



## Form ADV Part 2A: Firm Brochure

### Item 1

#### Cover Page

Stairway Partners, LLC  
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Date of Brochure: **January 31, 2019**

Stairway Partners, LLC (Stairway) is an Investment Advisor registered with the United States Securities and Exchange Commission (SEC). Registration of an investment advisor does not imply a certain level of skill or training.

The oral and written communications of an advisor provide clients and prospective clients with important information with which they determine to hire or retain an advisor. This brochure provides information about the qualifications and business practices of Stairway.

**If you have any questions about the contents of this brochure, please contact us at (630) 371-2626 or email [stairwaypartners@stairwaypartners.com](mailto:stairwaypartners@stairwaypartners.com).**

The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

## **Item 2**      **Material Changes**

As a fiduciary, Stairway has an ongoing obligation to inform its clients of any material information that could affect our advisory relationships. This Item 2 is used to provide clients with a summary of any material changes that have been made to our Form ADV Part 2A, commonly called a Brochure, since the previous annual update. Our last annual update was made on January 31, 2018.

### **This Brochure is materially different from our previous annual filing because:**

There have been no material changes since our last annual update.

**A copy of Stairway's Brochure can be requested by contacting our Chief Compliance Officer at (630) 371-2626. Alternatively, our Brochure is always available to our clients on our website by selecting the 'Legal' tab at [www.stairwaypartners.com](http://www.stairwaypartners.com).**

Additional information about Stairway Partners, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with Stairway who are registered, or are required to be registered, as investment advisor representatives of the firm.

**Item 3**            **Table of Contents**

Item 1	Cover Page.....	1
Item 2	Material Changes.....	2
Item 3	Table of Contents.....	3
Item 4	Advisory Business.....	4
Item 5	Fees and Compensation.....	5
Item 6	Performance-Based Fees and Side-by-Side Management.....	6
Item 7	Types of Clients.....	6
Item 8	Methods of Analysis, Investment Strategies, and Risk of Loss.....	6
Item 9	Disciplinary Information.....	8
Item 10	Other Financial Industry Activities and Affiliations.....	8
Item 11	Code of Ethics.....	8
Item 12	Brokerage Practices.....	9
Item 13	Review of Accounts.....	10
Item 14	Client Referrals and Other Compensation.....	10
Item 15	Custody.....	10
Item 16	Investment Discretion.....	11
Item 17	Voting Client Securities.....	11
Item 18	Financial Information.....	11
Part 2B of Form ADV: Brochure Supplements .....		Attachment

## **Item 4            Advisory Business**

### **Our Owners**

Stairway Partners, LLC was founded in May 2004. James Jackson, Stewart Rallis and Kevin Terhaar are Managing Principals and equity owners of Stairway. Our principal owners are James (Jamie) Jackson and Stewart (Stew) Rallis who each own 25% or more of the firm.

### **Our Advisory Services**

#### **Investment Management Services**

Stairway's core business is investment management. Our mission is to provide our clients with a low-cost comprehensive institutional investment capability that emphasizes global asset allocation and risk management. Our investment methodology focuses on the liquid global markets with an emphasis on long-term investment strategies that manage the asset allocation process around the risk preference of each client. Stairway's fundamental investment belief is that asset allocation is the single most important determinant of success. We believe that in any investment plan, the dominant amount of risk and return comes from the asset class mix rather than from the selection of individual investments.

We provide investment management services primarily to institutional clients including Taft Hartley pension plans, charitable organizations and foundations, and to high net worth individuals. Stairway is a process-driven firm that utilizes an expected risk and return framework that is applied to each client individually through the development of benchmarks and investment policies tailored to the client. Pursuant to an Investment Advisory Agreement, Stairway works with each client to construct the benchmark and investment policy that most appropriately suits the client's investment objectives. Clients grant Stairway the discretionary authority to supervise and direct the investment of their assets in accordance with their identified objectives. The custody of client assets is maintained at unaffiliated qualified custodians and clients pay a fee to Stairway for providing investment management services.

#### **Portfolio Advisory Services**

Stairway offers model portfolio advisory services as a non-discretionary investment subadvisor to independent managed account platforms and unaffiliated financial advisors (or "Financial Advisors"). Stairway provides recommendations and investment advice to Financial Advisors through the construction and maintenance of model asset allocation strategies that specify differing investment approaches and objectives. The models are used directly by the Financial Advisors. Upon receiving an investment strategy recommendation from Stairway, the Financial Advisor is responsible for execution of that strategy. The Financial Advisor determines the timing of implementation, the level of assets to invest in the strategies recommended by Stairway, and as applicable, the investment products available on the managed account platform.

Stairway receives a portion of the Financial Advisor's advisory fee. Stairway's fee is set forth in the Investment Subadvisor Agreement between Stairway and the Financial Advisor and is paid to Stairway by the Financial Advisor. The fee is calculated, usually quarterly, based on the value of "assets under advisement". Stairway has no direct relationship with the clients of Financial Advisors using Stairway's model portfolio advisory services.

#### **Institutional Consulting Services**

In conjunction with the investment management services described above, Stairway offers consulting services to its institutional clients. In this capacity, Stairway acts as an ERISA Section 3(38) fiduciary to the trustees of its Taft-Hartley pension plan clients. Stairway works closely with pension trustees on strategic planning that includes addressing risk tolerance and portfolio return

requirements. We provide comprehensive assistance in formulating and quantifying investment objectives, and articulating them in an Investment Policy Statement. Stairway also creates and presents detailed quarterly portfolio performance attribution reports and analytical economic and capital markets research. Clients do not pay additional fees for institutional consulting services.

### **Our Assets Under Management (AUM) and Assets Under Advisement (AUA)**

Stairway manages its investment advisory client assets on a discretionary basis. **As of December 31, 2018 Stairway had \$656,963,000 of client assets managed on a discretionary basis.** Assets under advisement are assets with Financial Advisors who rely on Stairway for investment strategy recommendations. **As of January 1, 2019 Stairway had approximately \$36,000,000 in assets under advisement on a non-discretionary basis.**

## **Item 5            Fees and Compensation**

### **Our Investment Management Fees**

Stairway does not receive compensation directly or indirectly from any source other than the fees paid to us by our clients. All of our clients' assets are maintained in accounts at unaffiliated qualified custodians. This means that Stairway does not have custody of client assets unless authorized in writing by the client and even then, only to deduct the quarterly investment advisory fees. Clients can elect to be billed for quarterly fees rather than having the fees deducted from their accounts.

Our annualized fees are noted in the table below labeled "Fee Schedule". The specific manner in which fees are charged by Stairway is established in the Investment Advisory Agreement. Clients most often are billed quarterly in advance but can elect to be billed in arrears. Fees begin to accrue at the time Stairway begins managing an account. Fees are calculated based on the total market value of the assets of the account at that time, and if authorized by the client, are deducted by Stairway from the client's custodial account.

The fee rate applied to a portfolio is computed based on the weighted average of the asset amount in each rate bracket. For example, a client with \$5 million in assets under management would pay 0.75% on the first \$3 million and 0.65% on the next \$2 million, making their weighted average fee rate 0.71%. When a client has multiple portfolios managed by Stairway, the fee amount will be based on the combined market value of all the portfolios.

#### **Fee Schedule**

<b><u>Assets Under Management</u></b>	<b><u>Annual Rate</u></b>
First \$3 million	0.75%
\$3 – 6 million	0.65%
\$6 – 10 million	0.50%
\$10 – 25 million	0.35%
Over \$25 million	0.30%

Stairway may negotiate client fee arrangements for accounts greater than \$25 million depending on the nature of the engagement and has historically done so for large institutional clients.

Either the client or Stairway can terminate the relationship on 30 days prior written notice. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Similar advisory services may be available from other advisors at a lower cost. Stairway's fees are exclusive of, and in addition to, brokerage commissions, transaction fees, and other related costs and expenses which are assessed by a broker or custodian and are incurred by the client.

Stairway does not utilize "soft dollars" or other similar forms of compensation from third parties. We do not receive 12(b)-1 fees from mutual funds or any portion of the commissions, fees, and costs that clients pay to a broker or custodian. Please see Item 12 for a detailed summary of our brokerage practices including the factors that Stairway considers in selecting executing brokers and determining the reasonableness of their commission charges.

### **Our Portfolio Advisory Fees**

When Stairway provides non-discretionary model portfolio advisory services to a Financial Advisor, we have no direct relationship with the Financial Advisor's clients. Stairway is paid an advisory fee by the Financial Advisor. Our fee is a portion of the fee charged by the Financial Advisor to its client. The fee is calculated by the Financial Advisor pursuant to an Investment Subadvisor Agreement executed between Stairway and the Financial Advisor.

### **Our Institutional Consulting Fees**

Stairway does not charge an additional fee for providing institutional consulting services.

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

Stairway does not charge a performance-based fee and therefore does not engage in side-by-side management of client assets (i.e., managing client accounts that are charged performance based fees along side accounts that are not charged performance fees).

## **Item 7                    Types of Clients**

Stairway provides discretionary investment management services primarily to Taft-Hartley pension plans, foundations, charitable organizations, institutional clients, and high net worth individuals. To open an account, we generally require a client to have a minimum of \$1,000,000 in assets to be managed by the firm. We may make exceptions to the foregoing at our discretion and have historically done so for employees of the firm.

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

### **Our Methods of Analysis**

Stairway's methods of analysis include using our own proprietary valuation framework to build expected risks and returns for each asset class over relevant time horizons. Return is a function of expected fundamental cash flows discounted for the risk inherent in each asset class. Our risk model incorporates expected volatility and correlation, and quantifies risk on both a relative basis (to client's benchmark as stated in their investment policy) and an absolute basis for each client portfolio.

Stairway provides performance attribution on actual returns for each client portfolio. This analysis is useful in understanding which exposures and investment decisions added to or detracted from a portfolio's value. Accountability is a key driver of Stairway's process.

## **Our Investment Strategies**

Stairway is characteristically a long-term investor for our clients. We believe that keeping transaction costs low is a significant benefit. Our investment actions are typically the result of price changes in the market relative to fundamentals. Such price changes can necessitate a change in strategy to either invest in areas that have become attractive, or reduce risk in markets that we believe have become overpriced. Generally, portfolio changes are implemented universally across accounts consistent with each discrete investment policy.

The foundation of Stairway's investment process is the construction and maintenance of a custom benchmark and policy for each client. Stairway uses an internally developed methodology of translating a client's investment objectives and risk preferences into a long-term, explicit investment policy. We have also assembled a proprietary database that encompasses the liquid global capital markets. The data include risk, return, and financial and economic variables; data are sourced from various index providers and other intermediaries. These data are used in our proprietary research and modeling and are regularly updated.

Stairway offers investment advice in managing portfolios consistent with each client's objectives, benchmark, and investment policy using some or all of the following types of securities: equity securities (exchange-listed, over-the-counter, and foreign issuers), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, mutual fund shares, US government securities, and options on securities. We may also engage in foreign currency transactions including but not limited to, hedging non-US currency exposure in US dollars to reduce the risk presented by overpriced foreign currency or converting US dollar exposure into more attractive foreign currencies.

## **Types of Investments and Risk of Loss**

Liquidity, transparency, and low costs are all factors important in Stairway's selection of investment vehicles and are reasons why Stairway primarily invests client assets in open-end mutual funds (MUTFs) and Exchange Traded Funds (ETFs). A MUTF is a company that pools money from many stakeholders and invests the money in stocks, bonds, or other assets. Each share of a MUTF represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. Open-end MUTFs are not traded by investors on an exchange but are issued by the fund to each new investor and are redeemed back to the fund at their current net asset value when an investor withdraws.

An ETF is a security that tracks an index or basket of assets like an index mutual fund, but trades like a stock on an exchange at approximately the same price as the net asset value of its underlying assets. Stairway believes ETFs are attractive as investments because of their low cost, tax-efficiency, and stock-like features. Both ETFs and MUTFs are effective tools in implementing our core investment belief that asset allocation is the most important factor in an investment plan.

Stairway generally invests client assets in large, very liquid MUTFs and ETFs. As with any investment vehicle, there are risks. Some of the potential risks to be aware of in connection with trading in ETFs include stock market risk, liquidity risk, currency risk, and credit risk. Equity-based ETFs are subject to risks similar to those of stocks; fixed income-based ETFs are subject to risks similar to those of bonds. Investment returns will fluctuate and are subject to market volatility so that an investor's shares, when sold, may be worth more or less than their original cost.

Similarly, while the risks associated with MUTF ownership vary depending on the specific objective and underlying investments of the MUTF, the potential downside is the same – loss of principal and income. Some of the risks to be aware of in connection with investing in MUTFs include market risk, asset class risk, issuer risk, and management risk. Every fund issues a

prospectus which provides detailed information about the MUTF including the material risks associated with investing.

**Please note that investing in securities involves risk of loss that clients should be prepared to bear. Past performance with respect to an investment or an investment advisor is not an indication of future performance.**

**Item 9                      Disciplinary Information**

Stairway is required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of our firm, or the integrity of Stairway's management. Neither Stairway, nor its owners or employees have any current or past involvement with any legal or disciplinary events.

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

Stairway has no current outside financial industry activities or affiliations.

**Item 11                      Code of Ethics, Participation/Interest in Client Transactions and Personal Trading**

**Our Code of Ethics**

Stairway has adopted a Code of Ethics applicable to all employees of the firm ("associated persons"), describing our high standards of business conduct, and our fiduciary duty to all of our clients. Among other things, the Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, and personal securities trading procedures. Stairway's associated persons are required to follow our Code of Ethics and to acknowledge annually their understanding of, and continued compliance with, the terms of the Code of Ethics.

**Stairway's clients or prospective clients can request a copy of our Code of Ethics by contacting our Chief Compliance Officer.**

**Our Participation/Interest in Client Transactions**

Stairway does not engage in any proprietary trading. We do not buy or sell as principal to any of our clients or act as an investment advisor to an investment company. Nevertheless, most of Stairway's associated persons have portfolios managed by Stairway. The portfolios of our associated persons are treated the same as every other client account, including purchasing and selling securities at the same time, and paying the same fees as all of our client accounts. (Also see Item 12 below for a detailed discussion of aggregating transactions.)

**Our Personal Trading**

Subject to satisfying our Code of Ethics and applicable laws, associated persons of Stairway are permitted to trade for their personal securities accounts, including in securities which Stairway transacts for its clients. All personal securities transactions by or for associated persons in their outside brokerage accounts are subject to Stairway's internal compliance program. Our compliance policies and procedures include disclosure and reporting requirements designed to prevent actual or apparent conflicts of interest between transactions effected by employees for their own brokerage accounts and transactions made by Stairway for its clients. In particular, the Code of Ethics requires pre-clearance of personal transactions, and restricts employee trading in close proximity to transactions effected for client accounts. Employee trading is regularly

monitored to avoid conflicts and to ensure on-going compliance with the firm's policies and procedures.

## **Item 12      Brokerage Practices**

### **Soft Dollars**

As mentioned in Item 5, Stairway does not enter into soft dollar arrangements. Soft dollar arrangements are frequently associated with brokerage practices and involve an investment manager directing brokerage transactions to certain brokers in return for research products and other economic benefits. All resources received and used by us in conducting our business, including outside research, data vendors, software and hardware, are paid for directly by Stairway. Additionally, we conduct our own proprietary research. Stairway has built proprietary models for risk, valuation, and performance attribution as well as developed an in-house portfolio analytics system.

### **Best Execution**

Clients of Stairway authorize us, in our sole discretion, to place orders for their accounts with broker-dealers we select. Stairway chooses brokers based on our evaluation of best execution, including the size and difficulty of completing the transaction, and the most reasonable costs for our clients. Stairway also takes other broker-related factors into consideration including particular expertise in the type of security or transaction, access to relevant markets and prior experience, and the intrinsic value of ongoing relationships with a broker. We will evaluate and seek competitive commission rates but will not necessarily attempt to obtain the lowest possible commissions for transactions.

### **Order Aggregation and Transaction Allocation**

It is our goal to provide individualized asset management services to each of our clients while ensuring that the execution and distribution of transactions among participating client accounts is fair and equitable. One of the ways we accomplish this is by aggregating or "bunching" our client orders in an effort to obtain more favorable execution prices or commission rates. Order aggregation is the process of combining together orders to purchase or sell the same security into a single larger order. Stairway will always aggregate client orders for execution when effecting portfolio rebalancing and strategy change transactions. Under other circumstances, we will aggregate orders when we believe that doing so will be in the best interest of the participating client portfolios. Once executed, we allocate aggregated transactions in a manner consistent with our fiduciary obligations to our clients in that every client account participating in an aggregated order is allocated trades at the average execution price, and execution costs are shared by the clients in proportion to each account's participation.

Stairway primarily transacts in highly liquid, well-capitalized securities such that "partial fills" are unlikely. However, in instances when an aggregated order is only partially executed, or executed at different prices, we will use price averaging to allocate the transaction to accounts pro rata based on each portfolio's participation. In addition, Stairway maintains a Trade Aggregation and Allocation Policy to ensure aggregated orders are allocated in accordance with applicable laws and regulations.

### **Dissemination of Investment Strategy Recommendations**

Part of our duty as a non-discretionary model portfolio advisor is to provide our investment strategy recommendations to Financial Advisors on a timely and equitable basis with Stairway's other clients. It is Stairway's practice to disseminate our investment strategy recommendations at or about the same time that we begin the process of implementing the recommendations for our

investment management clients. This practice is designed to achieve fair treatment of clients, both individually and with respect to one another, and is intended to ensure that all of Stairway's clients are afforded a fair opportunity to participate in an investment strategy during the same time period.

### **Directed Brokerage**

A client can direct Stairway, in writing, to use a particular broker to execute all transactions for their account (directed brokerage). Under such circumstances, the client will assume sole responsibility to negotiate terms and arrangements for the account with the broker. Stairway will not seek better execution services or prices from other brokers and may not be able to aggregate such transactions with orders for other accounts managed by us. As a result, clients electing to direct brokerage may pay higher commissions or other transaction costs, or receive less favorable net prices on transactions for their accounts than might otherwise be the case.

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

Stairway's Managing Principals regularly review all client accounts. A review of each account is made on a monthly basis when the performance analysis for the prior month has been completed. The formal reviews of each account include evaluating performance, appropriateness of benchmarks and investment policies, and investment management fee accuracy. This analysis incorporates the account's return, attribution of return to management decisions, and performance relative to the client's objectives.

Accounts are also reviewed whenever transactions are made in the account, when significant market movements occur, or when major news developments take place which could affect the portfolios. Stairway maintains a proprietary portfolio analytics system which includes a "drift monitor" to identify potential deviations from strategy across all client portfolios. Account reviews can also be triggered by notification of material changes in client circumstances that might necessitate adjustments in the client's investment policy. Further, an automatic daily reconciliation is made between Stairway's accounting system and the accounting downloads received from the qualified independent custodian(s) maintaining our clients' assets.

Trade confirmations of all transactions and monthly account statements are delivered to each client by their custodian. Additionally, at any time, Stairway clients can access and view their portfolio holdings, risk, and performance on the firm's website.

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

Stairway currently does not have any active referral arrangements.

### **Item 15      Custody**

Other than with respect to the payment of quarterly fees made by deduction from a client's account held at an unaffiliated qualified custodian, Stairway does not maintain custody or possession of client account assets. Clients will receive trade confirmations and account statements directly from their qualified custodian. Stairway urges clients to carefully review these confirmations and statements. Stairway also reconciles the transaction and position files it receives from the custodian every day and makes client portfolio holdings available to each client on our website. Clients can elect to pay their quarterly fees by check rather than by deduction from their account.

**Item 16**      **Investment Discretion**

Stairway exercises discretionary authority over each of our client accounts subject to each client's stated investment guidelines as set forth in their investment policy and in accordance with any additional limitations established by the client. Before assuming discretionary authority, clients execute an Investment Advisory Agreement granting Stairway full power and authority to supervise and direct the investment of their assets on a discretionary basis.

**Item 17**      **Voting Client Securities**

Another element of Stairway's discretionary authority is the requirement that Stairway vote proxies on the securities held in our clients' portfolios. Stairway's Proxy Voting Policy requires all proxies to be voted in the best interest of our clients. **Clients can obtain a copy of our Proxy Voting Policy and procedures upon request. Clients can also obtain information from Stairway about how we voted any proxies on their behalf.**

**Item 18**      **Financial Information**

Stairway has no financial commitments that impair our ability to meet contractual and fiduciary obligations to our clients. Nor has Stairway been the subject of a bankruptcy proceeding.