

# Freestone

## FORM ADV – PART 2A

(Brochure)

March 30, 2024

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### Item 1. Cover Page

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

This Brochure provides information about our qualifications and business practices. If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer at 206.707.7300 or 800.990.3001 or via email at [compliance@freestonecapital.com](mailto:compliance@freestonecapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. We are a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.

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

## **Item 2. Material Changes**

The following is a summary of material changes made to this brochure we filed with the SEC on March 24, 2023.

- "Important Note About this Brochure" which provided additional disclosures regarding the offering of our funds and services was deleted because it is duplicative of information included in our client agreements and because it is not required to be included in this ADV Part 2A.
- Item 5.B was updated to reflect current service fees charged by some of our private funds and to provide more detail about operating expenses paid by our funds.
- Item 8.B was updated to delete disclosures related to the Unified Managed Account strategy which is no longer offered by the firm.

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## **Item 4. Advisory Business**

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

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

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

Freestone Investments LLC, our affiliate, is the direct or indirect ultimate general partner of the private funds. To the extent Freestone Investments is deemed to be acting as an investment adviser, it is registered with the SEC as our relying adviser and is identified in Schedule R of Part 1A of our Form ADV. Please see Item 10 (Other Financial Industry Activities and Affiliations) for additional information regarding this and other affiliations.

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

We provide ongoing wealth management and investment advisory services to advisory clients on a discretionary or non-discretionary basis, typically through managed accounts. Throughout this Brochure, we refer to clients to whom we provide advice through managed accounts as advisory clients. We also provide asset management and investment advisory services to privately offered pooled investment vehicles, or private funds. The detailed terms, strategies and risks applicable to investors in the private funds are described in each private fund’s organizational and offering documents. The private funds and advisory clients are collectively referred to in this brochure as our clients.

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

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

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

We manage most assets on a discretionary basis, meaning we have investment control to implement the investment plan we have developed with an advisory client without obtaining the advisory client's consent prior to making a trade or allocation. For advisory clients, typically this involves allocating the advisory client's assets among the above-described investment solutions. For the private funds, this generally involves investing a private fund's assets in accordance with the private fund's organizational and offering documents. Advisory clients may impose reasonable restrictions on the way we manage assets held in their accounts, such as prohibiting the purchase of tobacco stocks. The determination as to what is a "reasonable restriction" is solely ours. To the extent that an advisory client imposes a restriction that would impact our ability to implement the strategy for that account, we reserve the right to refuse to manage or liquidate the account.

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

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

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

We do not participate in wrap fee programs.

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

As of December 31, 2023, our total regulatory assets under management were approximately \$9,527,801,545. Of this amount, we managed approximately \$6,758,274,482 on a discretionary basis and approximately \$2,769,527,063 on a non-discretionary basis.

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

### **A. Advisory Client Accounts**

In general, we charge an annualized management fee based on the amount of the advisory client's assets that we manage or advise. We assess management fees quarterly. Depending on the terms of the investment management agreement we have entered into with the advisory client, we typically calculate quarterly management fees based on the value of the advisory client's accounts on the last day of a quarter. Management fees are payable either in advance or in arrears. In either case, we typically deduct the management fee directly from the advisory client's accounts. If an advisory client, who pays management fees in advance, terminates our relationship at any time other than the end of a calendar quarter, then we will refund that advisory client a portion of the pre-paid fees, calculated on a pro-rata basis to reflect the number of days remaining in the quarter. We will automatically apply the refund to the advisory client's account or mail the refund to the advisory client's address of record. Fee amounts and payment provisions are included in the investment management agreement we enter into with our advisory clients.

The amount of our management fee is negotiable and varies among advisory clients, but will not exceed 1.50% of the value of the advisory client's assets that we manage or advise, subject to the minimum fee described below. In many cases, we will charge new advisory clients referred to us by Charles Schwab ("Schwab") a lower annual management fee than other advisory clients of similar size and complexity.

In general, we charge new advisory clients who are not referred to us by Schwab a minimum annual management fee of \$6,000 per year. Our minimum annual management fee will not apply to the calendar year in which the new advisory client becomes an advisory client. Our minimum annual fee will be reviewed as of the end of each applicable calendar year, and any amount owed to us will be assessed to the advisory client following such review. Advisory clients referred to us by Schwab typically are subject to a lower minimum annual management fee of \$4,000, which also does not apply to the calendar year in which the Schwab-referred client first becomes an advisory client. Many existing advisory clients are subject to a different minimum fee amount or no minimum fee amount. We waive our minimum annual management fee from time to time, in our sole discretion.

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

In certain cases, we have engaged parties not affiliated with us (sub-advisers) to manage or otherwise provide advisory services or investment advice for model portfolios. Generally, advisory clients bear the additional costs, fees and expenses associated with investments in these portfolios, including fees of the sub-advisers. The amount of the costs, fees and expenses associated with such model portfolios will fluctuate, but our

management fee percentage will remain the same. The sub-adviser will deduct the sub-adviser fees from advisory client accounts directly. We disclose the existence of the additional costs, fees and expenses in the investment management agreement we enter into with the advisory client and in ancillary documents or communications with the advisory client.

Factors that influence the amount of management fees we charge advisory clients include client type, account size and anticipated increases in account size, pre-existing relationship and other factors. In addition, from time to time we will agree to pay or reimburse certain costs and expenses of a client who engages us to manage its accounts (e.g., fees of the client's CFO, CPA or other professional advisors). We typically combine certain related advisory client accounts for purposes of calculating a client's aggregate household size and/or management fee. Generally, we charge lower or no management fees to current and former Freestone employees and their family members at our sole discretion.

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

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

In the event an advisory client elects to invest in a private fund managed or controlled by our affiliates or us, the advisory client will not pay the above-described management fee to us in respect of the assets invested in the private fund. Instead, the advisory client will pay the fees associated with the private fund, as described in the private fund's offering documents, to us and our affiliates, which are discussed below.

## **B. Private Funds**

Fees associated with the private funds generally include an annual management fee of 1%, as well as a performance-based fee or allocation. In addition, many of the private funds carry an additional asset-based services fee of 0.10% to 0.25%. In most cases, Freestone or our affiliates deduct those fees and/or allocations directly from the private funds. In addition, each private fund pays all operating expenses and other costs of the fund, including fund formation costs, due diligence costs and expenses, custodial fees, brokerage commissions, fees and expenses charged by mutual funds and exchange-traded funds (if

any), clearing fees, interest and taxes incurred in connection with or related to its investments, and many other costs and expenses. If one of the private funds invests into a private fund not managed by our affiliates or us, or if one of the private funds enters into a managed account or other arrangement in which an unaffiliated third-party provides investment advisory or other services to the private fund, then an investor in the private fund effectively will incur two levels of advisory fees: (1) the private fund's management fee and performance-based fee or allocation; and (2) any management fee or performance-based fee or allocation paid by the fund to the unaffiliated third party.

The types of expenses borne and paid by the private funds are much broader than the types of expenses advisory clients bear and pay as managed account clients. For example, among others, the private funds pay: all investment related expenses (including legal fees and the fees of other advisors); due diligence costs; travel and entertainment expenses related to the private fund and its current or potential investments; tax preparation costs and filing fees; expenses associated with preparing and distributing financial, tax and performance reports; insurance and bonding costs (including any costs associated with errors and omissions insurance that covers us and our employees and principals); costs related to compliance with applicable laws (including costs we incur in complying with laws and regulations that apply to us as a result of our services to the private funds); costs of the fund's legal counsel (including costs relating to internal legal functions, inclusive of salaries of personnel of the Investment Adviser, performing such functions); and costs of software, hardware and all systems and services that provide benefit to the private funds or to us in providing services to the private funds, even if those costs would not otherwise fall within the "safe harbor" established by Section 28(e) of the Securities Exchange Act of 1934.

Each private fund's organizational and offering documents includes details regarding the fees, costs and expenses associated with that private fund, and the provisions of the private fund's organizational and offering documents govern an investment in the private fund, including with respect to fees, operating expenses and other costs of the fund. Occasionally, the general partner of the private funds will authorize the use of side letters. Any investor in the private funds must read and understand the applicable fund's organizational and offering documents.

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

The financial planning and wealth management services we provide are in conjunction with our investment advisory services, and we generally do not charge additional fees for any of these services. From time to time, we also recommend outside professionals to provide services to an advisory client. The advisory client will be responsible for any fees charged by outside professionals, in addition to our management fee. In connection with our financial planning and wealth management services, we often recommend on a non-discretionary basis the purchase of mutual funds or other securities, 529 plans or fixed or variable life insurance products or annuities.

We sometimes also recommend and act as producer for life and disability insurance



products. If an advisory client elects to purchase any such life or disability products, we will receive a one-time commission on those products. The sale of such insurance products poses a conflict of interest because an agent may choose to recommend a product based on the compensation the agent will receive from the sale instead of an advisory client's specific needs. Freestone addresses this conflict by only allowing licensed insurance producers to provide such recommendations and by disclosing this conflict to the advisory client in writing prior to the sale of the insurance product. Freestone has also engaged a non-affiliated third-party insurance provider to provide insurance solutions to our advisory clients. We discuss this arrangement in more detail in Item 10 (Other Financial Industry Activities and Affiliations).

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

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

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

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

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

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

In addition, on occasion we charge advisory clients a performance-based management fee, as opposed to an asset-based management fee. We negotiate the terms of these performance-based arrangements on a case-by-case basis and include such terms in the investment management agreement we enter into with the applicable advisory clients. We only charge performance fees to those advisory clients who are "qualified clients," as defined under the Investment Advisers Act of 1940, as amended.

A conflict of interest exists because we generally charge advisory clients an asset-based fee for the advisory services we provide, but we (or our affiliates) are entitled to receive performance-based fees or allocations from the private funds and, in some cases, we charge advisory clients performance-based management fees. As a result, we have an incentive to recommend that an advisory client invest in a private fund, as opposed to holding assets only in separate accounts and allocating those assets to investment solutions through which we (or our affiliates) would not be entitled to receive performance-based fees or allocations. In addition, for those clients to whom we have agreed to charge performance-based fees, we have an incentive to favor those client accounts so they perform better and, in turn, we receive a greater amount of fees. We also have an incentive to offer investments that we believe will be more profitable than others to the private funds in order to earn more compensation. Please see Item 12 (Brokerage Practices) for a discussion regarding how we attempt to mitigate this conflict.

Charging a performance-based fee could also create an incentive for us to recommend riskier or more speculative investments and make different decisions regarding the timing and manner of the realization of such investments than would be the case if we were not entitled to performance-based fees.

We seek to address these conflicts of interest by emphasizing our duty to place the interests of our clients first. In those instances where we charge performance-based fees

on advisory client accounts, those accounts are invested in one or more of our investment models and are treated like other advisory client accounts invested in the same model. In addition, the performance of the private funds does not drive the compensation structure of our client advisers, though client advisers who indirectly have an equity interest in Freestone will derive indirect benefits from performance-based fees or allocations received by our affiliates or us.

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

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

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

We do not require a minimum account size, though in general we seek advisory clients that desire to establish a discretionary investment management relationship with us over time involving at least \$1,000,000, or \$500,000 for advisory clients referred to us through the Schwab Advisor Network referral service. See Item 14 (Client Referrals and Other Compensation) for information regarding the Schwab Advisor Network referral service. For information regarding fees and compensation that we receive, see Item 5 (Fees and Compensation).

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

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

Our investment solutions are designed to manage the financial assets of our clients by combining our internal expertise in traditional and alternative asset categories with external expertise in domestic and global equity, domestic and global fixed income and alternative investments. Our methods of security analysis and portfolio construction include fundamental and quantitative analysis. Our sources of data typically include financial news and publications, reviews of corporate activities, discussions with issuers and other market participants, research materials prepared by others, corporate rating services, press releases and filings with the SEC, including prospectuses and annual reports.

### **B. Investment Solutions**

Our approach to advisory client portfolio construction seeks to achieve a proper balance of risk and reward, depending on the unique needs and goals of our individual advisory clients. We remain steadfast in our approach to investment management by focusing on downside risk as well as upside opportunity.

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

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

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

Based upon our discussions with each advisory client, and depending upon each advisory client's particular circumstances and the investment allocations that we agree to with each advisory client, we typically manage new advisory client discretionary account assets

using some combination of the following three investment solutions:

1. Equity portfolios managed by us and/or sub-advisers.
2. Fixed income portfolios managed by us and/or sub-advisers.
3. Alternative Investments, which includes non-discretionary recommendations regarding the private funds we sponsor or other private funds not managed or controlled by our affiliates or us.

From time to time, we create customized solutions that are not comprised of these investment solutions on a case-by-case basis for a particular advisory client. In addition, some existing advisory clients have assets invested using one or more of our legacy model portfolios. A portion of every advisory client portfolio, including each of the below model portfolios, likely will be held in cash or cash equivalents from time to time, in which case the applicable portfolio will not be fully invested.

In addition, we have entered into relationships with sub-advisers to manage advisory client accounts in accordance with the sub-advisers' strategies. While we have discretion regarding selection of the sub-adviser model into which advisory client assets will be invested, the sub-advisers manage the advisory client accounts on a discretionary basis and are responsible for making investment decisions regarding the purchase, sale or exchange of investments in the accounts. Typically, these sub-advisers select brokers and execute based upon the sub-adviser's policies. The sub-advisers also allocate and aggregate transactions based on their policies and procedures, not our policies and procedures.

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

## **1. Equity Portfolios**

Our equity portfolios have the ability to provide a range of active and passive exposure that we believe provide quality equity solutions to our advisory clients. Our equity portfolios are managed by us or one or more sub-advisers and typically consist of, among other things, U.S. and non-U.S. individual equities (including common and preferred stock), exchange-traded funds, index funds, mutual funds, master limited partnerships, real estate investment trusts, options, other derivatives or a combination of any of the foregoing.

## **2. Fixed Income Portfolios**

Our fixed income portfolios seek to generate current income and to provide relative stability. Our fixed income portfolios are managed by us or one or more sub-advisers and typically consist of, among other things, income-oriented mutual funds and exchange-traded funds, individual taxable and tax-exempt investments, investment grade and non-investment grade bonds and instruments, including U.S. and non-U.S. instruments.

## **3. Alternative Investments**

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

- distressed investing or arbitrage strategies, including equity-related investments, loans or other debt, structured finance, real estate, bonds or other asset classes and types, including residential- and mortgage-backed securities;
- private placements and other restricted securities, which include securities of private or public companies with limited or no trading market;
- the purchase of interests of a single private fund issuer sold in the secondary market;
- a multi-manager and fund-of-funds investment approach, through which a private fund allocates capital to a variety of investment funds or vehicles or discretionary accounts of third-party investment advisers that manage a variety of hedged and unhedged strategies in U.S. and non-U.S. securities and other investments;
- real estate investments, including direct or indirect, equity or debt, co-investments with funds and/or third-party investment advisers or real estate operators, joint ventures, and other vehicles for the acquisition of real estate and real estate-related assets;
- private equity investments;

- real assets, such as oil and gas working interests or bulk aged spirits;
- privately originated corporate loans; or
- cleared and over-the-counter financial instruments, including options on securities or groups of securities, swaps, futures and other derivatives, designed to increase return or act as a hedge against other positions or against certain market or interest rate risks, or as part of other trading strategies.

### **C. Wealth Management and Financial Planning**

We also offer wealth management and financial planning services to many of our advisory clients. Our process focuses on the integration and coordination of financial issues that an advisory client may face. Among other things, these services typically include:

- Financial planning, which includes one or more services, including reviewing an advisory client's estate, tax and philanthropic planning;
- retirement and benefit plan solutions;
- credit and risk analysis;
- insurance;
- college planning; and
- corporate benefits (including analysis regarding stock options, restricted stock, 401(k) plans and deferred compensation plans).

We offer these services in conjunction with our investment advisory services, and we generally do not charge additional fees for any of these services. Many times, whether (and to what extent) we offer these services to an advisory client depends primarily on the amount of assets we manage for the advisory client and the complexity of the advisory client's circumstances. From time to time, we also recommend outside professionals to provide services to an advisory client. The advisory client will be responsible for any fees charged by outside professionals, in addition to our management fee.

### **D. Material Risks**

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

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

- Equity Instruments. Investments in equity securities generally involve a high degree of risk. Stock prices are volatile and change daily, and market movements are difficult to



predict. Movements in stock prices and markets may result from a variety of factors, including those affecting individual companies, sectors or industries. Such movements may be temporary or last for extended periods. The price of an individual stock may fall or fail to appreciate, even in a rising stock market. A client could lose money due to a sudden or gradual decline in a stock's price or due to an overall decline in the stock markets generally. In particular, "growth" stocks can have relatively high valuations, which, among other things, may result in the prices of growth stocks being more sensitive to changes in current or expected earnings than prices of other stocks. Accordingly, investing in growth stocks can be more risky than investing in a company with more modest growth expectations.

- Fixed Income Instruments. Generally, prices of fixed income instruments are volatile and change daily. Investments in fixed income instruments present numerous risks, including credit, interest rate, reinvestment and prepayment risk, all of which affect the price (i.e., value) of the instruments. For instance, a rise in interest rates may cause fixed income instruments to lose value. The value of fixed income instruments may decline in response to events affecting the issuer, its credit rating or any underlying assets backing the instruments.

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

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

emerging markets. Such investments involve a number of risks not usually associated with investing in securities of U.S. companies or the U.S. government. Those risks include, among other things, trade balances and imbalances and related economic policies, currency exchange rate fluctuations, imposition of exchange control regulation, withholding taxes, limitations on the repatriation of funds or other assets to the U.S., possible nationalization of assets or industries, political difficulties and political instability, any of which could lead to substantial losses.

- Turnover. In general, there is no limit on how frequently we trade in a client's account and, while not typical of our model portfolios, it is possible to trade in a client's account many times per month. A higher turnover rate of instruments in a client's account, or increased trading in a client's account, will result in higher transaction costs and higher taxes in taxable accounts, and may materially affect performance.
- Management. Our judgments regarding the attractiveness, value or potential appreciation of a particular asset class or investment instrument are sometimes incorrect and there is no guarantee that any asset class or instrument will perform as we expect. We may fail to implement a strategy as we intended or we may not identify all risks associated with a strategy or a shift in strategy, all of which may cause substantial losses.

In addition, our ability to manage client assets is largely dependent on the talents and efforts of highly skilled individuals. Competition in the financial services industry for qualified employees is intense. Our continued ability to manage client assets effectively depends on our ability to retain and motivate our employees. Moreover, there is no prohibition on our employees or principals resigning or retiring.

- Sub-Advisers. The performance of strategies managed by sub-advisers on a discretionary basis depends in whole or in part upon the strategies, skills and abilities of sub-advisers not affiliated with us. Although we endeavor to select sub-advisors with individual strategies and investment policies consistent with our objectives, we do not have any control over the investments that the sub-advisors make. In addition, although we endeavor to monitor sub-advisers periodically, we are unlikely to have access to information regarding a sub-adviser's trading activity prior to that activity taking place. In instances where we are executing trades in accordance with a model acquired from a third-party sub-adviser, we typically will execute those trades in reliance on the sub-adviser executing its strategy. Accordingly, we are not in a position to analyze or respond to developments (or anticipated developments) resulting from such trades until after the trades have occurred, in which case it may be too late to prevent or mitigate any losses we might otherwise have been able to prevent or mitigate.
- Market Risk; Liquidity. General economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barriers, currency fluctuations and controls, and national and international political circumstances can materially affect a client's account. For

example, any of these factors may affect price volatility and the liquidity of instruments held in a client's account. Even an instrument that generally is, or recently was, liquid may unexpectedly and suddenly become illiquid. Such volatility or illiquidity could result in substantial losses.

- Financial Institution Risk; Distress Events. Distress Events can be caused by factors including eroding market sentiment, significant withdrawals, fraud, malfeasance, poor performance or accounting irregularities. In the event banks, brokers, hedging counterparties, lenders or other custodians (each, a "Financial Institution") experiences a Distress Event, Freestone and/or the private funds may not be able to access deposits, borrowing facilities or other services for an extended period of time or ever. Although assets held by regulated Financial Institutions in the United States frequently are insured up to stated balance amounts by organizations such as the Federal Deposit Insurance Corporation ("FDIC"), in the case of banks, or the Securities Investor Protection Corporation ("SIPC"), in the case of certain broker-dealers, amounts in excess of the relevant insurance are subject to risk of loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose increased risk of loss. Although in recent years governmental intervention has resulted in additional protections for depositors, there can be no assurance that governmental intervention will be successful or avoid the risk of loss, substantial delays or negative impact on banking or brokerage conditions or markets. Although Freestone expects to exercise contractual remedies under the agreements with Financial Institutions in the event of a Distress Event, there can be no assurance that such remedies will be successful or avoid losses or delays.

Many Financial Institutions require, as a condition to using their services or otherwise, that Freestone and/or the relevant private fund maintain all or a set amount or percentage of their respective accounts or assets with the Custodian, which heightens the risks associated with a Distress Event with respect to such Custodian(s). Although Freestone seeks to do business with Custodians that it believes are creditworthy and capable of fulfilling their respective obligations, Freestone is under no obligation to use a minimum number of Custodians with respect to any private fund, or to maintain account balances at or below the relevant insured amounts.

- Extraordinary Events. Global terrorist activity, armed conflicts, epidemics, pandemics and similar extraordinary events may negatively affect general economic conditions, including sales, profits and production, and may materially affect prices and/or impair our trading facilities and infrastructure or the trading facilities and infrastructure of our counterparties or the exchanges or markets on which we trade.
- Cybersecurity Risks. We and our service providers are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs, and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case,

can result in damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages, and catastrophic events such as fires, tornadoes, floods, hurricanes, and earthquakes. A cybersecurity breach could expose Freestone, our affiliates, clients and investors to substantial costs (including, without limitation, those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage), civil liability as well as regulatory inquiry and/or action. In addition, with the increased use of technologies such as the Internet to conduct business, Freestone and client information could be susceptible to operational, information security and related risks. While Freestone has established a business continuity plan (referenced in Item 11) in the event of, and risk management strategies, systems, policies and procedures to seek to prevent, cybersecurity breaches, there are inherent limitations in such plans, strategies, systems, policies and procedures, including the possibility that certain risks have not yet been identified. Furthermore, Freestone and our affiliates cannot control the cybersecurity plans, strategies, systems, policies and procedures put in place by other service providers to our clients or the issuers in which our clients invest.

- Business Continuity Plan. Freestone has adopted a business continuity plan designed to maintain critical functions in the event our ability to conduct business and operate normally is negatively impacted or disrupted. By their nature, disasters and emergencies are difficult to predict. We have determined it is most important that our plan contemplates and addresses the inability to access our office space or network due to a variety of factors, including electrical outages, loss of internet connectivity, computer viruses that corrupt key data, natural disasters, epidemics or pandemics, or terrorist attack. Our recovery strategies are designed to limit the impact on clients from any business interruption or disaster. Nevertheless, our ability to conduct business may be curtailed by a disruption in the infrastructure that supports our operations and the regions in which our offices are located. In addition, our investment management activities may be adversely impacted if certain service providers fail to perform.
- Regulatory Developments. The legal, tax and regulatory environment worldwide in the financial industry is evolving, and changes in regulations affecting the financial industry, including Freestone and the issuers of financial instruments held in client accounts, may have a material adverse effect on our ability to pursue the investment strategies described above or the value of the instruments held in client accounts. There has been an increase in scrutiny of the financial industry by governmental agencies and self-regulatory organizations. Various national governments have expressed concern regarding the disruptive effects of speculative trading and the need to regulate the financial markets in general. New laws and regulations or actions taken by regulators that restrict our ability to pursue our investment strategies or conduct business with broker-

dealers and other counterparties could adversely affect client accounts.

- Concentration. Client accounts may have highly concentrated positions in issuers engaged in one or a few industries. This increases the risk of loss relative to the market as a whole.
- Derivatives. Derivatives (a term that includes a broad range of investments, including futures, options, forward contracts and swaps) may move in unexpected ways due to the use of leverage and other factors and may result in increased volatility or losses. Many derivatives, particularly those negotiated over-the-counter, are substantially illiquid or could become illiquid under certain market conditions. Use of derivatives also involves counterparty risk, meaning that the counterparty to a derivative contract may fail to comply with the terms of the contract. Any dispute concerning a derivative contract could be expensive and time consuming to resolve, and even a favorable resolution could come too late to prevent liquidity problems and substantial losses.
- Short Sales. Some of our sub-advisers utilize short selling strategies. Short sales can result in profits to a client's account if the price of the securities sold short declines. In a short sale, securities are sold that have been borrowed, usually from a broker. To obtain the borrowed shares, we typically will pledge cash or securities held in the client's account in an amount equal to or exceeding the value of the borrowed securities. The amount of the deposit may increase or decrease to reflect changes in the market value of the borrowed securities, and the lender generally may demand the return of the borrowed securities at any time. The client's account will profit only if it repays the lender with securities purchased at a lower price than it borrowed them. The client's account could experience losses if it is required to replace borrowed securities by purchasing them in the market at a time when the market price is higher than the price at which it borrowed them. Accordingly, short sales generally involve the potential for unlimited loss.
- Leverage. If appropriate given the size and sophistication of the advisory client, we may employ leverage in that advisory client's account. Some examples of investment positions that use leverage include derivatives, short sales and purchasing securities on margin. The use of leverage generally involves a high degree of risk. Typically, a client's account will be required to post cash or securities as collateral against the amount borrowed. If the value of the derivatives or securities in the client's account that have been posted as collateral falls below the margin or collateral levels required by the lender, then additional margin or collateral would be required. Failing to post additional margin or collateral could cause the lender to terminate the transactions and liquidate or retain the collateral and margin. In addition, because the use of leverage allows the client's account to hold a position worth more than the amount of the client's investment in the position, the amount the client's account may lose if the price moves against the client's position will be high in relation to the amount invested.

- Alternative Investments (Private Funds) Risk. In addition to the above risks, the private funds and the strategies they use include additional risks, including:
  - The private funds use derivatives, short sales and/or leverage regularly, and the risks associated with those instruments and investment practices are much greater in the private funds than in advisory client accounts.
  - The private funds are exempt from SEC registration and only available to “accredited investors” and/or “qualified purchasers” who are assumed to be sophisticated purchasers who have little or no need for liquidity from such investments, and are able to withstand the loss of some or all of their investment.
  - Limited withdrawal rights and restrictions on transfer create higher liquidity risk and investors should view an investment in the private funds as a long-term investment.
  - The private funds may invest
  - Fund fees and expenses may be a higher percentage of net assets than traditional investment strategies, and investors typically are subject to performance or incentive fees or allocations in addition to management fees.
  - Private fund investments may be more sensitive to interest rates and include the possibility of more volatility than other investments.
  - Generally, we determine the value of investments held by the private funds or, if the private fund has invested in a third-party fund, the investment manager of that fund.

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

- Other Funds. In addition to the private funds, we often invest a portion of an advisory client account in funds not managed by our affiliates or us. Examples of these types of funds include U.S. and non-U.S. master limited partnerships, unit investment trusts, open-end and closed-end mutual funds and hedge funds, private equity funds, venture capital funds, advisory accounts, real estate investment trusts, exchange-traded funds, or other private alternative or other investment funds. These other funds and accounts have their own fees (including management fees) and expenses and, depending on the fund, have separate incentive or performance fees or allocations. Accordingly, if an advisory client or one of the private funds invests in these other funds or accounts, the advisory client or private fund will bear the fees and expenses of the other fund or account, in addition to our management fee (or, in the case of a private

fund, the fees, expenses and allocations in respect of that particular private fund). Also, U.S. mutual funds generally must distribute all gains to investors, including investors who may not have an economic gain from investing in the fund, which can lead to negative tax effects on investors, particularly non-U.S. persons.

## **Item 9. Disciplinary Information**

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



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

### **A. Commodity Pool Operator Affiliation**

Freestone Investments LLC (“Freestone Investments”), our affiliate and general partner of several of the private funds, is a commodity pool operator registered with the U.S. Commodity Futures Trading Commission. We share resources with Freestone Investments, including offices and staff. All of the persons registered as principals or associated persons of Freestone Investments are also employees of ours.

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

Freestone Investments, our affiliate and the direct or indirect ultimate general partner of the private funds, or its subsidiaries generally has the right to receive a performance-based fee or allocation from the private funds and has the power to determine who will serve as the investment manager to the private funds. Because of the forgoing, Freestone Investments may be considered to be acting as an investment adviser. To the extent that is true, Freestone Investments and we collectively conduct a single advisory business. Accordingly, Freestone Investments is registered with the SEC as an investment adviser through our filing of a joint Form ADV, in which Freestone Investments is indicated as a “relying adviser.” We have disclosed in the Miscellaneous Section of Schedule D and Schedule R of Part 1A of our Form ADV that Freestone Investments and we are together filing a single Form ADV.

As discussed above, our affiliate, Freestone Investments, is the direct or indirect ultimate general partner of the private funds. In addition, we provide investment advisory services to approximately 2,500 advisory clients and serve as investment manager to the private funds. Freestone and our affiliates likely will participate in or sponsor other investment vehicles and service additional advisory clients in the future.

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

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

discussion of this and other conflicts of interest and how we seek to address them.

Freestone Investments is affiliated with FC Golf GP, LLC and FC Golf GP II LLC, the general partners of FC Golf Partners, L.P. and FC Golf Partners II LP (the Golf funds), respectively.

Freestone Investments holds 50% of the voting power of each of FC Golf GP, LLC and FC Golf GP II LLC. In addition, we serve as a non-discretionary investment advisor to each of the Golf funds. FC Golf GP, LLC and FC Golf GP II LLC are exempt reporting advisers. This relationship presents a conflict of interest because the Golf funds could distract Freestone Investments and us from dedicating sufficient time to provide services to our advisory clients and the other private funds. We have mitigated that conflict by, among other things, entering into a business relationship with an experienced golf and country club acquisition and management company and its principal, which spends a substantial amount of its time on assets held by the Golf funds. There are other conflicts of interest regarding the Golf funds and our relationship with the management company and its principal, which are included in the offering documents for those funds and do not impact advisory clients who are not invested in the Golf funds. The Golf funds have disposed of their golf and country club assets and are in the process of winding-up, pending resolution of various post-closing items.

In addition, Freestone Investments holds 100% of the equity and is the sole managing member of all of the general partners of the private funds, other than the Golf funds and those private funds for which Freestone Investments serves as general partner directly.

### **C. Insurance Solutions Arrangement**

Freestone has an arrangement with Long Road Risk Management Services, LLC ("LRRM") to provide insurance solutions to advisory clients including life insurance, disability insurance and long-term care insurance. Advisory clients who choose to purchase insurance coverage through LRRM will need to enter into a customer agreement with LRRM or its affiliate. When an advisory client chooses to purchase an insurance product through LRRM on certain insurance solutions, Freestone receives a benefit in the form of an annual fee to provide investment advisory services in the nature of advice concerning the management of the insurance products and to deliver the annual policy report to clients who own them. This fee is paid by ValMark Policy Management Company, LLC ("VPMC") to Freestone and will not cost the client additional fees than if they had executed the insurance solution without Freestone's involvement. This arrangement is disclosed to advisory clients that choose to execute insurance solutions with LRRM. Freestone does not receive any portion of the commission revenue generated in life insurance product placement; however, this arrangement represents a conflict of interest for Freestone because of the annual investment advisory service fee for certain products. Advisory clients have no obligation to engage the services of LRRM or VPMC and retain absolute discretion over such decisions and are free to accept or reject any policy placement or replacement recommendations. ValMark Policy Management Company, LLC and Long Road Risk Management Services, LLC are both subsidiaries of

ValMark Securities, Inc. Neither VPMC nor LRRM are affiliated with Freestone.

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

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

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

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

In some cases, we implement investment ideas across the model portfolios and the private funds. We have adopted allocation policies designed to distribute the execution of these ideas among the applicable parties in a fair and equitable manner over time. For information regarding our trading practices, see Item 12 (Brokerage Practices).

Employees often buy or sell securities or assets identical to those recommended to or purchased for clients, including the private funds. This results in a conflict of interest. For example, many employees are investors in our model portfolios, alongside the other client accounts also invested in those model portfolios. All client accounts (including employee accounts) participate in any trade allocation consistent with the methodology discussed above, including being eligible for any random and full allocation. Consequently, there are situations where an employee account is filled before and at a more advantageous price than an advisory client account. If the allocation involves parallel funds or multiple single employee-controlled accounts, then the parallel funds and all of the single employee-controlled accounts, as applicable, will be treated as a single client or account for purposes of initial allocation. In any such case, we allocate across client accounts in accordance with our allocation policies and without regard for whether the client is an employee or not.

In addition, from time to time, employees, for their own account and not through a model portfolio or the private funds, can purchase or sell securities or assets identical to those recommended to or purchased for clients. In some cases, those purchases or sales occur on the same day, prior to or at a better price than client accounts. In such instances, employees have a conflict of interest to prioritize their own interests ahead of clients. As discussed further below, we have procedures in place designed to address the potential conflicts of interests that could arise in these instances.

Some of our employees have interests or positions in certain securities that we recommend to clients. For example, we often recommend that advisory clients invest in the private funds, assuming the private funds are suitable for the advisory clients and the advisory

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

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

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

We have engaged in principal transactions in the past and it is likely we will occasionally engage in one-off principal transactions in the future. We do not engage in principal transactions on an ongoing basis as part of conducting our business activities, and we do not believe these transactions, if executed, are material to our investment process. If we do engage in such transactions occasionally in the future, those transactions would involve the potential for conflicts of interest because, among other things, we are a party to the transactions and we would be acting for our own account. In an effort to mitigate these conflicts, we require prior approval of such transactions from our General Counsel or Chief Compliance Officer. In addition, we may engage in cross trades between client accounts on

occasion where such a transaction is permissible under the relevant client agreements and where we have determined such transaction is in the best interest of each client.

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

- No employee may prefer his or her own interest to that of any client.
- Employee personal trades are reviewed by our Compliance department. We have enacted various policies and procedures in an effort to ensure client trades are not negatively impacted by employee personal trades.
- We are aware of all securities holdings that we manage on behalf of clients, and we have implemented procedures to stay informed as to the securities holdings of employees that have access to advisory recommendations. We review securities holdings of such persons on a regular basis.
- We emphasize the unrestricted right of the client to decline any recommendation we provide, except in situations where we have discretionary authority with respect to the client's account. For instance, we do not have investment discretion over advisory client accounts in respect of decisions regarding an investment in the private funds. We may recommend that an advisory client invest in the private funds, but the advisory client has ultimate discretion regarding whether to execute on our recommendation.
- We encourage employees to hold all of their personal accounts (i.e., accounts not invested in one of our models) at our primary custodian. If an employee has an account at a custodian other than our primary custodian, our policies require that the employee generally must obtain prior approval of any trades in that account. We require our employees to link their brokerage accounts to ACA ComplianceAlpha, an application we use to assist with monitoring employee trades and other compliance requirements. For those employees who cannot link their brokerage accounts to this application, we will review duplicate statements of any such accounts.
- We evaluate opportunities for advisory clients to invest alongside the private funds on a case-by-case basis, taking into account the relevant facts and circumstances of the particular opportunity. Some of the factors we consider in our evaluation include the following: the size of the opportunity; whether the opportunity is appropriate for the client; the amount of the opportunity that is appropriate for the client based on a variety of factors (e.g., risk profile, asset class); the structure of the opportunity; how the client would access the opportunity; and any additional administrative or other burdens of evaluating, investing in and monitoring the opportunity. In general, we believe advisory clients should access investments made by, or investment opportunities presented to, the private funds by making an investment in the private funds. Accordingly, typically we will not provide advisory clients the opportunity to invest directly alongside the private funds, though, in some cases, our model portfolios

invest alongside our private funds. We discuss this in more detail in Item 12 (Brokerage Practices). This approach creates a potential conflict of interest because we generally charge advisory clients an asset-based fee for the advisory services we provide, but we (or our affiliates) are entitled to receive performance-based fees or allocations from the private funds and, in some cases, we charge advisory clients performance-based management fees. As a result, we have an economic incentive to recommend that an advisory client invest in a private fund, as opposed to holding assets only in separate accounts and allocating those assets to investment solutions through which we (or our affiliates) would not be entitled to receive performance-based fees or allocations. We discuss this conflict and the steps we take to mitigate it in Item 6 (Performance-Based Fees and Side-by-Side Management).

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

In addition, we are under common control with Freestone Asset Management LLC, which is a wholly-owned subsidiary of Freestone Capital Holdings, LLC. In September 2017, Freestone Asset Management acquired a minority ownership interest in Meritus Communities, LLC, and in July 2020, Freestone Asset Management acquired a 47.5% ownership interest and, in general terms, a 37% economic interest in, Cambio Communities LLC. Meritus and Cambio are the asset and property managers of all of the manufactured housing communities held by the private funds.

The Meritus and Cambio holdings provide strategic and economic benefits to us or our affiliates. For example, we or our affiliates will benefit by being entitled to a share of the revenues earned by Meritus and Cambio, including revenues derived from the fees, distributions and other proceeds paid to Meritus and Cambio by the private funds. We or our affiliates will also benefit if Meritus or Cambio is acquired or conducts an initial public offering. In addition, Freestone Asset Management has various negative consent rights in respect of Meritus and Cambio, and is entitled to appoint, and has appointed, one-third of the members of the board of advisors of Meritus and 40% of the board of managers of Cambio, which should provide us or our affiliates with enhanced oversight of the growth and operations of Meritus and Cambio. Currently, our employees, Gary Furukawa and Nick Cicero, serve on the Meritus board of advisors and on the Cambio board of managers.

We recognize that, notwithstanding the foregoing, the Meritus and Cambio holdings create actual and potential conflicts of interest between us and our affiliates, on the one hand, and the private funds, on the other hand. In an effort to mitigate certain conflicts of interest that may arise in the future as a result of the transaction, we will retain, at our sole cost and expense, an independent third-party to provide guidance to us and our affiliates regarding such conflicts if and when they arise.



## Item 12. Brokerage Practices

### Discretionary Advisory Client Accounts

- Brokerage

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

As discussed in Item 14, we typically require that advisory clients maintain accounts over which we have discretion at Charles Schwab & Co., Inc. (Schwab). We receive client referrals from Schwab. As a result, when we select a broker-dealer with which to trade, we have an incentive to select Schwab based on our interest in receiving client referrals, rather than on our clients' interest in receiving most favorable execution. We do not have any obligation to place trades with Schwab. Most of the time, we will execute advisory client trades (e.g., rebalancing trades, trades that are not aggregated or small aggregated block trades) through Schwab, consistent with our duty to seek best execution.

In some cases, sub-advisers provide trade execution services in connection with the implementation of the model portfolios managed by those sub-advisers. In those cases, the applicable sub-adviser is responsible for seeking best execution of those trades. We will have investment discretion regarding selection of the portfolio managed by the sub-adviser and may place restrictions on the types of securities purchased and sold on behalf of an advisory client account. In some cases, the sub-adviser will not effect any trades for an advisory client account without our express instruction. In other cases, the sub-adviser effects trades for an advisory client account in its discretion without any instruction by us.

- Soft Dollars

Subject to meeting our fiduciary responsibility to seek best execution for all client transactions, we obtain research products or services that fall within the "safe harbor" established by Section 28(e) of the Securities Exchange Act of 1934. We purchase brokerage or research services consistent with the requirements of Section 28(e) with



soft-dollar commissions generated by trades for clients (including the private funds), even if that service is not directly or fully useful to that client, as long as we have determined that the service would be useful to our clients (including the private funds) as a whole. When using client brokerage commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services.

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

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

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

We seek to address some of these conflicts of interest by "unbundling" the commission

amounts we pay to many of our broker-dealers. In other words, we have agreed with those broker-dealers that a predetermined amount (e.g., 1.5 cents) of commission will represent execution services provided by the broker-dealer and the remainder of the commission (e.g., 1.5 cents) will be allocated to soft dollars. Pursuant to commission sharing agreements (CSAs) we have with those broker-dealers, each broker-dealer places the amount of commissions allocated to soft dollars in an account for our benefit. We then periodically direct the applicable broker-dealer to pay itself or third parties out of the account for products or research created or developed by it or those third parties. That said, we have not entered into CSAs with all of the broker-dealers we use. For example, we have entered into a soft dollar agreement with Schwab whereby Schwab will apply a 2:1 ratio of equity commission dollars to soft dollar credits, subject to a maximum annual amount of soft dollar credits. Under this agreement with Schwab, we have agreed to, on a best effort basis consistent with our duty to seek best execution, place equity transactions with Schwab, which will generate commissions to defray the costs of providing the research products or services.

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

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

Services we may acquire with soft dollars include research reports, counsel on market analysis and execution strategies, discussions with research analysts, research related to the market for securities, including pre- and post-trade analytics, meetings with corporate executives to obtain verbal reports, seminars or conferences, software that provides analysis of portfolios, corporate governance research and market data, company financials and economic data. We allocate soft dollars to a broker-dealer to receive the broker-dealer's proprietary research (i.e., research created or developed by the broker-dealer to which we are allocating soft dollars), and we also use soft dollars generated with a broker-dealer to pay for research created or developed by a third-party. In the case of a third-party, the broker-dealer typically provides us with such third-party research or pays such third-party directly and instruct the third-party to deliver the research to us.

We might also receive brokerage-specific services, including communication services

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

In our last fiscal year, we used soft dollars to pay for many of the above-listed items, including Bloomberg software, a portion of the Tamarac software suite, research regarding external managers and potential and existing investments, and general research services such as CapitalIQ and Morningstar.

- Aggregation

From time to time, when we deem the purchase or sale of securities to be in the best interest of one or more accounts, we aggregate the securities to be purchased or sold by all such clients for a variety of reasons, including seeking best execution. In such situations, we typically will seek to aggregate accounts for (i) model trade orders executed on the same day (e.g., a systematic transition or migration of client accounts to a different model not in response to a trade ticket, rebalancing a model) ("model trades") or (ii) orders by private funds in the same security on the same day, when feasible ("private fund trades"). From time to time, aggregating the forgoing orders is not reasonably practical or may result in clients being treated unfairly or inequitably.

We will seek to execute aggregated orders for model trades or private fund trades on the same day. For various reasons, we periodically aggregate and trade only a portion of the accounts within a given model on a given day in an effort to ensure the selected account orders are filled in full (versus trading the same accounts over multiple days). In such instances, we will select the accounts to aggregate on a given day. When practical, we will seek to aggregate accounts using a consistently applied randomized methodology. In cases where using this randomized methodology is not practical, we will aggregate orders in good faith without intentionally favoring one client or type of client over another. Any aggregation or bunching of trades will be consistent with our duty to seek best execution.

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

For instances other than model trades and private fund trades (e.g., rebalancing individual advisory client accounts, investing cash for an advisory client, raising cash for an advisory client) ("ticket trades"), we generally will not aggregate client account orders. Trades for these events are initiated by our client advisory teams in respect of individual client accounts, and typically are executed individually in an effort to increase the likelihood of

executing each trade timely and reduce the risk of errors.

We seek to execute all ticket trades on the next trading day following the day the applicable trade ticket is submitted, unless a ticket trade is specifically marked as a "Same Day Trade," in which case we will seek to execute the trade on the same trading day. Ticket trades are not executed in the order in which they are received.

- Allocation Generally

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

Although we may allocate on a pro-rata basis, we will not always do so. There are instances where, in our judgment, allocating an order on a pro-rata basis is not desirable or appropriate for client accounts. For example, filling a relatively small or large percentage of an order could result in the potential for clients to receive multiple statements and/or trade confirmations reflecting the allocation of a relatively small number of shares over the course of multiple days. In that case, we have in the past, and may in the future, elect to allocate the partially filled order on a random and full basis.

In Excel, we use the random selection function to randomly select a portion of the participating client accounts and fill the order in full for each of those accounts, based on an algorithm we do not control. Typically, we seek to fill the remaining portion of the order during subsequent trading days. However, it is possible that the security will not trade at a price that is desirable for future buys or sales, as the case may be, in which case client that were not filled in full will not trade any amount of the security. In addition, a partially filled buy order may cause or contribute to an increase in the price of the security during subsequent trading days, and a partially filled sell order may cause or contribute to a decrease in the price of the security during subsequent trading days. In addition to the foregoing, we may allocate orders on a basis different from that specified in the order allocation statement if all client accounts receive fair and equitable treatment over time. Each advisory client will not necessarily be offered or participate in every investment opportunity. We will endeavor to make all investment allocations in a manner that we consider to be fair and equitable over time.

- Additional Items Regarding Private Fund Allocation

Our general policy regarding allocation of limited or constrained investment opportunities in the private funds is set forth below, though the actual policy for each private fund will vary based on a variety of factors. The policy for each private fund is included in such private fund's organizational or offering documents, and at all times such policy shall govern

investors in the applicable private fund and supersede the below general policy.

- A portion of private fund commitments will first be allocated to us and our affiliates (including our employees) in an amount we believe in our sole discretion to be appropriate given overall capacity and the circumstances specific to the private fund.
- Qualified investors with \$10 million or more of Freestone Assets will receive the remaining capacity.
  - If the private fund is oversubscribed at this level, then investor commitments within this group will be reduced pro-rata.
  - “Freestone Assets” means the aggregate amount of reportable assets managed or advised by Freestone measured in our sole discretion based on such assets as reflected in our portfolio management system. The amount of Freestone Assets will be measured at or around the time of the applicable closing.
  - For purposes of this policy, each investor’s Freestone Assets will be determined and aggregated based on the accounts held by such investor’s immediate family members or other members of its family group as determined by us in our sole discretion.
- Qualified investors with \$5 million up to \$10 million of Freestone Assets will receive any remaining capacity.
  - If the private fund is oversubscribed at this level, then investor commitments within this group will be reduced pro-rata.
- Qualified investors with \$2.5 million up to \$5 million of Freestone Assets will receive any remaining capacity.
  - If the private fund is oversubscribed at this level, then investor commitments within this group will be reduced pro-rata.
- Qualified investors with less than \$2.5 million of Freestone Assets will receive any remaining capacity.
  - If the private fund is oversubscribed at this level, then investor commitments within this group will be reduced pro-rata.
- We may institute capacity limits or minimum investment amounts, overall or within each investor group, in our sole discretion.
- If a private fund does not meet its targeted commitment amount in its initial closing or if we desire to raise additional equity for the private fund, we may conduct subsequent closings to reach or exceed the target. The allocation policy for such subsequent closings will be at our sole discretion and we will not be obligated to offer any additional amount to all investors, all similarly-situated investors, or otherwise.

In addition, from time to time, we or our affiliates are presented with investment opportunities in connection with our and their management and control of the private funds. For various reasons, we may determine that those opportunities are not appropriate or desirable investments for the private funds, or that only a portion of an available opportunity is appropriate or desirable for the private funds. In general, we believe advisory clients should

access investments made by, or investment opportunities presented to, the private funds by making an investment in the private funds. Accordingly, in such cases we or our affiliates may, but are not obligated to, in our discretion offer the available investment opportunity to any one or more persons, including: investors in the private funds; persons or entities that are not investors in the private funds; any other private fund or client; and/or personnel employed by our affiliates or us. In each of the foregoing cases, any such offer will be on such terms and conditions as we determine in our discretion. In the past there have been instances where we have not offered, and in the future we may not offer and are not obligated to offer, such available investment opportunities to advisory clients, in which case we, our affiliates and/or personnel employed by our affiliates or us may invest in such investment opportunities without allocating any portion of the investment opportunity to advisory clients and without providing notice to, or obtaining consent from, any advisory clients. In addition, in the past we, our affiliates and/or personnel employed by our affiliates or us have invested in the same investment opportunities as our clients on more favorable terms than our clients, including fee and liquidity terms that are more favorable than the terms on which our clients invest. See the section regarding Participation or Interest in Client Transactions and Personal Trading in Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) for additional information.

- Trade Errors

If a trade error occurs in a client account, it is our policy to correct the error at no cost to the client and to restore the client account to the position it should have been in had the trade error not occurred. We will not use any soft dollars to correct trade errors, and we will not use the promise of future brokerage commissions to compensate a broker-dealer for absorbing the cost of a trade error. If a trade error results in a loss, we will absorb the loss so it will not be borne by the client. Similarly, if a trade error results in a gain, we will retain it. At the end of each year, if the ending balance of the error account (less money that was transferred in throughout the calendar year) on the last day of the calendar year exceeds the balance of the account on the first day of such calendar year, such excess will be donated to the Freestone Charitable Foundation or another charitable organization.

## **A. Private Funds**

The investment strategies of a number of the private funds involve primarily “multi-manager” investment approaches in which the private funds allocate a portion of their capital to third-party investment advisers (either directly on a managed account basis or by making investments in vehicles managed or controlled by the third-party or its affiliates). Certain of the private funds allocate substantially all of their capital to third-party investment advisers. In addition, many times we invest a portion of the funds’ capital directly in securities and other investments. See the section regarding Alternative Investments in Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) for further information.

- Investment/Brokerage Discretion – Private Fund Capital Invested by Third-Party Investment Advisers



Subject to the investment management agreement or comparable document entered into by a third-party investment adviser and a private fund, each third-party investment adviser will have the authority to buy and sell any securities at its discretion. In addition, the third-party investment advisers will have complete discretion as to the selection of broker-dealers for execution of transactions. Each third-party investment adviser will be required to select broker-dealers in a manner that is consistent with its duty to seek best execution in respect of transactions for the private fund accounts.

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

With regard to that portion of the private fund capital invested directly by us, we will have full investment discretion with respect to all portfolio securities transactions and full authority to select broker-dealers to execute such transactions. Allocation of investment opportunities and investments will be determined in accordance with the provisions of the private fund offering documents and our allocation policies and procedures. In general, we endeavor to allocate liquid market transactions under guidelines materially similar to those described in Item 12A above, in the section regarding Discretionary Advisory Client Accounts. In addition to such market transactions, the private funds make many substantial investments in financial instruments and other asset classes, such as real estate, for which we determine the allocation guidelines described above are not applicable or desirable. In such cases, we intend to allocate such opportunities and investments in a manner we believe is fair and equitable over time.

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

**B. Directed Brokerage**

We do not routinely recommend, request or require that a client direct us to execute transactions through a specified broker-dealer, and we generally do not permit clients to direct us to use a particular broker-dealer. In the event a client does direct us to use a particular broker-dealer, and we agree to do so, we will not have authority to negotiate commissions or obtain volume discounts, and it is unlikely best execution will be achieved. In addition, under these circumstances, a disparity in commission charges likely will exist between the commissions charged to other clients.

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

### **A. Advisory Client Accounts**

One of our client advisors is primarily responsible for our relationship with each advisory client. Each client advisor has one or more members of our client advisor support team that assists with servicing and monitoring the advisory client's account. In most cases, we review each advisory client's goals and objectives at least annually in an effort to assure proper asset allocation. In addition, we regularly review the securities held in the model portfolios.

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

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

### **B. Private Funds**

The portfolio manager(s) of each private fund review the applicable private fund's portfolio at least monthly. Reviews of private funds consist of an analysis of the portfolio holdings (when available) and performance to-date in light of the applicable private fund's investment objective, portfolio risk exposure and diversification among sub-advisers and investment strategies, as well as an evaluation of any appropriate changes to be implemented with respect to the portfolio.

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



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

### **A. Custodians**

We require that clients open brokerage/custodial accounts at custodians not affiliated with our affiliates or us, typically Charles Schwab. We do not receive compensation directly for recommending custodians to clients, though we do receive indirect economic benefits from those custodians (“Additional Services”). For example, Schwab, at no cost or at a discount, provides us with support services or products. Some of those services help us manage or administer client accounts, while others help us manage and grow our business. For instance, Schwab makes available software and other technology to us that provide access to client account data, facilitate trade execution and provide pricing and other market data. Schwab also provides, among other things, educational conferences, events and publications and technology, compliance, legal and business consulting. In addition, in the past Schwab has, and in the future Schwab may, sponsor and pay all or a portion of the expenses associated with events or entertainment we host for clients or prospective clients, or events or entertainment only attended by our employees. From time to time, Schwab also contributes toward the payment of our technology, research and other expenses, including by making payments directly to us or to third parties on our behalf.

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

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

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

Advisory client accounts maintained by Schwab are not charged separately for custodial services. Instead, Schwab receives compensation from the client accounts in the form of commissions, asset-based pricing fees, or a combination of both. For those client accounts that are subject to asset-based pricing, Schwab does not charge any additional fees for trades executed at other broker-dealers (i.e., a trade that "trades away"), however, those executing brokers typically charge a commission, which will be disclosed on the client trade confirmation. For those client accounts that are subject to commission-based pricing only, Schwab typically will charge a prime broker fee for trades that trade away, in addition to any commission charged by the executing brokers (which will be disclosed on the client's trade confirmation). In each case, commissions charged by executing brokers will vary in respect of trades that trade away.

Our receipt of Additional Services, our participation in the referral program described above and any indirect benefit we receive under the Client Benefit Confirmation Agreement do not diminish our duty to act in the best interests of our clients, including seeking best execution of trades for our client accounts.

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

## **B. Referral Partners**

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

From time to time, we sponsor and pay all or a portion of the expenses associated with events or entertainment we host for referring parties, including dinner events, entertainment and

travel to resort destinations where we spend time seeking to further develop our business relationship with the referring parties. These activities create a potential conflict of interest for the referring parties because they may be incentivized to refer prospective clients to us because of such activities.

### **C. Employees**

We make one-time fixed amount bonus payments to certain employees who refer prospective clients to us, assuming those prospects become our clients. In addition, the primary employment activity of one or more of our employees is to solicit prospective clients for us. These employees receive one-time bonuses and ongoing payments for a specified period based on the amount of new client assets successfully solicited.

## Item 15. Custody

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

Freestone may act on behalf of a Client, pursuant to a standing letter of instruction or other similar transfer authorization arrangement established by a Client with the custodian, to transfer Client assets to one or more third parties upon the request of a Client. Freestone is deemed to have custody of such assets in order to facilitate these transactions for our clients. It is noted that the SEC set forth seven conditions whereby, if met by, the SEC would not recommend enforcement action against an adviser under Section 206(4) of, and Rule 206(4)-2, under the Advisers Act if that adviser does not obtain a surprise examination. Freestone has established processes whereby we believe that Freestone and our custodian are complying with such conditions and report such assets in Item 9 of Freestone's Form ADV Part 1 as required.

In certain circumstances, pursuant to a letter of instruction or authorization arrangement established by a Client, Freestone is deemed to have custody regarding the use of the U.S. Department of Treasury's Electronic Federal Tax Payment System ("EFTPS"). Accordingly, Freestone is subject to an annual surprise custody examination and will seek to have EFTPS accounts audited on an annual basis by an independent public accountant. We are also subject to the SEC's custody rule in respect of the private funds. However, we are not required to comply with certain requirements of the custody rule with respect to the private funds because we comply with the provisions of the so-called "audit exception" for pooled investment vehicles. Among other things, the exception requires that each private fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that the private fund distribute its audited financial statements to all investors within 120 days (or 180 days for fund of funds) after the end of its fiscal year.

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

## **Item 16. Investment Discretion**

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

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

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

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

## Item 17. Voting Client Securities

As a general matter, we have the authority to vote proxies relating to securities held in the accounts we manage and advise, as agreed with our clients. Clients may also elect to retain proxy voting authority. This must be communicated to us in writing at the time we establish our relationship. Each client may at any time change his or her decision regarding proxy voting by notifying us in writing. We have engaged Institutional Shareholder Services Inc. ("ISS") to assist with the analysis and voting of proxy ballots and related record keeping. ISS provides independent assessment and recommendations with regard to all proxy items for securities held in accounts.

We have adopted written policies and procedures regarding the voting of account proxies. We have designed these policies and procedures to fulfill our obligation to vote proxies in our clients' best interest.

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

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

A client may obtain a copy of our proxy voting policies and procedures and information about how any proxies were voted on the client's behalf upon request. Any such request must be made in writing and directed to [compliance@freestonecapital.com](mailto:compliance@freestonecapital.com).

## **Item 18. Financial Information**

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