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FINANCIAL ADVISORS

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Capstone Financial Advisors, Inc.

Form ADV Part 2A | Dated March 30, 2022

This brochure provides information about the qualifications and business practices of Capstone Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 630-241-0833 or rich.marks@capstone-advisors.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 Capstone Financial is also available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 109341.



Item 2 Material Changes

This Firm Brochure, dated March 30, 2021, is our disclosure document prepared according to the Securities and Exchange Commission's ("SEC") requirements and rules applicable to registered investment advisers. As you will see, this document is a narrative providing detailed information regarding our firm, its practices, fees, actual and potential conflicts of interest and key mitigating circumstances, policies and controls.

Consistent with SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

Since our last annual update was filed, the material change to our disclosure brochure is:

In item 5, "Fees and Compensation" of this brochure we added additional wording to state that supervised persons are eligible to receive variable compensation based upon discretionary and non-discretionary factors.



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Item 4 Advisory Business

Capstone Financial Advisors, Inc. (hereinafter “Capstone Financial”) is an SEC-registered investment adviser with its principal place of business located in Downers Grove, Illinois. Capstone Financial began conducting business in 1999. Capstone Financial’s principal shareholder (i.e., those individuals and/or entities controlling 25% or more of this company) is Troy Bute, President and Chief Compliance Officer.

Capstone Financial offers the following advisory services to our clients:

Portfolio Management Services

Capstone Financial provides Portfolio Management Services to clients regarding the investment of client assets based on the individual needs of the client. Portfolio Management Services generally include an evaluation of the client’s current investment strategy, including the allocation of assets among asset classes, recommended changes in the allocation of assets, and the selection of appropriate investments or sub-advisers to implement an agreed allocation.

Through the use of detailed discussions and interviews, we establish the client’s investment goals and objectives and we create and manage a portfolio based on the client’s particular circumstances. Among other things, we generally determine the client’s individual financial objectives, time horizons, risk tolerance, and liquidity needs during the information-gathering process. As appropriate, we also review and discuss a client’s prior investment history, as well as family composition and background.

We manage client advisory accounts on both a discretionary basis and nondiscretionary basis, according to client preference. Account supervision is guided by the client’s stated objectives as well as tax considerations.

Portfolios most typically will consist of no load or load-waived mutual funds, exchange-traded funds (ETFs), individual equities, and individual bonds (including corporate debt securities, commercial paper, certificates of deposit, municipal securities and United States governmental securities). Depending on the client’s particular circumstances, we provide advice with respect to variable life insurance, variable annuities, options contracts on securities, and interests in partnerships investing in real estate or oil and gas interests, which could also be included in a client’s portfolio. Mutual funds, ETFs and other securities are selected on the basis of any or all of the following criteria as they relate to the security or its underlying index: performance history; industry sector; track record; investment objectives; composition and focus and fee structure and expenses.

Sub-advisers. To provide clients with additional diversification or specific expertise in a particular asset class, Capstone Financial has conducted due diligence on one or more independent registered investment advisers and in some instances, has entered into a written sub-advisory agreement with such sub-advisers, as appropriate, to directly manage a portion of our clients’ portfolios. In other circumstances, we have recommended that clients directly engage these independent registered investment advisers to manage a portion of the client’s account subject to our supervision. Under these circumstances, we generally request that the client grant us the written authority to engage, monitor and terminate the adviser as we deem appropriate for the client’s financial circumstances.



Sub-advisers are selected primarily based on expertise in one or more asset classes, investment style, and performance.

We will allocate the client's assets among various investments taking into consideration the overall management style preferred by the client. Portfolio weightings between funds, other securities and/or sub-advisers, as well as market sectors, will be determined by each client's individual needs and circumstances.

Clients often hold significant legacy assets which we will consider in determining the overall allocation and diversification of the client's portfolio, but which the client does not intend for us to liquidate. These clients should note that such assets are normally included in the total value of the account upon which we will calculate our Portfolio Management Fee.

In order to ensure that our initial allocation and management of the client's portfolio continues to be suitable for the client's financial circumstances, we will seek to maintain client suitability information current at all times. To assist us in these efforts, we ask that clients notify us promptly of any change in their financial circumstances. Clients may place reasonable restrictions on the types of investments which will be made on their behalf. Clients retain individual ownership of all portfolio securities.

Amount of Managed Assets. As of 12/31/2021, we were actively managing \$2,091,903,894 of clients' assets on a discretionary basis and \$7,059,803 on a non-discretionary basis. Total assets under management are \$2,098,963,697.

Financial Planning Services

Investment advice is most commonly provided as part of an overall financial planning service. In fact, depending on the client's particular circumstances, we typically recommend that the client begin an engagement of Capstone Financial through a financial planning process to establish clear objectives, prioritize goals related to wealth management, and to establish risk tolerance. Our approach to financial planning is based on the six step process laid out by the CFP® Board of Standards: 1) Establishing and defining the client-planner relationship, 2) Gathering client data, including goals, 3) Analyzing and evaluating financial status, 4) Developing and presenting financial planning recommendations and/or alternatives, 5) Implementing financial planning recommendations, and 6) Monitoring financial planning recommendations. We take a modular approach to financial planning whereby we prioritize necessary action items and address the highest priority items first.

In general, our planning will address any or all of the following areas of concern:

- ***Personal:*** Family records management and financial objective determination and prioritization.
- ***Education:*** Education savings tools, financial aid review, and general assistance in preparing to meet dependents continuing educational needs through development of an education plan.
- ***Tax & Cash Flow:*** Income tax and spending analysis and planning for past, current and future years. Various clients may require us to provide tax preparation services. Depending on the type of client Capstone may charge a fee for these services.



- **Insurance:** Assessment of needs for life, long term care, property and casualty, and liability protection
- **Death & Disability:** Cash needs at death, income needs of surviving dependents, disability income analysis, and general estate planning and wealth transfer planning.
- **Retirement:** Analysis of current accumulation strategies and investment plans to help the client achieve stated retirement goals.
- **Investments:** Analysis of investment alternatives and their effect on a client's portfolio.

We gather required information through in-depth personal interviews, addressing the client's current financial status, future goals and attitudes towards risk. Related documents supplied by the client are carefully reviewed. Discussions are often coordinated with other advisors, including attorneys, accountants, investment managers, lenders, insurance agents, etc.

Should a client choose to implement our recommendations, Capstone Financial suggests the client allow us to work closely with his/her other professional advisors to help guide the implementation process. Implementation of financial planning recommendations is entirely at the client's discretion.

Financial planning recommendations are not limited to any specific product or service offered by a broker dealer or insurance company.

Pension Consulting Services

Capstone Financial also provides Pension Consulting Services to clients. While the primary clients for these services will be pension, profit sharing and 401(k) plans, we may also offer these services, where appropriate, to individuals and trusts, estates and charitable organizations. Pension Consulting Services generally consists of the following distinct yet bundled advisory services. These services may also be provided separately.

- **Investment Policy Statement Preparation (hereinafter referred to as "IPS").** Capstone Financial will meet with the client (in person or over the telephone) to determine the client's investment needs and goals. Capstone Financial will then help the client prepare a written IPS stating those needs and goals and encompassing a policy under which these goals are to be achieved. 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.** Capstone Financial will review various investments, consisting primarily of mutual funds (both index and managed) to determine which of these investments are appropriate to implement the client's IPS. The number of investments to be recommended will be determined by the client, based on the Investment Policy Statement.
- **Monitoring of Investment Performance.** Client investments will be monitored continuously based on the procedures and timing intervals delineated in the Investment Policy Statement. Although Capstone Financial will not be involved in any way in the purchase or sale of these investments, Capstone Financial 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) plan clients wherein there are individual accounts with participants exercising control over assets in their own account ("self-directed plans"), Capstone Financial also provides educational support and investment workshops as necessary as designed for the Plan participants. The nature of the topics to be covered will be determined by Capstone Financial 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.

Item 5 Fees and Compensation

Portfolio Management Services Fees

As of January 1, 2020, the annual fee for portfolio management services will be charged as a percentage of assets under management, according to the following schedule:

<u>Assets under Management</u>	<u>Annual Fee (%)</u>
On the first \$2,000,000	1.00%
Next \$2,000,000	0.75%
Next \$2,000,000	0.60%
On amounts over \$6,000,000	0.50%

Clients will be invoiced or their account directly debited, as authorized, in advance at the beginning of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter. Fees will not be adjusted based on additions and withdrawals during the calendar quarter.

We generally require a minimum account size of \$1,000,000 of assets under management for this service. This minimum account size and the above fee schedule may be negotiable under certain circumstances. Client facts, circumstances and needs may be considered in negotiating and determining the fee schedule for a particular client. These include the complexity of the client's circumstances, assets to be placed under management, anticipated future additional assets, related accounts, portfolio style, account composition, and reporting required, among other factors. The specific annual fee schedule will be identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

All Capstone supervised persons are eligible to receive variable compensation based on discretionary and non-discretionary factors. This variable compensation structure creates a financial incentive for certain Capstone supervised persons to recommend certain services over other advisory services or increase the firm's assets under management. Capstone maintains and enforces policies reasonably designed to identify, disclose and minimize these conflicts of interest. Neither the Capstone supervised persons nor the investment advisors who deliver advice are compensated for or on the basis of any recommendation or purchases/sales of specific securities.



Financial Planning Services Fees

For those clients who do not require the continuous investment management services of Capstone, or who desire financial planning without portfolio management, fees are generally charged based upon a fixed quarterly retainer or, in limited circumstance, hourly rates.

Fixed fee engagements generally range from **\$6,000 to \$100,000**, depending on the particular situation and the scope of services performed.

Hourly rates generally vary between **\$150 and \$300** depending on the type of services performed, the employees providing the service, the individual circumstances of each client, the estimated time required to complete the project, as well as the scope of the engagement.

The minimum fee for financial planning is **\$6,000**. Annual renewal fees for ongoing financial planning may be adjusted for subsequent years at Capstone's discretion. Under certain circumstances, fees may be negotiable. Clients may also be required, as agreed, to reimburse Capstone for any out-of-pocket expense incurred, such as travel expenses, if any. These charges are usually invoiced quarterly, in arrears.

For large projects or at client request, Capstone will provide the client with an estimate prior to beginning work.

Pension Consulting Services Fees

Capstone Financial offers several fee options to Pension Consulting Services clients. We may be compensated based on an annual percentage of plan assets for services involving ongoing reviews or based on an hourly fee or fixed fee.

The annual fee may range from **0.10% to 1.00%** of plan assets depending on the services requested and the size of the plan. Plan sponsors will be invoiced in advance at the beginning of each calendar quarter or semi-annually as agreed to at the start of the relationship. Fees will be based upon the value of the plan at the end of the previous period. Fees will not be adjusted based on additions and withdrawals during the calendar quarter.

Capstone Financial's hourly charges range from **\$150 and \$300** per hour. A fixed fee may be quoted based on an estimate of hours for the services requested. Capstone Financial may request a retainer for hourly and fixed fee arrangements. The amount of a requested retainer will never exceed the fee for services to be provided within the first six months of an engagement.

These different types of fees may also be combined as appropriate for the different types of services requested by the client. A total minimum fee of **\$5,000** is required. This minimum fee may prevent Capstone Financial from providing services to very small ERISA plans.



General Information

Other Fee Schedule: Certain family members and personal acquaintances of our affiliated persons may receive advisory services at a discounted rate which is not available to advisory clients generally. In addition, certain existing clients may have engaged us under previously applicable fee schedules which may be lower than those disclosed above. These legacy fee schedules are no longer available to clients generally.

Tax Preparation: Capstone will charge a variable fee for tax related services. The fee will depend on the complexity of the clients return(s). The exact fee is agreed upon by Capstone and the client prior to completion of services.

Termination of the Advisory Relationship: A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

Fund Fees: All fees paid to Capstone Financial for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds, exchange-traded funds (ETFs), and sub-advisers. These fees and expenses are described in each fund's prospectus or in each sub-advisory agreement. For mutual funds and ETFs, these fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. When there are multiple share classes of the same fund, we will generally make every effort to employ the lowest cost share class when available. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Additional Fees and Expenses: In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

Advisory Fees in General: Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or different fees.

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

Capstone Financial does not charge performance-based fees to any client.



Item 7 Types of Clients

Capstone Financial provides advisory services to individuals, including high net worth individuals, pension and profit-sharing plans, trusts, charitable organizations, corporations and other businesses. As previously disclosed in Item 5, our firm has established certain initial minimum account size requirements for initiating and maintaining an account with us, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

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

Methods of Analysis and Associated Risks

Our investment approach has three core components: 1) Asset class decisions, or the appropriate mix of cash, bonds, stocks, and other assets classes, take precedence in our portfolio structuring process, 2) underlying portfolio cost considerations are an important determination in the overall success of investment experience, and 3) the proper positioning of certain asset classes or specific investment holdings can enhance tax efficiency of an investment portfolio, leading to a better overall investor return expectation. We use the following methods of analysis in formulating our investment advice and/or managing client assets:

Mutual fund and/or ETF analysis. Generally, we consider the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We review the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in other funds in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful in the past, is not guaranteed to be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client can purchase the same security, increasing the concentration risk to the client if that security were to fall in value. There is also a risk that a manager can deviate from the stated investment mandate or strategy of the fund or ETF, which could make the fund or ETF less suitable for the client's portfolio.

Sub-adviser analysis. Generally, when selecting an independent third-party investment manager to directly manage any portion of a client's assets, we examine the experience, expertise, investment philosophies, and past performance of the manager in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We monitor the manager's underlying holdings, strategies, concentrations and leverage as part of our overall periodic risk assessment. Additionally, as part of our due-diligence process, we survey the manager's compliance and business enterprise risks.



A risk of investing with a third-party manager who has been successful in the past is that the manager may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a third-party manager's portfolio, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for our clients. Moreover, as we do not control the manager's daily business and compliance operations, it is possible for us to miss the absence of internal controls necessary to prevent business, regulatory or reputational deficiencies.

Additional comments related to mutual funds, ETF, and sub-adviser analysis. When employing the use of mutual funds, ETFs, and sub-advisers, Capstone Financial has stated in-depth ***quantitative review criteria*** across various areas (absolute and relative performance metrics, costs, asset base and style consistency considerations, team tenure, portfolio statistics, etc.) and ***qualitative review criteria*** across various areas (firm investment policies and processes, organizational structure, fund manager assessment, incentive alignment, regulatory and litigation review, shareholder stewardship, etc.) that it uses in assessing the appropriateness of any particular strategy. These review criteria are in some cases backed by due diligence questionnaires completed by the fund managers and sub-advisers directly for us. In some cases, we rely on the research capabilities of independent third parties to help with the due diligence process for investments that we use with clients. In every case, the assessment process is overseen by our Investment Committee.

Fundamental Analysis. Our investment strategy is driven primarily by a fundamental research discipline. Fundamental analysis attempts to measure the intrinsic value of a security by examining macroeconomic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). This approach is more relevant and is applied more commonly to the use of individual securities (as opposed to mutual funds, ETFs, or sub-advisers) in client portfolios.

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Cyclical Analysis. We also analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Cyclical analysis is a type of technical analysis, used to measure the movements of a particular investment against the overall market in an attempt to predict the price movement of the security.

Cyclical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly managed or financially unsound company might underperform regardless of market movement.

Risks for all forms of analysis. Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly available sources of information about these securities, are providing accurate and



unbiased data. While we are alert to indications that data could be incorrect, there is always a risk that our analysis can be compromised by inaccurate or misleading information.

Investment Strategies

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

Long-term purchases. We purchase securities with the idea of holding them in the client's account for a year or longer to provide tax efficiency. Most portfolio decisions are structured with a minimum investment outlook of 3 years. Typically, we employ this strategy when:

- We believe the securities to be currently undervalued, and/or
- We want exposure to a particular asset class over time, regardless of the current projection for this class

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our expectations are incorrect, a security might decline sharply in value before we make the decision to sell.

Opportunistic purchases. When utilizing this strategy, we purchase securities believing there could be an opportunity of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy may involve more frequent trading than does a longer-term strategy and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Margin transactions. We do not normally recommend the use of margin as an investment strategy. Occasionally this may be recommended or used for short term cash needs to avoid disruption in an implemented portfolio where investment or tax considerations warrant doing so.

Option writing. We might use options as small component of an investment strategy depending on individual client circumstances. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset. The two types of options are calls and puts:

- A call option gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call option if we believe that the stock will increase substantially before the option expires.



- A put option gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put option if we are concerned that the price of the stock will fall before the option expires.

We will generally use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio. We use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price. We use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

Risk of Loss. Securities investments are not guaranteed and you could possibly lose money on your investments. We ask that you work with us to help us understand your tolerance for risk.

Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Neither our firm nor any of our management personnel have reportable disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

Neither our firm nor any of our management personnel are engaged in other financial industry activities nor do we or our management personnel have other financial industry affiliations.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Capstone Financial and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions. Capstone Financial's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. All employees are reminded that such information cannot be used in a personal or professional capacity.



A copy of our Code of Ethics is available to our advisory clients and prospective clients. You can request a copy by email sent to rich.marks@capstone-advisors.com, or by calling us at 630-241-0833.

Capstone Financial and individuals associated with our firm are prohibited from engaging in principal transactions. Capstone Financial and individuals associated with our firm are also prohibited from engaging in agency cross transactions.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm can buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) can have an interest or position in a certain security(ies) which might also be recommended to a client.

It is the expressed policy of our firm that no person employed by us can purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

Item 12 Brokerage Practices

Capstone Financial does not accept the discretionary authority to determine the broker dealer to be used or the commission rates to be paid on a trade-by-trade basis. As such, clients must direct the firm regarding which broker dealer to use for trades placed in the client's account. Capstone

Financial requests that clients maintain their accounts at Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), an unaffiliated SEC registered, FINRA member broker dealer.

Capstone Financial has evaluated the institutional services platforms of Schwab and believes that the firm can provide our clients with a blend of execution services, commission costs and professionalism that will assist Capstone Financial in meeting its fiduciary obligations to clients.

We reserve the right to decline acceptance of any client account custodied at a firm other than Schwab or for which the client directs the use of a broker other than Schwab if we believe that the client's choice would hinder our ability to service the account. In directing the use of Schwab, or any other particular broker dealer, it should be understood that Capstone Financial will not have authority to negotiate commissions on a trade-by-trade basis or to necessarily obtain volume discounts, and best execution might not be achieved. In addition, a disparity in commission charges could exist between the commissions charged to the client and those charged to other clients who direct the use of a different broker dealer. This could result in higher costs to the client than might otherwise be obtained if we were free to select the broker dealer on a trade-by-trade basis. Clients should note, while Capstone Financial has a reasonable belief that Schwab is able to obtain competitive prices, Capstone Financial will abide by the client's brokerage instructions and will not independently seek



best execution price capability through other broker dealers on a trade-by-trade basis. The vast majority of client assets managed by Capstone Financial are custodied at Schwab.

Clients should note that Capstone Financial participates in the platform services offered to independent investment advisers by Schwab. Through these services, Schwab provides us with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Institutional. These services are not contingent upon Capstone Financial committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage 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.

For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts. Schwab Institutional also makes available to Capstone Financial other products and services that benefit Capstone Financial but might not directly benefit its clients' accounts. Many of these products and services are used to service all or some substantial number of Capstone Financial's accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist Capstone Financial in managing and administering clients' accounts 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 Capstone Financial's fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab Institutional also offers other services intended to help Capstone Financial manage and further develop its business enterprise. These services include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab can make available, arrange and/or pay third-party vendors for the types of services rendered to Capstone Financial. Schwab Institutional can 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 Capstone Financial. Schwab Institutional might also provide other benefits such as educational events or occasional business entertainment of Capstone Financial personnel.

Clients should obtain a copy of mutual fund prospectus and statement of additional information ('SAI') for detailed information about the funds. These documents can be obtained directly from the custodian.

Clients should carefully consider that Capstone Financial's receipt of these platform services also raises potential conflicts of interest. In evaluating whether to recommend that clients custody their



assets at Schwab, Capstone Financial can 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 on the nature, cost or quality of custody and brokerage services provided by these firms. In order to continue to receive these products or services, Capstone Financial can have an incentive to recommend to its clients direct the use of Schwab.

We can block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block. Block trading allows Capstone Financial to execute equity trades or ETF trades in a timely and equitable manner and might reduce overall commission charges.

Capstone Financial will not be able to block trades for client accounts who direct the use of broker other than Schwab. As disclosed above, the vast majority of client assets managed by us are maintained with Schwab. Client accounts custodied at Schwab may or may not trade ahead of other client accounts; this decision is not based solely on the relative level of assets custodied with each firm. When a new client account is invested in a strategy, the trades required to implement that strategy are not typically aggregated with other client account trades placed on the same day.

Clients who elect not to grant investment discretionary authority to Capstone Financial are advised that trades in their account(s) can be executed subsequent to trades affected in discretionary accounts due to the time involved in obtaining the requisite client approval. Consequently, these clients cannot participate in blocked trades and there can a difference in the price paid per share of a given security and the commission rates paid by these clients as compared to other clients depending, in part, on the type of security traded.

Clients should note that clients excluded from blocked trades could receive more or less favorable terms for the transaction and a disparity could exist between the price paid or received by the client and/or the commission charged to the client and the price paid or received and/or commissions charged to other clients participating in an aggregated trade.

Item 13 Review of Accounts

Portfolio Management Services

REVIEWS: While the underlying securities within Individual Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews can be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by one or more member of Capstone Financial's Investment Committee and also by the financial advisor assigned to the relationship. The Investment Committee is comprised of Troy E. Bute, Richard G. Marks, Aldo S. Vultaggio, Eric W. Jones, John C. Kosik, and Brian W. Peterson.



REPORTS: In addition to the monthly statements and confirmations of transactions that clients receive from their custodian, we review internally generated portfolio activity reports with clients in scheduled meetings and teleconferences, as well as on a request basis. Client's engaging independent advisers as recommended by Capstone Financial should refer to those advisers' disclosure documents for information regarding the nature and frequency of additional reports they provide.

Financial Planning Services

REVIEWS: These client accounts will be reviewed as contracted for at the inception of the advisory relationship.

REPORTS: Financial Planning clients receive various types of reports that monitor progress toward established objectives. Such reports are generally focused on asset and income summaries, budget summaries, income tax, insurance, estate tax, investments, company benefits, and financial independence.

Pension Consulting Services

REVIEWS: We will review Pension Consulting Services clients' investment policy statements whenever clients indicate a change in circumstances regarding the needs of the plan. Capstone Financial will also review the investment options of the plan according to the agreed upon time intervals established in the investment policy statement. Such reviews will generally occur quarterly.

Reviews will be conducted by the account representative for each client and are subject to the oversight and approval of Capstone's Investment Committee.

REPORTS: These clients will receive reports as contracted for at the inception of the advisory relationship.

Item 14 Client Referrals and Other Compensation

Currently, it is Capstone Financial's policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm. However, we reserve the right to engage such solicitors in the future.

It is further our policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients. Entertainment outings with non-clients must be approved in advance and documented for compliance purposes.

Item 15 Custody

As disclosed at Item 5 of this Brochure, we can directly debit our fees from client accounts as authorized. Under applicable regulatory interpretations, as a result of this authority, we are deemed to have constructive custody of client assets. As part of this billing process, the client's custodian is advised of the amount of our fee which the custodian then debits from the client's account. On at



least a quarterly basis, the custodian is required to send a statement to the client that shows all transactions in the account during the reporting period. Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of this calculation, among other things. Clients should contact us directly if he/she believes that there might have been an error in the calculation of their fee or any other information provided in their statement.

Item 16 Investment Discretion

Discretionary Accounts. For client's granting us discretionary authority over his/her account, that authority includes, without limitation, the power to select, buy, sell, retain and exchange investments, and exercise such other powers as we deem appropriate to manage and execute transactions for the client's account consistent with the client's financial circumstances. Clients can impose limitations on this discretionary authority and reasonable limitations or restrictions regarding investment of the client's account. Any such restrictions must be in writing. Clients can change or amend these limitations or restrictions at any time. Such amendments must be in writing and must be reasonable. Clients give us discretionary authority when they sign a discretionary agreement with our firm and can limit this authority by giving us written instructions. Clients can also change/amend such limitations by once again providing us with written instructions.

Non-Discretionary Accounts. For client's electing not to grant us discretionary authority over his/her account, we will implement recommendations made for the account only upon Client's consent and subject to any limitation imposed by client with respect to the transaction.

Should a client elect not to grant us investment discretion over their account, we note that trades in their accounts will typically be executed after trades in the same securities are placed in discretionary accounts, due to the time involved in obtaining the requisite client approval. Consequently, these clients cannot participate in blocked trades and there can be a difference in the price paid per share of a given security and the commission rates paid by these clients as compared to other clients depending, in part, on the type of security traded.

Item 17 Voting Client Securities

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets. We can provide clients with consulting assistance regarding proxy issues if they contact us with questions at our principal place of business.

Class Actions, Bankruptcies and Other Legal Proceedings. We will neither advise nor take any action (including, but not limited to, the filing of "Proofs of Claim" in class actions) on behalf of a client



in or with respect to any litigation, bankruptcy, regulatory matter, or other legal proceeding involving securities that are or were held in an Account or involving the issuer of such securities. Clients can direct us to transmit copies of class action notices to the Client or a third party. Upon such direction, Capstone Financial will undertake commercially reasonable efforts to forward such notices in a timely manner.

Item 18 Financial Information

Capstone Financial has no adverse financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Capstone Financial has not been the subject of a bankruptcy petition at any time during the past ten years.