



## **Cornerstone Investment Management & Consulting, LLC**

### **Investment Advisor Disclosure Brochure/Form ADV PART IIa**

*Dated March 23, 2017*

**CRD#124322**

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**This brochure provides information about the qualifications and business practices of Cornerstone Investment Management & Consulting, LLC. If you have any questions about the contents of this brochure, please contact us at 251-626-6292 or by email at [info@csimac.com](mailto:info@csimac.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 Management & Consulting, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). "Registered Investment Advisor" does not imply a certain level of skill or training.**

## 2. Material Changes

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### A. Annual Update

Cornerstone Investment Management & Consulting, LLC is providing this information as part of our annual updating amendment, which contains material changes from our last annual update. This section discusses only material changes since the last annual update, which most recently occurred on 3/20/2016.

### B. Material Changes since the Last Update

Cornerstone is proud to announce the formation of **Taking the Next Steps**; a nonprofit financial ministry that helps everyday Americans better manage their money by teaching handling money as a life skill. Information: [www.takingthenextsteps.org](http://www.takingthenextsteps.org).

### C. Full Brochure Availability

The Firm Brochure for Cornerstone Investment Management & Consulting, LLC is continuously available on the company's website at [www.investwithcornerstone.com](http://www.investwithcornerstone.com) or by contacting the company at the contact information provided on the cover of this document.

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## 4. Advisory Business

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### A. Firm Description

Cornerstone Investment Management & Consulting, LLC. is an independent, privately owned investment firm, founded in 2003, registered with the State regulatory authorities. Cornerstone is based in Daphne, Alabama on the Eastern Shore of Mobile Bay. The firm offers clients investment advisory service as an acknowledged fiduciary on both a discretionary and non-discretionary basis. The firm offers Investment Management and Investment Consulting. The firm serves individuals, trusts, foundations, and endowments.

### Principal Owners

Mark E. Davidson, CFA, Principal, Founder 50%  
Scott M. Koser, CFA, Principal, Founder 50%

### B. Types of Advisory Services

Cornerstone offers clients various levels of service based on each client's individual need: An hourly service the registrant terms **Investment Consulting**, a traditional fee for service termed **Investment Management**.

#### **Investment Consulting**

Investment Consulting is a flat hourly service to assist with specific solutions to finance and/or investment related questions. With this service we serve as a coach/mentor and do not transact for the client and have no investment discretion, but assist them with a "to do" list to accomplish the solution provided. This service is most appropriate for clients with investable assets of \$0-\$100,000. Our hourly rate is also appropriate for plan sponsors, fiduciaries, trustees, etc. to engage us on a project-oriented basis to provide reporting, analysis or reviews of portfolios, investment plans, and other items clients might require.

#### **Investment Management**

Investment Management is our active, ongoing discretionary investment management of client investment assets. We offer a full spectrum of asset allocations based on the client's unique goals and particular risk tolerance. Typical asset allocations range from long-term capital appreciation (Growth) to principal value protection (Conservative Income).

### **C. Tailored Relationships**

Cornerstone offers clients custom investment solutions based on their individual and unique needs. Cornerstone clients are allowed to impose restrictions on the investments in their account under our management. Cornerstone may accept any reasonable limitation or restriction on the account placed by the client. All limitations and restrictions placed on accounts must be in writing as defined by our investment management agreement.

### **D. Wrap Fee Programs**

Cornerstone does not offer or participate in any wrap fee programs and has nothing to disclose related to this item.

### **E. Client Assets**

As of 12/31/2016, client accounts totaled 162 with assets under management of \$60,272,730 exclusive of \$1,448,688 non-discretionary assets held within discretionary accounts. Cornerstone served a small number of clients on an hourly investment consulting basis in 2016.

## **5. Fees and Compensation**

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### **A. Description**

Investment consulting fee is at an hourly rate of \$150. Investment Management fee is 1.10% for the first million dollars in assets under management and .90% for assets in excess of one million.

### **B. Fee Billing**

Investment consulting is invoiced to the client after service is provided. Compensation for Investment Management and Retirement Plan Sponsor Advisory Service is payable quarterly after service is provided and may be deducted from the account under management if the client provides authorization.

For all levels of service provided, rates are non-negotiable, and the standard fee schedule will be used except in extraordinary circumstances. All accounts are terminable within 30 days of written notification provided to the registrant.

### **C. Other Fees**

Clients, through the custodian that they select to provide custody of their account will be subject to commissions and other fees that should be duly disclosed by the custodian. Cornerstone Investment Management & Consulting, LLC has no economic participation in any commission or fee charged by the custodians or investment vehicles. Certain investments such as mutual funds or exchange-traded funds charge management fees in addition to the management fee charged by Cornerstone.

#### **D. Fees Paid in Advance**

No investment advisory fees that Cornerstone charges are billed or paid in advance.

#### **E. Additional Compensation**

Registered investment advisers are required to disclose all material facts regarding any additional compensation. Cornerstone works solely for the investment fees charged by the firm to the respective client and not a commission or third party fee.

## **6. Performance-Based Fees & Side-by-Side Management**

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#### **A. Sharing of Capital Gains or Capital Appreciation**

Registered investment advisers are required to disclose all material facts regarding any sharing of gains or capital appreciation. As Cornerstone does not share gains or capital appreciation, it has no information applicable to this item to disclose.

## **7. Types of Clients**

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#### **A. Description**

Clients are represented by individuals, trusts, foundations and endowments.

#### **B. Account Minimums**

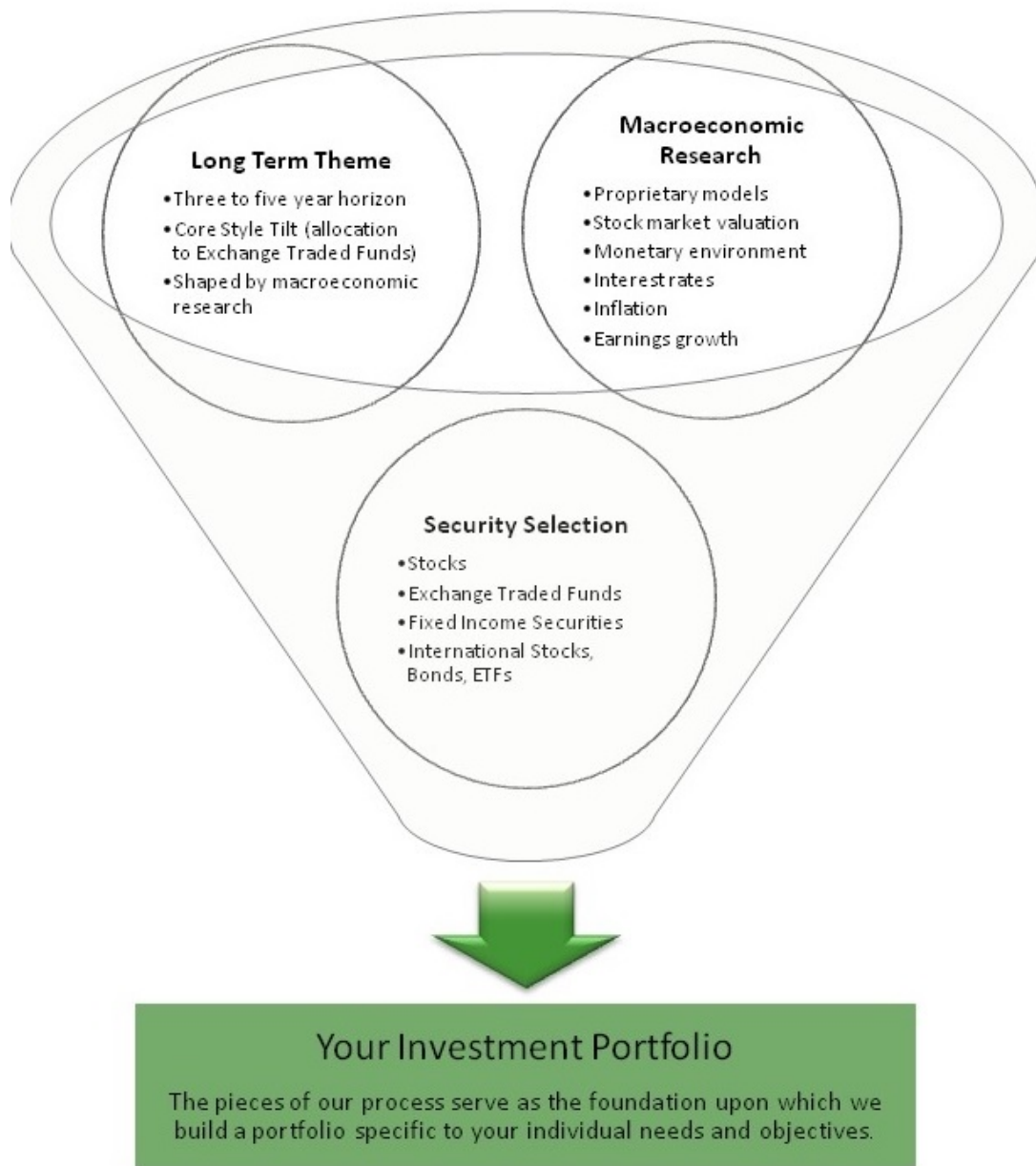
Investment consulting has no minimum. The minimum account size for investment management is \$150,000 per account or series of accounts the registrant deems to be related. The minimum investment management fee for clients after engaging the registrant is \$1500 per annum or \$375 quarterly. Investment management accounts may be householded and shareowners in the registrant may receive a discount from the standard fee schedule, solely at the discretion of the registrant.

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

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#### **A. Methods of Analysis**





Cornerstone uses macroeconomic research, security selection, and long-term theme to drive investment research and to identify and research attractive investments for client portfolios. This top down (macro economy) and bottom up (security specific) methodology allows for a very broad range of investments across countries, economic sectors, and individual companies.

### **Macro economy**

Within the quantitative method of analysis the firm leverages off of data and computing power to systematically analyze hundreds of data points on a daily, weekly, monthly or

quarterly basis. Data points run the gamut from home prices in San Diego, CA to the yield on US Treasuries. Sources of data include subscription only data services such as Capital IQ, and Dismal.com and public domain sources such as Bloomberg.com, Yahoo Finance, and Federal Reserve Economic Database.

### **Thematic**

Thematic is best described as the “common theme” that holds a group of investments or investment ideas together. Thematic might arise from reading (i.e. a book, periodical, white paper), a research trip (i.e. 16 days traveling across China) or simply fall out of the other methods. For example, one theme from the recent past is that China’s external demand for natural resources has driven commodity prices higher. Another theme might be that health care reform has left some pharmaceutical companies undervalued due to uncertainty of implementation.

### **Security Selection**

Security selection is where macroeconomic analysis and the long term thematic meet. At the first level quantitative analysis allows us to “cull the herd” to a limited number of target investments to focus our research efforts on. For example, on a monthly basis we utilize Capital IQ to screen a universe in excess of 30,000 companies to a workable list of 5-15 stocks to do focused research on. The same general concept would be true for Exchange Trade Funds, bonds or investments in international markets. The next level is qualitative, focused on the specifics of the security in question. Some examples of qualitative are as follows: What is the competitive position? What is the margin of safety? The catalyst to realize the value we foresee? Who else owns it? Why? How long has it been out of favor? Why?

Potential clients should bear in mind that investing involves risk of loss (detailed below) that clients should be prepared to bear.

## **B. Investment Strategies**

Cornerstone manages a broad range of investment categories for client portfolios from Conservative Income (principal protection) to Aggressive Growth (capital gains). These strategies utilize the top down/bottom up analysis from the *methods* above to target securities with attractive characteristics.

Client specific investment strategies are governed by the investment policy statement (IPS) for the client account. The investment policy spells out the purpose of the account, the asset allocation range, the goal of the account and the benchmark to which the account will be compared. Accounts of similar objectives are typically grouped together into similar categories.

For example, a typical Growth+Income (balanced account) account would hold a diversified mix of equity investments, fixed income investments, and short-term investments. Equity investments typically include common stocks, domestic equity

exchange traded funds (ETFs), international common stocks and international exchange traded funds. Fixed income investments typically include bonds, preferred stocks, Certificates of Deposit and fixed Income ETFs. Short-term investments may include cash, money market and FDIC insured deposits.

Our disciplined approach to managing accounts is focused on the client, their experience, expectations, and risk tolerance. Accounts may share similar investments, but each account is a custom portfolio for that client.

### C. Risk of Loss

As with any marketable securities, there is a risk of loss and any security invested in could lose part or all of its value. We manage risk within a portfolio context with asset allocation so as to calibrate the overall portfolio risk to the client's risk tolerance. Risks may include but are not limited to:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic, and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## 9. Disciplinary Information

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### A. Criminal or Civil Action

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Cornerstone or the integrity of our management. Cornerstone has no information applicable to this item to disclose.

### B. Administrative Proceeding

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Cornerstone or the integrity of our management. Cornerstone has no information applicable to this item to disclose.

### C. Self-Regulatory Proceeding

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Cornerstone or the integrity of our management. Cornerstone has no information applicable to this item to disclose.

## 10. Other Financial Industry Activities and Affiliations

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### A. Broker-dealer or Registered Representative

As we do not serve clients in this capacity, Cornerstone has no information applicable to this item to disclose.

### B. Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Adviser or Associated Person

As we do not serve clients in this capacity, Cornerstone has no information applicable to this item to disclose.

### C. Material Relationships or Arrangements with Financial Industry

For the following list we do not serve clients in this capacity, Cornerstone has no information applicable to this item to disclose.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker

2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships.

#### **D. Recommend or Select Other Investment Advisers**

As we do not serve clients in this capacity, Cornerstone has no information applicable to this item to disclose.

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

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### **A. Code of Ethics**

The following is the text from our most recent Code of Ethics that we have adopted. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

#### **Section 1**

Prohibited Acts, Practices and Course of Business- General

The Investment Company Act of 1940 makes it unlawful for any director, officer or advisory employee of CORNERSTONE INVESTMENT MANAGEMENT & CONSULTING, LLC in connection with the purchase or sale of a security held or to be acquired by advisors clients:

1. To employ any device, scheme or artifice to defraud the advisor’s client;

2. To make to the advisor's clients any untrue statement of a material fact or omit to state to the advisor's clients material fact necessary in order to make the statements made, in light of the circumstances under which there are made, not misleading;
3. To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon the advisor's clients; or
4. To engage in any manipulative practice with respect to the advisors' clients.

## **Section 2**

### Duty of Employees

All employees of CORNERSTONE INVESTMENT MANAGEMENT & CONSULTING, LLC have an implicit duty to:

1. Comply with all applicable Federal Securities Laws.
2. Report failure to comply with this code of ethics to the Chief Compliance Officer.
3. Provide personal holding statements per section 5.

## **Section 3**

### Prohibitions

No director, officer or advisory employee of CORNERSTONE INVESTMENT MANAGEMENT & CONSULTING, LLC shall purchase or sell any security, in any account in which they have a beneficial interest, which to his or her actual knowledge at the time of such purchase or sale:

1. Is being considered of purchase or sale by the advisor's clients; or
2. Is being purchased or sold by the advisor's clients.

## **Section 4**

### Special or Exempt Transactions

It is required for all access persons to obtain express written approval prior to investing in an initial public offering ("IPO") or private placement.

The prohibitions in Section 3 shall not apply to:

1. Qualified personal transactions. Cornerstone has an institutional goal of aligning our interests with our clients, and we intend and expect to own the stocks, bonds, mutual funds, and exchange-traded funds that Cornerstone finds attractive for client accounts. The difficulty with this goal is to avoid front-running clients and/or the

appearance of front-running client accounts. To that end, all reporting employees will be considered compliant with personal trading policies and procedures if they refrain from purchase or sale of securities within 5 business days prior or 2 business days following client transactions for the same securities or if the trade is “blocked” with client transactions for the same securities.

2. Any securities transaction or series of related transactions, involving 500 shares or less in the aggregate, if the issuer has a market capitalization greater than \$250 Million; or

3. Purchases or sale for which the person has received prior approval from Chief Compliance Officer. Prior approval shall be granted only if a purchase or sale of securities is consistent with the Investment Company Act of 1940 and rules there under. To illustrate, a purchase or sale shall be considered consistent with those purposes if such purchase or sale is only remotely potentially harmful to the advisor’s clients because such purchase or sale would be unlikely to affect a highly institutional market, or because such purchase or sale is clearly not related economically to the securities held, purchased or sold by the advisor’s clients.

## **Section 5**

### Reporting

Every director, officer or advisory employee must report certain information about each transaction by any such person who acquires any direct or indirect beneficial ownership of a security.

Each such person must submit the report required by this Section to the Chief Compliance Officer no later than 30 days after the end of the calendar quarter in which the transaction to which report relates was effected. A report must contain the following information:

1. The date of the transaction, the title and the number of shares, and the principal amount of each security involved;
2. The nature of the transaction (i.e.; purchase, sale or other equation or disposition);
3. The price at which the transaction was affected; and
4. The name for the broker, dealer or banks with or through whom the transaction was affected.

For purposes of this Section 5 the term “security” shall not include Government Securities, banker’s acceptances, bank certificates of deposit, commercial paper, and shares of registered open-ended investments companies.

A person will be deemed to have complied with requirement of this Section 5 by causing duplicate monthly brokerage statements on which all transactions required to be reported hereunder are sent to the Compliance Officer or attention compliance at the companies mailing address.

New employees must provide an annual statement within 10 days of being notified that they are deemed an access person.

## **Section 6**

### Sanctions

Upon discovering that a person has not complied with the requirements of this Code there is an explicit requirement that such a violation be reported to the Chief Compliance Officer and that, CORNERSTONE INVESTMENT MANAGEMENT & CONSULTING, LLC may impose on that person whatever sanctions it deems appropriate, including, among other things, censure, suspension, or termination of employment.

## **Section 7**

### Confidentiality

All information obtained from any person hereunder shall be kept in strict confidence, except that reports of securities transactions hereunder will be available to the Securities and Exchange Commission or any other regulatory or self-regulatory organization to the extent required by law or regulation.

## **Section 8**

### Further Information

If any person has any question with regard to the applicability of the provisions of this Code generally or with regard to any securities transaction or transactions he or she should consult the Chief Compliance Officer. Reporting from section 5 is subject to review by the Chief Compliance Officer.

### **B. Recommend Securities with Material Financial Interest**

As we do not serve as general partner for a limited partnership, nor sponsor any private funds, Cornerstone has no information applicable to this item to disclose.



### **C. Invest in Same Securities Recommended to Clients**

Cornerstone recognizes that this is a potential conflict of interest and has addressed the situation in the code of ethics presented above.

### **D. Personal Trading Policies**

Cornerstone recognizes that this is a potential conflict of interest and has addressed the situation in the code of ethics presented above.

## **12. Brokerage Practices**

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### **A. Selecting Brokerage Firms**

Cornerstone Investment Management & Consulting, LLC, through language within our discretionary investment management agreement, may be given full discretionary authority to determine the nature and amount of securities bought and sold for a client account, as well as the broker through which the transaction will be handled, and the commission rate to be paid. We may transact away from a custodian broker, so called “trade away”, and pay both a negotiated rate to the executing broker and the custodian broker.

Among the items we may consider in recommending brokers or allocating brokerage are the broker’s execution capabilities, reputation, access to capital markets, negotiated or published commission rates, and the ease of administration, and services they may provide our client, (such as on-line access, email confirmations, etc.), all consistent with the concept of “best execution.”

#### **1. Research and Soft Dollars**

We do not, nor do we anticipate transacting with a broker for research credits or subscriber data feeds (so-called “soft dollar” transactions) and any and all research or data we receive from any and all brokers will be research or data that they share with investment managers transacting with them in the normal course of business. (By way of example, full service brokers typically forward their research on a stock purchased for your client accounts by them, often unsolicited.)

#### **2. Brokerage for Client Referrals**

As we do not utilize this method to gain client referrals Cornerstone has no information applicable to this item to disclose.

#### **3. Directed Brokerage**

In limited circumstances, a client may come to us with a preference for a particular broker and/or an existing relationship, if the client personally requests we continue to do business with the existing broker, we will oblige. Requests by clients for directed

brokerage may negatively impact the trading and opportunity costs of those clients, which may affect the registrant's ability to obtain best execution for those clients.

For the majority of our clients we will recommend a broker to serve as independent custodian to hold the client's securities, as well as affect securities transactions for the account. In general, since clients are receiving investment guidance from us for a fee, we will refer them to discount brokers, but may, in certain cases transact with full service brokers at a negotiated rate, for benefit of the client.

## **B. Order Aggregation**

In general, transactions for client accounts will be placed separately, unless circumstances provide that we are buying or selling a large quantity of the same security across numerous accounts.

We may, but are not obligated to, "block" orders in order to effect a more efficient transaction, average said executions, and apply them ratably to client accounts in proportion to the amount of the order placed. In the event that a block order receives a partial execution, the partial order will be ratably applied after taking into account the total commission to the client based on the total order, for the client's benefit. As such, round lots will be emphasized. (By way of example, multiple executions to achieve 100 share account level order may be uneconomic versus a single execution for the minimum commission.)

Single or block orders may be placed for a limited number of clients within special circumstances including but not limited to:

1. Client requested transactions.
2. A new client with a "catch up trade" to purchase securities existing accounts already own.
3. An account holding too much cash relative to the registrant's target cash position.
4. An account holding too little cash relative to the registrant's target cash position.
5. An account that differs from the registrant's target equity, fixed income, or international allocation.

As such, within the above, some block orders may not be ratably applied so as to accomplish 1-5 above, for benefit of the client.

# 13. Review of Accounts

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## A. Periodic Reviews

For hourly **Investment Consulting** clients, reviews will be at the time of their engagement of the firm, and other such times that they might require, at the client's sole discretion. Reviewers will be Mark E. Davidson, Director of Investments, and/or Scott M. Koser, Director of Research.

For **Investment Management** reviewers will be Mark E. Davidson, Director of Investments, and/or Scott M. Koser, Director of Research.

Reviews will be at least quarterly and will include asset allocation, and security specific reviews. Other items that can trigger a review include client requested meeting, drastic change in macroeconomic or geopolitical environment, client directed changes to the account and/or investor policy statement.

On a practical basis the firm's most widely held investments would be monitored on a daily, weekly, and/or monthly basis for both fundamental valuation and technical merit by both reviewers.

## B. Review Triggers

Other items that can trigger a review include client requested meeting, drastic change in macroeconomic or geopolitical environment, and or client directed changes to the account and/or investor policy statement.

## C. Regular Reports

### **Investment Consulting**

Registrant believes based on the non-discretionary nature of the service that it has no duty to report.

### **Investment Management**

Ongoing -- Trade confirmations sent to the client directly from the broker dealer or master custodian as trades occur either via US mail or email at the discretion of the client.

Monthly -- Portfolio Appraisal from registrant as well as account statement directly from custodian, as per the custodian's policy, or a quarterly reporting package from the registrant as described below, at the discretion of the client.

Quarterly -- Cover page, Performance Summary, Asset Summary, Portfolio Appraisal, Performance by Asset Class, Realized Gain/Loss, Purchase/Sale, and Contributions/Withdrawals. Invoices for investment management fees are sent to the client quarterly separately from the quarterly statement package.

Annually -- Tax reporting package where appropriate, realized gain/loss and income/expense reports.

The monthly and quarterly items can be customized for clients at their discretion to add or omit items. Clients can choose to receive paper copies in the mail from the registrant; otherwise, they will receive electronic copies via email.

## 14. Client Referrals and Other Compensation

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### A. Economic Benefits

Registered investment advisers are required to disclose all material facts regarding any economic benefits (for example sales awards or other prizes) that would be material to your evaluation of Cornerstone. As we do not receive economic benefits from someone who is not a client, Cornerstone has no information applicable to this item to disclose.

### B. Third Party Solicitors

Registered investment advisers are required to disclose all material facts regarding any third party solicitors that would be material to your evaluation of Cornerstone. As we do not utilize third party solicitors, Cornerstone has no information applicable to this item to disclose.

## 15. Custody

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### A. Custody

Cornerstone does not hold itself out as a custodian and through our agreements disclaims custody.

### B. Custodians

Client investment assets will be held with a custodian agreed upon by the client and Cornerstone. While Cornerstone will assist clients in establishing and maintaining accounts at the custodian, Cornerstone shall have no responsibility or liability with respect to custodial arrangements or the acts, omissions or other conduct of the custodian.

### C. Custody –Debiting Investment Management Fee

Cornerstone has one form of custody in that clients may authorize Cornerstone (in the investment management agreement) to debit fees directly from the client's account at the broker dealer, bank or other qualified custodian.

The custodian sends a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to Cornerstone.

#### **D. Account Statements**

Clients receive at least quarterly statements from the broker dealer, bank, or other qualified custodian that holds and maintains clients' investment assets. Clients are urged to carefully review such statements and compare such official custodial records to the account statements or other reports that Cornerstone provides. Cornerstone statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **16. Investment Discretion**

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#### **A. Discretionary Authority for Trading**

Most often Cornerstone serves Investment Management clients with full discretionary authority. Both Cornerstone and the client accept this discretionary trading authority through our discretionary investment management agreement in which the discretionary authority is clearly disclosed.

Client directed limitations to this discretionary authority are addressed within the Investor Policy Statement (IPS) that Cornerstone and the client draft and the client signs. The most common limit to discretionary authority is for certain securities positions to be held non-discretionary. Positions of this nature within client portfolios are segregated as non-discretionary and no management fee is assessed on that portion of the account.

#### **B. Limited Power of Attorney**

In certain instances, independent third party custodians, most often discount brokers, require a signed limited power of attorney. The client must sign the limited power of attorney before the custodian will recognize and act upon the discretionary authority provided within the investment management agreement.

## **17. Voting Client Securities**

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#### **A. Proxy Voting Policy**

One of the services that Cornerstone offers to its clients is the voting of company proxies. For those clients who request this service, this policy will guide the voting of those shares. The proxy statements are aggregated by the custodian, and each custodian will send one proxy statement for all shares under our master account. Each company owned by at least one client within that master account will have a proxy sent

to us. For those securities held by other brokerage firms, the proxies are sent and voted on an individual basis.

Proxy voting policies:

Each proxy received in a timely manner will be voted. Those proxies received five or fewer business days before the solicitation period is complete will not be voted. Proxies for 1000 shares or fewer will not be voted.

Cornerstone will vote in the best interest of its client owners of the shares. More often than not, Cornerstone will vote as recommended by the board or directors, but there will be exceptions. These will include:

Voting against board members who sit on four or more major (publicly traded) corporate boards.

- Some board members over-commit themselves, and there are plenty of candidates who do not sit on this number of boards; a board of directors is supposed to guide the strategy of the firm, not be a set of figureheads.

Voting for cumulative voting by shareholders.

- This allows for quicker action and higher probability to wrest control from an inactive and entrenched board, especially in the instance of a possible takeover.

Voting against staggered boards.

- For the same reasons as above.

Voting for greater board independence.

- Against a President or CEO who is also Chairman of the Board.
- Against family members of the President or CEO on the board of directors.

Voting against “shareholders’ rights” plans or other masked attempts at establishing poison pill provisions. These will be determined on a case-by-case basis.

Special situation--long-term compensation and incentive plans.

These plans will be reviewed based on the company’s performance and the fairness of the package. In most instances, if the company has been performing and the package does not seem inequitable, these will be approved. The formal policy for voting these plans is still being developed; until then, these proxies are completed on a case-by-case basis.

Copies of each proxy vote will be retained in a file folder, and a new folder will be created for each year, unless held in electronic format. These are collectively stored in the Proxy folder in the files associated with the management of Cornerstone rather than the files associated with client management.

# 18. Financial Information

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## A. Prepayment of Fees

Cornerstone does not require prepayment of investment advisory fees. Fees are either billed quarterly in arrears or invoiced after service is provided.

## B. Financial Condition

Cornerstone serves some clients in a fully discretionary capacity and must disclose anything within its financial condition that may impair its ability to provide contractual duties. Cornerstone contracts with an outside CPA firm to prepare an audit annually and the managing members of the LLC review the firm's financial status on an ongoing and systematic basis. Cornerstone has nothing to disclose about its financial condition that would impair its ability to provide contractual duties.

## C. Bankruptcy

No bankruptcies of the firm or its access persons within the last 10 years or a period prior.

# 19. Requirements for State Registered Advisers

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## A. Principal executive officers and management

### Mark E. Davidson, CFA

Mr. Davidson pursued an undergraduate degree from Samford University in Birmingham, Alabama. He was awarded a BS in Mathematics, Magna Cum Laude, in 1992. Davidson furthered his education in graduate school at Purdue University in West Lafayette, Indiana. He was awarded an MS in Finance from Purdue in 1994. Mr. Davidson entered into the CFA program as a candidate in 1994 and after completing the series of examinations and his required work experience his Chartered Financial Analyst (CFA) was conferred September 16, 1999.

Prior to founding Cornerstone Investment Management and Consulting with Scott M. Koser, CFA, Mr. Davidson served as an Investment Officer at Fiduciary Services Corporation in Savannah, Georgia from 1997 to 2003.

## **Scott M. Koser, CFA**

Mr. Koser pursued an undergraduate business degree in Finance at Auburn University in Auburn, Alabama. He was awarded a BSBA in Finance in 1992. Mr. Koser entered into the CFA program as a candidate in 1993. After completing the examination series and required work experience, Mr. Koser's Chartered Financial Analyst (CFA) was conferred September 15, 1997.

Prior to founding Cornerstone with Mr. Davidson in 2003, Mr. Koser served as a Vice President and Portfolio Manager at Diaz-Verson Capital Investments from 1992 until 2003.

### **B. Description of any other business we are actively engaged in**

Cornerstone is proud to announce the formation of Taking the Next Steps; a nonprofit financial ministry that helps everyday Americans better manage their money by teaching handling money as a life skill. Taking the Next Steps is a start-up ministry beginning its first year of operation. Mark serves as its Executive Director on a part time basis.

Information: [www.takingthenextsteps.org](http://www.takingthenextsteps.org)

### **C. Performance based fees**

Cornerstone does not offer or participate in any performance based fee programs and has nothing to disclose related to this item.

### **D. Other management disciplinary disclosures**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Cornerstone or the integrity of our management. Cornerstone has no information applicable to this item to disclose.

### **E. Other relationships**

Cornerstone has no information applicable to this item to disclose.



## 20. Other Information

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### A. Privacy Policy

Protecting your privacy is important to us. We want our customers to understand what information we collect and how we use it.

#### Why We Collect Your Information

We gather information about you and your accounts so that we can (i) know who you are and thereby prevent unauthorized access to your information, (ii) design and improve the products we offer and (iii) comply with the laws and regulations that govern us.

#### Confidentiality and Security

We restrict access to nonpublic personal information about you to those employees who need to know that information to provide products and services to you. We maintain physical, electronic, and procedural safeguards that comply with federal standards and regulations to guard your information.

#### What Information We Collect

We may collect the following types of 'nonpublic personal information' about you:

- Information about your identity, such as your name, address and social security number;
- Information about your transactions with us;
- Information we receive from you on applications, such as your beneficiaries or income.

'Nonpublic Personal Information' is nonpublic information about you that we obtain in connection with providing a financial product or service to you, such as that described in the examples above.

#### What Information We Disclose

We are permitted by law to disclose nonpublic personal information about you to other third parties in certain circumstances. For example, we may disclose nonpublic personal information about you to third parties to assist us in servicing your account with us (i.e., mailing of fund related materials) and to government entities (e.g., IRS for tax purposes).

We will continue to adhere to the privacy policies and practices described in this notice even after your account is closed or becomes inactive.

## **B. Business Continuity Plan**

Our business continuity plan is available for review at our offices upon request during normal business hours.