

# Cornerstone Capital, Inc. Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of Cornerstone Capital, Inc. (“Cornerstone” or “the Company”). If you have any questions about the contents of this brochure, please contact us at 650-566-9650. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Cornerstone is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2:      Material Changes**

Since Cornerstone last filed its Form ADV Part 2A annual amendment in March 2018, Silvia Sandoval assumed the position of Chief Compliance Officer. Cornerstone notified the SEC of this change through its other-than-annual amendment filing with the SEC in August 2018.

### **Item 3: Table of Contents**

Item 2:	Material Changes .....	2
Item 3:	Table of Contents.....	3
Item 4:	Advisory Business .....	4
Item 5:	Fees and Compensation .....	4
Item 6:	Performance-Based Fees and Side-by-Side Management.....	4
Item 7:	Types of Clients.....	5
Item 8:	Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Item 9:	Disciplinary Information .....	5
Item 10:	Other Financial Industry Activities and Affiliations .....	5
Item 11:	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .	5
Item 12:	Brokerage Practices .....	6
Item 13:	Review of Accounts.....	8
Item 14:	Client Referrals and Other Compensation.....	8
Item 15:	Custody .....	8
Item 16:	Investment Discretion .....	9
Item 17:	Voting Client Securities.....	9
Item 18:	Financial Information .....	10

#### **Item 4: Advisory Business**

Cornerstone was founded in 1978 under the name Petersen, Flynn & Dinsmore, Inc and is primarily owned by Bradford Dinsmore, Mason Ford, and M. Bradford Branson. The Company changed its name to Cornerstone in February 2015. As of December 31, 2018, Cornerstone managed \$971,267,695 on a discretionary basis.

Cornerstone provides investment advice and management to separate managed accounts. Advisory services are generally limited to equity and fixed income management. All client assets are managed in a similar manner subject to the individual needs and restrictions placed on each client account.

#### **Item 5: Fees and Compensation**

Compensation provided to Cornerstone is negotiable at Cornerstone's discretion and varies, but typically, Cornerstone charges an annual fee of 1.0% of the value of a client account up to \$5 million; 0.7% of the value of a client account between \$5 million and \$20 million; and 0.4% of the value of the client account over \$20 million. Cornerstone charges a minimum annual fee of \$5,000 for investment management services. Certain nonprofit clients, sub-advised client accounts, and long-standing clients of Cornerstone may pay lower fees. Clients may select how they wish to pay Cornerstone for the advisory services. Cornerstone can directly debit advisory fees from the client's account or invoice the client for the advisory fee. Regardless of the method chosen, Cornerstone sends each client a statement showing the amount of assets in which the advisory fee is calculated along with the fee that has been debited from the client's account or due to Cornerstone.

Fees are typically paid in quarterly installments at the end of each calendar quarter based on the net market value of the client's account at the close of the market on the date the fee accrues and becomes payable. Regarding fixed income, price and accrued income may differ between the custodian and Cornerstone's portfolio management system, which may cause a variation in market value.

A client may terminate an individually managed account by giving 30 days' written notice. In most cases the pro-rata portion of the advisory fee owed through the date of termination are charged to the client.

Cornerstone may recommend that clients invest in mutual funds. All fees charged by Cornerstone for investment supervisory services will be separate and distinct from the fees and expenses charged by mutual funds to their investors. These fees and expenses are described in each mutual fund's prospectus. These fees will generally include a management fee, other expenses, and a possible distribution fee. Clients are also responsible for bearing all trading costs and custodial fees. For additional information about brokerage, please see the "Brokerage Selection" section of this brochure.

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

Cornerstone does not charge any performance-based fees.

## **Item 7: Types of Clients**

Cornerstone primarily provides customized investment management services to individuals, associated trusts, estates, or charitable organizations, pension and profit sharing plans, and other corporations or business entities.

Cornerstone generally requires a minimum investment of \$5 million to open a separately managed account. This minimum may be waived by Cornerstone at its discretion.

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

Cornerstone employs a capital preservation investment philosophy. The primary goal is to participate in rising markets while avoiding substantial market declines. Cornerstone conducts fundamental, technical, and cyclical analysis on all securities recommended for client accounts. The investment process incorporates researching and analyzing daily information on a macroeconomic and company specific level. Fundamental analysis combined with valuation discipline drives the decision-making process of when to take investment action. Cornerstone attempts to invest in fundamentally sound companies. All investments are made in the equity and fixed income securities of public, exchange-traded companies.

Individual investment decisions are based on the goals and objectives of each individual client. Cornerstone believes in proper diversification to achieve higher return with less risk. Certain clients are willing to take investment risks that others are not. Accordingly, Cornerstone is willing to hold relatively concentrated positions. However, we will hold enough individual securities in an account to diversify the majority of individual security risk. All investing, regardless of the risk tolerance involves risk of loss that clients should be prepared to bear. Performance could be hurt by a number of different market risks.

## **Item 9: Disciplinary Information**

Cornerstone and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

Cornerstone and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

To avoid any potential conflicts of interest involving personal trades, Cornerstone has adopted a Code of Ethics, which includes a Personal Securities Transaction Policy ("PST Policy") and insider trading policies and procedures. Cornerstone's Code of Ethics requires, among other things, that Employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of Cornerstone above one's own personal interests;

- Adhere to the fundamental standard that you should not take inappropriate advantage of your position;
- Avoid any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with the policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on yourself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve your professional competence and strive to maintain and improve the competence of other investment professionals.
- Comply with applicable provisions of the federal securities laws.

Cornerstone's employees are permitted to invest in the same securities that we recommend to clients. However, we require all employees to pre-clear personal securities transactions and report personal securities transactions on at least a quarterly basis to ensure that no employees are trading ahead of or otherwise placing trades personally to the detriment of Cornerstone's clients. Cornerstone also requires employees to provide Cornerstone with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which the employee has a direct or indirect beneficial interest.

A copy of Cornerstone's Code of Ethics is available upon request by calling 650-566-9650 or writing to Cornerstone at 200 Homer Avenue, Palo Alto, CA 94301.

## **Item 12: Brokerage Practices**

While Cornerstone generally utilizes the client-selected custodian to transact client transactions, Cornerstone may select the broker to be used and the commission rates to be paid. If Cornerstone selects a broker for any transaction or series of transactions, Cornerstone may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, order of call, offering to Cornerstone on-line access to computerized data regarding clients' accounts and other matters involved in the receipt of brokerage services. Cornerstone allows certain brokers to pay for certain research services, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports consultations, performance measurement data and the like (a "soft dollar" relationship). Cornerstone may pay a brokerage commission in excess of what another broker-dealer might charge for effecting the same transaction in recognition of the value of the brokerage, research and other services. In such a case, Cornerstone determines in good faith that such commission is reasonable in relation to the value of brokerage, research and other services provided by such broker-dealer, viewed in terms of Cornerstone's overall responsibilities to the portfolios over which Cornerstone exercise investment authority. Cornerstone receives an economic benefit because we do not have to produce or pay for the research, products or services. Cornerstone also has an incentive to select or recommend brokers to receive soft dollar products and services.

It should be noted that one account may pay higher brokerage commissions than are otherwise available or may pay more brokerage commissions based on account trading activity. In addition, some clients may direct Cornerstone to use a broker that does not provide soft dollar benefits to Cornerstone. Nevertheless, the research and other benefits resulting from the soft dollar relationships will benefit all accounts managed by Cornerstone and Cornerstone's operations as a whole. With respect to certain computer software used for both research/brokerage and non-research/brokerage purposes, Cornerstone will allocate the costs of such products between their research/brokerage and nonresearch/brokerage uses and will use soft dollars to pay only for the portion allocated to research/brokerage uses. Cornerstone's relationships with brokerage firms that provide soft dollar services to Cornerstone influence Cornerstone's judgment in allocating brokerage transactions for Cornerstone's clients, particularly to the extent that Cornerstone uses soft dollars to pay expenses it would otherwise be required to pay itself.

Cornerstone may place client's trades through the broker that refers the client to Cornerstone. Placing trades with a broker that refers clients to Cornerstone creates a conflict of interest in that Cornerstone has an incentive to refer its clients' brokerage business to brokers through which it might not otherwise transact. Cornerstone understands, however, and carefully complies with its fiduciary obligations to its advisory clients. All of Cornerstone's brokerage relationships are regularly reviewed to determine their competitiveness with industry standards.

If a client directs Cornerstone to use a specific broker, Cornerstone will not negotiate the terms and conditions (including, but not limited to, commission rates) relating to the services provided by such broker. Cornerstone will be limited in its ability to obtain the best prices or particular commission rates with any such broker. Thus, the client may not obtain rates as low as it might otherwise obtain if Cornerstone has discretion to select broker-dealers other than those chosen by the client. Additionally, the client may not participate in aggregated securities transactions, as described below. Notwithstanding whether or not a client has directed his/her brokerage to a specific broker, clients transacting in over-the-counter securities may pay an agency commission in addition to a markup or markdown on the security.

Cornerstone may aggregate sale and purchase orders for a client with similar orders being made contemporaneously for other accounts managed by Cornerstone or with accounts of affiliates of Cornerstone. In such event, the average price of all securities purchased or sold will be determined and a client will be charged or credited, as the case may be, the average transaction price. As a result, the price may be more or less favorable to the client than it would be if similar transactions were not being aggregated with other accounts.

Cornerstone may not aggregate securities sale and purchase orders for several reasons, including that it may not believe that such trades are advantageous for clients. Brokers may also limit Cornerstone's ability to place aggregate orders and directed brokerage arrangements may preclude it from aggregating orders. In any event, not aggregating securities purchase and sale orders may or may not have a negative net price impact on the overall execution of the order. However, clients generally would not receive the benefit of a reduced commission rate, which may be achieved when aggregating securities orders.

Cornerstone may occasionally be allocated the opportunity to purchase securities in public offerings for client accounts. These allocations are offered to Cornerstone in part as a result of its past usage of the various brokerage firms. Generally speaking, clients will not be eligible to participate in an

allocation of shares of a new issue if those new issue shares are provided by brokers other than the broker that is the custodian of the client's account. Cornerstone will allocate securities purchased in these offerings to eligible client accounts on a fair and equitable basis.

Because Cornerstone engages in an investment advisory business and manages more than one account, there may be conflicts of interest over Cornerstone's time devoted to managing any one account and the allocation of investment opportunities among all accounts managed by Cornerstone. Cornerstone will attempt to resolve all such conflicts in a manner that is generally fair to all of its clients. Cornerstone may give advice and take action with respect to any of its clients that may differ from advice given or the timing or nature of action taken with respect to any particular client. However, it is Cornerstone's policy, to the extent practicable, to allocate investment opportunities over a period of time on a fair and equitable basis relative to other clients. Cornerstone is not obliged to acquire for any account any security that Cornerstone and/or its officers, partners, members or employees may acquire for its or their own accounts or for the account of any other client, if in the absolute discretion of Cornerstone, it is not practical or desirable to acquire a position in such security for that account.

With respect to the timing of the placement of client transactions, Cornerstone's policy is to contact brokers on a systematic rotational basis to execute securities transactions in client accounts. For example, if Cornerstone were to trade in one security for multiple client accounts on the same day, Cornerstone generally does not prioritize contacting one broker/custodian over another when executing the transaction. Cornerstone contacts each of its clients' brokers on a rotational basis (directed or otherwise) in order to fill the allocations.

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

Accounts are regularly monitored and reviewed by the portfolio managers. The review considers the individual securities held, allocation of assets (i.e., fixed income, common stocks and cash) and a determination of whether the client's objectives are being met. Bradford W. Dinsmore, President, Mason W. Ford, Vice President, and M. Brad Branson, Vice President, manage accounts on a "team" basis. The managers are familiar with the goals and objectives of each of the accounts under management.

Clients are furnished a regular written report showing assets held, cost basis, current market and anticipated income, either on a monthly or quarterly basis. Clients also receive monthly statements directly from the independent account custodian.

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

Cornerstone does not directly or indirectly compensate any person for client referrals.

### **Item 15: Custody**

Cornerstone is deemed to have custody of your assets if you authorize us to instruct your independent custodian to deduct our advisory fees directly from your account. The custodian maintains actual custody of your assets. You will receive account statements directly from your custodian at least quarterly. Clients should carefully review the statements received from your custodian. You should also compare the account statements you receive from Cornerstone with those that you receive from your qualified custodian.



## **Item 16: Investment Discretion**

Subject to client investment guidelines and restrictions, Cornerstone typically has complete discretion over the selection and amount of securities to be bought or sold without obtaining specific client consent. Basic investment parameters are set during an initial client meeting and formally documented through an Arrangement Letter. Cornerstone is provided investment discretion through the execution of an Investment Advisory Agreement.

Cornerstone also provides investment advice and management on a non-discretionary basis.

## **Item 17: Voting Client Securities**

Among the services that Cornerstone provides is that we vote proxies on your behalf. Cornerstone generally votes proxies for its managed accounts. Clients should make reasonable efforts to instruct their custodian to promptly forward all proxy voting ballots to Cornerstone. Cornerstone will also make a reasonable effort to contact a custodian if Cornerstone believes that the custodian may not be appropriately sending relevant proxy ballots to Cornerstone. There may be situations when Cornerstone may not vote a proxy. For instance, Cornerstone may not receive or may receive proxy solicitation materials too late to be acted upon, or the cost of voting may outweigh the benefits of voting (e.g., Voting proxies with respect to Securities of foreign companies may involve greater effort and cost due to the variety of regulatory schemes and corporate practices in foreign countries. Each country may have its own rules and practices regarding shareholder notification, voting restrictions, registration conditions and share blocking). In such circumstances, Cornerstone shall not be required to vote such proxies if it is not practicable to do so, or if Cornerstone, in its sole discretion, determines that the potential costs involved with voting a proxy outweigh the potential benefit to a client portfolio. Cornerstone will vote proxies according to its proxy voting policies and procedures and Rule 206(4)-6 of the Advisers Act. Our policy is to vote your proxies in the interest of maximizing shareholder value. To that end, Cornerstone will vote in a way that it believes, consistent with its fiduciary duty, will cause the issue to increase the most or decline the least in value. Consideration will be given to both the short-and long-term implications of the proposal to be voted on when considering the optimal vote. Generally speaking, Cornerstone votes client proxies with management; however, substantial proxy issues are reviewed on a case-by-case basis and may cause alternative outcomes. Cornerstone may also elect to abstain from voting if it deems such abstinence in its clients' best interests. Unless instructed to do so by a client, Cornerstone generally will not participate in shareholder litigations, including, but not limited to, class-action lawsuits.

If Cornerstone determines that it is facing a material conflict of interest in voting your proxy (e.g., an employee of Cornerstone may personally benefit if the proxy is voted in a certain direction) that cannot be mitigated by adherence to its proxy voting policy, Cornerstone will communicate this fact to the affected client(s) and will put such votes back to the affected client(s).

Our complete proxy voting policy and procedures are in writing and available for your review. In addition, our complete proxy voting record is available to our clients, and only to our clients. Please contact Cornerstone if you have any questions or if you would like to review either of these documents.

**Item 18: Financial Information**

Cornerstone has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.