

Granite Group Advisors, LLC

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This brochure provides information about the qualifications and business practices of Granite Group Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at 203-210-7814 and/or info@granitegroupusa.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 our firm is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. The CRD number for Granite Group Advisors is 127357. Registration with the Securities and Exchange Commission does not imply any particular level of skill or training.

Item 2. Material Changes

This Firm Brochure is our disclosure document prepared according to the United States Securities and Exchange Commission's (SEC) current requirements and rules.

In the future, this Item will discuss specific material changes about our firm and made to the Firm Brochure and provide clients with a summary of such changes.

Pursuant to current SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our firm's fiscal year end. We may further provide other ongoing disclosure information about material changes as necessary.

At the time of this Firm Brochure, March 2016, our firm has no material changes to disclose.

We are updating our assets under management as of December 31, 2015 in this filing.

TABLE OF CONTENTS

| | |
|---|----|
| Item 1 - Cover Page | 1 |
| Item 2 - Summary of Material Changes | 2 |
| Item 3 - Table of Contents..... | 3 |
| Item 4 - Private Client Advisory Business..... | 4 |
| Item 5 - Retirement Plan Consulting Business..... | 5 |
| Item 6 - Performance-Based Fees and Side-By-Side Management..... | 7 |
| Item 7 - Types of Clients..... | 7 |
| Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss..... | 8 |
| Item 9 - Disciplinary History..... | 9 |
| Item 10 - Other Financial Industry Activities and Affiliations..... | 9 |
| Item 11 - Code of Ethics..... | 10 |
| Item 12 - Brokerage Practices..... | 11 |
| Item 13 - Review of Accounts..... | 12 |
| Item 14 - Client referrals and Other Compensation..... | 12 |
| Item 15 – Custody..... | 13 |
| Item 16 - Investment Discretion..... | 13 |
| Item 17 - Voting Client Securities..... | 14 |
| Item 18 - Financial Information. | 14 |

Item 4. Private Client Advisory Business

Granite Group Advisors, LLC ("Granite Group") was formed in July 2003 to, among other things, provide discretionary and non-discretionary investment-related consulting services. We assist clients in asset allocation and investment selection among various asset classes and sub-asset classes, including equities, fixed income, real estate, hedge funds, funds of hedge funds, private equity and other asset classes. Within each asset class, we recommend independent investment managers, and for certain clients, private investment funds (e.g., hedge funds, funds of hedge funds, private equity funds, real estate funds and others).

As used in this brochure, the words "we", "our" and "us" refer to Granite Group, and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm.

Our operational structure is designed to utilize independent custodians, independent managers and Granite Group Advisors to create a safer and more transparent process for our private clients. The client's independent investment managers are only allowed to place trades in an assigned account. At no point are managers allowed to withdraw funds with exception of their pre-approved fee. This is a much safer operating structure than traditional institutions when the firm is the manager, advisor and custodian.

We are engaged on a discretionary basis to engage and terminate independent investment managers on behalf of client accounts, and to implement customized allocations among asset classes, in our discretion, consistent with the client's investment objective(s). Such investment managers will provide active portfolio management with respect to the assets that are allocated to them pursuant to their specific investment strategies and styles. On a more limited basis, we may be engaged to directly purchase and sell individual debt, equity and/or fixed income securities, mutual funds, exchange-traded funds and call writing in accordance with the client's designated investment objective(s). All securities will be held in the client's name.

Fees and Compensation

We may waive our account minimums and/or annual fees, in our sole discretion and charge different investment management fees based upon certain criteria. For example, we may consider anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, and negotiations with client, among other things. The Consulting Agreement between us and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the agreement. Our consulting fee shall be prorated on quarterly basis in advance and debited through the date of termination.

Fees and Compensation: Private Clients

Clients may choose to compensate Granite Group for its advisory services through a *fixed annual dollar* amount (which will be assessed irrespective of the amount of such client's assets under management with us) or *through an asset-based fee*. Our annual asset-based advisory fees are set forth in the table below and are applicable to both discretionary and non-discretionary advisory services. *Granite Group does not receive any direct or indirect compensation from any investment manager, vendor, or any other source other than investment research.*

| <u>Assets Under Management:</u> | <u>Private Clients</u> |
|---|------------------------|
| Greater than \$10 million and up to \$20 million | 0.60% |
| Greater than \$20 million and up to \$50 million | 0.50% |
| Greater than \$50 million and up to \$100 million | 0.40% |
| Greater than \$100 million | 0.30% |

The private client schedule above is not a graduated fee schedule. Once a client's assets under management exceed a dollar value threshold, the fee to be assessed will be applied to all of the assets held in a client account. Clients may request access to certain administrative and performance reporting tools which, among other things, aggregate a client's holdings and manager allocations in a single place. Clients will be charged an additional three basis points multiplied by the market value of their assets under management with us to access such services.

Granite Group's fees for private clients are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers and other financial service firms such as custodial fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Granite Group Advisors does not receive any of the above potential fees directly or indirectly other than the client's preapproved consulting fee.

Private Clients will bear the fees of third-party portfolio managers and other fees assessed by mutual funds, exchange-traded funds and private investment funds (which typically include investment management fees and/or other operational expenses). Fees for traditional equity managers managing client assets in a separate account typically range from between 0.40% to 0.95%. Fees for traditional fixed income managers managing client assets in a separate account typically range from 0.15% to 0.25%. Fees of non-traditional investment managers (e.g., hedge fund and other private fund managers) typically consist of an asset-based management fee ranging from 0.5%-2.5% per year of assets under management, and a performance-based fee or allocation ranging from 10%-25% of net profits achieved by the private fund or separate account during a particular year, typically on a cumulative high-water mark basis. In some cases, a private investment fund may also bear its allocable share of the expenses of its investment manager or sponsor. The foregoing fees charged by the manager are incurred by the client and additional to the fees charged by Granite Group Advisors. We do not receive referral fees from any independent manager or private investment fund. Other Granite fees may include performance reporting by a third party provider (up to .03%). We actively advocate on behalf of the client for the possible institutional rate fees available in the market place.

Our annual investment private client management fee is prorated and paid quarterly, in advance. If a client chooses to pay an asset-based fee, the quarterly fee will be based upon the market value of the assets on the last business day of the previous calendar quarter. Granite Group, in the rare event and in its discretion, may charge an administrative setup consulting fee for its research, allocation and investment guideline services, if a client terminates our Consulting Agreement prior to the one year anniversary. Any such administrative setup fee may be either the balance of the annual management fee, an hourly rate or a basis point fee based on the client assets, depending on the nature of the client relationship and extent of our firm's services.

Our asset-based management fees are negotiable. Our Consulting Agreement and the custodial/clearing agreement the client enters into with the custodian may authorize the custodian to debit the account for the amount of our investment advisory fee and to directly remit such fee to us in compliance with regulatory procedures. In the limited event that we bill the client directly, payment is due upon receipt of our invoice.

Item 5. Retirement Plan Consulting Business

Granite Group also acts as a pension and retirement plan consultant for various plans. In conjunction with plan sponsors, we assist the plan sponsors to determine the investment objectives and requirements that are appropriate for each plan. We recommend various independent investment alternatives for the plan's review and consideration including, but not limited to, mutual funds, separate account managers/programs and customized model portfolios based on risk (for approval by each plan sponsor) that best fulfill the investment objectives within each investment category. Granite Group also offers a multiple employer plan (MEP) and a separated employee rollover IRA system.

We do not sell bundled solutions offered by other service providers. We do not offer any proprietary products like target date and lifestyle funds. We assist in the selection of independent mutual funds, record-keepers, custodians, TPAs, auditors and additional vendors. We also offer model portfolios which enable employees to make a selection based on their personal set of circumstances.

We offer three levels of service, based on client needs as follows:

- (1) Our 3(21) service is providing a defined investment selection process for mutual funds offered in the retirement plan. We will provide customized analytics on all funds, including proprietary online investment and market information to the plan sponsor and the employees. This will enable them to make a more informed investment decision. We also perform investment seminars for the employees;
- (2) Our second service, includes the above and 5 customized model portfolios based on risk. This is a 3(38) service. That means Granite Group Advisors accepts responsibility for the models.
- (3) Our third service is an “on demand” service. This service allows employees to call Granite Group Advisors directly for an investment clarification on the fund lineup.

| | Service 1 (3)21 Fund lineup and education | Service 2 (3)38 Model Portfolios | Service 3* On Demand Retirement Clients |
|--|--|---|--|
| <u>Assets Under Management:</u> | | | |
| Between \$5 and \$10 million | .30% | .40% | .15% |
| Greater than \$10 million and up to \$20 million | .15% | .30% | .10% |
| Greater than \$20 million and up to \$50 million | .10% | .25% | .10% |
| Greater than \$50 million | flat fee | Flat fee | flat fee |

* The “on demand” service is an addition to the 3(21) or 3(38) service fees.

Fees and Compensation:

Retirement fees are on a graduated schedule. Once a client’s assets under management exceed a dollar value threshold, the lower fee will be applied to the assets above the threshold. Clients will have access to certain administrative and performance reporting tools. Granite Group Advisors acts as a (3)21 advisor to the investments in the plan. For an additional fee, Granite Group Advisors can act as a (3)38 advisor to customized models inside the plan. Granite Group works independently from the mutual fund managers, third party administrators, record-keepers, custodians and auditors. *Granite Group does not receive any direct compensation from any investment manager, vendor, or any other source. Granite Group Acts as a fiduciary to the models and a co-fiduciary to the fund line up in the plan.*

Our annual investment retirement management fee is prorated and paid quarterly, in arrears. If a client chooses to pay an asset-based fee, the quarterly fee will be based upon the average market value of the assets on the last business day of the previous calendar quarter. Our asset-based management fees are negotiable. Our Consulting Agreement and the record-keeping agreement the client enters into with the record-keeper may authorize the record-keeper to debit the account for the amount of our investment advisory fee and to directly remit such fee to us in compliance with regulatory procedures. In the limited event that we bill the client directly, payment is due immediately upon receipt of our invoice.

Granite Group, in the rare event and in its discretion, may charge an administrative setup consulting fee for its research, allocation and investment guideline services, if a client terminates our Consulting Agreement prior to the one year anniversary. Any such administrative setup fee may be either the balance of the annual management

fee, an hourly rate or a basis point fee based on the client assets, depending on the nature of the client relationship and extent of our firm's services.

Principals:

The principals of Granite Group and persons primarily responsible for providing investment advice to client accounts are Mr. Lyle B. Himebaugh III and Mr. Richard C. Zipkis.

- Mr. Himebaugh, born 1963, is the Chief Executive Officer of Granite Group. Mr. Himebaugh received a B.A. in Business/Economics from Washington College in 1986. Prior to forming Granite Group, Mr. Himebaugh was a registered representative at Credit Suisse First Boston ("CSFB") (and Donaldson, Lufkin and Jenrette prior to its acquisition by CSFB) from November 1995 to July 2003.
- Mr. Zipkis, born 1964, is the Chief Investment Officer of Granite Group. He received a B.A. in Psychology at Boston University in 1987. Prior to joining Granite Group in February 2004, Mr. Zipkis worked in various capacities at CSFB, including as Director and Chair of the Money Management Selection Committee and Chief of Performance Analytics (2001 through 2004), Member of the Global Tactical Asset Allocation Committee (2002 through 2004) and Head of Trust Advisory Board at CSFB (2003 and 2004).

Asset under management were calculated as of December 31, 2015 based on information provided by third party custodians as to the value of assets as of that date. As of December 31, 2015, assets under management were \$386,400,000 (\$302,400,000 on a discretionary basis and \$84,000,000 on a non-discretionary basis) Of this total, approximately \$105 million of our assets under management relate to our 401K consulting services.

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

Granite Group does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). Granite Group's fees are calculated as described above and are not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client (Section 205(a)(1) of the Investment Advisers Act of 1940, as amended).

Side-by-side management refers to multiple client relationships where an adviser manages advisory client relationships and portfolios on a simultaneous basis for individuals, businesses, institutions and also mutual funds and/or hedge funds. In such circumstances, potential conflicts of interest may arise by and between the clients and the mutual and hedge funds, e.g., performance fee arrangements. We do not have these relationships, so we do not have side-by-side management potential or actual conflicts of interests.

Adviser has not in the past and currently does not manage any client relationships for mutual funds or hedge funds or charge any performance fees.

Item 7. Types of Clients

Granite Group's services are generally available to individuals, including high net worth individuals, trusts, estates and charitable organizations, business entities and pension and all retirement plans. Granite Group generally requires an account minimum of \$10,000,000 for both discretionary and non-discretionary private client investment management services. A client may terminate the agreement at any time. Granite Group, in its sole discretion, may waive its account minimum and/or annual fee, and charge a different investment management fee based upon certain criteria such as anticipated future earnings capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition and negotiations with the client, among other things.

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

Granite Group prides itself on the highest level of customization for clients. Our process starts with a quantitative and qualitative analysis of independent managers. We look to identify independent investment managers and investment funds, and are guided by a fundamental principle to seek low volatility without sacrificing manager benchmark return, and view the management team's tenure. Our next step is to understand the client's needs and goals. When making allocation recommendations among investment managers and funds, our process emphasizes applied behavioral mathematics in an effort to reduce and eliminate redundancies among multiple managers that would result in excessively concentrated investment positions (or alternatively offsetting positions and exposures that would reduce the ability to optimize investment gains), with an eye toward thorough diversification. Once an overall asset class allocation is complete, we then seek to exercise our independent judgment regarding the timing of allocations toward specific managers, strategies and sub strategies, among other things. Granite Group Partners proactively monitor the managers and the client's allocation to ensure consistency with the client's stated goals.

Allocation

We expect client accounts will have different allocations among managers, asset classes, sector and geographic exposure. Such differences are typically attributable to our level of customization and other factors, including the relative amounts of capital available for new investment; cash inflows and outflows; differing investment guidelines; restrictions and/or policies; and our own independent judgment as to when to implement allocations toward particular markets, asset classes, investment managers, investment strategies and investment styles. Investments frequently are made on behalf of certain clients without participation by all clients, however, we do seek to act in a fair and equitable manner in allocating investment opportunities to all similarly situated client accounts over time.

Independent Investment Managers

Based upon a client's stated investment objectives, we will generally recommend that they use active discretionary independent managers for their assets. We may recommend investment managers who employ traditional and/or alternative investment strategies if they meet our criteria. Traditional investment strategies, often thought of as "long only", generally do not engage in a significant amount of short selling, use a limited amount of or no leverage, and generally focus on traditional asset classes such as equities and fixed income instruments. Investment Managers who use non-traditional strategies also use equities and fixed income instruments in connection with their portfolios, but they also often engage in short-selling, use leverage (to varying degrees, but many use leverage extensively), and use other non-traditional asset classes such as real estate, commodities, derivatives and other structured products, energy-related products and high-yielding securities. Non-traditional investment managers also may employ alternative investment strategies, including but not limited to, long/short equity, equity market neutral, event driven, global macro, convertible arbitrage, distressed securities, and managed futures, all as more fully described herein, as well as other investment products and strategies.

We may recommend that a client engage investment managers that employ a variety of investment strategies, styles and investment techniques and invest and trade in a wide range of securities and other instruments. Such securities and instruments may include, but not be limited to, preferred and common equities, convertible securities, bills, notes, bonds, mortgages, structured securities, repurchase agreements, currencies, commodities, futures contracts, swaps, options, warrants, contracts for difference and derivative instruments.

When reviewing potential investment managers, we use both qualitative and quantitative analysis. Our reviews will generally include collecting and evaluating information about an investment manager's ownership structure, asset growth, goals, and key personnel (with focus on employees who are involved in the investment process). We will seek to conduct on-site visits to evaluate an investment manager's technological and administrative infrastructure, among other things. We will seek to evaluate an investment manager's investment philosophy as well as its methodology and investment process to determine whether they, and historical investments, are

consistent with the investment manager's stated investment philosophy. We also review historical returns, factor exposures, and volatility of performance, on both an absolute basis and relative to peers. We consider an investment manager's regulatory status and disciplinary history as well as its compliance and risk management policies and controls. We also consider an investment manager's general transparency and frequency of reporting to its clients.

Risks of Loss

All investments involve the risk of loss of capital. No guarantee is made that Granite Group or any investment manager will achieve its objectives or avoid substantial losses. There can be no assurance that an investment manager will adhere to its stated investment strategy or strategies or be representative of any particular investment strategy or strategies. Furthermore, private investment funds involve various risk factors and liquidity constraints, a discussion of which is set forth in the offering documents relating to a fund, which will be provided to each client for review and consideration. Each client that invests in a private investment fund will be required to complete a subscription agreement. In connection with such subscription agreement, an investor will be required to make certain representations requiring their financial net worth, financial and investment sophistication and acknowledge that they have read and understand the offering document furnished, and understand the risks and constraints, including liquidity constraints, among other things.

Granite Group is not responsible for the performance of independent investment managers or independent private investment funds or their compliance with applicable laws or regulations or other matters within their control. Without limiting the generality of the foregoing, Granite Group will not be responsible for any act or omission of any independent investment manager or any misstatement or omission contained in any document prepared by or with the approval of any independent investment manager or any loss, liability, claim, damage or expense, whatsoever, as incurred, arising out of or attributable to such misstatement or omission. Independent investment managers will be solely responsible for the management of client account assets that are allocated to them. Investment managers may engage in contrary transactions with respect to the same security.

Item 9. Disciplinary History.

Registered investment advisers are required to disclose certain material legal or disciplinary events that would be material to your evaluation of the firm or the integrity of firm's management in this item. Granite Group has no legal or disciplinary events to report.

In 2014, Granite Group Advisors hired an employee who had been cited by the FINRA with a previous employer. We have thoroughly investigated the incident with the previous employer, and Granite Group is satisfied with the FINRA resolution as disclosed in the CRD Reporting System.

Item 10. Other Financial Industry Activities and Affiliations

Investment advisers must disclose if they or any of their management persons are registered as a broker-dealer or a registered representative of a broker-dealer, or as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of any of the foregoing.

Investment advisers also must disclose relationships and arrangements that are material to their advisory business or to their clients with related persons or affiliates that are:

- a broker-dealer, municipal securities dealer or government securities dealer or broker;
- an investment company or other pooled investment vehicle (including a mutual fund, closed end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund);
- an investment adviser or financial planner;

- a futures commission merchant, commodity pool operator, or commodity trading advisor;
- a banking or thrift institution;
- an accountant or accounting firm; lawyer or law firm, insurance company or agency, or pension consultant;
- a real estate broker or dealer or sponsor or syndicator of limited partnerships.

Granite Group does not engage in any activities described above or otherwise have any relationships or arrangements with any affiliated entities or related persons who engage in such activities.

The Principals (Partners?) and other employees may allocate their own investment assets with investment managers, investment funds and other securities and instruments that are recommended to advisory clients. The Principals (Partners?) and other employees also may engage in investment activities that are independent from and may from time to time conflict with those of its advisory clients. As a result, instances may arise where the interests of the Principals and/or such other employees will conflict with the interests of advisory clients. Granite Group will endeavor to avoid such conflicts and to minimize potential adverse consequences to advisory clients if any such conflicts may arise, and will act in a fair and equitable manner in allocating investment opportunities among themselves and advisory clients, taking into account such factors as the relative amounts of capital available for new investments, among other things.

Item 11. Code of Ethics

Granite Group has adopted a Code of Ethics (the "Code") for the purpose of establishing standards of business conduct and fostering a high professional ethics, culture of honesty and accountability and assisting employees with complying with the Advisers Act.

- **Standards of Business Conduct and Conflicts of Interest.** Employees are required to act fairly and in the best interests of clients. The Code addresses conflicts of interest that may arise in the course of conducting Granite Group's business and requires that all employees endeavor to avoid situations that present potential or actual conflicts. In addition, all Granite Group employees must endeavor to avoid situations that present potential and actual conflicts. Granite Group has also adopted certain policies and procedures that are designed to monitor personal investing and related activities and to assist employees in preventing actual or potential conflicts of interest and complying with applicable laws.
- **Treatment of Inside Information.** The Code prohibits employees from trading, encouraging others to trade or recommending securities or other financial instruments based on inside information unless such information has been first publicly disclosed and sufficient time has passed before acting upon it. Granite Group maintains and updates a restricted list, which lists those securities and issuers in which employees may not invest for clients or themselves. . In addition, we also maintain and enforce written policies reasonably designed to prevent the misuse of material non-public information by Granite Group or any person associated with us.
- **Restrictions on and Reporting of Personal Investing and Related Activities.** To avoid potential conflicts that may arise as a result of personal investing activities, Granite Group has established policies and procedures regarding personal securities reporting and transactions to detect and prevent conflicts of interest. Granite Group requires all employees to report their personal securities holdings on an annual basis (as well initially upon hire) and personal securities transactions on a quarterly basis. These reports are reviewed in an effort to detect possible conflicts and abuse. In addition to the reporting obligations, employees may be subject to certain other trading restrictions as deemed necessary.

Clients may obtain a copy of our Code of Ethics by contacting us at 203-210-7814

Item 12. Brokerage Practices

Unless a client directs otherwise, we will generally recommend that Royal Bank of Canada (“RBC”), to serve as the broker-dealer/custodian for client investment management assets. Broker-dealers charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, commissions and / or mark-ups / mark-downs may be charged for individual equity and fixed income securities transactions). In addition to our investment management fee, brokerage commissions and/or transaction fees, the client will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). It may be the case that RBC charges a higher fee for a particular type of service, such as commission rates, than can be obtained from another broker.

Recommendation of Broker-Dealers

Unless a client directs otherwise, we will generally recommend Mid-Atlantic Trust Company (MATC), to serve as the custodian of a retirement plan. The fees charged by MATC are independent of Granite Group Advisors fees. Such fees will include regular custodial fees, “model exchange” for clients utilizing model portfolios managed by Granite Group.

Clients may utilize another broker/dealer and have no obligation to purchase or sell securities through RBC or MATC, subject to our right to decline and/or to terminate the engagement. If requested, we will assist a client in identifying another broker-dealer for the execution of securities brokerage transactions for their account. In assisting a client in identifying a broker-dealer that can provide best execution, commission costs will not necessarily be the determinative factor. We may also take into consideration the full range of a broker-dealer's services including execution capability, commission rates, and responsiveness. Accordingly, the client may not necessarily obtain the lowest possible commission rates for account transactions. Third Party Managers

When third-party investment managers are selected to manage portions of client portfolios, they will generally be authorized and directed to effect transactions subject to their duty of best execution. In most cases, provided they seek to obtain best execution, such investment managers will generally have complete discretion in deciding what brokers, dealers, banks and other financial intermediaries and counterparties with or through which to execute or enter into portfolio transactions, whether such transactions are entered for a private investment fund or a separate account. A client may direct an investment manager to use a particular broker-dealer to execute some or all transactions for the client's account. In such event, the client will negotiate terms and arrangements for the account with that broker-dealer, and the investment manager will not seek better execution services or prices from other broker-dealers or be able to “batch” the client's transactions for execution through other broker-dealers with orders for other accounts managed by such investment manager. As a result, a client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case if they did not direct brokerage. In the event that the client directs an investment manager to effect securities transactions for the client's accounts through a specific broker-dealer, the client acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available.

Best Execution

In the limited circumstances where we exercise discretion to purchase equity, fixed income or other securities, or are requested on an unsolicited basis to purchase such securities, we will be subject to a duty of best execution. When effecting such purchases and sales, we may consider a number of factors, including the ability of a broker to effect the transaction, the broker's facilities, reliability, financial strength and stability, the efficiency with which transactions are effected, clearing capacity, responsiveness to us and the provision or payment (or the rebate to

client accounts) by such broker or dealer of the cost of property or services. Accordingly, transactions may not always be executed at the lowest possible commissions.

Aggregation & Allocation

Transactions for each client account generally will be effected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may (but are not obligated to) combine or "batch" such orders to obtain "best execution", to negotiate more favorable commission rates or to allocate equitably among clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. To the extent that we determine to aggregate client orders for the purchase or sale of securities, including securities in which Granite Group principals (and/or associated persons) may invest, we shall generally do so in accordance with the parameters set forth in SEC No-Action Letter, SMC Capital, Inc. We will not receive any additional compensation or remuneration as a result of the aggregation.

In the event that the transactions for a client's accounts are effected through a broker-dealer that refers investment management clients to us, there exists the potential for conflict of interest if the accounts incur higher commission or transaction costs than the accounts would otherwise have incurred had the client determined to effect account transactions through alternative clearing arrangements that may have been available through us.

Item 13. Review of Accounts

Granite Group proactively monitors the managers and client portfolios and the client's allocation to ensure consistency for the client's stated goals with regular account reviews. Such reviews are typically conducted by one of our Principals. All investment advisory clients are encouraged to discuss their needs, goals and objectives with Granite Group and to keep us informed of any changes. We seek to contact investment advisory clients at least annually to review the services provided during the prior year, to recommend changes to their portfolios and allocations, and to discuss how changes in a client's financial situation and/or investment objectives may impact their allocations. In addition to the reviews and discussions noted above, clients generally also receive transaction confirmations and periodic summary account statements from their broker-dealer or custodian. In addition to the periodic statements provided by their broker-dealer and/or custodian, clients are also typically provided online, real-time access to their account information, which typically includes reporting of activity, performance and allocation analytics.

Client Reports

Granite Group Advisors private clients have 24/7 access to their accounts. The first report is direct access to the custodian. The custodial access allows to the client to see the securities purchased and sold directly in the client's name. The second report is a Granite Group performance report. This report is independent of the custodial report. The performance report allows the client to see each individual account's performance and the performance of all accounts together. This allows the client to verify account activity.

Access to the custodial and performance reports can be accessed through Granite Group's login site.

In addition, Granite Group Advisors provides quarterly performance reports directly to our clients.

Item 14. Client Referrals and other compensation.

Though Granite Group is not paid cash and generally does not receive any economic benefit from a non-client in connection with giving advice to clients, certain broker-dealers and custodians, including RBC and MATC, may provide us with certain support services and/or products without cost or at a discount, and the availability of such support services and products may be contingent upon or related to the level of assets maintained at such broker-

dealer or custodian by our clients. Though we believe that our receipt of computer software, related systems support and other products and services often enable us to better monitor and service client accounts, the conditioning of our receipt of such services and products on client assets creates a conflict of interest when we discuss or are otherwise asked to recommend a broker-dealer or custodian. Granite Group receives the following benefits from RBC and MATC through its RBC and MATC Advisor Services unit: receipt of duplicate client confirmations, bundled duplicate statements and online access; access to a trading desk that exclusively services its Advisor Services participants; and access to an electronic communication network for client order entry and account information.

If a client is introduced to us by any third party, we may pay that solicitor a referral fee in compliance with Rule 206(4)-3 of the Advisers Act, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Granite Group's investment management fees, and will not result in any additional charge to the client. If the client is introduced to us by an unaffiliated solicitor, the solicitor, at the time of the solicitation, will deliver a disclosure statement indicating the nature of his/her/its solicitor relationship with us and the terms of our solicitation arrangement, including the compensation to be received by the solicitor from us. We currently have an agreement with Dominick & Dominick LLC to solicit prospective clients on our behalf.

Item 15. Custody

Client account assets are generally custodied at an independent and qualified broker-dealer or bank custodian. Clients may determine themselves the broker-dealer or custodian to use. When we are asked to recommend a broker-dealer/custodian for execution and/or custodial services, we generally recommend that investment management accounts be maintained at RBC. With respect to the services provided to retirement plan sponsors, we generally recommend MATC. Clients enter into a separate custodial/clearing agreement directly with each broker-dealer/custodian that they select.

Granite Group is deemed to have custody under regulatory guidelines as a result of a) our firm's authority from certain clients for Granite Group to directly debit client advisory fees from their custodian accounts consistent with industry practices and regulatory guidelines, and b) certain Granite Group Partner(s) acting in a trustee/co-trustee relationship for certain advisory client relationships. For those trustee relationships, Granite Group must undergo a surprise annual exam, among other things, by an independent accounting firm, under relevant regulatory guidelines and make certain regulatory filings.

Clients will receive monthly/quarterly statements from Granite Group and are urged to carefully review each statement. In order to ensure that all account transactions, holdings and values are correct and current, we urge clients to compare our firm's statements with the statements you receive directly from your independent brokerage or bank qualified custodian.

Item 16. Investment Discretion

Prior to engaging us to provide investment management services, clients are required to enter into a formal *Investment Advisory Agreement* with us setting forth the terms and conditions under which we will manage the client's assets. When we are granted discretion, as part of such Investment Advisory Agreement, the client will grant us full trading authority over the account and grant us discretion to buy, sell or otherwise effect investment transactions and authorize us to delegate active discretionary management of all or part of the account assets to one or more investment managers. We are authorized to terminate or change independent managers when, in our sole discretion, we believe such termination or change is in the client's best interest. We generally will seek to communicate such changes with clients prior to enactment/execution.

Item 17. Voting Client Securities

As a general rule, Granite Group does not vote proxies, nor will it take any action or render any advice to any client or any account with respect to the voting of proxies solicited by, or with respect to issuers of any securities held in a client's account.

Client's may determine to maintain themselves, or delegate to a third party investment manager (if such manager is willing): responsibility for: (1) directing the manner in which proxies solicited by issuers shall be voted, and (2) making elections relative to mergers, acquisitions, tender offers, bankruptcy proceedings, class actions or other events pertaining to the client's investment assets. The client shall correspondingly instruct each custodian to forward to the client (or third party investment manager, as applicable) copies of all proxies and shareholder communications relating to the client's investment assets.

Item 18. Financial Information

Granite Group does not require or solicit prepayment of more than \$1,200 in management fees per client, six months or more in advance. Granite Group has never been the subject of any financial proceeding or any bankruptcy petition.