their **investment objectives** (what they intend to use the money for), **time horizons** (when they need the money), and **risk tolerance** (how do they feel about the possibility of losing money, can they handle market volatility).

Regardless of strategy the possibility of loss is inherent in any investment.

Granite uses fundamental and quantitative analysis of individual equity (stock) and fixed income (bond) holdings to create investment portfolios for clients.

### **Equity Investment Process**

**Step 1: Screening** – We start with companies with market capitalization greater than \$2.5 billion. We screen for companies with above average or improving profitability selling at below average valuations. We analyze the resulting companies looking for the most profitable (or anticipation of profitability), change dynamics, and most undervalued using valuation and return on capital (ROC) measurements.

**Step 2: Fundamental Analysis** - We assess a company's competitive position, analyze financial statements, and interview company management, customers, and competitors.

**Step 3: Valuation Analysis** – We determine the fair value of a company using a discounted free cash flow model. We purchase stock in companies that we believe to be at least 25% undervalued.

**Step 4: Portfolio Construction** - We build portfolios with concentrated holdings to capture excess returns. A typical portfolio will hold 30 to 35 positions with an average position size of 3 to 5%. We diversify exposure across economic sectors.

### **Fixed Income Process**

**Step 1: Determine a Client Specific Strategy** - We review each client's annual income needs, tax status, and risk tolerance. We choose among US Treasury, US Government Agencies, investment grade corporate bonds, tax-free municipal bonds and Exchange Traded Funds (ETF's).

**Step 2: Portfolio Positioning** - We position our portfolios along the yield curve based on our assessment of where we are in the economic cycle, the level of nominal and real rates compared to historical data, the shape of the yield curve, the outlook for inflation, and the direction of monetary policy.

**Step 3: Portfolio Construction** - We examine the actual terms of the securities themselves including call protection, sinking fund provisions, and collateral (if any). For municipals we also examine the relative strength of the taxing authority behind the bonds, i.e. are the bonds general obligations of the state of issuance backed by its full taxing authority, or is the bond backed by a specific revenue stream based on consumer usage of a public facility.

### **Dividend Growth Process**

**Step 1: Idea Generation:** The primary emphasis is placed on the identification and selection of companies that offer unique and distinctive products or services that give them a strong market franchise. New ideas originate from many sources including, but not limited to company press releases, conference

calls, investor focused presentations, research reports, opinions of independent /3<sup>rd</sup> party securities analysts, financial publications, newspapers, magazines, and internet subscriptions.

**Step 2: Fundamental Analysis:** We assess a company's competitive position within its industry and the market, analyze financial data, dividend history, general economic factors and management interviews.

**Step 3: Portfolio Construction:** We have found that at any particular point in time, opportunities in the investment world are usually concentrated within a limited number of industries and companies. We seek to maximize opportunity by investing only in what we consider attractively valued. We build portfolios with concentrated holdings to capture excess returns. We diversify exposure across economic sectors and industry groups.

### **ETF Process**

**Step 1:** Determine the instrument that represents the sector or asset class needed.

**Step 2:** Ensure the security is liquid, meaning that it can be traded on a daily basis.

**Step 2:** Review the underlying costs.

### **Outside Analysis**

Granite may also use outside analytical tools such as Morningstar, Empirical or FactSet for additional research.

### **Risk of Loss**

Investing in securities such as the types of securities used by Granite in managing client assets or providing investment advice involves the potential risk of loss in value from the original purchase date of the security. We typically invest in widely traded large capitalization companies which we believe are selling at a discount to the market. We invest for the long-term; our average holding period for the securities in our portfolios is four years which means that we do not incur unusual trading costs. Below are several potential risks:

- **Systematic risks (Economic risk, Market risk):** These are the risks associated with actual or anticipated changes in interest rates, domestic and global inflation, foreign currency and exchange rates, sociopolitical events such as war, terror attacks, pandemics or the like, and lastly liquidity, which is simply the availability of a willing buyer for the asset or security you are wishing to sell.
- **Nonsystematic risks (Company or investment specific risk):** Risk(s) that poor management decision making, internal personnel or financial scandal, or that new or unexpected competition will negatively affect the company's revenues, profits or image. In many instances it is impossible for an investor to know all things about a company or stay fully abreast of the frequent changes that occur. These unknowns can also lead us to form an incorrect investment thesis on a company or security.
- **Idiosyncratic risk:** The continual adjustment of the price of a debt or equity security to fresh information entering the market.

### **Item 9 – Disciplinary Information**

There are no reportable items for this section.

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

Granite does not participate in any other industry business activities.

---

## Item 11 – Code of Ethics

Granite employees are governed by a Code of Ethics. The Code of Ethics covers the following areas: restrictions on personal securities transactions, reporting requirements, use of inside information, other conflicts of interest, other transactions, background information and review of reports and oversight of the Code of Ethics. A copy of the entire Code is available upon request.

No employee may purchase any equity securities which have a market capitalization greater than or equal to \$2.5 billion or sell any securities which are being bought or sold on behalf of clients until one trading day after such buying or selling is completed or cancelled. Situations may arise where cash inflows and outflows may force portfolio managers to initiate previously unforeseen purchase or sale programs of securities on behalf of client accounts. Should a security be bought or sold for a client account under these circumstances, employees who may have bought or sold the same security within one trading day may be deemed not to be in violation of the Code of Ethics. Our employees may buy and sell the same securities that we purchase or sell on our Clients' behalf. This presents a conflict of interest between our employees' own financial interest and the best interest of our Clients. We have addressed this conflict of interest by imposing trading restrictions under the Code of Ethics as described above.

---

## Item 12 – Brokerage Practices

### Research and Other Soft Dollar Benefits

We earn soft-dollars when we trade with particular custodians. Our soft-dollar ratio is 1.5 to 1.0; meaning for every \$1 we expense, we must pay them \$1.50 in soft dollars. The services we are using soft-dollars for are used by our research staff for the benefit of all clients in the selection of securities to be purchased or sold.

Some broker/dealers may be selected who provide additional research services to Granite. These research services may include advice concerning the value and availability of securities, the advisability of investing in, purchasing or selling securities, and the analysis of reports concerning issuers, industries, securities, economic factors and trends. Some of these services may be of value to Granite in advising its clients. The advisory fees paid to Granite by its clients are not reduced because it receives the services mentioned above.

The broker/dealers who provide these research services to Granite may receive commissions which are slightly higher than the amount of commissions which other broker/dealers may have charged for effecting the same transactions, however, this will only occur if Granite had determined that this additional compensation is reasonable in relation to the value of the firms' brokerage and research services and when viewed in terms of the particular transactions and Granite overall advisory responsibilities with respect to its clients. Certain services provided to Granite may include administrative support services or products, and in this case, Granite makes a reasonable, good faith allocation of expenses between research services to be paid in soft dollars and administrative services or products for which it pays directly; however clients should be aware that this procedure may pose a conflict of interest between Granite's obligation to achieve best execution on the Clients behalf and its desire to obtain certain administrative services or products.

All brokerage commissions will be borne by the client and are not included as part of the advisory fees paid to Granite.

### Choosing a Custodian

Clients may select their own broker or custodian. If there is no present relationship, several alternatives are suggested. We will only suggest relationships where discounts are available, although these may not be the lowest available.

How Granite selects brokers/custodians that we recommend:

Granite seeks to recommend a custodian/broker that will hold your assets and execute transactions on terms that are, overall, most advantageous when compared with other available providers and their services. We consider a wide range of factors, including:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear, and settle trades ( buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below

Granite may receive training, additional benefits and/or services from custodians that are not available to retail clients based on Granite's client asset levels. The benefits may be used for all clients and not just those with assets at that custodian.

Debra Wentworth, Principal, Chief Compliance Officer (CCO) & VP Operations, of Granite serves on the Schwab Advisor Services Technology, Operations and Service Advisory Board (the "Board"). As described earlier Granite may recommend that clients establish brokerage accounts with certain custodians and these recommendations may include Charles Schwab & Co., Inc. ("Schwab") to maintain custody of the clients' assets and effect trades for their accounts. 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 three-year terms. Mrs. Wentworth's term ends December 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 once per year and has periodic conference calls scheduled as needed. Board members are not compensated by Schwab for service, but Schwab does pay for or reimburse Board members' travel, lodging, meals, and other incidental expenses incurred in attending Board meetings.

**Use of Schwab as Custodian:**

Granite may recommend that our clients use Schwab, a registered broker-dealer, member SIPC, as the qualified custodian to maintain custody of their assets. Granite is independently owned and operated and is not affiliated with Schwab.

Schwab will hold your assets in a brokerage account and buy and sell securities upon instruction. While we may recommend that the client use Schwab as custodian/broker, it is the client which makes the decision whether to do so or not and which establishes an account with Schwab by entering into an account agreement directly with them. Granite does not open the account for the client, although we may assist you in doing so. Even though a client may establish an account at Schwab, Granite may still use other brokers to execute trades for the client

### **Client brokerage and custody costs**

For our clients' accounts that Schwab maintains, Schwab generally does not charge the client separately for custody services but is compensated by charging the client commissions or other fees on trades that it executes or that settle into your Schwab account. In addition to commissions or other fees, Schwab charges the client a flat dollar amount of \$25 per trade as a "prime broker" or "trade away" fee or the client can enroll in Asset Based Pricing which Granite negotiated at 2 basis points annually which is in place of the "trade away fee" for each trade that Granite has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited or "settled" into the client's Schwab account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, Granite has Schwab execute most trades for our clients who maintain an account with Schwab. We have determined that having Schwab execute most trades is consistent with our duty to seek "best execution" of those clients' trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above.

### **Products and services available to us from Schwab**

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms such as Granite. They provide us and our clients with access to Schwab's institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us. Following is a more detailed description of Schwab's support services:

Services that benefit the client - Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which Granite might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. These services described in this paragraph generally benefit the client and the client's account.

Services that may not directly benefit you - Schwab also makes available to Granite other products and services that benefit us but may not directly benefit the client or the client's account although these products and services assist us in managing and administering our clients' accounts. These services include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

Services that generally benefit only Granite - Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all

or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

### **Granite's interest in Schwab's services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. We may have an incentive to recommend that a client maintains an account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services as described in the factors considered by us in selecting brokers/custodians as described above and not Schwab's services that benefit only us.

### **Use of Fidelity as a Custodian:**

Granite has an arrangement with National Financial Services LLC, and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity") through which Fidelity provides Granite with Fidelity's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like Granite in conducting business and in serving the best interests of their clients but that may also benefit Granite.

Granite is independently operated and owned and is not affiliated with Fidelity.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables Granite to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers.

As part of the arrangement, Fidelity also makes available to Granite, at no additional charge, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, or other services as selected by Granite within specified parameters. These services include, but are not limited to, third party research, publications, access to educational conferences, roundtables and webinars, practice management resources, access to consultants and other third party service providers who provide a wide array of business related services and technology with whom we may contract directly. These services are used by Granite to manage accounts for which it has investment discretion. Without this arrangement, Granite might be compelled to purchase the same or similar services at its own expense.

As a result of receiving such services for no additional cost, Granite may have an incentive to continue to use or expand the use of Fidelity's services. Granite examined this potential conflict of interest when it chose to enter into the relationship with Fidelity and has determined that the relationship is in the best interests of its clients and is consistent with its duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Granite determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Granite will seek competitive rates, to the benefit of all clients, it may not necessarily obtain the lowest possible commission rates for specific client account transactions. Although the investment research products and services that may be

obtained by Granite will generally be used to service all of its clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account.

### **Directed Brokerage**

If instructed by a client to do so, Granite (the "Advisor") will affect all transactions on such clients' behalf through a specified broker, unless it is not possible to effect a particular brokerage transaction through such broker. By effecting brokerage transactions through a specified broker for a particular client, such client may not receive best execution in certain transactions for reasons including, but not limited to, the following: (i) the Advisor will not negotiate brokerage commissions on behalf of such client; (ii) the Advisor may be indirectly compensating such brokers when they charge commission rates higher than those that that Advisor negotiates for other clients; (iii) such client will forgo benefits from savings on execution costs that may otherwise be obtained, such as volume discounts received by batching or aggregating client orders; and (iv) the client may incur brokerage charges which are higher than those incurred by other clients of the Advisor. In addition, there is a potential conflict of interest when a client referred to us by a broker directs us to use that broker because we have an interest in obtaining future referrals from that broker, and this desire for future referrals may be in conflict with our obligation to achieve best execution on behalf of the client.

When the account is held by the Client at a bank, generally all trades will be executed at the prevailing institutional rate for the size of the account. For some clients, the location of the brokerage firm or bank may also be a consideration.

### **Trade Allocations**

Although investment decisions for each of our clients will be made by us independently from the investment recommendations or determinations made on behalf of other clients, when investments are deemed appropriate for more than one client, so that the same security will be purchased or sold at or about the same time for more than one client we may aggregate or "bunch" the orders. We will not aggregate orders unless we believe that aggregation is in the best interests of all clients involved, is consistent with our duty to seek best execution for its clients and is consistent with the terms of our investment advisory agreement with each client for whom orders are being aggregated.

Nevertheless, there is no assurance that aggregation of orders will benefit all clients equally, and in some instances combined orders could adversely affect the price or volume of a security. When orders are aggregated, the actual prices and transaction costs applicable to the trades will be averaged, and the accounts will be deemed to have purchased or sold their proportionate share of the securities involved at the average price so obtained. For certain transactions involving fixed income securities, it may not be beneficial to the clients involved in the transaction to allocate the securities pro rata based on the original order(s), as in some cases this could result in fractional bonds. In these instances, we will re-evaluate the suitability of the investment for the accounts involved in the order(s) and allocate accordingly. For all aggregated orders, a pre-execution aggregation statement, indicating the participating client accounts and the method of allocation among accounts if other than pro rata, will be used. If an order must be allocated in a manner different from that on the aggregation statement, all participating clients will receive fair and equitable treatment.

### **Item 13 – Review of Accounts**

Individual security holdings are reviewed on a continual basis in light of earnings and dividend reports, merger/takeover announcements, current business and economic reports, credit market developments and other relevant developments that may affect the current and prospective value of specific securities and their suitability for individual clients.

Accounts are reviewed quarterly for objective and discretion. The accounts are reviewed first by Debra Wentworth and then by the primary portfolio manager.

Accounts are reviewed when the investment committee decides to purchase a stock. This review is to ensure that the security is appropriate for that account and its objective.

We communicate with our clients in several ways. On a quarterly basis, we provide clients with a letter that contains comments on current economic and market conditions along with reports specific to their accounts. When a new security is purchased, an Investment Thesis is sent to the clients for whom it was purchased.

We maintain a website and blog that can be accessed by going to either [www.grainteinv.com](http://www.grainteinv.com) or [www.graniteinvestmentadvisors.com](http://www.graniteinvestmentadvisors.com).

---

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

---

### **Solicitor Arrangements - External**

Granite has a contractual agreement with Strategic Pension Planning, LLC for which it compensates Strategic 33% of the quarterly fee billed to the client for providing the client referrals to Granite. Strategic Pension Planning agrees to hold in confidence and not to disclose or use for its own benefit any confidential information of Granite.

### **Solicitor Arrangements - Internal**

Granite may compensate certain employees who refer client advisory business to the Company. Therefore, the employee will have a financial interest in the Client's choosing to retain Granite for services. Any commission/referral payments made to such employees are paid directly by Granite and will not result in any increased fees or charges to the client.

---

## **Item 15 – Custody**

---

With the exception of being given the ability to deduct management fee payments from client accounts, Granite's contract provides that under no other circumstances will it obtain direct custody of any client funds or securities.

It is recommended that clients carefully review the custodial statements that they receive with the reports prepared by Granite. Our reports may vary from the custodial statements based on accounting procedures, reporting dates or valuation methodologies. All questions regarding variations can be directed to either your custodian as well as either your portfolio manager or the operations manager. Granite reports quarterly to its clients however if questions arise prior to the quarterly distribution, we certainly want to hear from you.

In limited circumstances, a principal or employee of Granite may serve as a trustee for a trust which may or may not be a client of Granite. Trustees in such situations do not receive a fee.

---

## **Item 16 – Investment Discretion**

---

Clients sign a contract giving Granite discretionary authority to execute the purchase and sale of securities on their behalf. Discretion is exercised in a manner consistent with the investment objectives set out at the beginning of an investment management relationship and Clients can impose restrictions on the extent of this discretionary authority. It is important to communicate any changes in your investment objectives.

---

**Item 17 – Voting Client Securities**

---

**Proxy Voting Policy**

**POLICY**

Granite Investment Advisors, Inc. believes that corporate proxies have economic value and we encourage clients to be involved in the investment process by voting proxies on the stocks in their portfolio. We assume that clients choose to vote their proxies. Granite will vote all proxies it receives. For ERISA accounts, the plan documents should state clearly who has authority and responsibility to vote all proxies. As of April 3, 2013 Granite began using the Glass Lewis & Co. Proxy Paper Guidelines – Investment Manager Policy. Contact Debbie Wentworth, Chief Compliance Officer, for a copy of Granite's voting history.

Generally, Granite does not allow Clients to instruct us how to vote specific proxies although we will consider such instructions upon request. Clients may obtain a complete copy of our policies and procedures for voting proxies and a record of how we have voted the proxies for a particular client's investments by contacting us through the contact information included on the cover page of this brochure.

**PROCEDURE**

When a client elects for Granite to assume the responsibility of voting proxies, the following procedures will be in place:

- Granite will work to have all proxies consolidated electronically at Broadridge Investor Communication Solutions, Inc.
- Granite has contracted Broadridge to provide voting recommendations in accordance with the Glass Lewis & Co. Proxy Paper Guidelines – Investment Manager Policy. The proxies will be voted using the recommendation unless we choose to override that recommendation.
- If paper proxies are received we will determine the Glass Lewis & Co. Proxy Paper Guidelines – Investment Manager Policy recommendation and use that information to vote the proxy.
- If there is not a recommendation then we will vote the proxy with company management.
- Upon written request, a quarterly review of proxy activity will be provided. It will include the following information:
  - Companies issuing proxy material
  - Issues and/or shareholder proposals
  - Our vote

**SUMMARY OF POLICY GUIDELINES**

As of April 3, 2013 we began using the Glass Lewis & Co. Proxy Paper Guidelines – Investment Manager Policy.

A copy of the policy follows this page.

# PROXY PAPER™ GUIDELINES

2015 PROXY SEASON

## INVESTMENT MANAGER POLICY

AN ADDENDUM TO THE PROXY PAPER POLICY GUIDELINES

For more information about Glass Lewis' policies or our approach to proxy analysis, please visit [www.glasslewis.com](http://www.glasslewis.com) or contact our Chief Policy Officer, Robert McCormick, at (415) 678-4228.



The Glass Lewis Investment Manager Guidelines are designed to maximize returns for investment managers by voting in a manner consistent with such managers' active investment decision-making. The guidelines are designed to increase investor's potential financial gain through the use of the shareholder vote while also allowing management and the board discretion to direct the operations, including governance and compensation, of the firm.

The guidelines will ensure that all issues brought to shareholders are analyzed in light of the fiduciary responsibilities unique to investment advisors and investment companies on behalf of individual investor clients including mutual fund shareholders. The guidelines will encourage the maximization of return for such clients through identifying and avoiding financial, audit and corporate governance risks.

## MANAGEMENT PROPOSALS

### ELECTION OF DIRECTORS

In analyzing directors and boards, Glass Lewis' Investment Manager Guidelines generally support the election of incumbent directors except when a majority of the company's directors are not independent or where directors fail to attend at least 75% of board and committee meetings. In a contested election, we will apply the standard Glass Lewis recommendation.

### AUDITOR

The Glass Lewis Investment Manager Guidelines will generally support auditor ratification except when the non-audit fees exceed the audit fees paid to the auditor.

### COMPENSATION

Glass Lewis recognizes the importance in designing appropriate executive compensation plans that truly reward pay for performance. We evaluate equity compensation plans based upon their specific features and will vote against plans that would result in total overhang greater than 20% or that allow the repricing of options without shareholder approval.

The Glass Lewis Investment Manager Guidelines will follow the general Glass Lewis recommendation when voting on management advisory votes on compensation ("say-on-pay") and on executive compensation arrangements in connection with merger transactions (i.e., golden parachutes). Further, the Investment Manager Guidelines will follow the Glass Lewis recommendation when voting on the preferred frequency of advisory compensation votes.

### AUTHORIZED SHARES

Having sufficient available authorized shares allows management to avail itself of rapidly developing opportunities as well as to effectively operate the business. However, we believe that for significant transactions management should seek shareholders approval to justify the use of additional shares. Therefore shareholders should not approve the creation of a large pool of unallocated shares without some rationale of the purpose of such shares. Accordingly, where we find that the company has not provided an appropriate plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically vote against the authorization of additional shares. We also vote against the creation of or increase in (i) blank check preferred shares and (ii) dual or multiple class capitalizations.

### SHAREHOLDER RIGHTS

Glass Lewis Investment Manager Guidelines will generally support proposals increasing or enhancing shareholder rights such as declassifying the board, allowing shareholders to call a special meeting, eliminating supermajority voting and adopting majority voting for the election of directors. Similarly, the Investment Manager Guidelines will generally vote against proposals to eliminate or reduce shareholder rights.



## MERGERS/ACQUISITIONS

Glass Lewis undertakes a thorough examination of the economic implications of a proposed merger or acquisition to determine the transaction's likelihood of maximizing shareholder return. We examine the process used to negotiate the transaction as well as the terms of the transaction in making our voting recommendation.

## SHAREHOLDER PROPOSALS

We review and vote on shareholder proposals on a case-by-case basis. We recommend supporting shareholder proposals if the requested action would increase shareholder value, mitigate risk or enhance shareholder rights but generally recommend voting against those that would not ultimately impact performance.

## GOVERNANCE

The Glass Lewis Investment Manager Guidelines will support reasonable initiatives that seek to enhance shareholder rights, such as the introduction of majority voting to elect directors, elimination in/reduction of supermajority provisions, the declassification of the board and requiring the submission of shareholder rights' plans to a shareholder vote. The guidelines generally support reasonable, well-targeted proposals to allow increased shareholder participation at shareholder meetings through the ability to call special meetings and ability for shareholders to nominate director candidates to a company's board of directors. However, the Investment Manager Guidelines will vote against proposals to require separating the roles of CEO and chairman.

## COMPENSATION

The Glass Lewis Investment Manager Guidelines will generally oppose any shareholder proposals seeking to limit compensation in amount or design. However, the guidelines will vote for reasonable and properly-targeted shareholder initiatives such as to require shareholder approval to reprice options, to link pay with performance, to eliminate or require shareholder approval of golden coffins, to allow a shareholder vote on excessive golden parachutes (i.e., greater than 2.99 times annual compensation) and to clawback unearned bonuses. The Investment Manager Guidelines will vote against requiring companies to allow shareholders an advisory compensation vote.

## ENVIRONMENT

Glass Lewis' Investment Manager Guidelines vote against proposals seeking to cease a certain practice or take certain action related to a company's activities or operations with environmental. Further, the Glass Lewis' Investment Manager Guidelines generally vote against proposals regarding enhanced environment disclosure and reporting, including those seeking sustainability reporting and disclosure about company's greenhouse gas emissions, as well as advocating compliance with international environmental conventions and adherence to environmental principles like those promulgated by CERES.

## SOCIAL

Glass Lewis' Investment Manager Guidelines generally oppose proposals requesting companies adhere to labor or worker treatment codes of conduct, such as those espoused by the International Labor Organization, relating to labor standards, human rights conventions and corporate responsibility at large conventions and principles. The guidelines will also vote against proposals seeking disclosure concerning the rights of workers, impact on local stakeholders, workers' rights and human rights in general. Furthermore, the Investment Manager Guidelines oppose increased reporting and review of a company's political and charitable spending as well as its lobbying practices.

## DISCLAIMER

This document sets forth the proxy voting policy and guidelines of Glass, Lewis & Co., LLC. The policies included herein have been developed based on Glass Lewis' experience with proxy voting and corporate governance issues and are not tailored to any specific person. Moreover, these guidelines are not intended to be exhaustive and do not include all potential voting issues. The information included herein is reviewed periodically and updated or revised as necessary. Glass Lewis is not responsible for any actions taken or not taken on the basis of this information. This document may not be reproduced or distributed in any manner without the written permission of Glass Lewis.

*Copyright © 2014 Glass, Lewis & Co., LLC. All Rights Reserved.*

.....  
**SAN FRANCISCO**

Headquarters  
Glass, Lewis & Co., LLC  
One Sansome Street  
Suite 3300  
San Francisco, CA 94104  
Tel: +1 415-678-4110  
Tel: +1 888-800-7001  
Fax: +1 415-357-0200

.....  
**NEW YORK**

Glass, Lewis & Co., LLC  
48 Wall Street  
15th Floor  
New York, N.Y. 10005  
Tel: +1 212-797-3777  
Fax: +1 212-980-4716

.....  
**AUSTRALIA**

CGI Glass Lewis Pty Limited  
Suite 8.01, Level 8  
261 George Street  
Sydney NSW 2000  
Australia  
Tel: +61 2 9299 9266  
Fax: +61 2 9299 1866

.....  
**IRELAND**

Glass Lewis Europe, Ltd.  
15 Henry Street  
Limerick, Ireland  
Phone: +353 61 292 800  
Fax: +353 61 292 899  
.....



---

## **Class Action Filing**

Beginning March 31, 2015 Granite entered into a contract with Broadridge, a company that will review, process and file class actions for all clients. Clients may opt out of this service if they wish to file on their own by contacting Debra Wentworth, Principal, CCO & VP Operations. There is no upfront cost for this service. If there is a class action payment made, a fee of 15% is deducted for the services.

---

## **Item 18 – Financial Information**

Granite does not have any financial impairment that will preclude the firm from meeting its contractual commitments to its clients and we have never filed for bankruptcy.

---

## **Privacy Notice**

At Granite, protecting the privacy and confidentiality of your personal information is important to our employees and to us. We value your business and the trust you put in Granite. To offer you the financial products and services you seek, we collect, maintain and use information about you on a routine basis. To help you better understand how your personal information is protected here at Granite, we are providing you with the following statement describing our practices and policies with respect to the privacy of customer information. In the event you terminate your client relationship with us, or become an inactive client, we will continue to adhere to the policies and practices described in this notice.

### **Information We Collect**

As a trusted investment advisor, we collect, retain and use nonpublic personal information about individual clients to provide products and services to our clients. We may collect nonpublic personal information about you from such sources as: 1. Applications or other forms; 2. Information about your transaction with us, or others.

### **Who Receives Information and Why**

All of the information Granite collects is used for only one purpose: to help deliver the services you've requested, easily and efficiently. It may also permit Granite to design and offer specific products that will be useful to you. Granite does not disclose any non-public personal information about our clients or former clients to anyone, except as permitted by law.

### **Service Providers**

At times, Granite will enter into arrangements with companies or firms whose expertise is essential for Granite's own services to function properly or to complete transactions. For example, Granite works with specialized firms that provide computer consultation. As permitted by law, certain service providers have access to customer information that is necessary to perform these functions. Granite's service providers are required to safeguard your information and use it only for authorized purposes.

### **How We Protect Your Information**

We understand that the protection of your nonpublic personal information is of the utmost importance. Guarding your privacy is our obligation. Granite maintains strict procedures and policies to safeguard your privacy. We restrict employee access to customer information to only those who have a business reason to know such information, and we educate our employees about the importance of confidentiality and client privacy.

(Continued on next page)

**Where to Find Out More**

If you have any questions about our privacy program or the way your information is maintained and used, we would like to hear from you. Please call us at (603) 226-6600, or write to:

Debra Wentworth  
Principal, Chief Compliance Officer (CCO) & VP Operations  
Granite Investment Advisors, Inc.  
6 Eagle Sq., 3<sup>rd</sup> Floor  
Concord, NH 03301

Your trust is important and Granite is committed to protecting your privacy, whether you do business with our company in person, by telephone or by mail. Thank you for choosing Granite.