



## **Cornerstone Investment Advisors, LLC**

*a Registered Investment Advisor*

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**March 23, 2020**

### **Form ADV Part 2A Brochure**

This brochure provides information about the qualifications and business practices of Cornerstone Investment Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at: (303) 545-5400, or by email at: [info@cstoneinvest.com](mailto:info@cstoneinvest.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Additional information about Cornerstone Investment Advisors, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration does not imply any level of skill or training.

**Material Changes - Item 2**

This section of the brochure will be updated annually when material changes have occurred since the previous release of the firm Brochure.

On March 5, 2020, we submitted our annual updating amendment filing for fiscal year 2019. As part of the annual update, we amended Item 4 of our Form ADV Part 2A Brochure to disclose discretionary assets under management of approximately \$78,139,890, and non-discretionary assets under management of approximately \$75,761,291.

We review and update our brochure at least annually to make sure that it remains current.

Whenever you would like to receive a complete copy of our firm Brochure, please call us at: (303) 545-5400 or email us at: [info@cstoneinvest.com](mailto:info@cstoneinvest.com).

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**Advisory Business - Item 4**

**Firm Description**

Cornerstone Investment Advisors, LLC (Cornerstone) is an independent financial services firm that provides comprehensive financial planning and investment advisory services. Cornerstone has been in business since 2001.

The firm's compensation is solely from fees paid directly by clients. The firm does not receive commissions based on the client's purchase of any financial product, including insurance. No commissions in any form are accepted.

Assets under the direct management of Cornerstone are held by independent custodians, including Charles Schwab, Fidelity Investments, Pershing, Pensco Trust, National Advisors Trust Co. and others, in the client's name. Cornerstone Investment Advisors, LLC does not act as a custodian of client assets.

**Principal Owners**

The owners of Cornerstone are Dave Darmour, Dennis E. Channer, Jane W. Engel, Russ C. Rauhauser, and Thomas T. Yanari. These individuals are collectively identified as Associated Persons in the rest of this document.

**Types of Advisory Services**

Cornerstone provides services to individuals, families and their related entities, trusts and estates, banks or thrift institutions, pension and profit sharing plans, charitable organizations and small businesses.

**Financial Planning Services**

We offer broad based financial planning services regarding management of financial resources. Such management is based upon an analysis of the client's individual needs and begins with an initial complementary consultation. Once we collect and analyze all documentation, we provide a written financial plan designed to achieve the client's financial goals and objectives. In this way, Cornerstone assists the client in developing a strategy for the successful management of income, assets, and liabilities. In general, financial planning services may include any one or all of the following:

- Cash Flow Analysis – Assessment of a client's present financial situation by collecting information regarding net worth and cash flow statements, tax returns, insurance policies, investment portfolios, pension plans, employee benefit statements etc. The firm advises on ways to reduce risk, coordinate and organize records, and estate information.
- Retirement Analysis – Identification of a client's long-term financial and personal goals and objectives includes advice for accumulating wealth for retirement income or appropriate distribution of assets following retirement. Tax consequences and implications are identified and evaluated.
- Portfolio Analysis/Investment Planning – We provide investment alternatives, including asset allocation, and effect on a client's portfolio. We evaluate economic and tax characteristics of existing investments as well as their suitability for a client's objectives. We identify and evaluate tax consequences and their implications.
- Education Savings Analysis – Alternatives and strategies with respect to the complete or partial funding of college or other post-secondary education.
- Estate Analysis – We provide advice with respect to property ownership, distribution strategies, estate tax reduction, and tax payment techniques.

The recommendations and solutions are designed to achieve the client's desired goals, subject to periodic evaluation of the financial plan which may require revision to meet changing circumstances. Financial plans are based on a client's financial situation based on the information provided to the firm. We should be notified promptly of any change to a client's financial situation, goals, objectives, or needs.

Clients can also request financial planning services that cover a specific area, such as retirement or estate planning, asset allocation analysis, manager due diligence and 401(k) platform due diligence. We also offer financial planning consultations for an hourly fee.

You may choose to accept or reject our recommendations. If you decide to proceed with our recommendations, you may do so either through our investment advisory services or by using the advisory/brokerage firm of your choice.

### **Portfolio Management Services**

Our firm offers discretionary and non-discretionary portfolio management services to our Clients. Discretionary portfolio management means we will make investment decisions and place buy or sell orders in your account without contacting you. These decisions would be made based upon your stated investment objectives. Non-discretionary portfolio management service means that we must obtain your approval prior to making any transactions in your account.

Our investment advice is tailored to meet our clients' needs and investment objectives. If you decide to hire our firm to manage your portfolio, we will meet with you to gather your financial information, determine your goals, and decide how much risk you should take in your investments. The information we gather will help us implement an asset allocation strategy that will be specific to your goals, whether we are actively investing for you or simply providing you with advice.

Cornerstone mainly uses equity securities, exchange traded funds, mutual funds, U.S. government securities, corporate debt securities, commercial paper, municipal securities, certificates of deposit, covered options, and limited partnerships investing in real estate, oil, and gas in its portfolio management programs.

However we construct your investment portfolio, we will monitor your portfolio's performance on a continuous basis, and rebalance the portfolio whenever necessary, as changes occur in market conditions, your financial circumstances, or both.

### **Recommendation of Sub Advisors**

As part of our overall portfolio management strategy, we may use one or more sub-advisors to manage all or a portion of your account. All sub-advisors recommended by our firm must either be registered as investment advisors or exempt from registration requirements. These sub-advisors may specialize in private equity investments, private credit markets, hedge funds or other types of alternative investments. Factors that we take into consideration when making our recommendations include, but are not limited to, the following: the sub-advisor's performance, methods of analysis, fees, your financial needs, investment goals, risk tolerance, and investment objectives. We will periodically monitor the sub-advisor's performance to ensure its management and investment style remains aligned with your investment goals and objectives. We retain the right to hire and fire sub-advisors and the right to reallocate client assets to other model portfolios at the same sub-advisor.

#### **Selection of Third Party Investment Advisors**

Cornerstone has entered into agreements with various third party investment advisors for the provision of certain investment advisory services. Factors considered in the selection of a third party advisor include but may not be limited to: i) Cornerstone's preference for a particular third party advisor; ii) the client's risk tolerance, goals and objectives, as well as investment experience; and, iii) the amount of client assets available for investment. In order to assist clients in the selection of a third party advisor, an Associated Person of Cornerstone will typically gather information from the client about the client's financial situation, investment objectives, and reasonable restrictions the client wants imposed on the management of the account.

The third party advisor may customize the client's portfolio by blending traditional investment strategies with an allocation to asset classes. The investment strategy adopted by the third party advisor may embrace value, growth, or contrarian investing styles. Generally, securities transactions will be decided upon and executed by the third party advisor on a discretionary basis. This means that the manager selected will have the ability to buy and sell securities in your account without obtaining your approval. Cornerstone and its Associated Persons will not manage, or obtain discretionary authority over the assets in accounts participating in these programs; however, clients may grant Cornerstone the discretionary authority to hire and fire such third party managers. Generally, clients may not impose restrictions on investing in certain securities or types of securities in accounts managed by a third party advisor.

Associated Persons of Cornerstone will periodically review reports provided to the client. An Associated Person of Cornerstone will contact the client at least annually, or more often as agreed upon with each client, to review the client's financial situation and objectives, communicate information to the third party advisor managing the account as necessary, and to assist the client in understanding and evaluating the services provided by the third party advisor. Clients will be expected to notify Cornerstone of any changes in their financial situation, investment objectives, or account restrictions.

The third party advisor may offer wrapped or non-wrapped pricing options. Wrap pricing structures allow the client to pay an all-inclusive fee for management, brokerage, clearance, custody, and administrative services. In a non-wrap pricing structure, the third party advisor's fee may be separated from the advisory fee charged by Cornerstone. Transaction costs may also be charged for the execution and clearance of advisory transactions directed by such Third Party Advisory Services. A complete description of the programs and services provided, the amount of total fees, the payment structure, termination provisions and other aspects of each program are detailed and disclosed in: i) the third party advisor's Form ADV Part 2A; ii) the program wrap brochure (if applicable) or other applicable disclosure documents; iii) the disclosure documents of the portfolio manager(s) selected; or, iv) the third party advisor's account opening documents. A copy of all relevant disclosure documents of the third party advisor and of the individual portfolio manager(s) will be provided to anyone interested in these programs/managers.

#### **Pension Consulting Services**

Cornerstone provides several Defined Contribution and Defined Benefit consulting services separately or in combination. While the primary clients for these services will be pension, profit sharing and 401(k) plans, Cornerstone will also offer these services, where appropriate, to businesses, individuals, trusts, estates, and charitable organizations. Defined Contributions and Defined Benefit Consulting Services are comprised of four distinct services. Clients may choose to use any or all of these services.

**Investment Policy Statement Preparation**

Cornerstone will meet with the client (in person or over the telephone) to determine the client's investment needs and goals. Cornerstone will then prepare a written Investment Policy Statement ("IPS") stating those needs and goals and creating a policy to help achieve these goals. The IPS will also list the criteria for selection of investment vehicles and the procedures and timing interval for monitoring of investment performance.

**Selection of Investment Vehicles**

Cornerstone will review various investments, consisting of one or all of the following: individual equities, bonds, other investment products, and mutual funds (both index and managed) to determine which of these investments are appropriate to implement the client's Investment Policy Statement. The number of investments to be recommended will be determined by the client, based on the client's Investment Policy Statement.

**Monitoring of Investment Performance**

Client investments will be monitored continuously based on the procedures and timing intervals outlined in the Investment Policy Statement. Although Cornerstone will not be involved in any way in the purchase or sale of these investments, Cornerstone will supervise the client's portfolio and will make recommendations to the client as market factors and the client's needs dictate.

**Employee Communications**

For pension, profit sharing and 401(k) plans where the individual account participant exercises control over assets in his/her own account (hereinafter "self-directed plans"), Cornerstone also provides educational support and investment workshops designed for the Plan participants. The nature of the topics to be covered will be determined by Cornerstone and the client under the guidelines established in ERISA Section 404(c). The educational support and investment workshops will NOT provide Plan participants with individualized, tailored investment advice or individualized, tailored asset allocation recommendations.

Other pension consulting services are available on request. All of our pension consulting services, whether general or customized, will be outlined in an Agreement that shows the services that will be provided and the fees that will be charged for those services.

**Wrap Fee Programs**

Cornerstone does not participate in or manage a wrap fee program.

**Assets Under Management**

As of December 31, 2019, we manage discretionary assets under management of \$78,139,890 and non-discretionary assets under management of \$75,761,291.

**Fees and Compensation - Item 5**

Cornerstone charges a percentage of assets under management, hourly charges, and fixed fees (not including subscription fees). We may also receive third party referral fees for our advisory services.

**Financial Planning Fees**

Financial planning services are billed on an hourly basis, a fixed fee basis or by retainer. A financial services

agreement is prepared and signed by the client prior to the start of work.

Hourly rate billing is normally utilized when a client has requested a review or analysis of a specific project or situation; an example might be reviewing financing options for a business venture. Our maximum negotiable hourly rate is \$300 per hour. The number of hours for a financial planning engagement varies depending on the complexity of the client's situation and needs.

Broad based financial plans are generally offered on a fixed fee basis, which range from \$1,000 to \$10,000 depending on the complexity of the plan and the client's financial situation.

Hourly fees for financial planning services are billed at the completion of the engagement. Fixed fees are billed one-half in advance and one-half upon completion of the financial plan/project. Retainer fees or fixed period fees are billed according to client agreements.

A portion of a fixed fee may be billed in advance. If the client cancels Cornerstone's services before a project is completed or presented to the client, a portion of pre-paid fees will be refunded to the client if the value of the hours already expended is less than the amount of the prepaid fees.

#### **Portfolio Management Fee**

Annual fees for both assets under supervision and assets under management are calculated as a percentage of assets under supervision or management. The table below details the maximum fees charged by Cornerstone for each of these services. All fees are negotiable based on the client's circumstances and requirements. The fees for outside money managers vary greatly and are in addition to our supervisory fee.

	<b>Maximum Annual Supervisory Fee</b>	<b>Maximum Annual Management Fee</b>
Up to \$1,000,000	.90%	1.5%
Next \$1,000,000	.80%	1.4%
Next \$2,000,000	.70%	1.2%
Next \$6,000,000	.60%	1.0%
Over \$10,000,000	by proposal	by proposal

Investment supervisory and management fees are computed and billed every calendar quarter, in advance, based on the value of the account at the end of the previous quarter. For example, the fee for the 1st quarter is calculated using the account balance as of December 31.

Advisory fees for supervisory, management or planning services will be billed to the client directly or, with the client's permission, to the custodian utilized to hold the client's securities and deducted from the client's account. Some outside money managers will only deduct fees from a client's account and will not directly bill the client. All fee arrangements are disclosed to, and authorized in writing by the client in advance. In the event that a client withdraws their account from our management or supervision mid-quarter, the fees will be pro-rated based on the number of days the account was under our management and a refund will be issued to the client. The refund will either be issued as a credit to the client's brokerage account or a check will be written to the client.



**Third Party Advisor Fees**

Cornerstone will perform management searches of various independent registered investment advisors for referral to Cornerstone clients. Cornerstone will share in the fee paid to the third party advisor. The management fee is disclosed in the third party advisor's disclosure documents. These fees may or may not be negotiable. Cornerstone's compensation may differ depending upon the firm's individual agreement with each third party advisor. Cornerstone or its Associated Persons may have an incentive to recommend one third party advisor over another third party advisor with whom it has less favorable compensation arrangements or other advisory programs offered by third party advisors with which it has no compensation arrangements.

**Pension Consulting Services Fees**

The compensation arrangement for these services will be based on hourly fees, fixed fees and fees based on a percentage of assets under advisement. Pension consulting services will be negotiated on a case by case basis and the exact fee paid by the client will be clearly stated in the Pension Consulting Agreement signed by the client and the firm.

If you choose to have Cornerstone's fee deducted directly from your account, you must provide authorization. The qualified custodian holding your funds and securities will send you an account statement on at least a quarterly basis. This statement will detail account activity. Please review each statement for accuracy. Cornerstone will also receive a copy of your account statements from the custodian.

**Other Fees**

If a portion of a client account is invested in mutual funds or exchange traded funds (ETF's), the client should be aware that they are paying two separate and distinct advisory fees for this portion of the account. Cornerstone's advisory fee covers investment consulting and oversight (with respect to asset allocation, mutual fund selection, monitoring, etc.), while the mutual fund's or ETF's management fees cover the selection and acquisition of individual securities for the mutual fund or ETF. Mutual fund or ETF fees are taken from the fund's net asset value directly by the fund's management and, as a result, are reflected in the fund's published returns data.

Custodians may charge transaction fees on purchases or sales of certain mutual funds, stocks, bonds, and exchange-traded funds. These transaction charges are usually relatively small and are incidental to the purchase or sale of a security. In some cases, custodians also charge monthly, quarterly, or annual custody fees. Fees for custody are disclosed to clients when this type of arrangement is recommended. Clients can purchase most securities we recommend at custodians not affiliated with us.

Please see "Brokerage Practices" on Item 12 for more information.

**Performance-Based Fees and Side-By-Side Management - Item 6**

Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client. Cornerstone does not provide any services for performance-based fees.

#### Types of Clients - Item 7

Cornerstone provides advice to individuals, families, trusts and estates, bank or thrift institutions, pension and profit sharing plans, charitable organizations and small businesses. Client relationships vary in scope and length of service. Cornerstone does not impose a minimum dollar value of assets or other condition for opening or maintaining an account.

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

##### **Methods of Analysis**

The following are different methods of analysis that we may use when providing you with investment advice:

- Charting Analysis – this approach involves the gathering and processing of price and volume information for a particular security. This price and volume information is analyzed using mathematical equations. The resulting data is then applied to graphing charts, which is used to predict future price movements based on price patterns and trends.
- Fundamental Analysis – this approach attempts to determine a security's value by focusing on underlying factors that affect a company's actual business and its future prospects. The term refers to the analysis of the economic well-being of a financial entity as opposed to only its price movements.
- Tactical Analysis – this approach aims to take advantage of inefficiencies in asset pricing while avoiding overpriced assets. Tactical Analysts believe that making periodic changes in the amounts invested within different asset classes can enhance investment returns and reduce risk.
- Cyclical Analysis – this is a type of technical analysis that involves evaluating recurring price patterns and trends.

Numerous sources of information are employed by Cornerstone including Morningstar Principia, Standard & Poor's and various internet web-sites. The principals of Cornerstone also attend meetings with fund and portfolio managers, conference calls, continuing education seminars, and industry conferences.

##### **Investment Strategies**

The investment strategy for a specific client is based upon the objectives, income needs, risk tolerance, and tax situation stated by the client during consultations. The client may change these objectives at any time. Each client portfolio is constructed solely for that client.

The primary investment strategy we use is strategic asset allocation based on Modern Portfolio Theory. It consists of allocating portions of a client's portfolio to various asset classes in order to develop an optimal portfolio to meet a client's financial objectives. An optimal portfolio is the asset allocation which, given the client constraints, is intended to meet specified objectives with minimum risk or volatility.

Portfolios are generally globally diversified to minimize the risk or volatility associated with traditional markets. We may recommend unrelated, third party investment managers who have a greater expertise in certain disciplines when appropriate for the client. The types of investments we utilize include actively and passively managed mutual funds, exchange-traded funds, stocks (US and foreign), various types of bonds and certificates of deposit, US government securities, structured notes, futures, options and private investment partnerships.

Each Associated Person of Cornerstone manages his or her client accounts in accordance with their individual management styles and asset allocation models. Client should note that their account composition and performance may vary greatly from one Associated Person to another.

#### **Risks of Loss**

**Investing in securities involves risk of loss that you should be prepared to bear.**

#### **General Investment Risk**

All investments come with the risk of losing money. Investing involves substantial risks, including complete possible loss of principal plus other losses and may not be suitable for many members of the public. Investments, unlike savings and checking accounts at a bank, are not insured by the government to protect against market losses. Different market instruments carry different types and degrees of risk and you should familiarize yourself with the risks involved in the particular market instruments in which you intend to invest.

#### **Loss of Value**

There can be no assurance that a specific investment will achieve its investment objectives and past performance should not be seen as a guide to future returns. The value of investments and the income derived may fall as well as rise and investors may not recoup the original amount invested. Investments may also be affected by any changes in exchange control regulation, tax laws, withholding taxes, international, political and economic developments, and government, economic or monetary policies.

#### **Interest Rate Risk**

Fixed income securities and funds that invest in bonds and other fixed income securities may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, and their prices fall when interest rates rise. Longer term debt securities are usually more sensitive to interest rate changes.

#### **Credit Risk**

Investments in bonds and other fixed income securities are subject to the risk that the issuer(s) may not make required interest payments. An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security may also offset the security's liquidity, making it more difficult to sell. Funds investing in lower quality debt securities are more susceptible to these problems and their value may be more volatile.

#### **Foreign Exchange Risk**

Foreign investments may be affected favorably or unfavorably by exchange control regulations or changes in exchange rates. Changes in currency exchange rates may influence the share value, the dividends or interest earned and the gains and losses realized. Exchange rates between currencies are determined by supply and demand in the currency exchange markets, the international balance of payments, governmental intervention, speculation, and other economic and political conditions. If the currency in which a security is denominated appreciates against the US Dollar, the value of the security will increase. Conversely, a decline in the exchange rate of the currency would adversely affect the value of the security.

#### **Risks Associated with Investing in Options**

Transactions in options carry a high degree of risk. A relatively small market movement will have a proportionately

larger impact, which may work for or against the investor. Placing certain orders, which are intended to limit losses to certain amounts, may not be effective because market conditions may make it impossible to execute such orders. Selling an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obliged either to settle the option in cash or to acquire or deliver the underlying investment. If the option is "covered" by the seller holding a corresponding position in the underlying investment or a future on another option, the risk may be reduced.

**Mutual Funds and Exchange Traded Funds (ETFs) Risk**

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

The investment advice provided along with the strategies suggested by Cornerstone will vary depending on each client's specific financial situation and goals. The section above does not disclose all of the risks and other significant aspects of investing in financial markets. In light of the risks, you should fully understand the nature of the contractual relationship(s) into which you are entering and the extent of your exposure to risk. Certain investing strategies may not be suitable for many members of the public. You should carefully consider whether the strategies employed will be appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

**Disciplinary Information - Item 9**

Cornerstone is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Cornerstone does not have any required disclosures to this Item.

#### **Other Financial Industry Activities or Affiliations - Item 10**

David Darmour and Dennis E. Channer, Members of Cornerstone, are part of the ownership group of TFA Holdings, LLC, a Colorado company that facilitates structuring and implementation of customized trustee relationships for trust grantors and/or beneficiaries. This arrangement represents a conflict of interest due to the potential receipt of dual forms of compensation.

Dennis E. Channer, Member of Cornerstone, and Dana Edwards, Investment Adviser Representative, are licensed insurance agents in the State of Colorado, and sell various insurance products for compensation. Clients should be aware that a conflict of interest is inherent in such an arrangement. Fees charged for advisory services are separate and distinct from commission earned by Mr. Channer or Ms. Edwards for insurance sales. Clients of Cornerstone are not required to purchase insurance products from Mr. Channer or Ms. Edwards.

David Darmour and Thomas Yanari, Members of Cornerstone, own a minority interest in a savings and loan holding company, National Advisors Holdings, Inc ("National Advisors Holdings") that has formed a federally chartered trust company, National Advisors Trust Company, FSB ("National Advisors Trust Company"). National Advisors Holdings and National Advisors Trust Company are regulated by the Office of the Comptroller of the Currency, a bureau of the U.S. Treasury Department. The trust company provides a low cost alternative to traditional custody and trust service providers and Cornerstone refers clients to National Advisors Trust Company. We will recommend that clients use the services of National Advisors Trust Company if appropriate and suitable for their needs. National Advisors Trust Company provides such services to other registered investment advisors whose related persons are shareholders in National Advisors Holdings, Inc. Our advisory services are separate and distinct from the compensation paid to National Advisors Trust Company for their services. Clients are under no obligation to use National Advisors Trust Company.

#### **Recommendation of Other Advisors**

We may recommend that you use a third party advisor as part of our asset allocation and investment strategy. Cornerstone will share in the compensation received by the third party advisor for managing your account. The compensation arrangement presents a conflict of interest due to a financial incentive to recommend the services of the third party advisor. You are not required to use the services of any third party advisor we recommend.

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

##### **Code of Ethics**

Cornerstone has a Code of Ethics which is outlined in our company compliance manual. All owners and employees are expected not only to comply with the code, but also to live up to the broader spirit of the code. The general principles of the code include integrity, objectivity, competence, and fairness in work that is performed on behalf of Cornerstone. All client information is to be kept strictly confidential. All owners and employees are expected to act professionally and exercise diligence in their work. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

##### **Participation or Interest in Client Transactions**

On occasion, Cornerstone, or its owners/employees, may trade securities in their own accounts that Cornerstone recommends to clients for their accounts. There is no conflict of interest with this activity as the securities in question are widely held and publicly traded, with trading volumes of owners/employees too small to affect the market. Additionally, Cornerstone and its owners/employees always place client interests above their own.

The Chief Compliance Officer of Cornerstone is Jane W. Engel. She reviews all employee trades each quarter. Her personal trades are reviewed by another principal. The personal trading reviews ensure that the personal trading of employees is not based on inside information and that the best interests of clients of the firm are prioritized.

#### Brokerage Practices - Item 12

##### **Selecting Brokerage Firms**

Cornerstone may recommend that clients establish brokerage accounts with certain institutional brokerage companies ("custodian/s") in order to maintain custody of clients' assets and to effect trades for their accounts. Although Cornerstone may recommend a specific custodian, it is the client's decision to establish an account at a particular custodian. However, there may be additional costs to the client depending on their selection of a custodian. Cornerstone is independently owned and operated and not affiliated with any of the recommended custodians.

For all managed investment accounts, the client is free to select any broker or custodian the client wishes. If the client requests a broker or custodian recommendation, the client will receive a recommendation based on the broker/custodian's costs, skills, reputation, dependability and compatibility with the client, and never upon a financial arrangement between Cornerstone, or its owners/employees, and the recommended broker or custodian.

Some outside money managers that we work with do have limited custodian options and may request that a client establish a brokerage account with a certain brokerage company. Cornerstone does not receive any benefits from the selected custodian.

The recommended custodians provide Cornerstone with access to their institutional trading and custody services, which are typically not available to retail brokerage customers. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them if they maintain a certain level of client assets with their brokerage institution. Cornerstone recommends custodians based upon factors relevant to the client's best interests and never on the total amount of assets placed with the custodian. Custodian services include the execution of securities transactions, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

##### **Research and Other Soft Dollar Benefits**

Custodians generally do not charge separately for custodial services but may be compensated by account holders through commissions and other transaction-related or asset-based fees for certain transactions that are executed through them or that settle into client accounts held there.

Custodians may also make available to Cornerstone other products and services that benefit Cornerstone but may

not directly benefit its clients' accounts. These products and services include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of Cornerstone's fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Custodians may also offer other services intended to help Cornerstone manage and further develop its business enterprise. These services may include: (i) compliance, legal and business consulting (ii) publications and conferences on practice management and business succession, (iii) access to employee benefits providers, human capital consultants and insurance providers. They may make available, arrange, and/or pay third-party vendors for the services rendered to Cornerstone. The custodian may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Cornerstone. They may also provide other benefits such as educational events or occasional business entertainment of Cornerstone personnel. In evaluating whether to recommend or require that clients custody their assets at a particular custodian, Cornerstone may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely the nature, cost or quality of custody and brokerage services provided, which may create a potential conflict of interest.

#### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

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

#### **Review of Accounts**

Transactions and balances are reviewed at least monthly for all managed and supervised accounts. Investment policy and strategy are reviewed quarterly or more often if necessary. All accounts are reviewed by the primary investment advisor assigned to the account including Dennis E. Channer, David Darmour, Jane W. Engel, and Russ C. Rauhauser. They review the consistency of the asset allocation with the investment policy statement and suitability of individual securities.

The frequency of review meetings with clients is individually negotiated with each client and may be quarterly, semi-annually, annually or on another frequency established by the client.

#### **Review Triggers**

Account reviews for Cornerstone clients are performed more frequently when market conditions dictate, or when a client's objectives change. A review may be triggered by client request, changes in market condition, new information about an investment, changes in tax laws, or other important changes.

#### **Regular Reports**

All clients receive account statements from their asset custodian based on that custodian's reporting schedule (usually monthly). Clients will also receive a periodic portfolio performance report from Cornerstone if one is requested as stated in the client services agreement.

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

Cornerstone has received client referrals from current clients, estate planning attorneys, accountants, personal friends and other sources. Cornerstone may pay individuals or organizations for client referrals. Such arrangements will comply with the requirements set forth in Rule 206(4)-3 of the Investment Advisers Act of 1940, including the requirement that the relationship between the solicitor and the investment advisor be disclosed to the Client at the time of the solicitation or referral. In addition, all applicable state laws will be observed. Under these arrangements, the Client does not pay higher fees than Cornerstone's normal/typical advisory fees.

#### **Recommendation of Other Advisors**

We may recommend that you use a third party advisor as part of our asset allocation and investment strategy. Cornerstone will share in the compensation received by the third party advisor for managing your account. The compensation arrangement presents a conflict of interest due to a financial incentive to recommend the services of the third party advisor. You are not required to use the services of any third party advisor we recommend.

#### Custody - Item 15

Cornerstone is deemed to have custody of client funds because of the fee deduction authority granted by the client and in certain situations where we accept standing letters of authorization from clients to transfer assets to third parties.

Clients will receive account statements at least quarterly from the broker-dealer or other qualified custodian. Clients are urged to review custodial account statements for accuracy.

#### Investment Discretion - Item 16

Cornerstone offers Portfolio Management Services primarily on a discretionary basis. Clients must grant discretionary authority in the Advisory Agreement. Discretionary authority extends to the types and amounts of securities to be bought and sold in client accounts. Apart from the ability to instruct the custodian to withdraw advisory fees from client accounts, Cornerstone does not have the ability to withdraw funds or securities from client accounts.

In a non-discretionary account, Cornerstone recommends the purchase or sale of securities for review and approval by the client. Cornerstone will only purchase or sell securities which have been approved by clients in advance.

If you wish, you may limit our discretionary authority by, for example, setting a limit on the type of securities that can be purchased for your account. Simply provide us with your restrictions or guidelines in writing. Please refer to the "Advisory Business" section in this Brochure for more information on our discretionary management services.



#### Voting Client Securities - Item 17

##### **Proxy Voting**

As a matter of policy Cornerstone does not vote proxies. However, certain clients have instructed the firm to vote proxies on their behalf and the firm has accepted this authorization. In these situations, Cornerstone will determine how to vote proxies based on its reasonable judgment that the vote will produce favorable financial results for its Clients. Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders; proxy votes generally will be cast against proposals having the opposite effect. However, Cornerstone will consider both sides of each proxy issue. Consistent with Cornerstone's paramount commitment to the financial investment goals of its Clients, social considerations will not be considered absent contrary instructions by a Client.

Conflicts of interest between Cornerstone or a principal of the firm and the firm's Clients in respect of a proxy issue conceivably may arise, for example, from personal or professional relationships with a company or with the directors, candidates for director, or senior executives of a company that is the issuer of Client securities. If the Chief Compliance Officer determines that a material conflict of interest exists, the following procedures shall be followed:

- a) Cornerstone may disclose the existence and nature of the conflict to the Client(s) owning the Client securities, and seek directions on how to vote the proxies;
- b) Cornerstone may abstain from voting, particularly if there are conflicting Client interests (for example, where Client accounts hold different Client securities in a competitive merger situation); or
- c) Cornerstone may follow the recommendations of an independent proxy voting service in voting the proxies.

Cornerstone keeps certain records required by applicable law in connection with its proxy voting activities for Clients and it shall provide proxy-voting information to Clients upon their written or oral request. A copy of Cornerstone's proxy-voting policies is available to Clients upon request.

#### Financial Information - Item 18

Cornerstone does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Cornerstone is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Cornerstone has no disclosures pursuant to this Item.

#### Requirements of State-Registered Advisers - Item 19

**This section is not applicable because our firm is SEC registered.**