

**CORNERSTONE CAPITAL MANAGEMENT HOLDINGS LLC**

1180 Avenue of the Americas, 22<sup>nd</sup> Floor

New York, NY 10036

[www.cornerstonecapital.com](http://www.cornerstonecapital.com)

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**This Brochure provides information about the qualifications and business practices of Cornerstone Capital Management Holdings LLC. If you have any questions about the contents of this Brochure, please contact Renny Cabreros, Chief Compliance Officer, at 212-938-6583 or [renny\\_cabreros@newyorklife.com](mailto:renny_cabreros@newyorklife.com).**

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

## **ITEM 2: MATERIAL CHANGES**

In this Item we discuss the material changes we have made to our last annual update, which was dated March 30, 2015.

In addition to certain stylistic and technical changes, we have also made certain material changes set forth below.

- Added information regarding three new strategies that are now managed by investment teams at the firm.
- Added disclosures concerning certain support services we provide to an affiliated adviser.
- Updated the disclosure regarding the referral agreement between affiliated investment advisers.
- Enhanced the risk disclosure related to our investment strategies by identifying service provider risks common to all strategies and enhancing certain risk disclosures such as risks related to the systematic/quantitative nature of our global systematic equity strategies.
- Removed disclosures concerning a placement agent agreement that has been terminated.
- Enhanced disclosures concerning side-by-side management and conflicts attached to managing accounts for affiliates
- Enhanced disclosures relating to the private investment fund we sponsor.
- Updated language related to our Investment Policy Committee.

Form ADV Part 2A discusses an investment adviser's business practices and matters that give rise to conflicts of interests. We encourage all clients and prospective clients to review this document and call us with any questions. To request another copy of this document, please contact Maryellen Higgins, Client Services at [maryellen.higgins@cornerstonecapital.com](mailto:maryellen.higgins@cornerstonecapital.com).

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## **ITEM 4: ADVISORY BUSINESS**

### **WHO WE ARE**

Cornerstone Capital Management Holdings LLC ("CCMH" or "Cornerstone") is a wholly-owned subsidiary of New York Life Investment Management Holdings LLC ("NYLIM Holdings") which in turn is a wholly-owned subsidiary of New York Life Insurance Company ("New York Life"). From January 2009 through January 2013, CCMH was known as Madison Square Investors LLC and before that as the Equity Investments Group division within New York Life Investment Management LLC ("New York Life Investments") since 2004.

In January 2013, Cornerstone became an owner of another SEC-registered adviser, Cornerstone Capital Management LLC ("CCM" or "Cornerstone LLC"), along with existing owners Mr. Andrew S. Wyatt and Mr. Thomas G. Kamp, each of whom then took on certain executive responsibilities with respect to CCMH. CCMH is deemed the principal owner of CCM. Additional information concerning New York Life Investments and CCM is set forth in Item 10, "Other Financial Industry Activities and Affiliations," below.

### **ADVISORY SERVICES**

#### ***Institutional Investment Management***

Cornerstone provides a broad array of investment advisory services to institutions, pension and profit sharing plans, trusts, and charitable organizations including foundations and non-profits, corporations and other business and government entities. Cornerstone also provides advisory or sub-advisory services to mutual funds, trust companies, Taft-Hartley funds, private investment funds and a collective trust (see Item 7, "Types of Clients," section below).

We offer a variety of global systematic equity strategies, as described below. Our global systematic equity strategies seek to achieve targeted returns, while minimizing risk to the portfolio. Our global systematic equity investment team uses proprietary models which have quantitative alpha forecasting engines that are designed to help position the investment team to capitalize on positive as well as negative forecasts.

We also offer a variety of global fundamental equity strategies, as described below. Our global fundamental equity investment team employs a bottom-up investment approach, incorporating individual company fundamental analysis, industry competitive dynamics, and macroeconomic analysis to identify long-term holdings in companies that have the potential for sustained growth.

All strategies seek to minimize transaction costs by implementing disciplined and sophisticated trading strategies (for further detail, see Item 8, "Methods of Analysis, Investment Strategies and Risk of Loss" section below).

We invest primarily in domestic and international equity securities. Subject to client guidelines, we may also invest in futures, exchange traded funds, contracts for difference; American Depositary Receipts ("ADRs"); U.S. Government agency securities; repurchase agreements; convertible securities; foreign currencies; and foreign currency contracts. For accounts that permit them, we may also engage in derivatives transactions such as swaps, options, futures and forward contracts.

Clients may tailor the investment advisory services noted above. For example, a client may prohibit the purchase of specific securities, or may prohibit the purchase of securities within a specific sector or industry. Client imposed restrictions are detailed in the client's investment management agreement. Cornerstone tailors its advice within the strategies mentioned above (and further described below) to the extent it agrees to investment restrictions set forth in a client's investment guidelines or policies.

In addition, Cornerstone also acts as an index consultant for an affiliate to assist with the development, calculation and maintenance of the affiliate's indices.

#### ***Investment Company***

Cornerstone provides sub-advisory services to certain open end funds, known as "The MainStay Funds," sponsored and advised by New York Life Investments ("New York Life Investments"), an affiliate of Cornerstone. New York Life is an affiliate of Cornerstone. Further detail is provided in Item 10, "Other Financial Industry Activities and Affiliations," below.

#### ***Private Fund***

Certain members of the global systematic equity team advise a long-short equity market neutral vehicle (Cornerstone U.S. Equity Market Neutral Fund LLC ("Market Neutral Fund")) the assets of which are exclusively affiliated capital. As a result, management of this vehicle may divert some time and attention from the management of other clients. In addition, this vehicle may take positions that are opposed to positions held by other clients and accounts. There is no current intention of offering interests in the Market Neutral Fund to third party investors.

#### ***Services Involving Legal Proceedings***

As a general matter, Cornerstone does not monitor, advise or act for a client in legal proceedings, including, without limitation, class actions and bankruptcies, involving securities purchased or held in client accounts. Clients should instruct their custodians where to promptly forward any communications relating to legal proceedings involving such assets.

#### ***Reporting Assets under Management***

As of February 29, 2016, Cornerstone had the following client assets under management (rounded to nearest \$100,000):

Discretionary Assets	\$12,615,200,000
Non-Discretionary Assets	\$21,800,000
Total Assets under Management	\$12,637,000,000

#### **ITEM 5: FEES AND COMPENSATION**

The specific manner in which fees are charged by Cornerstone is established in a client's written agreement with Cornerstone. Clients are billed directly for fees. Depending on the specifics of a client's investment management agreement, fees may be payable monthly or quarterly in advance (except that the first invoice on a new account may cover a partial first month or quarter and the entire following month or quarter) or monthly or quarterly in arrears, based on the value of assets under management at the end of the applicable period. Management fees will be prorated for each capital contribution and withdrawal made during the applicable period (with the exception of *de minimis* contributions and withdrawals).

Cornerstone's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain additional charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. To the extent client assets are invested in mutual funds and exchange traded funds, such funds charge advisory, administrative and other fees, which are disclosed in a fund's prospectus. As a result, clients will pay two levels of advisory fees with respect to such assets, one to Cornerstone and one to the fund's investment adviser. Fund charges, fees and commissions are exclusive of and in addition to Cornerstone's fee, and Cornerstone does not receive any portion of these commissions, fees, or costs.

Advisory arrangements may be terminated by the client upon assignment or by either party upon prior written notice according to the termination provisions outlined in the investment management agreement. If a contract is terminated, advisory fees are subject to pro-rata adjustment based upon the date of termination.

#### **PORTFOLIO VALUATION**

Where Cornerstone is responsible to price a client's portfolio for fee billing or investment performance calculation purposes, Cornerstone will generally use pricing information provided by an independent pricing service (the "Primary Pricing Source").

Based on our investment style and the types of securities in which we generally invest on behalf of our clients (see Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss,” below for additional information), the Primary Pricing Source is typically able to provide pricing information for securities included within our clients’ portfolios. In the event the Primary Pricing Source is unable to obtain a price, Cornerstone will determine a fair value for that security.

When determining a fair value, our objective is to identify a price we believe we could reasonably receive in a sale between market participants at the specific measurement date without forced liquidation.

We would encounter a clear conflict when fair valuing securities, as we have an incentive to value these securities higher in an effort to generate greater fees and higher investment returns. We have controls in place to mitigate this conflict, including: 1) responsibilities in establishing a fair valuation described above; 2) policies and procedures designed to provide reasonable assurance securities are valued properly; and 3) involvement of the Pricing Committee.

#### **FEES FOR SERVICES**

Fee schedules are negotiable and can vary depending on a variety of factors such as the type of client, the size of the account, and the investment program selected. In particular, fees negotiated with Cornerstone's affiliates may be more or less than the standard fee schedule set forth herein.

#### ***Fees for Institutional Investment Management***

Below are Cornerstone’s advisory fees based on mandate and assets under management.

<b>Large-Cap Enhanced</b>	First \$25 m .40% Next \$25 m .30% Next \$50 m .20% Balance .15%
<b>Mid-Cap Core</b>	First \$25 m .50% Next \$25 m .40% Next \$50 m .30% Balance .20%
<b>Small-Cap Core</b>	First \$25 m .60% Next \$25 m .50% Next \$50 m .40% Balance .30%
<b>Systematic International Equity</b>	First \$25 m .50% Next \$25 m .40% Next \$50 m .30% Balance .25%

<b>Systematic Global Equity</b>	First \$25 m .50% Next \$25 m .40% Next \$50 m .30% Balance .25%
<b>Systematic Emerging Markets</b>	First \$25 m .75% Next \$25 m .65% Next \$50 m .55% Balance .45%
<b>US Equity Opportunities</b>	First \$25 m .60% Next \$25 m .50% Next \$50 m .40% Balance .25%
<b>International Opportunities</b>	First \$25 m .70% Next \$25 m .60% Next \$50 m .50% Balance .40%
<b>Global Opportunities</b>	First \$25 m .70% Next \$25 m .60% Next \$50 m .50% Balance .40%
<b>Emerging Markets Opportunities</b>	First \$25 m .95% Next \$25 m .85% Next \$50 m .75% Balance .65%
<b>U.S. Equity Market Neutral</b>	1.00% per annum and 20% of net profits subject to a high-water mark or, Performance share
<b>Global Equity Market Neutral</b>	1.00% per annum and 20% of net profits subject to a high-water mark
<b>Fundamental International Equity</b>	First \$25 m .75% Next \$25 m .65% Next \$50 m .55% Balance .45%
<b>Fundamental International Equity All Country</b>	First \$25 m .75% Next \$25 m .65% Next \$50 m .55% Balance .45%
<b>Fundamental Global Equity</b>	First \$25 m .75% Next \$25 m .65% Next \$50 m .55% Balance .45%



<b>Fundamental International Small-Cap Equity</b>	First \$25 m	1.25%
	Next \$25 m	1.00%
	Next \$50 m	0.90%
	Balance	0.80%

Under certain limited circumstances and with client approval, Cornerstone may also receive compensation based on a percentage of the capital appreciation of the client's assets managed by Cornerstone. Any such performance-based compensation is described in the client's investment management agreement, or in the case of the private funds that Cornerstone manages, in the fund's offering memorandum, which is provided to qualified investors before they invest. For more information, please see Item 6, "Performance Based Fees and Side-By-Side Management," below.

In addition to the management fees described above, there are other fees associated with the management of your account. For example, the custodian for your account, which you independently select, charges a custodial fee that varies by custodian. In addition, the broker-dealers that Cornerstone selects to execute transactions in your account charge a fee. Brokerage and custody fees are not included in the investment management fee that you pay to us. Instead, custodian fees are charged to you separately by your custodian and brokerage fees affect your account during the trade execution process. Please refer to the "Brokerage Practices" section below for additional information regarding our process for selecting brokers to execute transactions in client accounts.

If client assets are invested in other investment companies (including but not limited to exchange traded funds), the client becomes a shareholder of the investment company and bears its proportionate share of the investment company's management fee and other expenses. Such fees and other expenses are in addition to the advisory fees described above. As a result, clients will pay two levels of advisory fees with respect to such assets, one to Cornerstone and one to the fund's investment adviser.

#### ***Investment Company***

With respect to the registered investment companies that we sub-advise (see the "Types of Clients" section below), we receive an asset-based fee from the investment advisers to those investment companies which is paid by the investment adviser out of its management fees. These fees may be described in the respective fund's Prospectus and Statement of Additional Information.

#### ***Private Investment Fund***

Cornerstone's fees for advisory services to the Cornerstone U.S. Equity Market Neutral Fund LLC are set forth in the fund's confidential offering memorandum. There is no current intention of offering interests in the Market Neutral Fund to third party investors.

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

As described in the “Fees and Compensation” section above, under certain limited circumstances and with client approval, Cornerstone may receive compensation based on a share of the capital appreciation of the client’s assets managed by Cornerstone. Because advisers may charge certain accounts a performance-based fee that may be higher than the asset-based fee they charge to other accounts, portfolio managers may have an incentive to favor performance-based fee paying accounts over other accounts, resulting in a potential conflict of interest. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts that use the same investment strategy but only a charge an asset-based fee (known as “side-by-side management”). Currently, we only have performance-based fees in one account managed using the same strategy as an account that does not pay performance fees. As a result, this could raise a potential conflict for Cornerstone in that it could be biased toward favoring the performance-based fee account in terms of trading decisions and spending more time and attention on the performance-based fee account.

In order to address these potential conflicts of interest that may arise, Cornerstone has certain trading procedures that are intended to ensure that all client accounts are treated fairly and equitably over time and that no account is systematically disadvantaged. Also, as a fiduciary, Cornerstone is obligated to and treats all clients fairly and equitably. Under these procedures, orders for similarly-situated accounts are typically aggregated for execution and then allocated pro-rata, and it is not permissible to allocate or re-allocate an order to enhance the performance of one account over another. It is also not permissible to favor any account over another when allocating trades (see the “Brokerage Practices” section below). Ultimately, compliance with these requirements would be monitored as part of our supervisory review process, which includes a review of account and composite performance for any performance dispersion that may be indicative of favoritism.

With respect to the two accounts managed using the same strategy in which only one account pays a performance-based fee, Cornerstone generally trades these accounts on a set schedule every month and the accounts trade using the same underlying systematic model. These accounts are reviewed for any indicators of favoritism, including investment performance dispersion.

## **ITEM 7: TYPES OF CLIENTS**

Cornerstone provides various types of investment advisory services to institutions, pension and profit sharing plans, Taft-Hartley funds, trusts, investment companies, private funds, charitable organizations including foundations and non-profits, corporations and other business and government entities.

## **MINIMUM ACCOUNT SIZE**

Cornerstone's investment minimum for institutional investment management services is \$25,000,000.

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

### **MATERIAL RISKS COMMON TO ALL STRATEGIES**

Cornerstone's advisory services are provided by our global systematic equity team and our global fundamental equity team.

Investing in securities involves risk of loss that clients should be prepared to bear. There is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results and different periods and market conditions may result in significantly different outcomes. The material risks presented by each strategy and its investments are set forth below, but this section does not attempt to identify every risk, or to describe completely those risks it does identify. Each strategy is also subject to the following risks:

- *Market Risk*: The market values of the securities owned in the strategy may decline, at times sharply and unpredictably. Market values of equity securities are affected by a number of different factors, including the historical and prospective earnings of the issuer, the value of its assets, management decisions, decreased demand for an issuer's products or services, increased production costs, general economic conditions, interest rates, currency exchange rates, investor perceptions and market liquidity. CCMH does not offer any products or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices or investment products.
- *Economic Risk*: Changes in economic conditions, including, for example, interest rates, inflation rates, political and diplomatic events and trends, tax laws and innumerable other factors, can substantially and adversely affect investments.
- *Management Risk*: This is the risk that CCMH will not successfully execute a strategy even after applying its investment process. There can be no guarantee that CCMH's decisions will produce the intended result, and there can be no assurance that an investment strategy will succeed.
- *Common Stock Risk*: Investments in common stocks and other equity

securities are particularly subject to the risk of changing economic, stock market, industry and company conditions and the risks inherent in the portfolio managers' ability to anticipate changes that can adversely affect the value of the strategy's holdings.

- Exchange Traded Fund (ETF) Risk: The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile than the underlying portfolio of securities. Disruptions in the markets for the securities underlying ETFs purchased or sold by the strategy could result in losses on the strategy's investment in ETFs. ETFs also have management fees that increase their costs versus owning the underlying securities directly.
- Service Provider and Data Source Risk: Cornerstone relies on third party service providers to analyze and review information Cornerstone provides to them and to produce performance and other data reports (the analysis, review, and reports together are "Data"). If Data supplied by these service providers were to be incorrect or incomplete, our analysis and reports may be incorrect or adversely impacted and our strategies may not perform as expected. Cornerstone seeks to detect whether Data are inaccurate or incomplete and reports these issues to its service providers, but cannot always detect problems with Data supplied to it before the Data are used. If Data are discovered to be incorrect or incomplete, Cornerstone will take all reasonable steps to correct the Data.

While Cornerstone seeks to protect itself contractually when it engages services providers, these contractual provisions may be insufficient to protect Cornerstone. For example, Cornerstone's service providers may be affected by viruses, power outages, or other acts beyond Cornerstone's control. They may not be able to prevent an employee or third party from stealing or affecting Cornerstone's data. Further, any of our service providers could, without notice to Cornerstone, cease doing business, file for bankruptcy, or sell all or a part of its business to another company. Any of these actions could adversely affect Cornerstone and may seriously disrupt its business.

## **INVESTMENT PHILOSOPHIES AND APPROACH**

### **GLOBAL SYSTEMATIC EQUITY INVESTMENT STRATEGIES**

- Large-Cap Enhanced: seeks to outperform the S&P 500 Index net of fees.
- Mid-Cap Core: seeks to outperform the Russell Midcap Index net of fees.
- Small-Cap Core: seeks to outperform the Russell 2000 Index net of fees.
- International Equity: seeks to outperform the MSCI EAFE Index net of fees.

- Systematic Global Equity: seeks to outperform the MSCI ACWI Index net of fees.
- Systematic Emerging Markets: seeks to outperform the MSCI Emerging Markets Index net of fees.
- US Equity Opportunities: seeks to outperform the Russell 1000 Index or the S&P 500 Index net of fees by investing long and short.
- Global Equity Opportunities: seeks to outperform the MSCI World Index, net of fees
- International Opportunities: seeks to outperform the MSCI EAFE Index net of fees by investing long and short.
- Emerging Markets Opportunities: seeks to outperform the MSCI Emerging Markets Index net of fees by investing long and short.
- U.S. Equity Market Neutral: seeks absolute returns, net of fees
- Global Equity Market Neutral: seeks absolute returns, net of fees

The Global Systematic Equity Team's strategies adhere to one common investment philosophy and believe the combination of intuitive and transparent quantitative evaluation methods alongside a fundamental perspective creates a strong foundation for stock selection, while also recognizing the need to manage risk against unique market circumstances. Supporting this philosophy is an investment process that is consistently deployed across the strategy set utilizing four main steps:

- 1) Factor Selection
- 2) Stock Selection
- 3) Portfolio Implementation
- 4) Portfolio Management

### **Factor Selection**

Factor selection begins with researching the long-term fundamental drivers of stock returns; what is commonly referred to as factors. Factors are the building blocks for the stock selection model. The investment team seeks to identify intuitive, highly predictive factors with low correlation in relationship to each other over long-term investment horizons.

### **Stock Selection**

The stock selection model uses a diversified set of highly predictive factors that are lowly correlated in relationship to each other to evaluate securities within an investment universe. The factors used fall into four main categories: Valuation, Momentum, Sentiment, and Quality. A stock is scored across a combination of these measures to derive a final score of each stock determining their relative attractiveness compared to other stocks within a stated investment universe.

Stock selection Models are always subject to revision as market conditions change and research provides new opportunities for enhancements. Members of the global systematic equity team conduct research which are subject to a peer review and based on the level of significance would require additional approval by the CIO of the global systematic equity team or in some cases additional approval through committee structures.

### **Portfolio Implementation**

Portfolio implementation begins by taking the scoring output from the stock selection model as an input to an optimization tool to construct a portfolio that seeks to meet the stated investment objectives while adhering to core risk constraints. Core risk constraints may include, but are not limited to maintaining diversification, limiting top-down influences, and promoting bottom-up stock selection as the main driver of portfolio returns. The output of this process is a recommended list of security purchases and sales. The portfolio optimization software utilized takes into account inputs such as the stock selection scoring output, risk parameters, transaction costs, liquidity, and any client specific investment policy guidelines in order to systematically construct portfolios that meet the stated investment objectives.

Prior to orders being sent to the trade desk for execution, the model's buy-sell recommendations are also subject to review and potential modification by the portfolio management team. The team reviews the output of the optimization process through a practical lens utilizing fundamental insight to identify risks that are not readily captured by the systematic process such as market or company-specific events. At times, tactical constraints may be employed by the investment team to more explicitly define core constraints, or may involve the use of additional constraints due to unique market circumstances. An additional layer of risk management, which Cornerstone refers to as "Blind Spot Management" may also be utilized to identify companies that the team believes may not be accurately evaluated by the systematic process.

The investment team maintains discretion in managing these risks including decision making that could potentially alter the strategy's outcome relative to output purely derived from the systematic process. Because the team has the ability to make independent decisions outside of the systematic process, a strategy's performance could be lower or higher than if the strategy were invested strictly according to the systematic process. The strategies take an active approach to investment management and seek to manage risk relative to an index, but are not designed to track an index making performance comparisons more difficult. Additionally, decision making with respect to "Blind Spot Management" will at times result in investment into alternate stocks with comparable levels of attractiveness, but may not result in incremental benefit to the strategy's outcome.

Once the final review by the investment team is completed, inclusive of any changes, a final trade list is sent to the trading desk for execution. Cornerstone's trading desk works with portfolio managers in an effort to strike the optimal balance between timeliness of

incorporating current buy and sell ideas into the strategy, while seeking to achieve efficient trading costs encompassing both market impact and actual trading costs.

### **Portfolio Management**

In addition to reviewing the portfolio around trading associated with managing cash flows and rebalancing activity, strategies are consistently monitored and evaluated by investment members in real time on a daily basis. Team members identify and evaluate drivers of portfolio returns and any potential investment risks associated with the macroeconomic environment or individual securities. The information gathered is used to evaluate the portfolio holistically and at granular levels to determine if any changes need to be made either in real time or to be addressed at the next regularly recurring rebalance.

Rebalancing of strategy positioning typically takes place on a monthly basis. The reasons for rebalancing a strategy could include factors such as, but are not limited to, cash flow management, risk management, and the generation of new investment ideas balanced against the costs associated with implementation. For example, market movements may cause a risk control such as sector exposure to deviate outside its normal limits whereby the investment team will rebalance the strategy to address the risk within a reasonable time frame. If conditions warrant, the portfolio management team may make rebalances more frequently than monthly. Although the portfolio management team's rebalancings, either monthly or more frequently, are intended to benefit the particular strategy involved, there is no certainty that such rebalancings will do so.

In addition to the risks outlined above, you should be aware that there are certain material risks associated with investing in Cornerstone's global systematic equity investment strategies. To the extent that a client is invested in the strategies and the securities set forth above the risks include (without limitation):

- Value Stock Risk: Value stocks may never reach what the portfolio management team believes is their full value or they may go down in value. In addition, different types of stocks tend to shift in and out of favor depending on market and economic conditions, and therefore the strategy's performance may be lower or higher than the performance of strategies that invest in other types of equity securities.
- Derivatives Risk: Derivatives are investments whose value depends on (or is derived from) the value of an underlying instrument, such as a security, asset, reference rate or index. Derivative strategies often involve leverage, which may exaggerate a loss, potentially causing an account to lose more money than it would have lost had it invested in the underlying instrument. Derivatives may be difficult to sell, unwind or value. Derivatives may also be subject to counterparty risk, which is the risk that the counterparty (the party on the other side of the transaction) on a derivative transaction will be

unable to honor its contractual obligations to an account. Swap transactions tend to shift an account's investment exposure from one type of investment to another, and therefore entail the risk that a party will default on its payment obligations to an account. Futures may be more volatile than direct investments in the instrument underlying the futures, and may not correlate perfectly to the underlying instrument. Futures also may involve a small initial investment relative to the risk assumed, which could result in losses greater than if they had not been used. Due to fluctuations in the price of the underlying security, an account may not be able to profitably exercise an option and may lose its entire investment in an option. Forward commitments entail the risk that the instrument may be worth less when it is issued or received than the price an account agreed to pay when it made the commitment. The use of foreign currency forwards may result in currency exchange losses due to fluctuations in currency exchange rates or an imperfect correlation between portfolio holdings denominated in a particular currency and the forward contracts entered into by an account.

- *Real Estate Investment Trust Risk:* Investments in REITs involve risks associated with direct ownership of real estate, including decline in property values, extended vacancies, increases in property taxes and changes in interest rates. Additionally, REITs are dependent upon management skills, may not be diversified, may experience substantial cost in the event of borrower or lessee defaults and are subject to heavy cash flow dependency.
- *Short Term Trading Risk:* Our strategies may experience a portfolio turnover rate of greater than 100%. Strategies with high turnover rates (over 100%) often have higher transaction costs and may generate short-term capital gains.
- *Small-Cap and Mid-Cap Stock Risk:* Stocks of small-cap and mid-cap companies may be subject to greater price volatility, significantly lower trading volumes, cyclical, static or moderate growth prospects and greater spreads between their bid and ask prices than stocks of larger companies. Because these businesses frequently rely on narrower product lines and niche markets, they can suffer isolated setbacks. Smaller capitalization companies may be more vulnerable to adverse business or market developments.
- *Depository Receipts Risk:* Investments in depository receipts may entail the special risks of foreign investing, including currency exchange fluctuations, government regulations, and the potential for political and economic instability.
- *Regional Focus Risk:* At times, we may increase the relative emphasis of our



investments in a particular region or country. Stocks of issuers in a particular region or country might be affected by changes in economic conditions or by changes in government regulations, availability of basic resources or supplies, or other events that affect that region or country more than others. If the strategy has a greater emphasis on investments in a particular region or country, it may be subject to greater risks from adverse events than a strategy that is more geographically diversified.

- Short Selling Risk: With respect to our long/short and leveraged strategies, if a security sold short increases in price, the strategy may have to cover its short position at a higher price than the short sale price, resulting in a loss. The strategy will have substantial short positions and must borrow those securities to make delivery to the buyer. The strategy may not be able to borrow a security that it needs to deliver or it may not be able to close out a short position at an acceptable price and may have to sell related long positions before it had intended to do so. Thus, the strategy may not be able to successfully implement its short sale strategy due to limited availability of desired securities or for other reasons.

The strategy also may be required to pay a premium for a security and other transaction costs, which would increase the cost of the security sold short. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the strategy may be required to pay in connection with the short sale.

Until the strategy replaces a borrowed security, it is required to maintain a segregated account of cash or liquid assets with a broker or custodian to cover the strategy's short position. Generally, securities held in a segregated account cannot be sold unless they are replaced with other liquid assets. The strategy's ability to access the pledged collateral may also be impaired in the event the broker fails to comply with the terms of the contract. In such instances the strategy may not be able to substitute or sell the pledged collateral.

Additionally, the strategy must maintain sufficient liquid assets (less any additional collateral pledged to the broker), marked-to-market daily, to cover the short sale obligations. This may limit the strategy's investment flexibility, as well as its ability to meet redemption requests or other obligations.

Because losses on short sales arise from increases in the value of the security sold short, such losses are theoretically unlimited. By contrast, a loss on a long position arises from decreases in the value of the security and is limited by the fact that a security's value cannot go below zero. By investing the proceeds received from selling securities short, the strategy could be

deemed to be employing a form of leverage, which creates special risks. The use of leverage may increase the strategy's exposure to long equity positions and make any change in the strategy's NAV greater than it would be without the use of leverage. This could result in increased volatility of returns. There is no guarantee that the strategy will leverage its portfolio, or if it does, that any such leveraging strategy will be successful.

Regulatory authorities in the U.S. or other countries may restrict the ability of the strategy to fully implement its short-selling strategy, either generally, or with respect to certain industries or countries, which may impact the strategy's ability to fully implement its investment strategies.

- *Regulatory Risk:* Regulatory authorities in the United States or other countries may prohibit or restrict our ability to fully implement the short-selling strategy, either generally or with respect to certain industries or countries, which may impact our ability to fully implement our investment strategies. Certain foreign countries have adopted, and others may adopt, rules restricting the short-selling of certain stocks. Typically, these restrictions have been focused on financial stocks. The duration and scope of these restrictions have varied from country to country.
- *Technology and Licensing Risk:* The investment strategy of and recommendations developed by CCMH rely heavily on the use of proprietary and non-proprietary software, data and intellectual property being licensed to us on a non-exclusive basis by commercial software analytics, research and data supply entities. To the extent that an unforeseeable software or hardware malfunction or problem is caused by a defect, virus or other outside force, Cornerstone's business, including its financial condition, and/or client portfolios may be adversely affected. In addition if the licensed material is found to be owned by a third party, and not by the licensing company, as represented, CCMH's business, including our financial condition, and/or our client's portfolios could be adversely affected.
- *Analytical Model Risk:* Cornerstone seeks to achieve its clients' investment objectives primarily in reliance on signals generated by Cornerstone's analytical models, whether third party or proprietary. The accuracy of the signals produced by the models is dependent on a number of factors including, without limitation, the analytical and mathematical underpinning of the models, the accurate encapsulation of those principles in a complex computational (including software code) environment, the quality of the data put into the models, changes in market conditions, and the successful deployment of the models' output

into the investment portfolio construction process. Each factor may have subjective elements that present the possibility of human error.

Although Cornerstone employs controls designed to assure that its models are sound in their development and appropriately adapted, calibrated and configured, analytical error, software development errors, and implementation errors are an inherent risk of complex analytical models and quantitative investment management processes. These errors may be extremely hard to detect in some cases, and some errors may go undetected for long periods of time, or not be detected at all. Cornerstone's controls, including our escalation policies, are designed to assure that certain types of errors are subject to review once discovered. However, the effect of errors on our investment process and, where relevant, performance, (which can be either positive or negative) may not be fully apparent even when discovered. For investment process errors that do not give rise to trade errors (i.e. an error has occurred in the process of generating the list of trade recommendations), investment advisers as fiduciaries do not breach their duties merely in the good faith exercise of investment discretion, even if resulting in "poor" investment decisions from a performance perspective.

Rather, a breach of an investment adviser's fiduciary duties relates more to the prudence and propriety of the adviser's conduct. Given these complex processes, the inevitability of error and the difficulty of error detection, determining whether Cornerstone has met its standard of care in connection with an investment process errors will be based both upon (1) how the error relates to Cornerstone's key investment objectives and attributes (namely, to build portfolios with exposures to stock characteristics that reflect our investment beliefs and philosophy) as well as (2) the nature and design of the controls designed to ensure such objectives and attributes are achieved in the manner intended. Accordingly and in keeping with our long-term investment horizons, we reject notions of "false precision," (either in terms of stock composition or investment performance), that may be implied by a process that relies to a great extent on data and quantitative methods.

Because of the complexity involved and indeterminate nature of the undertaking, Cornerstone may in good faith and in accordance with its obligations decide not to correct an error if doing so would be imprudent or otherwise than in the client's best interests in light of Cornerstone's key investment or client-specified considerations or if the cost of the fix greatly outweighs the benefit and/or the error truly represents noise. Also, Cornerstone in its discretion may determine not to disclose (non-trade) investment process errors not otherwise determined to be

compensable or constituting material information to affected clients, Cornerstone will not be under any obligation to disclose such errors, but may voluntarily do so in its discretion.

Although Cornerstone's investment process partially relies on the models (and is subject to the risks) referred to above, Cornerstone's process also incorporates the investment judgment of its portfolio managers who exercise such judgment with the aim of capturing the intent of the models and/or ensuring that portfolios are better positioned to adapt to changing market conditions. As such, even if the signals produced by Cornerstone's models are accurate, the ultimate investment performance still depends on Cornerstone's ability to interpret the buy and sell signals generated by the models and to then implement these signals through the purchase and sale of securities and other investments. CCMH has established certain systematic rules and processes for generating trading signals, implementing trades and managing risk, but there is no guarantee that these rules or processes will effectively implement the models' buy and sell signals or manage the risk associated with such signals.

- *Service Provider and Data Source Risk:* Cornerstone uses a third party's servers to host its models and data. The servers on which Cornerstone's models and data are hosted may be affected by viruses, power outages, or other acts beyond Cornerstone's control. The company that owns the servers ("Service Provider") may not be able to prevent an employee or third party from stealing or damaging Cornerstone's models and data. Further, the Service Provider could, without notice to Cornerstone, cease doing business, file for bankruptcy, or sell all or a part of its business to another company. Any of these actions could make the models and data unavailable to Cornerstone and seriously disrupt its business. When data used in a model is incorrect or incomplete, models may not perform as expected, as noted above in "Analytical Model Risk." Cornerstone seeks to detect whether data is inaccurate or incomplete and reports these issues to its data providers, but cannot always detect problems with data supplied to it before the data is used.

The Service Provider maintains redundant data centers in geographically distinct locations, but is not obligated to protect or back-up Cornerstone's models and data or cooperate with Cornerstone to return the models and data if its agreement with Cornerstone is terminated. Further, in the event of loss of or damage to these models and data, Cornerstone's recovery for loss or damage is limited to its direct damages (and not lost profits or other types of damages) and only up to the cumulative amount of fees it paid to

the Service Provider during the twelve months before the event that led to the loss or damage.

- *Growth Stock Risk:* If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that may cushion falling stock prices in market downturns.
- *Valuation Risk:* Uncertainties in the conditions of the financial market, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate asset pricing. In addition, other market participants may value securities differently. As a result, when a security or other instrument is sold in the market, the amount that the account receives may be less than the amount at which it was valued.
- *Liquidity Risk:* Securities purchased by a strategy that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the securities, market events, economic conditions or investor perceptions. The value of illiquid securities may reflect a discount from the market price of comparable securities for which a liquid market exists, and accordingly may have a negative effect on the value of the strategy's assets. To meet client requests to withdraw assets, the strategy may be forced to sell securities at an unfavorable time and/or under unfavorable conditions.
- *Foreign Security and Currency Risk:* Investments in foreign securities are subject to risks that differ in certain ways from those of U.S. issuers. These risk factors include: fluctuating currency values; an opaque currency exchange market in some instances, less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities.

Investments in foreign securities may involve difficulties in receiving or interpreting financial and economic information, imposition of taxes, higher brokerage and custodian fees, currency rate fluctuations or exchange controls or other government restrictions, including seizure or nationalization of foreign deposits or assets. Also, it may be difficult to invoke legal protections across borders.

The strategy may also incur higher expenses and costs when making foreign investments, which could affect the strategy's total return. The risks of investing in foreign securities in emerging market countries are likely to be

greater than in foreign countries with developed securities markets and more advanced regulatory regimes. Among other things, emerging market countries may have economic structures that are less mature and political systems that are less stable. Moreover, emerging market countries may have less developed securities markets, high inflation, and rapidly changing interest and currency exchange rates. Exchange rate movements may be large and may endure for extended periods of time, affecting either favorably or unfavorably the value of the strategy's assets.

The value of a client's assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred by clients when a strategy changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by: i) the forces of supply and demand in the respective markets and the relative merits of investments in different countries; and ii) actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

Finally, investments in depositary receipts may entail the special risks of foreign investing, including currency exchange fluctuations, government regulations, and the potential for political and economic instability.

- *Emerging Markets Risk:* The risks related to investing in foreign securities are generally greater with respect to securities of companies that conduct their business activities in emerging markets or whose securities are traded principally in emerging markets. The risks of investing in emerging markets include the risks of illiquidity, increased price volatility, smaller market capitalizations, less government regulation, less extensive and less frequent accounting, financial and other reporting requirements, risk of loss resulting from problems in share registration and custody, substantial economic and political disruptions and the nationalization of foreign deposits or assets.

#### **GLOBAL FUNDAMENTAL EQUITY INVESTMENT STRATEGIES**

- Fundamental International Equity: seeks to outperform the MSCI EAFE Index over a full market cycle, net of fees.
- Fundamental International Equity All Country: seeks to outperform the MSCI ACWI ex-US Index over a full market cycle, net of fees.
- Fundamental Global Equity: seeks to outperform the MSCI ACWI Index over a full market cycle, net of fees.

- Fundamental International Small-Cap: seeks to outperform the MSCI ACWI ex-US Small Cap Index, net of fees.

The investment team employs a bottom-up investment approach, incorporating individual company fundamental analysis, industry competitive dynamics, and macroeconomic analysis. Investment professionals on this team obtain information from a variety of sources, including:

- Meetings and discussions with securities industry analysts.
- Discussion of publicly available information with issuers and company personnel.
- On-site inspections and corporate-sponsored meetings.
- Discussion with a company's customers, competitors and suppliers.
- Computerized screening, evaluation, optimization studies and reports.
- Trade journals and services, governmental publications, statistical summaries and analysis.
- Rating agencies, analysts' reports and various news and industry sources.

The team seeks to invest in what it believes are reasonably priced stocks of companies whose earnings are expected to sustainably grow more than 10% per year in each of the next three to five years. To identify such companies, the team quantifies long-term secular trends or forces, and identifies the companies that the team believes are poised to benefit from these long-term secular forces. Every security that is added to the portfolio must meet the following criteria, all of which are equally important:

- 10% expected earnings growth potential in each of the next three to five years.
- Secular growth trends or forces that can benefit the company.
- Sustainable competitive advantages.
- Lack of reliance on one product, customer or supplier.
- Reasonable valuations relative to long term earnings.

If the portfolio managers believe the company exhibits strong fundamentals but is not yet at an attractive valuation, they will place the stock on a "watch list." These stocks are continuously monitored and when the watch list stock becomes attractively valued, the team will buy the stock for its client's portfolios. Securities are sold when: i) the investment team's investment thesis has been reassessed or has changed; ii) valuation becomes too expensive; or iii) the portfolio manager/analyst loses confidence in the investment. The team believes that it is extremely important to learn from historical buy and sell decisions in order to improve the decision making process. Therefore, one year after a security is sold, the investment team performs a one-year post-sale analysis to assess its sell decision and to further understand the company. Despite the inherent limitations associated with studying sell decisions in hindsight, the team finds this exercise helps them identify sound investment decisions in which stocks were sold at opportune times, and also helps the team identify those stocks sold at inopportune times which may refine its decision-making process going forward.

You should be aware that there are certain material risks associated with investing in Cornerstone's global fundamental equity strategies. These risks include (without limitation):

- Regional Focus Risk: At times, we may increase the relative emphasis of our investments in a particular region or country. Stocks of issuers in a particular region or country might be affected by changes in economic conditions or by changes in government regulations, availability of basic resources or supplies, or other events that affect that region or country more than others. If the strategy has a greater emphasis on investments in a particular region or country, it may be subject to greater risks from adverse events than a strategy that is more geographically diversified.
- Small-Cap and Mid-Cap Stock Risk: Stocks of small-cap and mid-cap companies may be subject to greater price volatility, significantly lower trading volumes, cyclical, static or moderate growth prospects and greater spreads between their bid and ask prices than stocks of larger companies. Because these businesses frequently rely on narrower product lines and niche markets, they can suffer isolated setbacks. Smaller capitalization companies may be more vulnerable to adverse business or market developments.
- Growth Stock Risk: If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that may cushion falling stock prices in market downturns.
- Valuation Risk: Uncertainties in the conditions of the financial market, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate asset pricing. In addition, other market participants may value securities differently. As a result, when a security or other instrument is sold in the market, the amount that the account receives may be less than the amount at which it was valued.
- Liquidity Risk: Securities purchased by a strategy that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the securities, market events, economic conditions or investor perceptions. The value of illiquid securities may reflect a discount from the market price of comparable securities for which a liquid market exists, and accordingly may have a negative effect on the value of the strategy's assets. To meet client requests to withdraw assets, the strategy may be forced to sell securities at an unfavorable time and/or under unfavorable conditions.



- *Foreign Security and Currency Risk:* Investments in foreign securities are subject to risks that differ in certain ways from those of U.S. issuers. These risk factors include: fluctuating currency values; an opaque currency exchange market in some instances, less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities.

Investments in foreign securities may involve difficulties in receiving or interpreting financial and economic information, imposition of taxes, higher brokerage and custodian fees, currency rate fluctuations or exchange controls or other government restrictions, including seizure or nationalization of foreign deposits or assets. Also, it may be difficult to invoke legal protections across borders.

The strategy may also incur higher expenses and costs when making foreign investments, which could affect the strategy's total return. The risks of investing in foreign securities in emerging market countries are likely to be greater than in foreign countries with developed securities markets and more advanced regulatory regimes. Among other things, emerging market countries may have economic structures that are less mature and political systems that are less stable. Moreover, emerging market countries may have less developed securities markets, high inflation, and rapidly changing interest and currency exchange rates. Exchange rate movements may be large and may endure for extended periods of time, affecting either favorably or unfavorably the value of the strategy's assets.

The value of a client's assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred by clients when a strategy changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by: i) the forces of supply and demand in the respective markets and the relative merits of investments in different countries; and ii) actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

Finally, investments in depositary receipts may entail the special risks of foreign investing, including currency exchange fluctuations, government regulations, and the potential for political and economic instability.

- *Emerging Markets Risk:* The risks related to investing in foreign securities are generally greater with respect to securities of companies that conduct their business activities in emerging markets or whose securities are traded principally in emerging markets. The risks of investing in emerging markets include the risks of illiquidity, increased price volatility, smaller market capitalizations, less government regulation, less extensive and less frequent accounting, financial and other reporting requirements, risk of loss resulting from problems in share registration and custody, substantial economic and political disruptions and the nationalization of foreign deposits or assets.

#### **ITEM 9: DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no such legal or disciplinary events to disclose.

#### **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Cornerstone has the following relationships or arrangements with affiliates that are material to its advisory business or to its clients.

##### **INVESTMENT COMPANIES AND OTHER POOLED INVESTMENT VEHICLES**

Cornerstone provides sub-advisory services to certain funds in New York Life's family of mutual funds known as the MainStay Funds. For additional information regarding investment strategies and associated risks for these mutual funds, please refer to each fund's Prospectus and Statement of Additional Information.

Cornerstone also provides sub-advisory services to a commingled investment trust sponsored by New York Life Trust Company.

Certain members of the global systematic equity team advise a long-short equity market neutral vehicle, the assets of which are exclusively affiliated capital. As a result, management of this vehicle may divert some time and attention from the management of other clients. In addition, this vehicle may take positions that are opposed to positions held by other clients and accounts. There is no current intention of offering interests in the Market Neutral Fund to third party investors. Cornerstone also serves as a sub-adviser to an unaffiliated private fund in which it has an investment.

In addition, Cornerstone acts as an index consultant to assist an affiliate, IndexIQ LLC, with the development, calculation and maintenance of certain IndexIQ Indices. As an index consultant, Cornerstone assists IndexIQ LLC with the identification, formulation and construction of potential IndexIQ Indices, the testing of potential IndexIQ Indices,

documentation of index methodologies, and ongoing calculation and maintenance of certain IndexIQ Indices.

Conflicts may arise as to the allocation of investment opportunities among The MainStay Funds, the affiliated commingled funds, the private funds and our other clients. We have Allocation Procedures in place to make sure that all of our clients are treated fairly and that over time no client's account receives preferential treatment in the allocation of investment opportunities and of executed trades (please see Item 12, "Brokerage Practices," below).

#### **INVESTMENT ADVISERS**

New York Life Investment Management LLC: Certain compliance, legal and other support functions within Cornerstone are supported by the resources and services of New York Life Investments and New York Life. In addition, Cornerstone serves as sub-adviser to New York Life Investments in connection the management of certain portfolios of The MainStay Funds. Cornerstone also provides certain support services to New York Life Investments in connection with New York Life Investments' advisory services. As a result of these relationships, certain Cornerstone personnel are authorized representatives of New York Life Investments and certain New York Life Investments personnel are officers or directors of Cornerstone.

Cornerstone Capital Management LLC: As noted in Item 4, "Advisory Business," above, Cornerstone has an ownership stake in Cornerstone LLC. Cornerstone's Chief Executive Officer (Andrew Wyatt) and President (Thomas Kamp) also function in these roles for Cornerstone LLC and are the other owners of Cornerstone LLC as well. In these roles, each of Mr. Wyatt and Mr. Kamp may face an inherent conflict with his respective responsibilities to Cornerstone and Cornerstone LLC. Cornerstone LLC may also share fees with Cornerstone. Each firm's management team and Board of Managers, as well as management from New York Life Investments is cognizant of these potential conflicts, and strives to ensure each individual's Cornerstone LLC responsibilities do not impair his responsibilities and obligations to Cornerstone.

As an affiliate of New York Life, Cornerstone is affiliated with other investment adviser subsidiaries of New York Life, which are disclosed in Form ADV Part 1. Cornerstone has no material arrangements or relationships with such other advisers other than in connection with internal referral agreements, which are described in Item 14, "Client Referrals and Other Compensation," below.

#### **BROKER-DEALERS**

Some of our employees are registered with the Financial Industry Regulatory Association (FINRA) as representatives and/or principals of NYLIFE Distributors LLC. NYLIFE Distributors is our affiliate and is registered as a broker-dealer with the SEC. These employees may sell interests in private investment funds sponsored and managed by us or our affiliates and are

eligible to receive compensation from NYLIFE Distributors related to that sale paid by the affiliate that sponsors and manages the private investment fund.

We serve as the sub-adviser for various registered investment companies, as described above, known as The MainStay Funds, which are advised by New York Life Investments. NYLIFE Distributors serves as the principal underwriter and distributor of The MainStay Funds.

We do not use any affiliated broker-dealers to execute securities transactions for our client accounts.

#### **BANKING INSTITUTIONS**

Cornerstone provides investment services and or personnel to New York Life Trust Company, a related person and a New York State chartered trust company, for a collective investment trust for which New York Life Trust Company acts as trustee, and is the named custodian. Some officers and employees of Cornerstone are also officers, employees or directors of New York Life Trust Company.

#### **INSURANCE COMPANY OR AGENCY**

Cornerstone is a wholly-owned, indirect subsidiary of New York Life and provides investment advice and related services to certain New York Life accounts including separate accounts that are investment vehicles for the assets of pension and profit-sharing plans. New York Life may also invest in the private investment fund that we or our affiliates manage. Certain Cornerstone personnel are officers, employees or authorized representatives of New York Life and certain New York Life personnel are officers or directors of Cornerstone.

#### **POTENTIAL CONFLICTS RELATING TO MANAGING ACCOUNTS FOR AFFILIATES**

With respect to the affiliates identified above, where Cornerstone provides advisory services, a potential conflict exists relating to providing preferential treatment to the affiliate's account. This conflict could cause Cornerstone to allocate the "best" investment opportunities only to the affiliated accounts and the better-executed trades to the affiliated accounts. In addition, our affiliates may negotiate lower or higher fees. Furthermore, management of affiliated accounts may divert some time and attention from the management of other clients. Cornerstone has procedures addressing the allocation of investment opportunities and the execution of client trades that are designed and intended to ensure that all clients are treated fairly and equally over time and that no client is systematically disadvantaged. Such procedures are generally described in "Brokerage Practices" below. Cornerstone also reviews the investment performance variances of all accounts to identify any differences that might be caused by such favoritism.

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

### **CODE OF ETHICS AND PERSONAL TRADING**

Cornerstone has a fiduciary relationship with our clients that requires that we and our employees place the interests of our clients first and foremost. As such, our Code of Ethics (“Code”) covers all employees and sets forth guidelines that promote ethical conduct generally. In addition to the Code’s policies regarding personal securities trading, the Code requires our employees to follow policies and procedures relating to the Code’s conduct standards including: conflicts of interest, inside information and information barriers, gifts and entertainment, personal political contributions, and selective disclosure of mutual fund portfolio holdings. A copy of our Code is available upon request. Our contact information appears on the cover page of this brochure.

Although we permit our employees to engage in personal securities transactions, as a company we recognize that these transactions may raise potential conflicts of interests. This is particularly true when they involve securities owned by, or considered for purchase or sale by, a client account.

We address potential conflicts of interests in our Code by requiring that, with regard to investments and investment opportunities, our employees’ first obligation is to our clients. Our Code requires that all of our employees adhere to the highest duty of trust and fair dealing. In addition, all employees must conduct their personal securities transactions in a manner that does not interfere with any client’s portfolio transactions, or take inappropriate advantage of an employee’s relationship with a client.

The Code covers all Cornerstone employees, and all employees are considered “Access Persons” under the Code. Access Persons are defined as officers or directors or persons who have access to non-public information regarding any client's purchase or sale of securities, or information regarding the portfolio holdings of any mutual fund advised by Cornerstone. Specifically, all employees are subject to the following restrictions:

- May not purchase or sell “Covered Securities” without pre-clearance through our Compliance Department. Covered Securities include everything except: i) transactions involving direct obligations of the US Government; ii) shares of unaffiliated open end investment companies; iii) commercial paper; iv) certificates of deposit; and v) high quality short term investments and interests in qualified state college tuition programs.
- May not profit from the purchase and sale or sale and purchase of the same Covered Security within 60 days.
- May not trade in securities of issuers that appear on our restricted list.
- May not trade while in possession of material, non-public information.
- May not engage in short-term trading (the purchase and sale or sale and purchase within 30 days) of any mutual fund advised or sub-advised by us.

- Must complete and keep current an annual Conflicts of Interest Questionnaire concerning any potential conflicts.
- Must adhere to restrictions regarding the receipt and giving of gifts and entertainment.
- May not purchase securities in initial public offerings or in connection with private placements except with the express written prior approval of our Chief Compliance Officer.
- May not participate in Investment Clubs.
- Must file quarterly reports and certifications of covered trading activity.

Further, we require “Investment Personnel” to adhere to additional provisions in the Code as described below. Investment Personnel are defined as employees who in connection with their regular functions make or participate in making recommendations regarding the purchase or sale of securities for client accounts (i.e., portfolio managers, traders and analysts):

- May not purchase or sell securities (subject to a *de minimis* threshold) for their own account if such securities have been purchased or sold for a client account in the prior seven days, or can reasonably be expected to be purchased or sold for a client account in the next seven days.
- May not trade in options with respect to individual securities.

#### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

In the ordinary course of providing its investment advisory services, Cornerstone may recommend that clients purchase or sell securities or interests in which our affiliates have a material financial interest. For example:

- We may recommend investments to our clients that the clients of our advisory affiliates also own.
- We may, at times, provide investment advice to certain New York Life accounts including separate accounts that are investment vehicles for the assets of pension and profit-sharing plans. At times, we may recommend that clients purchase or sell securities that are held in these affiliated accounts or take positions in these affiliated accounts with an opposite conviction from client accounts.

As a result of these recommendations and potential transactions, potential conflicts of interest could arise between us and our clients. These potential conflicts may include:

- Preferential allocation of investment opportunities to client accounts that pay a performance-based management fee.
- Using information concerning transactions in our advisory affiliate’s client accounts, or in The MainStay Funds, to the benefit of our client accounts.

- Placing trades for affiliated accounts, if any, before or after trades for our other accounts to take advantage of (or avoid) market impact.
- Unfair allocation of limited investment opportunities between our affiliated and unaffiliated accounts.

To mitigate these potential conflicts of interest, Cornerstone has adopted several trading procedures that are intended to ensure that all client accounts are treated fairly and equitably (see the “Brokerage Practices” section below).

In addition, to address potential conflicts of interest across affiliates, each adviser affiliate, except between Cornerstone and Cornerstone LLC, operates independently with respect to investment strategy, trading and operations. Furthermore, affiliates are generally not privy to another affiliate’s information (i.e. investment decisions, research, client information) that may potentially pose conflicts of interest. Specifically, Cornerstone has established information barrier policies between Cornerstone and its affiliated advisers, with the exception of Cornerstone LLC, that serve to limit the dissemination of material non-public information. In the event such information is shared, appropriate controls are placed around the information in order to limit any potential conflicts of interest.

Our employees may invest in mutual funds sponsored by our affiliate, New York Life Investments, which could create an incentive for us to favor our affiliate’s mutual fund client over other clients. While presenting an inherent conflict, these clients receive standard reporting, are not involved in our day-to-day operations and have no knowledge of our trading or investment activities. We maintain investment, trade allocation and account valuation policies and procedures designed to address such conflicts of interest. Further, our Code of Ethics and Personal Trading Policy require employees to report investments in the mutual funds we manage.

## **ITEM 12: BROKERAGE PRACTICES**

### **SELECTION OF BROKERS**

When we select or recommend a broker-dealer for transactions in our clients’ accounts, we consider a number of factors regarding the broker-dealer and the reasonableness of its compensation. The factors we consider in selecting a broker-dealer and determining the reasonableness of its compensation include:

- Security price and spreads;
- Commission rates, if applicable;
- Pre-trade and post-trade analysis;
- Available Algorithm Performance;
- Size of the order;
- Integrity, reputation, financial responsibility and stability;

- Market knowledge and ability to understand trading characteristics of the security and overall performance (i.e., trading expertise);
- Nature and extent of services and frequency of coverage;
- Ability of counterparty to execute in desired volume and act on a confidential basis;
- Willingness of the Broker to commit capital;
- Access to underwritten offerings and secondary markets;
- Operational efficiency and facilities that the broker makes available (including trading networks, access to multiple floor brokers and markets, and significant resources for positioning as principals); and
- Nature and extent of services (i.e. proprietary research and access to third party research).

All of these considerations (and others as relevant) guide Cornerstone in selecting the appropriate venue (e.g., an Electronic Communications Network (“ECN”) or Alternative Trading System (“ATS”), a traditional broker, a crossing network, etc.) in which to place an order and the proper tactics with which to trade.

When selecting broker-dealers to execute transactions on behalf of our clients’ accounts, our policy is to seek to obtain the best net results based on the factors noted above. This is commonly referred to as "best execution." After due consideration is paid to all of these factors, it may be in a client's best interest to pay a higher commission, spread or other compensation in order to receive best execution. We continually evaluate brokerage activity and periodically may re-negotiate commission rates.

We may also effect transactions in over-the-counter (OTC) securities directly with principals or market makers by paying a mark-up within the spread of the bid and ask prices of the security and without incurring a commission charge. In addition, we may effect transactions in OTC securities on an agency basis when liquidity permits. The purchase price of an OTC security acquired in an agency transaction could include compensation to the broker-dealer in the form of a mark-up relative to the broker-dealer’s original cost in addition to a commission.

Transactions executed for clients may be executed either on an agency or principal basis. Agency trades are executed through a broker’s trading desk or using a broker’s electronic algorithms. Principal trades are executed when a broker agrees to purchase or sell a specific quantity of shares at a negotiated price. In a principal trade, market impact and volatility risks are effectively transferred from Cornerstone to the executing broker.

Cornerstone will generally effect transactions with broker-dealers on an agency basis. However, when situations arise in which a principal execution would result in better execution, Cornerstone will seek broker-dealers to effect the transaction on a principal basis.



In selecting a broker, Cornerstone may also consider research or brokerage services provided by the broker-dealer, consistent with the requirements of Section 28(e) of the Securities Exchange Act and related interpretative guidance. More information on Cornerstone's client commission policies and procedures is contained in the section "Use of Client Commissions" below.

Another factor Cornerstone may consider in selecting broker-dealers is when a client directs Cornerstone in writing to execute a portion of the client's trades through a particular broker-dealer. See the section "Directed Brokerage" below.

When selecting a broker-dealer, we do not consider its referral of clients to us. We also do not consider its sale of shares of The MainStay Funds or of any private funds that we or any of our affiliates advise. While we may direct brokerage to broker-dealers that have consulting divisions that might refer clients or investors to us, we have no agreements to do so. In no case will Cornerstone make binding commitments as to the level of the brokerage commissions it will allocate to a broker. Nor does Cornerstone "backstop" or otherwise guarantee any broker's financial obligation to a third party for such research or services.

Cornerstone also has policies and procedures in place to limit and monitor gifts and entertainment received from third parties, including broker-dealers that do business with Cornerstone or wish to do business with Cornerstone.

Cornerstone's Broker Review Committee routinely reviews its broker-dealers and its efforts to seek best execution in light of current market circumstances and published statistical studies and other available information.

#### **USE OF CLIENT COMMISSIONS**

Subject to the criteria of Section 28(e) of the Securities Exchange Act of 1934, as amended, and regulatory guidance from the SEC, Cornerstone may pay a broker a brokerage commission higher than that which another broker might have charged for effecting the same transaction in recognition of the value of the brokerage and research services provided by the broker. In other words, Cornerstone may "pay up" using client commissions or "soft dollars" to obtain research or brokerage services that benefit Cornerstone and its accounts.

As a general matter, many of the research services Cornerstone receives from broker-dealers are used to service all of Cornerstone's accounts. However any particular research service may not be used to service each and every client account, and may not benefit the particular accounts that generated the brokerage commissions. Cornerstone does not try to allocate soft dollar benefits to client accounts proportionately to the soft dollar commissions the accounts generate.

When Cornerstone uses client brokerage commissions to obtain research or research services, Cornerstone receives a benefit because it does not have to produce or pay for the

research or research services. As a result, Cornerstone may have an incentive to select a broker-dealer based its interest in receiving the research or other products or services, rather than on clients' interest in receiving most favorable execution. Because the use of client commissions to pay for research or brokerage services for which Cornerstone would otherwise have to pay presents a conflict of interest, Cornerstone has adopted policies and procedures concerning soft dollars, which address all aspects of its use of client commissions and requires that such use be consistent with Section 28(e), that it provide lawful and appropriate assistance to Cornerstone in the investment decision-making process, and that it help Cornerstone determine that the value of the research or brokerage service obtained be reasonable in relation to the commissions paid.

To the extent that a certain group of Cornerstone's clients are not available to pay for soft dollar benefits (e.g., clients that direct brokerage commissions), clients who give Cornerstone brokerage discretion will support a disproportionate share of Cornerstone's soft dollar benefits.

During its last fiscal year Cornerstone received the following types of research and research services: both as prepared by broker-dealers that execute client transactions ("proprietary research") and as prepared by third parties but for which the executing broker-dealers are obligated to pay ("third-party research"): information on the economy and global market direction, industries, groups of securities, individual companies (including corporate historical data), technical market information, index holdings and data, earnings and revenue estimates and forecasts, stock quotes, empirical and analytical research on the global economy, global short sale data, issuer-related data and reports, including data and meetings with corporate representatives, and reports from and calls and meetings with securities analysts and industry experts. . Cornerstone also received analytic and investment risk measurement tools used in constructing client portfolios.

To facilitate best execution of trades, Cornerstone uses order and report processing services offered by brokers who otherwise meet Cornerstone's selection criteria. Cornerstone and its affiliated adviser Cornerstone LLC participate in a Broker Review Committee which is responsible for its procedures concerning the use of client commissions. The Committee is responsible for reviewing all research and brokerage services quarterly to make a determination as to the reasonableness of the brokerage allocation as well as the price for such services versus the value received. Where necessary, the Broker Review Committee makes the good faith allocation between hard and soft dollars with respect to mixed-use services, as described below.

With respect to directing client transactions to particular broker-dealers in exchange for soft dollar benefits, Cornerstone first ensures such direction is consistent with its obligation to seek best execution. In connection with third-party benefits, Cornerstone participates in commission sharing arrangements to receive research services. In commission sharing arrangements, an adviser effects transactions, subject to best execution, through a broker and request that the broker allocate a portion of the commission or commission credits to a segregated "research pool" maintained by the broker. An adviser may then direct such

broker to pay for eligible products and services from the “research pool”. Cornerstone has such arrangements with Instinet LLC. Participating in commission sharing arrangements enables Cornerstone to (1) strengthen its key brokerage relationships; (2) consolidate payments for eligible research and research services; and (3) continue to receive a variety of high quality eligible research services while facilitating best execution in the trading process.

The Broker Review Committee also oversees the annual process used to set informal, non-binding soft dollar targets for the following year, which involves a review of the previous year’s budget vs. actual; a review and evaluation of all current and contemplated services for their soft dollar eligibility; negotiations where possible of the cost of service; and consideration of investment and trading professional feedback concerning the execution service and proprietary research provided by brokers.

As stated above, in no case will Cornerstone make binding commitments as to the level of the brokerage commissions it will allocate to a broker. Nor does Cornerstone “backstop” or otherwise guarantee any broker’s financial obligation to a third party for such research or services.

On a very limited basis, Cornerstone shares certain of the research services it receives using soft dollars with its affiliate New York Life Investments. As a result, New York Life Investments’ clients may benefit from research services paid for with the commissions generated by Cornerstone clients, which include New York Life Investments. There is no additional cost or expense related to these shared services that Cornerstone clients are bearing.

#### **MIXED-USE SERVICES**

Sometimes, a portion of the brokerage and research products and services we use are eligible under Section 28(e) and another portion is not eligible. These are referred to as “mixed-use” products and services.

In such cases, where Cornerstone receives both administrative or marketing benefits and research and brokerage services from the services provided by brokers, a good faith allocation between the marketing and administrative benefits and the research and brokerage services will be made, and Cornerstone will pay for any marketing or administrative benefits with hard dollars. In making good faith allocations between marketing or administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the allocation by Cornerstone of the costs of such benefits and services between those that primarily benefit Cornerstone and those that primarily benefit clients.

#### **DIRECTED BROKERAGE**

In limited instances, Cornerstone will accept direction from clients as to which broker-dealers are to be used to execute trades for their account, or they may designate the

commission rates to be paid. These types of requests from a client may relate to all of the transactions in the client's account, a specific portion of transactions in its account, or the client may require that we use our best efforts to satisfy its request. Typically, the client has an arrangement with such broker-dealer which results in the client receiving some benefit from the broker-dealer in exchange for the directed brokerage. Any such direction must be in writing and accepted by Cornerstone before it will be effective. Although Cornerstone generally discourages such direction, Cornerstone does permit client direction in certain circumstances, ensuring that clients are apprised of the potential risks associated with directed brokerage, including that it may cost the client more money.

Other risks related to directed brokerage include the following:

- the direction may result in higher commissions, greater spreads or less favorable net prices than would be the case if Cornerstone selected the brokers;
- the direction may result in trades for the client's account not being aggregated with similar trades for other client accounts and thus not eligible for the benefits that accrue to such aggregation of orders;
- that as a result of not being aggregated, client transactions will generally be executed after client accounts whose trades are aggregated and may receive less favorable prices; and
- that because of the direction the client's account may not generate returns equal to those of other client accounts which do not direct brokerage.

A directed trade may be executed directly with the broker-dealer or it may be "stepped out" to that broker-dealer. In a step-out transaction, we bunch client directed broker accounts with non-directed broker accounts and request that the executing broker allocate a portion of the transaction to the directed broker. In that event, the broker providing execution services would differ from a particular client's directed broker.

#### **ALLOCATION OF INVESTMENT OPPORTUNITIES AMONG CLIENTS**

Cornerstone provides investment management services to a wide variety of accounts, including institutional clients, certain MainStay Funds, and pooled investment vehicles. This presents certain actual and potential conflicts of interest including showing favoritism to affiliated accounts, a direct economic incentive to favor higher fee paying accounts over lower fee paying accounts; a marketing incentive to favor new investment strategies over existing investment strategies and a trading incentive to manage one type of an account in a manner that harms or has the potential to harm the interests of other accounts being managed.

It is Cornerstone's policy to allocate suitable investment opportunities fairly and equitably to clients with the same or similar investment objectives over time. A security will be suitable for an account if it is consistent with the investment objectives, strategies and risk tolerance of the account and permitted by the investment restrictions and limitations

applicable to the account. Where an investment opportunity is suitable for all accounts, it is Cornerstone's policy that all such accounts shall participate in the transaction, subject to Cornerstone's determination that participating in the transaction is not in the account's best interest for reasons such as:

- Lack of available cash
- Net exposure to holding, industry or sector is higher than desired
- Specific client restrictions, e.g., industry or sector limits

Cornerstone may invest in securities being offered in an initial public offering ("IPO" or "new issue"), if it determines that such an investment is desirable for one or more clients. In making this judgment, Cornerstone shall consider, among other things, a client's investment objectives, restrictions and tax circumstances; a client's tolerance for risk and high portfolio turnover; the nature, size and investment merits of the IPO; the size of a client's account and the client's cash availability and other holdings; and other current or expected competing investment opportunities that may be available for the account.

Sometimes the demand for new issues exceeds the supply, and the amount of certain new issues made available to Cornerstone may be limited. If Cornerstone is not able to obtain the total amount of securities needed to fill all orders, Cornerstone allocates the shares actually obtained on a pro rata basis. Based on the circumstances of the transaction, Cornerstone may establish a minimum lot size and then allocate pro rata accordingly. All such allocations are monitored to ensure that clients are treated fairly and equitably over time and that no clients are systematically disadvantaged.

#### **AGGREGATION OF TRADES**

Generally, trading orders are processed and executed in the order received by the trading desk. However, when Cornerstone purchases or sells the same securities for two or more accounts, Cornerstone may bunch orders where it deems this to be appropriate, in the best interests of clients and consistent with Cornerstone's fiduciary duties. We will not aggregate trades unless we believe that doing so is consistent with our duty to seek best execution for our clients.

With respect to our non-systematic investment strategies, it is primarily the trader's responsibility to determine whether aggregation is appropriate for orders sent to the trading desk. Generally, concurrently open orders with similar instructions will be aggregated. The following, however, are examples of situations where the trader may decide that aggregation is not appropriate:

- Commingled limit and market orders, unless the prices at which the market orders have been executed are at least as favorable as the limit price;
- Principal basket trades with limit or market orders with broker dealers;

- Subsequent to a principal basket trade being sent to brokers dealers for their bids, an order is placed for the same security or securities;
- Orders that are significantly smaller than concurrently open orders for the same security, if determined that aggregation would not be consistent with best execution (with respect to the small client) and that there is no indication of front-running or other suspicious activity;
- Orders with special instructions that differ from one another;
- Accounts within a strategy that are not substantially similar due to significantly different account sizes (making pro rata investment allocations not practical in certain circumstances, e.g., a very large account not being able to participate in small cap stock because the position in the company would be too large), investment limitations, and different restrictions related to portfolio characteristics such as leverage; and
- Trades executed for an account-specific reason, e.g. investing or raising cash, correction of a trade error. In these instances, compliance may be consulted or a portfolio manager may give specific instructions.

When we allocate bunched trades to client accounts, we follow procedures designed to provide reasonable assurance that we do not favor the interest of one client over another. We allocate aggregated orders to accounts pro-rata based on the size of each eligible account. Using this methodology, each account receives the average unit price and bears its pro-rata share of transaction costs. With respect to partial fills, if an order is placed for one or more clients on a particular day and that order is not fully completed, then at the end of the trading day the amount that did “fill” is treated as a completed transaction. The partially filled order is then allocated pro-rata by the trader to each account.

With respect to our systematic strategies, the portfolio management team determines aggregation based on considerations of best execution and the team’s view of what is in the best interests of the client account. For example, accounts will generally not be aggregated where doing so would have a negative effect on liquidity or too much market impact. Similarly, different leverage restrictions and different prime brokers for accounts within the same strategy will result in trades not being aggregated. Accounts in these strategies are generally traded consistent with a predetermined schedule once or twice a month or as cash flows dictate and sometimes in multiple tranches or sleeves.

There are theoretical risks related to not aggregating, including not receiving the potential benefit of lower costs related to “bigger” trades and that accounts with similar mandates may receive different execution prices because they are traded on different days. As a practical matter, such prices may be higher or lower than the prices achieved by the other account(s) in the strategy. However, given the systematic, model-driven portfolio management style and the close monitoring of performance and trading impact, the systematic portfolio management team has determined that this approach currently works best for the clients in the affected strategies.

For account rebalancing in the Large Cap Enhanced and Mid-Cap Core systematic investment strategies, the systematic portfolio management team aggregates accounts according to certain factors into one of several tranches (sleeves) and generally employs a trade rotation schedule that seeks to achieve efficient trading costs. The team will generally rotate trading so that each tranche is traded independently, beginning with the first tranche and ending with the last tranche and repeating this rotation as necessary in an effort to avoid positive or negative bias with respect to any one account. The team may also trade outside of the monthly rebalance cycle depending upon cash flows, portfolio positioning, and/or risk management decisions. The team's conducts daily scoring in an effort to create precision around monitoring and managing risk as well as flexibility in trading and rebalancing the portfolio.

#### **INTERNAL CROSS TRANSACTIONS AND PRINCIPAL TRANSACTIONS**

Internal cross transactions are trades between advisory client accounts. Principal transactions are trades between a client account and an account deemed owned by Cornerstone or its employees. It is Cornerstone's policy to prohibit principal transactions. Cornerstone reserves the right to effect cross transactions where Cornerstone has determined it is in the clients' best interest to do so. When coordinating cross trades, however, Cornerstone faces an inherent conflict, as two advisory client accounts represent both sides of the trade and the adviser generally has the ability to influence the price at which the trade occurs for both clients. As Cornerstone is typically able to locate the securities (both size and type) it desires for clients and in an effort to avoid this conflict, it is Cornerstone's policy generally not to engage in cross transactions on behalf of its client accounts.

#### **TRADE ERRORS**

On occasion, a mistake may occur in the execution of a trade. As a fiduciary, CCMH owes clients duties of loyalty and trust, and as such must treat trade errors in a fair and equitable manner. Errors may occur for a number of reasons, including human input error, systems error, communications error or incorrect application or understanding of a guideline or restriction. Examples of errors include, but are not limited to the following: buying securities not authorized for a client's account; buying or selling incorrect securities; buying or selling incorrect amounts of securities; and buying or selling in violation of one of our policies. In correcting trade errors, Cornerstone does not make the client account absorb any financial loss due to the trade error; use soft dollars or directed trades to fix the error; or attempt to fix the error using another client account. To the extent correction of the error results in a loss to the client's account, Cornerstone reimburses the account. To the extent correction of the error results in a gain to the client's account, Cornerstone allows the client to keep the benefit.

#### **OVERSIGHT OF TRADING PRACTICES**

A supervisor or his delegate reviews all Cornerstone trading activity to ensure that all trading has been conducted in accordance with the firm's policies and procedures. In all cases, accounts are subject to review by Compliance Personnel who monitor account trading on a daily basis with the assistance of the Charles River Development Trading System ("CRD"). CRD is our front-end trade order management and compliance system that incorporates pre-trade and post-trade compliance testing against account restrictions. Our Compliance Personnel review and investigate any alerts or breaches identified by the system.

Our Broker Review Committee also oversees our brokerage and trading practices as well as our soft dollar program. The Broker Review Committee typically meets on a quarterly basis and consists of portfolio managers, traders, research analysts, operations and compliance personnel. The Committee reviews the quality of services received from brokers taking into account factors such as coverage, research, and execution. Actual brokerage activity relative to the projected brokerage activity is reviewed and activity that is not consistent with the related projections is discussed. In addition, the Broker Review Committee, with the assistance of the portfolio managers, reviews each soft dollar service to confirm that the soft dollar commissions are reasonable in light of the value of services being provided.

### **ITEM 13: REVIEW OF ACCOUNTS**

#### **MONITORING**

Cornerstone continuously monitors all managed accounts in an effort to ensure that client objectives are being achieved. Each Cornerstone investment team has primary responsibility for reviewing the accounts it manages, including reviewing the appropriateness of portfolio holdings and transactions in light of each account's investment objectives, guidelines and restrictions.

Investment teams hold meetings frequently to discuss portfolio positions, strategies, trends and factors. In addition, Cornerstone's Investment Policy Committee generally conducts quarterly strategy reviews which usually involve a review of a variety of investment issues, including account performance versus portfolio benchmarks and performance dispersion.

#### **CLIENT REPORTING**

The content and frequency of client reports varies by client. Cornerstone typically discusses a client's reporting requirements as part of the contract negotiations. Generally the client's requirements are included in the investment management agreement signed by Cornerstone and the client. Our client reports typically include portfolio holdings, transaction and performance information, and may include information covering capital markets and portfolio outlook. Customized reporting is typically provided as frequently as desired by clients.



#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Please refer to the discussion related to use of client commissions in Item 12, “Brokerage Practices,” for information about other compensation.

Cornerstone and certain of its advisory affiliates have entered into a referral agreement to recommend clients to each other. Such agreement generally provides for the payment of a percentage of the first year’s net revenues received from the referred client. In connection with such a referral, the referring affiliate is required to disclose its affiliation to the referred adviser.

The prime broker of the private investment fund we sponsor and advise also offers Cornerstone opportunities to meet with potential investors as part of conferences or meetings it sponsors (commonly known as capital introduction services). To date we have not utilized these services. In addition, there is no current intention of offering interests private investment fund to third party investors. In the event that Cornerstone were to utilize these services, neither Cornerstone nor the fund would be charged a fee nor would they be obligated to provide any other form of consideration in connection with this service, and the prime broker would not be acting as a placement agent or underwriter for the fund. Cornerstone had used the prime broker previously before considering any capital introduction opportunities and we intend to continue to use the prime broker regardless of our use of capital introduction services, or their success, as long as we believe the prime broker is capable of providing the services necessary to fulfill our obligations to the fund. As such, any capital introduction services are not a factor in our continued use of the prime broker.

#### **ITEM 15: CUSTODY**

Cornerstone does not maintain custody of our separate account client assets, although Cornerstone is deemed by the applicable regulations to have custody of assets if clients give it authority to withdraw fees directly from their custodial accounts. Client assets must be maintained in an account at a qualified custodian; generally a broker dealer or bank. A custodian is appointed by each client to have possession of the assets of the account, settle transactions for the account and accept instructions from Cornerstone regarding the assets in the account, subject to certain procedural restrictions.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains their investment assets. We urge clients to carefully review such statements and compare such official custodial records to the account statements that Cornerstone may provide. Cornerstone statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation

methodologies of certain securities. Clients should contact us using the information on page 1 if they have any questions about their statements or if their qualified custodians stop sending them at least quarterly statements.

Cornerstone is deemed to have constructive custody of the assets of any private investment funds it manages for which it or an affiliate serves as general partner/trustee. We comply with the applicable regulatory requirements relating to such custody, including providing fund investors with annual audited financial statements.

#### **ITEM 16: INVESTMENT DISCRETION**

Cornerstone receives discretionary authority in the investment management agreement executed with the client at the outset of an advisory relationship. The accounts over which Cornerstone exercises investment discretion are generally subject to investment restrictions and guidelines developed in consultation with clients. These restrictions and guidelines customarily impose limitations on the types of securities that may be purchased and also generally limit the percentage of account assets that may be invested in certain types of securities. Additional policies may be set by a client's board or investment committee. Cornerstone is generally authorized to make the following determinations, consistent with the each client's investment goals and policies, without client consultation or consent before a transaction is effected:

- Which securities or other investments to buy or sell;
- The total amount of securities or other investments to buy or sell;
- The broker or dealer through whom securities are bought or sold;
- The commission rates at which securities or other investment transactions for client accounts are effected; and
- The price at which securities or other investments are to be bought or sold, which may include dealer spreads or mark-ups and transactions costs.

However, from time to time, Cornerstone may accept accounts for which it has discretionary authority to purchase securities for the account, but not to select broker-dealers for transactions. Cornerstone may also accept non-discretionary arrangements, where clients retain investment discretion with respect to transactions in the account. In these situations, the client's retention of discretion may cause the client to lose possible advantages that discretionary clients may derive from factors that result from our ability to act on its recommendations for those discretionary clients in a more timely fashion, such as the aggregation of orders for several clients as a single transaction.

Cornerstone may act as investment manager to other clients (including funds) now or in the future and each account's investment restrictions and guidelines may differ. All investment decisions for an account are made in accordance with the investment restrictions and guidelines of that account. Investment decisions for each account are made with a view to

achieving the account's investment objectives and after consideration of such factors as the account's current holdings, the current investment views of the portfolio manager, availability of cash for investment, and the size of the account's positions generally.

#### **ITEM 17: VOTING CLIENT SECURITIES**

Cornerstone has adopted a Proxy Voting Policy. This Policy is designed to ensure that all proxies are voted in the best interest of our clients without regard to our interests or the interests of our affiliates.

To assist us in researching and voting proxies, we have engaged Institutional Shareholder Services ("ISS") which is a third party proxy service provider. Where a client has contractually delegated proxy voting authority to us, we vote proxies in accordance with ISS' standard voting guidelines unless the client provides us with alternative guidelines. Alternative guidelines must be detailed in the client's investment advisory agreement.

There may be conflicts related to the voting of proxies, such as when we or one of our affiliates:

- Manages the issuer's or proponent's pension plan.
- Administers the issuer's or proponent's employee benefit plan.
- Provides brokerage, underwriting, insurance or banking services to the issuer or proponent.
- Manages money for an employee group.

Additional conflicts may exist if one of our executives is a close relative of, or has a personal or business relationship with:

- An executive of the issuer or proponent.
- A director of the issuer or proponent.
- A person who is a candidate to be a director of the issuer.
- A participant in the proxy contest.
- A proponent of a proxy proposal.

If a material conflict of interest is identified regarding proxy voting, it will generally be addressed in one of the following ways by the Investment Policy Committee:

- The proxy will be voted according to the proxy voting guidelines, provided that the proposal at issue is not one which the guidelines require to be considered on a case-by-case basis.
- In conflict situations which cannot be addressed using the guidelines, the Investment Policy Committee will follow the recommendation of ISS or

another third party proxy voting service if ISS is abstaining or being overridden (see below).

- If neither of the previous two procedures provides an appropriate voting recommendation, the Investment Policy Committee may obtain voting instructions from clients.

A portfolio manager can override an ISS voting recommendation if he/she believes it is in the best interest of our clients to vote otherwise. This override process is subject to the review and oversight of our Investment Policy Committee. If an override is requested in the case of a conflict, the Investment Policy Committee, or its designee, considers the facts and circumstances of the potential conflict, and determines how to vote consistent with the above considerations.

A copy of our Proxy Voting Policy and information as to how proxies, if any, were voted is available upon client request. Our contact information appears on the cover page of this brochure.

Clients for whom Cornerstone does not have proxy voting authority should ensure that they receive proxies and other solicitations from their custodian or transfer agent. Clients may contact Cornerstone with questions regarding a proxy solicitation.

#### **ITEM 18: FINANCIAL INFORMATION**

Registered investment advisers are required to provide certain financial information or disclosures about their financial condition. CCMH has no financial condition that impairs its ability to meet contractual commitments to clients, and has never been the subject of a bankruptcy proceeding.