

ITEM 1: COVER PAGE

FIRM BROCHURE
(Part 2A of Form ADV)

July 27, 2011

Cornerstone Wealth Management, LLC

16935 West Bernardo Drive, Suite 260

San Diego, California 92127

Phone: (858) 676-1000

Fax: (858) 676-1130

www.cornerstonewm.com

Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Cornerstone Wealth Management, LLC. If you have any questions about the contents of this Brochure, please contact us at (858) 676-1000 and/or info@cornerstonewm.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Cornerstone Wealth Management, LLC is registered as an investment adviser with the Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about Cornerstone Wealth Management, LLC is also available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2: MATERIAL CHANGES

This Brochure dated July 27, 2011 is a new document prepared in accordance with the new requirements and rules adopted by the United States Securities and Exchange Commission (“SEC”). Previously, investment advisers provided clients and prospective clients with a copy of Form ADV Part II, which was in a “check-the-box” format with certain narrative explanations included on Schedule F. On July 28, 2010, the SEC adopted revisions to Form ADV, which require investment advisers to provide narrative, plain English disclosures regarding their advisory business in order to provide clients and prospective clients with more meaningful information about the adviser and its business practices. Accordingly, this Brochure is materially different in structure and requires certain new information that the previous brochure did not require.

Because of the amount of new details provided within the brochure, Cornerstone Wealth Management, LLC encourages each client to read this brochure carefully and to call us with any questions you may have. In particular, please note that the following items are either new additions to Form ADV Part 2 or contain additional information not found in prior versions of the brochure:

Item 4 - Advisory Business

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

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

Item 9 - Disciplinary Information

Item 10 - Other Financial Industry Activities and Affiliations

Item 15 - Custody

Pursuant to new SEC Rules, Cornerstone Wealth Management, LLC will ensure that clients receive a summary of any material changes to this Brochure within 120 days of the close of Cornerstone Wealth Management, LLC’s fiscal year. Additionally, as the firm experiences material changes in the future, we will send you a summary of our “Material Changes” under separate cover. For more information about the firm, please visit www.cornerstonewm.com.

ITEM 3: TABLE OF CONTENTS

<u>Item Number</u>	<u>Page</u>
Item 1: Cover Page.....	1
Item 2: Material Changes.....	2
Item 3: Table of Contents.....	3
Item 4: Advisory Business	5
Description of Firm.....	5
Principal Owners.....	5
Types of Advisory Services Offered	5
Advisory Agreements	7
Amount of Client Assets Managed.....	7
Item 5: Fees and Compensation.....	7
Investment Advisory Fees	7
Planning Fee	8
Consulting Fee	8
Fee Sharing Arrangements.....	9
Separately Managed Accounts.....	9
401(k) Management Fees.....	10
Other Fees	10
Additional Comments	10
Item 6: Performance-Based Fees and Side-by-Side Management	10
Item 7: Types of Clients.....	11
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	12
Methods of Analysis	12
Investment Strategies.....	12
Risk of Loss	13
Item 9: Disciplinary Information	18
Legal or Disciplinary Events	18
Item 10: Other Financial Industry Activities and Affiliations.....	18
Financial Industry Activities.....	18
Affiliations	18

Recommendations of Other Advisers	18
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	18
Description of Code of Ethics.....	18
Participation or Interest in Client Transactions	19
Personal Trading	19
Item 12: Brokerage Practices.....	20
Selection Criteria	20
Order Aggregation	22
Handling Trade Errors	22
Item 13: Review of Accounts.....	23
Item 14: Client Referrals and Other Compensation	23
Economic Benefits Received	23
Compensation for Client Referrals	24
Other Compensation	24
Item 15: Custody	24
Item 16: Investment Discretion.....	25
Discretionary Authority; Limitations.....	25
Limited Power of Attorney	25
Item 17: Voting Client Securities.....	26
Proxy Voting Policy.....	26
Item 18: Financial Information	26

ITEM 4: ADVISORY BUSINESS

Description of Firm

Cornerstone Wealth Management, LLC (hereinafter referred to as “Cornerstone,” “we,” “our,” or “us”) is a San Diego-based boutique wealth management firm, founded in 1999, managed by formerly practicing certified public accountants and attorneys, and modeled after what is called a “multi-family office.” The approach of a multi-family office is much more comprehensive and sophisticated than the approach of a typical investment advisory firm. We manage wealth for investors with a net worth of typically \$10 million or more. We also have a program for individuals with less than \$10 million where applicable.

Principal Owners

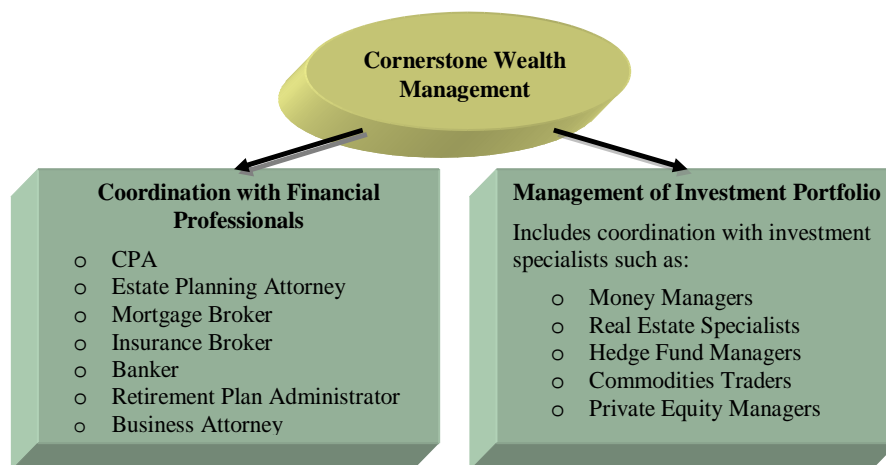
Cornerstone’s principal owner is Chris L. Meacham, CPA, who is also Cornerstone’s President and CEO.

Types of Advisory Services Offered

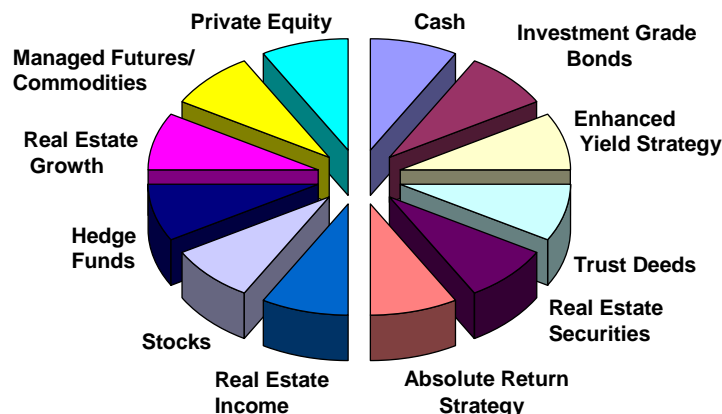
Typically, our clients are accredited investors, as that term is defined by federal securities laws, and fall into one of the following two areas: (1) Family Office Clients, and (2) Investment Clients. For Family Office Clients, our services are more comprehensive as we typically coordinate all of their financial affairs—which includes giving advice on matters not involving securities. For Investment Clients we typically focus on the investment portfolio exclusively. Although we employ and coordinate communication with professionals such as attorneys and CPAs, we do not engage in rendering legal and/or tax services.

Advisory Services for Family Office Clients

Our approach is similar to that of a custom homebuilder: As the “architect,” we design a plan to help our clients reach financial freedom, whatever that may mean to them. As the “general contractor” we implement that plan by using “subcontractors” in the financial world who are independent, third-party specialists, each with their specific abilities. Such subcontractors fall into one of the following two areas: Financial Professionals and Investment Specialists. Examples of these professionals and specialists are included in the following graph:



One major way we set ourselves apart is by granting our clients access to unique, private investment opportunities not accessible to the general public. We also believe in diversifying portfolios within and across asset classes with little to no correlation such as the ones shown in the following graph (which asset classes and what allocations to each asset class are in an individual portfolio depend on the individual client's objectives, risk profile, and preferences):



Advisory Services for Investment Clients

The portfolio of an Investment Management Client is typically divided into two categories. The first category is invested in mutual funds, ETFs, and/or other publicly traded securities. The second category is invested in one or more limited partnerships (hereinafter referred to as the "Limited Partnership"). The Limited Partnership allows us to pool our Investment Clients' assets in order to better diversify the Investment Client's assets and to invest a portion of these assets in opportunities that are typically restricted to investors with a net worth of \$5 million or more. The general partner of the Limited Partnership—the partner who decides how the assets of the Limited Partnership are invested—is Cornerstone. Upon request, in addition to these two categories, an Investment Client's portfolio may also be invested in additional private placements if warranted based on the client's net worth, objectives, and risk profile.

Advisory Agreements

Clients enter into a written agreement with Cornerstone at the outset of the client relationship. This written agreement is called the "Investment Advisory Agreement." The Investment Advisory Agreement remains in effect until changed or terminated by the client or Cornerstone by written notice to the other. The Client has the right to terminate the Investment Advisory Agreement without paying any Investment Advisory Fees (as outlined in Item 5) to Cornerstone by providing written notification to Cornerstone within thirty (30) calendar days after entering into the agreement. If the Agreement is terminated subsequent to the initial thirty-day period after entering into this Agreement, the client will be obligation to pay advisory fees pro-rated through the date of termination.

Amount of Client Assets Managed

As of December 31, 2010, the following represents the approximate amount of client assets under management by Cornerstone on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$91,223,087
Non-Discretionary	\$138,192,831
Total:	\$229,415,918

ITEM 5: FEES AND COMPENSATION

Investment Advisory Fees

The Investment Advisory Fee for services rendered by Cornerstone is based on an annual percentage of the assets managed by Cornerstone billed in arrears on a quarterly basis as outlined below. A partial quarter will be billed based on the number of days Cornerstone was managing the portfolio during such a quarter. In addition to the Investment Advisory Fee, there may be additional fees, such as a planning fee and/or consulting fee as outlined below. Typically, fees are automatically deducted from a client's account. The term "Offset" in the schedule below is defined under the heading "Fee Sharing Arrangements" further below.

Family Office Clients

Family Office Clients have the choice between one of the following two Advisory Fees:

- 0.85% (with a minimum annual advisory fee of \$85,000) with any and all quarterly Offset reducing the quarterly advisory fee. In the unlikely event that the Offset exceeds the amount of the advisory fee for the pertinent quarter, the excess amount will not be carried forward to subsequent quarters as a credit against future advisory fees.
- 0.65% (with a minimum annual fee of \$65,000) with no Offset reducing said annual fee.

Investment Clients

For Investment Client's there will be no Offset reducing the Investment Advisory Fee for any rebates generated from the clients' investment portfolio. For the Investment Client's assets that are invested in a limited partnership managed by Cornerstone, the client will pay the fee schedule for such limited partnership as outlined in the legal documents of the limited partnership. Typically, the fee schedule includes a management fee of 1%—this management fee takes the place of the Investment Advisory Fee—and an incentive allocation of 10%—meaning Cornerstone receives 10% of the profits the Limited Partnership generates for the Investment Client.

For assets that are not in a limited partnership that is managed by Cornerstone, the following Investment Advisory Fees apply:

<u>Advisory Fee</u>	<u>Assets under Management*</u>
1.25%	on the first \$500,000
1.15%	on the next \$500,000
1.00%	on any assets in excess of \$1,000,000

*Exclusive of assets in a limited partnership managed by Cornerstone

Irrespective of the above fee schedule for assets outside of limited partnerships managed by Cornerstone, the minimum Investment Advisory Fee that will be charged to the Investment Client each quarter is \$1,250.

Cornerstone reserves the right to negotiate a different fee structure on a client-by-client basis.

For California Residents: Subsection (i) of Rule 260.238, California Code of Regulations requires that all investment advisers disclose to their advisory clients that higher or lower fees for comparable services may be available from other sources. Accordingly, The Adviser hereby discloses to clients that similar or same investment services may be available from other sources for higher or lower overall fees.

Planning Fee

In addition to the fees outlined above, there may be a one-time planning and set up fee of \$5,000. Cornerstone reserves the right to negotiate a different fee structure on a client-by-client basis.

Consulting Fee

In addition to the investment management fee, there may be a quarterly consulting fee of \$750 if the Investment Client desires to receive certain Family Office Client services. Cornerstone reserves the right to negotiate a different fee structure on a client-by-client basis.

Fee Sharing Arrangements

Cornerstone may invest a portion of a client's assets with investment specialists independent of Cornerstone. These investment specialists are hereinafter referred to as "Investment Specialists." Occasionally, Investment Specialists or their affiliates may agree to share a portion of their fees with Cornerstone in consideration of Cornerstone's decision to invest with the Investment Specialist. Any fees shared in this manner are taken out of the fees that are paid to the Investment Specialist and, therefore, do not increase our clients' cost. These fee sharing arrangements may be used to offset a client's Investment Advisory Fees. The portion of the fee sharing amount that is used to offset the Advisory Fees is hereinafter referred to as the "Offset." Some existing clients may have an arrangement where the Offset consists of 0%, 25%, 50%, 75%, or 100% of the fee sharing amount. For new clients, starting with January 1, 2011, the Offset is either a 100% or 0% of the fee sharing amount. Any Offset may only be used to offset Investment Advisory Fees and will not be otherwise distributed to clients. In the unlikely event that the Offset exceeds the amount of the advisory fee for the current quarter, the excess amount will not be carried forward to subsequent quarters as a credit against future advisory fees.

Any fee sharing arrangements are disclosed to our clients in writing prior to making the investment. The clients, however, are under no obligation to purchase any products through these third party investment specialists or to purchase any products recommended by these third party investment specialists. Examples of such fee sharing arrangements include referral fees for placing money with a certain investment and placing money in certain transactions, such as those involving insurance products, real estate brokerage, security trades, etc. 100% of the fee sharing amount from any arrangement Cornerstone can negotiate for its limited partnerships managed by Cornerstone benefit the investors in the limited partnership and thereby increase the clients' return on their investment.

Occasionally, the fee sharing arrangement with investment specialists may be with an associated person of Cornerstone as opposed to Cornerstone itself. Revenue from such arrangements will be treated equally to the fee sharing arrangements outlined above and will be part of the Offset. These fee sharing arrangements with associated persons of Cornerstone may be in the form of commissions on certain transaction, such as real estate and insurance transactions. Such fee sharing arrangements may cause the associated person to have a conflict of interest in recommending certain products. This type of fee sharing activity is rare and may comprise up to 10% of any associated person's time.

Because making a direct equity investment in a private company requires significantly more due diligence effort on behalf of Cornerstone, 50% of any amounts received by Cornerstone from the sponsor of a private company will be retained by Cornerstone and not offset against client fees regardless of the arrangement outlined above.

Separately Managed Accounts

Typically, for separately managed accounts on the Charles Schwab platform, Cornerstone receives an additional Investment Advisory Fee of 0.5% of the assets in the separately managed account.

401(k) Management Fees

When Cornerstone is the advisor of record for a company's qualified retirement plan, Cornerstone receives an advisory fee for its services. The custodian of such a plan typically deducts a fee from plan participants based on a percentage of the participant's plan assets held by the custodian as compensation to Cornerstone for Cornerstone's services as advisor for the plan.

Other Fees

All fees paid to Cornerstone for investment advisory services are separate and distinct from the fees and expenses charged by sponsors or managers of various investments. Such additional fees and expenses are described in each investment's prospectus or private placement memorandum. These fees may include a management fee, operating expenses, distribution fee, incentive allocation fee, etc. In some cases, a client could invest directly into such investments, without the services of Cornerstone, but may incur different fees. Depending on the custodian, the client may also incur custodian fees in addition to the fees outlined above. These additional fees do not benefit Cornerstone, but instead are paid to other managers who invest a portion of the client's assets or otherwise service the client. When selecting mutual funds, whenever possible, we recommend "no-load" funds to reduce the clients' expense.

Additional Comments

The practice of sharing fees with underlying Investment Specialists presents a potential conflict of interest and gives Cornerstone an incentive to recommend investment products based on the compensation received, rather than on a client's needs. We address that conflict by giving our Family Office Clients the choice between (1) having a higher stated Investment Advisory Fee and having that quarterly fee reduced by 100% of any fee sharing amount Cornerstone may receive during that quarter, or (2) having a lower stated Investment Advisory Fee and getting no benefit from the fee sharing arrangement. In either case, the client can benefit from the fee sharing arrangement because his fees are reduced. For any fee sharing arrangements from limited partnerships that are managed by Cornerstone, we reduce the conflict by flowing any fee sharing compensation back into the fund to benefit the investors in the fund. Also, for any investments outside of limited partnerships that are managed by Cornerstone, we disclose any fee sharing arrangements to our clients in writing prior to investing the clients' money in such an investment.

ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

In lieu of paying an Investment Advisory Fee for the services received based on a percentage of assets under management with Cornerstone, Cornerstone clients who qualify, have the option to pay a performance-based fee (also known as an incentive allocation fee) instead where the fee will be calculated based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client's portfolio. In other words, Cornerstone will only be paid a management fee if it generated a profit for the client—an arrangement sometimes referred to as a "value-added" fee. Specifics regarding how the performance-based fee actually will be calculated are available upon request. To qualify for the performance-based fee option, a client must qualify in accordance with Rule 205-3 of the Investment Advisers Act of 1940 and

applicable state regulations. Performance-based fees will be offered only in states where such fees are permitted.

Clients are invoiced in arrears at the end of each calendar quarter, based upon the quarter-end values (market value or fair market value in the absence of market value plus any credit balance minus any debit balance). A partial quarter will be billed based on the number of days Cornerstone was managing the portfolio during such quarter. Cornerstone reserves the right to negotiate a different fee structure on a client-by-client basis.

For clients who are invested in a limited partnership that is managed by Cornerstone, Cornerstone does receive a performance-based fee for clients who meet the qualifications.

A performance-based fee may create a greater incentive for Cornerstone to seek to maximize returns to the client through riskier or more speculative investments than would be the case if Cornerstone were compensated on a percentage of assets under management or a flat-fee basis. Cornerstone may also have an economic incentive to make investments as opposed to having the clients' assets sitting in a bank account or other investment earning a lesser interest rate. Outside of limited partnerships managed by Cornerstone, we typically do not charge a performance-based fee and discourage clients from selecting a performance-based fee, but we retain the right to charge such a fee should a client insist on it.

ITEM 7: TYPES OF CLIENTS

Description

Typically, our clients are individuals who are accredited investors. An individual is an accredited investor if he or she (1) has individual net worth, or joint net worth with the person's spouse, that exceeds \$1 million (exclusive of the value of the primary residence), or (2) has an income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year. We also act as advisors to qualified retirement plans, business entities, charitable organizations, trusts, pension and profit sharing plans, and investment companies. Cornerstone also acts as investment advisor to at least one limited partnership.

Conditions for Managing Accounts

As explained above in Item 4, we have the following two types of clients: Family Office Clients and Investment Clients. Family Office Clients have investable assets managed by Cornerstone of typically \$10 million or more. Investment Management Clients typically have a net worth of \$1 million or more. The stated minimum investment for a limited partnership managed by Cornerstone is \$500,000.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis

Depending on the type of investment Cornerstone's security analysis methods include charting, fundamental, technical, and cyclical analysis. The main sources of information Cornerstone uses include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Investment Strategies

Through diversification and professional management, we seek to reduce volatility and achieve long-term capital growth in excess of the capital growth that typically would be achieved through most single-strategy investments. We believe in the power of extensive diversification within and across asset classes. We strive to spread a client's portfolio across investment opportunities that have a low correlation to one another. We typically design investment portfolios comparable to the successful Yale University endowment, which uses both traditional investments (stocks and bonds) and non-traditional investments such as trust deeds, real estate, hedge funds, commodities, and managed futures. This strategy tends to result in lower risk and volatility, combined with higher return on the investment. We do consider after-tax yield, but tax implications do not drive investment decisions.

The definition of an asset class is subjective and may change over time. The asset classes and investments considered by Cornerstone may include, among others, cash equivalents, bonds, notes, debentures, and other debt instruments, stocks, preferred stocks and other equity securities, depository receipts, general or limited partnership interests, shares of investment companies and mutual funds of all types, trust deeds, real estate, real estate related investments, commodities, managed futures, currencies and currency fixtures contracts, private equity investments, venture capital opportunities, hedge funds, preorganization certificates and subscriptions, warrants, and a variety of other securities, including "put" and "call" options. These investments are typically managed by managers independent of Cornerstone. Cornerstone actively monitors and evaluates the performance of the managers, but each manager generally has discretion on how to invest the assets invested with him or her.

Depending on a client's profile, the client's assets may not necessarily be invested in all of the asset classes and investments outlined above. The investment strategies used depend on the client's profile, but may include long purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days), short sales, margin transactions, option writing (including covered options, uncovered options or spreading strategies).

Cornerstone is the advisor to at least one limited partnership. The principal investment objective for that limited partnership is to achieve long-term capital growth while lowering volatility through diversification across multiple low-correlated asset classes.

Cornerstone adheres to a disciplined, unemotional approach to investing which is intended to

eliminate much of the day-to-day rumors, speculation, and "noise" of Wall Street and the securities markets in general. There can be no assurance, however, that Cornerstone's investment strategy as implemented by Cornerstone will be successful.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. Cornerstone cannot provide assurance that it will be able to choose, make, recommend, and realize investments in any particular security or instruments thereof that will be able to generate positive returns for the client. Clients should carefully consider all those risks, including but not limited to those discussed below, in determining whether to purchase securities. The risks listed below are not an exclusive list of possible risks. Also, the various investment strategies discussed below are not used for all clients but only when appropriate for an individual client's profile, and in some instances may only be used for a small number of our clients. Some client may invest any or all of his or her assets directly instead of indirectly through investment specialists independent of Cornerstone. The following risks apply equally whether or not the investor invested directly or through an investment specialist.

Investment Specialists

Cornerstone relies on the expertise of third party investment specialists to manage our clients' investment portfolios. These investments specialists are typically referred to as investment specialists throughout this document. Although Cornerstone does its best to choose investment specialists who are honest and are expected to perform well, there is no guarantee that they will perform their labors with integrity or acceptable results.

Diversified Approach

While Cornerstone recommends diversifying within and across asset classes, no assurance can be given that such diversification will occur, or that if it does, it will increase, rather than reduce, potential net profits. The level of diversification that can be achieved depends, in part, on the client's net worth, objectives, risk profile, and preferences. A substantial portion of a client's assets may be invested with a limited number of investment opportunities, which may result in minimal diversification. Also, the use of several investment specialists who are independent of Cornerstone may cause the client indirectly to hold opposite positions in an investment, thereby decreasing or eliminating the possibility of positive returns from such investment. The diversification may not insulate investors against major disruptions or turmoil in the global financial markets generally, which could result in some or all of the underlying investment vehicles suffering substantial losses simultaneously.

Common Stock

Although common stock has historically generated higher average total returns than fixed-income securities over the long term, common stock also has experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by a client. Also, the price of common stock is sensitive to general movements in the stock market and a drop in the stock market may depress

the price of common stock. Common stock prices fluctuate for several reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase.

Preferred Stock

Preferred stock has a preference over common stock in liquidation (and generally dividends as well) but is subordinated to the liabilities of the issuers in all respects. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock also may be subject to optional or mandatory redemption provisions.

High Yield Debt

A portion of the debt in which a client may invest may be rated below investment-grade by one or more nationally recognized statistical rating organizations or is unrated but of comparable credit quality to obligations rated below investment-grade, and has greater credit and liquidity risk than more highly rated debt obligations. The lower rating of high yield debt reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. High yield debt is often less liquid than higher rated securities and has historically experienced greater default rates than has been the case for investment-grade securities.

Fund of Funds Risks

A fund of fund is a private investment vehicle that pools assets from several investors and invests these assets in several underlying investment vehicles consisting of primarily alternative, private investment funds. Such funds carry high costs, substantial risks, such as the risks inherent in an investment in securities, as well as specific risks associated with limited liquidity, the use of leverage, short sales, options, futures, derivative instruments, investment in non-U.S. securities, "junk" bonds and illiquid investments, and may be highly volatile. Cornerstone manages at least one limited partnership that is a fund of funds. Some of Cornerstone's clients are invested in this limited partnership. Cornerstone may also recommend to some of its clients to invest in other fund of funds. A limited partnership managed by Cornerstone is considered a "fund of funds."

Highly Competitive Market for Investment Opportunities

The activity of identifying, completing, and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that an investment specialist will be able to locate, complete, and exit investments that satisfy their respective objectives, or that they will be able to invest fully their committed capital.

Non-traditional Investments

Non-traditional Investments—also known as alternative investments, non-publicly traded investments, privately placed investments, private investments, or private placements—have less transparent and more flexible legal structures than traditional investments and their expected risk characteristics may differ from those of traditional investments. Due to the complexity of these investments, the average investor may have difficulty understanding their intricacies, risks, and rewards. Cornerstone has been investing in alternative investments since the founding of Cornerstone and most of our clients have a portion of their portfolio in non-traditional investments.

Non-traditional Investments are generally not required to register under the Securities Act of 1933, as amended, nor under the securities laws of any state by reason of specific exemptions under the provisions of such Act and other laws. As a consequence, investors in non-traditional investments are not afforded the protective measures resulting from registration under such legislation. In addition to the risks associated with common stock, non-traditional investments are often illiquid.

Typically, no market exists or is expected to develop for interests in a non-traditional investment, and the investor in such an investment may not be able to liquidate his or her investment in the event of an emergency or for any other reason.

A limited partnership managed by Cornerstone is considered a “non-traditional investment.”

Lack of Liquidity of Certain Investments

Cornerstone may acquire securities that have not been registered under federal or state securities laws and, as a result, are not readily salable. Cornerstone may also invest client assets in otherwise illiquid investments. Consequently, a client may be unable to readily liquidate its interests in the event it becomes necessary or advisable to do so. In addition, securities in which Cornerstone may invest client assets may be thinly traded, potentially making it difficult to dispose of a position at the time or price desired. Moreover, in periods of extreme market volatility, it could be difficult or undesirable to sell securities. If a client is invested in an investment with limited liquidity, there can be no assurance that all investments will remain liquid enough to close out existing positions at any time there is a need to do so. If liquidity is a concern of a client, this concern can be addressed by minimizing or completely avoiding illiquid investments.

Real Estate Related Risks

Cornerstone invests some of its clients' assets in real estate related opportunities. Investments related to real estate are subject to the fluctuations in value associated with the real estate market. Investments secured by real estate are speculative in nature, involve a high degree of risk and are subject to the risks generally incident to the ownership of real property, including, but not limited to, the illiquid nature of the investment. Many of the factors which may affect real estate are subject to change and are not within the control of Cornerstone and the extent to which such factors could restrict the activities or adversely affect the viability of the investment or the value

of the real estate is not currently ascertainable. These factors include, but are not limited to, changes in the investment climate for real estate investments, changes in local market conditions, availability of water, adverse changes in governmental rules and fiscal policies, acts of God (which may result in uninsured losses), environmental controls, zoning and land use regulation, occupancy rates, rent control laws, operating expenses, adverse use of adjacent or neighboring real estate, changes in neighborhood values, changes in the demand for or supply of competing properties, changes in federal, state or local tax rates and assessments, changes in general or local economic conditions, and the availability, interest costs and terms of mortgage funds. These factors may render the sale or recapitalization of investments related to real estate difficult or unattractive to prospective purchasers.

Use of Leverage

Some investors try to increase the potential return of an investment by borrowing money and then investing the money in that investment (typically alongside with the investor's own money). This approach is called "leverage." Cornerstone generally avoids the use of leverage, but a particular underlying investment specialist who may be managing a portion of a client's assets may use leverage. Although Cornerstone typically discourages it, a client, upon request, may also engage in borrowing for investment purposes. Certain investment strategies involve the use of extremely high levels of leverage, including investing in options, swaps, forwards and other derivative instruments that are inherently leveraged, and other forms of direct and indirect borrowings. In the event that any investment or client leverages investment positions by borrowing funds, such leverage increases both the possibilities for profit and the risk of loss. Borrowings are typically secured by assets of the borrower. That means that if the borrower cannot pay back the borrowed money, the lender can take possession of the assets that secured the loan. Under certain circumstances, a lender may demand an increase in the collateral that secures the borrower's obligations. If that is the case, and if the borrower is unable to provide additional collateral, the lender could liquidate assets of the borrower to satisfy the obligations. Liquidation in that manner could have extremely adverse consequences, including, but not limited to, the borrower being forced to liquidate positions at disadvantageous prices, the borrower incurring significant losses, and the borrower ceasing to be viable. In addition, the amount of borrowings which the borrower may have outstanding at any time may be large in relation to its capital, and the interest rates on those borrowings may fluctuate, which may have an effect on the borrower's profitability. Furthermore, because the use of leverage allows a borrower to control positions worth significantly more than its investment in those positions, adverse price movements could result in a loss to the borrower that would be greater than if leverage were not used. Accordingly, relatively small price movements in leveraged investments may result in immediate and substantial losses to the borrower and therefore to the client who uses leverage or who is invested in investments that use leverage.

Commodity Risk and Volatility

The assets of a client that are exposed to the commodities markets may be subject to greater volatility than investments in traditional securities. The value of an investment that is somehow, directly or indirectly, linked to the commodities market (e.g. commodity-linked derivative instruments, commodity-based exchange traded trusts and commodity-based exchange traded funds and notes) may be affected by changes in overall market movements, commodity index

volatility, changes in interest rates, or sectors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political and regulatory developments.

Futures

Futures involve a contract between two parties where one party agrees to buy or sell a specific quantity of a specific asset for a specified price at a specified future date. The other party agrees to sell that asset under the same terms. For example, a farmer does not yet know what the price will be for a bushel of wheat when his wheat will be ready for sale. He does know what a bushel of wheat is trading for right now. To avoid uncertainty, he may enter into a contract with a buyer right now at a specified price for the time when his wheat will be ready for sale. If the price for a bushel of wheat goes up between now and when the farmer sells his wheat, the farmer will lose because he could have made more money without the futures contract. On the other hand, if the prices go down, the farmer will have won because he can sell it for more than it is worth on the market. In either case, the farmer may just be happy that he does not have to worry about price fluctuations, but instead has a predictable outcome. Contracts like these are traded among investors where investors speculate on whether the prices will go up or down.

Futures markets are inherently leveraged and highly volatile. To the extent a client's assets are exposed to transactions in futures contracts and options on futures contracts, the profitability of such extended assets will depend to some degree on the ability of the investment specialist managing said assets to correctly analyze the futures markets, which are influenced by, among other things, changing supply and demand relationships, governmental policies, commercial and trade programs, world political and economic events and changes in interest rates. Moreover, investments in commodity futures and options contracts involve additional risks including, without limitation, leverage (margin is usually only 5-15% of the face value of the contract but exposure can be nearly unlimited) and credit risk vis-à-vis the contract counterparty.

Investments in a Limited Partnership Managed by Cornerstone

An investment in a limited partnership that is managed by Cornerstone may entail all of the risks outline in this document and more. Additional risks are outlined in the legal documents for each limited partnership. These legal documents are provided to clients before they invest in such a limited partnership. The limited partnership is considered a "fund of funds" as well as a "non-traditional investment."

Tax Return Extension

Many clients have a portion of their portfolios invested in non-traditional investments as further described above. Due to the nature of non-traditional investments, receipt of tax forms such as 1099s and K-1s tends to be delayed, and, therefore, our clients should expect to be required to file an extension for their tax returns.

ITEM 9: DISCIPLINARY INFORMATION

Legal or Disciplinary Events

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Cornerstone's advisory business or the integrity of Cornerstone's management.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Financial Industry Activities

Neither Cornerstone nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither Cornerstone nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Affiliations

Cornerstone or any of its management persons do not have any relationship or arrangement with any related person that is material to its advisory business or to its clients.

Recommendations of Other Advisers

Cornerstone recommends or selects investment specialists (independent of Cornerstone) who may manage a portion of a client's assets. Occasionally, such an investment specialist or its affiliates may agree to share a portion of their fees with Cornerstone in consideration of Cornerstone's decision to invest with the investment specialist. Any fees shared in this manner are taken out of the fees that are paid to the investment specialist and, therefore, do not increase our clients' cost. Nevertheless, such an arrangement creates a conflict of interest for Cornerstone. We normally mitigate that conflict by using these fee sharing arrangements to offset a client's Investment Advisory Fees (please refer to Item 5 "Fee Sharing Arrangements" for more information). 100% of the fee sharing amount from any arrangement Cornerstone can negotiate for its limited partnerships managed by Cornerstone flow back into the partnership and thereby benefit the clients by increasing their return on their investment. Any fee sharing arrangements outside of a limited partnership managed by Cornerstone are disclosed to our clients in writing prior to making the investment.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Description of Code of Ethics

As an investment adviser, Cornerstone is a fiduciary. It owes its clients the highest duty of loyalty and relies on each employee to avoid conduct that is or may be inconsistent with that duty. It is also important for employees to avoid actions that, while they may not actually involve

a conflict of interest or an abuse of a client's trust, may have the appearance of impropriety. Because Cornerstone may serve as general partner, investment manager and/or investment adviser to a number of investment partnerships, investment funds and other types of separate accounts, Cornerstone has adopted a Code of Ethics setting forth policies and procedures, including the imposition of restrictions on itself and employees, to the extent reasonably necessary to prevent certain violations of applicable law. This Code of Ethics is intended to set forth those policies and procedures and to state Cornerstone's broader policies regarding its duty of loyalty to clients.

The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts, and personal securities trading procedures, among other things. Cornerstone will provide a copy of its code of ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions

Cornerstone acts as the general partner of at least one limited partnership. Cornerstone or its employees may, in appropriate circumstances, recommend an investment in such a limited partnership. As such, Cornerstone has a material financial interest in the transaction because Cornerstone will receive compensation, in the form of an advisory fee and an incentive allocation, for the investment. To address that conflict of interest, Cornerstone's employees are required to follow the Code of Ethics and may not allow their personal securities transactions, activities and interests to interfere with making decisions in the best interest of Cornerstone's clients.

It is Cornerstone's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Cornerstone will also not cross trade between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Personal Trading

Cornerstone and its officers, directors, agents, and employees ("Associated Persons") may invest personally in securities of the same classes as are purchased for clients and may own securities of the issuers whose securities are subsequently purchased for clients. In addition, certain of Cornerstone's Associated Persons have invested in and intend to continue to invest in one or more limited partnerships managed or recommended by Cornerstone. Cornerstone understands that this could create a conflict of interest, where the employee's interest may be at odds with the interest of Cornerstone's clients.

Cornerstone's Code of Ethics contains certain requirements designed to address the conflicts that arise with regard to personal trading by Cornerstone or its Associated Persons. For example, when Cornerstone is purchasing or considering for purchase any security on behalf of a client, no Associated Person may knowingly effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Cornerstone is selling or considering the sale of any security on behalf of a client, no Associated Person may knowingly effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Cornerstone and its Associated Persons may also buy or sell specific securities for their own accounts based on personal investment considerations, which Cornerstone does not deem appropriate to buy or sell for clients.

ITEM 12: BROKERAGE PRACTICES

Selection Criteria

Cornerstone recommends or selects investment specialists (independent of Cornerstone) who may manage a portion of a client's assets. Typically, such an investment specialist has sole discretion in selecting broker-dealers. Cornerstone may also invest a portion of a client's portfolio in private investments where the securities are acquired directly from the issuer without the use of any broker-dealer. With respect to any publicly traded securities that Cornerstone purchases directly on behalf of a client, however, Cornerstone selects broker-dealers based primarily on their clearance and settlement capabilities, the competitiveness of their commission schedule, and their level of customer service.

Cornerstone may, in its discretion, cause a client's account to pay broker-dealers a commission greater than another qualified broker might charge to effect the same transaction where Cornerstone determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received.

If clients already have a pre-established relationship with a broker-dealer and they instruct Cornerstone to execute all transactions through that broker, Cornerstone may not have authority to negotiate those commissions or obtain volume discounts, and therefore, best execution may not be achieved. In addition, under these circumstances, a disparity in commission charges may exist between commissions charged to other clients.

Based on many years of experience, Cornerstone has selected Charles Schwab & Co. as its primary broker-dealer. No client is obligated to use any recommended broker-dealer or custodian. When using a certain broker-dealer, Cornerstone may be eligible to receive research products or services provided by the executing broker or dealer. These research products and services may include financial news and research software, on-line computer investment

services, financial publications, research seminars or similar professional programs and other research information. Such research products and services are called “soft-dollar benefits” and create a conflict of interest for Cornerstone because it could incentivize Cornerstone to pick one broker-dealer over another based on the soft-dollar benefits. These soft-dollar arrangements benefit Cornerstone because Cornerstone does not have to pay for the research, products, or services.

Cornerstone participates in Charles Schwab & Co.'s Advisory Services (AS) Service Program. AS provides Cornerstone with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Charles Schwab & Co. retail customers. Schwab also makes available various support services. Some of those services help Cornerstone manage or administer Cornerstone's clients; accounts, while others help Cornerstone manage and grow its business. Schwab's support services generally are available on an unsolicited basis (Cornerstone doesn't have to request them) and at no charge to Cornerstone as long as Cornerstone's clients collectively maintain a total of at least \$10 million of their assets in accounts at Charles Schwab & Co. If our clients collectively have less than \$10 million in assets at Charles Schwab & Co., Charles Schwab & Co. may charge us quarterly service fees of \$1,200.

Charles Schwab & Co.'s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Charles Schwab & Co. include some to which Cornerstone might not otherwise have access or that would require significantly higher minimum initial investment by each client. Charles Schwab & Co.'s services described in this paragraph generally benefit Cornerstone's clients and their accounts.

Schwab also makes available to Cornerstone other products and services that benefit Cornerstone but may not directly benefit Cornerstone's clients. These products and services assist Cornerstone in managing and administering client accounts. They include investment research and educational conferences. When evaluating securities, Cornerstone may research the securities on Charles Schwab & Co.'s institutional website. Cornerstone employees periodically attend seminars sponsored by Charles Schwab & Co. to stay up-to-date on new developments in the financial world. While there is no direct linkage between investment advice given and participation in the AS program, economic benefits are received which would not be received if Cornerstone did not give investment advice to clients. These benefits include: receipt of duplicate client conformations and bundled duplicate statements; access to a trading desk serving AS participants exclusively; access to blocked trading, which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client account; access, for a fee, to an electronic communication network for client order entry and account information; receipt of compliance publications; and access to mutual funds which generally require significant initial investments or are generally available only to institutional investors. The benefits received for participation in the AS program do not depend upon the amount of transactions directed to Charles Schwab & Co., Inc.

Order Aggregation

Cornerstone strives to make all investment allocations in a manner that it considers to be the most equitable to all accounts. Allocation procedures should be fair and equitable to all client types with no account being favored or disfavored over any other account.

Transactions for each client account generally will be effected independently, unless Cornerstone decides to purchase or sell the same securities for several clients at approximately the same time. Cornerstone may (but is not obligated to) combine or “batch” such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Cornerstone’s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and transaction costs and will be allocated among Cornerstone’s clients in proportion to the purchase and sale orders placed for each client account on any given day. That way transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block trade. If Cornerstone cannot obtain execution of all the combined orders at prices or for transactions costs that Cornerstone believes are desirable, Cornerstone may allocate the securities Cornerstone does buy or sell as part of the combined orders by dollar cost averaging.

Such a procedure, where a multiple clients’ orders are combined, is also referred to as “order aggregation.” Order aggregation allows the Adviser to execute equity trades in a more timely, equitable manner and to reduce overall commission charges to clients. More detailed restrictions and requirements for aggregation orders are outlined in Cornerstone’s policies and procedures manual. These procedures include the following requirements when aggregating orders:

- All clients, accounts or funds participating in the aggregated order shall receive an average share price with all other transaction costs shared on a pro-rata basis
- Client funds held collectively for the purpose of completing the transaction may not be held in this commingled manner for any longer than is practical to settle the transaction.
- No additional compensation shall result from the proposed allocation.
- No client, account or fund will be favored over any other client, account or fund as a result of the allocation.

Handling Trade Errors

In the event Cornerstone makes an error in submitting a trade order on a client’s behalf, Cornerstone may place a correcting trade with the broker-dealer which has custody of the client’s account. If an investment gain results from the correcting trade, the gain will remain in the client’s account unless the same error involved other client account(s) that should have received the gain, it is not permissible for the client to retain the gain, or Cornerstone confers with the client and client decided to forego the gain (e.g. due to tax reasons). If the gain does not remain in the client’s account and Charles Schwab & Co. Inc. (“Schwab”) is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, Cornerstone will pay for the loss by offsetting the client’s fees. Schwab will maintain the loss or gain (if such gain is not retained in client’s account) if it is under \$100 to minimize and offset

Schwab's administrative time and expense. Generally, if related trade errors result in both gains and losses in a client's account, they may be netted.

Evidence of Cornerstone's resolution of trade errors is maintained in a file kept among Cornerstone's central records. The record includes the manner in which the error was resolved, the client(s) and transaction(s) effected by the error, and evidence that a supervisor of the Adviser was aware of the error and its resolution.

ITEM 13: REVIEW OF ACCOUNTS

Cornerstone's investment advisory representatives—Chris Meacham, Scott Bramwell, Fabian Waldner, and Ross Bramwell—review client accounts periodically, typically at least twice a year. Accounts are reviewed for consistency with the investment strategy and other parameters set forth for the account and to determine if any adjustments need to be made.

In addition to the periodic reviews described above, other events that may trigger more frequent reviews, may include, among others: contributions to the portfolio, liquidation of an investment, a change in the client's objectives, or any other event that warrants a review.

Cornerstone provides its clients quarterly written statements of the assets in a client's account, current values of each security, performance data for the period, and other information. Additionally, written brokerage statements are generated no less than quarterly and are sent directly from the account custodian. These reports list the account positions, activity in the account over the covered period, and other related information. Clients are urged to compare the statements received from Cornerstone to those received from the account custodian. Clients may also be sent confirmations following each brokerage account transaction unless confirmations have been waived. In addition, clients may receive other supporting reports from mutual funds, third party investment managers, trust companies, broker-dealers or insurance companies based on their involvement with the account and their applicable internal reporting requirements.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

Economic Benefits Received

As discussed under Item 12, Cornerstone may receive certain "soft dollar" benefits from Schwab or other broker-dealers. Pursuant to such arrangements, Cornerstone may direct brokerage transactions to certain broker-dealers in return for investment research products and/or services which assist Cornerstone in its investment decision-making process. The receipt of such services may be deemed to be the receipt of an economic benefit by Cornerstone, and although customary, these arrangements give rise to potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client's interest in receiving most favorable execution. Please refer to Item 12 for a discussion of the potential conflicts of interests from such arrangements and how Cornerstone addresses them.

Compensation for Client Referrals

Cornerstone occasionally enters into written agreements with individuals for the payment of a solicitor's fee as a result of the individual's introduction of a client to Cornerstone for advisory services. All such agreements will be in writing and comply with the requirements of Rule 206(4)-3 of the Advisers Act. All arrangements for solicitor's fees are fully disclosed to the client in writing prior to the client signing Cornerstone's Investment Advisory Agreement. These arrangements for solicitor's fees are typically based on a percentage of the Investment Advisory Fee paid to Cornerstone. The solicitor's fee may be a one-time payment or an ongoing payment. Because the solicitor's fee is paid out of the Investment Advisory Fee paid to Cornerstone, the solicitor's fee does not increase a client's fee.

Other Compensation

As stated at Item 4 above, Cornerstone may recommend that clients utilize the services of certain independent investment specialists with whom Cornerstone has established a fee-sharing relationship. Such relationship may result in Cornerstone or its associated persons receiving a portion of the fees that are paid to the independent specialists recommended to clients. The recommendations are made based on the fact that Cornerstone believes that the recommendation would be consistent with the client's investment objectives and financial circumstances. The fees payable to Cornerstone in connection with such fee-sharing relationships are payable out of the fees earned by such independent specialists and will not result in additional charge to the client. However, since such compensation may differ depending on the agreement with each independent specialist, Cornerstone may have an incentive to recommend one independent specialist over another if the compensation arrangements are more favorable. This may be deemed the receipt of an economic benefit by Cornerstone from a non-client and may present a potential conflict of interest.

ITEM 15: CUSTODY

Under Rule 206(4)-2 (the "Custody Rule"), Cornerstone will be deemed to have custody of client funds or securities by reason of the fact that Cornerstone has authority to debit its fees directly from the client's account. Cornerstone may also be deemed to have custody of client assets based solely on the fact that it serves as a general partner to a limited partnership.

For clients who are invested in a limited partnership managed by Cornerstone, Cornerstone has custody of the assets in the limited partnership.

Custody of account assets will be maintained with an independent qualified custodian, except for certain privately offered securities (such as interests in a limited partnership or other pooled investment vehicle), in which case ownership thereof is recorded only on the books of the issuer. In the case of assets invested with an independent manager (sometimes referred to as an investment specialist in this document), the designated independent manager may select the custodian. In addition, in most cases, a client's broker-dealer also may act as the custodian of the client's assets for little or no extra cost. Clients should thoroughly consider, however, the differences between having their assets custodied at a broker-dealer versus at a bank or trust

company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

For client assets outside of a limited partnership managed by Cornerstone, traditional investments are typically held at Charles Schwab & Co. but may be held at another custodian. Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements and compare them to the statements provided by Cornerstone. Cornerstone's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please refer to Item 12 for additional important disclosure information relating to Cornerstone's practices and relationships with custodians.

Under the Custody Rule, advisers with custody are generally required to undergo an independent verification of the assets for which the adviser has custody through an annual surprise examination by an independent certified public accountant. Advisers deemed to have custody solely as a consequence of the authority to debit fees directly from client accounts are not required to obtain an independent verification of those client funds and securities maintained by a qualified custodian. Moreover, Cornerstone will be deemed to have complied with the independent verification requirement with respect to limited partnerships managed by Cornerstone because the limited partnerships are subject to annual audit by an independent public accountant registered with and subject to regular inspection by the Public Company Accounting Oversight Board in accordance with its rules. Additionally, each limited partnership's audited financial statements are prepared in accordance with generally accepted accounting principles and are distributed to all limited partners within 180 days of the end of the fiscal year and are also subject to audit upon liquidation and the audited financial statements are distributed to all limited partners promptly after the completion of such audit.

ITEM 16: INVESTMENT DISCRETION

Discretionary Authority; Limitations

Cornerstone accepts discretionary authority to manage securities accounts on behalf of clients. When Cornerstone has discretionary authority, the client provides Cornerstone with written authority to determine the investments to be bought or sold, the amount to be invested or redeemed, and the broker/dealer to be used. Any limitations on this discretion have to be included in a written statement. Clients may change/amend these limitations as required. Such amendments shall be submitted in writing.

By signing Cornerstone's Investment Advisory Agreement, a client automatically grants Cornerstone authority to exercise discretionary authority for publicly traded securities in the client's accounts managed by Cornerstone. For other transactions, Cornerstone requires client's written or oral approval prior to any securities transaction.

Limited Power of Attorney

Occasionally, clients may sign a limited power of attorney to grant Cornerstone discretionary authority over assets in a client's account.

ITEM 17: VOTING CLIENT SECURITIES

Proxy Voting Policy

Cornerstone has and does accept authority to vote client securities. For that purpose, Cornerstone has written proxy voting policies and procedures. These policies and procedures are disclosed to clients at the outset of the advisory relationship and are sent to all clients annually. In addition, clients may obtain a copy of Cornerstone's proxy voting policies and procedures at any other time upon request. Cornerstone applies these policies and procedures when it has either discretionary authority on an account (and proxy voting has not been otherwise delegated) or when it has specifically agreed in writing with the client to exercise proxy voting authority over the client's securities.

Cornerstone always votes proxies in the best economic interest of the client. However, Cornerstone can consider other factors by agreement with the client or to comply with statutory requirements. One of the primary factors Cornerstone considers when determining the desirability of investing in a particular company is the quality and depth of that company's management. Accordingly, the recommendation of a company's management on any issue is a factor that Cornerstone considers in determining how proxies should be voted. However, Cornerstone does not consider recommendations from management to be determinative of Cornerstone's ultimate decision. As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company's management. Each issue, however, is considered on its own merits, and Cornerstone will not support the position of a company's management in any situation where it determines that the ratification of management's position would adversely affect the investment merits of owning that company's shares.

In the event that Cornerstone may have a potential conflict of interest in voting proxies, it will disclose such conflict to the client and obtain consent before voting. If consent is not granted, Cornerstone will abstain from voting and notify the client in writing.

Clients can request, either in writing or verbally, information on how Cornerstone actually voted on the client's behalf.

ITEM 18: FINANCIAL INFORMATION

Cornerstone does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Cornerstone does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.