

Brochure

Form ADV Part 2A

Item 1 - Cover Page



C O R N E R S T O N E

Investment
Partners, LLC

Cornerstone Investment Partners, LLC

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February 19th, 2019

This Brochure provides information about the qualifications and business practices of Cornerstone Investment Partners, LLC. If you have any questions about the contents of this Brochure, please contact us at (404) 751-3850 or marketing@cornerstone-ip.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Cornerstone Investment Partners, LLC is an investment advisory firm registered with the appropriate regulatory authority. Registration does not imply a certain level of skill or training. Additional information about Cornerstone Investment Partners, LLC also is available on the SEC's website at www.AdviserInfo.sec.gov.

Item 2 - Material Changes

This Brochure is prepared in the revised format required beginning in 2011. Registered Investment Advisers are required to use this format to inform clients of the nature of advisory services provided, types of clients served, fees charged, potential conflicts of interest and other information. The Brochure requirements include providing a Summary of Material Changes (the "Summary") reflecting any material changes to our policies, practices, or conflicts of interest made since our last required "annual update" filing. In the event of any material changes, such Summary is provided to all clients within 120 days of our fiscal year-end. Our last annual update was filed on March 30, 2018. Of course the complete Brochure is available to clients at any time upon request.

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General Information

Cornerstone Investment Partners, LLC (“Cornerstone”) was formed in 2001 and provides portfolio management services to its clients. Cornerstone also provides its research services to some financial intermediaries as a non-discretionary investment advisor in Unified Managed Account Programs.

Cornerstone is 100% owned by CIM Holdings LLC, which is 100% owned by current employees of Cornerstone. No single employee has a majority ownership. Please see Cornerstone Investment Partners, LLC ***Brochure Supplements***, Exhibit A, for more information on the individuals who formulate investment advice and have direct contact with clients, or have discretionary authority over client accounts.

As of December 31, 2018, Cornerstone managed \$2,169,884,840 on a discretionary basis, and no assets on a non-discretionary basis. Cornerstone also had assets under advisement totaling approximately \$288,523,579, primarily through Unified Managed Account (“UMA”) programs. These are client assets that Cornerstone oversees as part of its overall core investment advisory services, but does not manage on a discretionary basis or directly place trades.

SERVICES PROVIDED

Cornerstone serves four primary types of clients: Institutional clients, High Net Worth clients, Clients of Other Investment Professionals, and Registered Investment Company clients. Institutional clients usually select one or more of Cornerstone’s Portfolios in which to invest based on the needs of the Institution. Other registered investment advisers and investment professionals (the “primary advisers”) may recommend or hire Cornerstone to manage their clients' assets. The primary adviser works with the client to decide which Portfolio(s) offered by Cornerstone may be appropriate for the client. At the outset of each High Net Worth client relationship, Cornerstone spends time with the client, asking questions, discussing the client’s investment experience, risk tolerance and financial circumstances. Cornerstone’s approach to investing and its management style is explained to the client to be sure it is compatible with the client’s investment objective.

Portfolio Management

Institutional clients include, but are not limited to, public and private retirement plans, union and management plans along with endowment and foundation accounts. Accounts in the institutional realm are mostly tax-exempt but may include taxable portfolios or entities. These institutional clients can approach Cornerstone directly or through an intermediary. The direct approach would most likely be the result of a review of peers within a performance database such as PSN or eVestment Alliance. These databases are a central repository of investment performance and statistical data on managers both domestic and global. Clients then seek out those managers that meet their investment criteria. Clients can also find managers using an intermediary, generally an investment consultant. Investment consultants are used either on a retainer or project basis to assist institutional clients in manager selection. Once managers are identified, institutional clients will provide them with their specific investment guidelines and policy requirements, which detail all approved and/or restricted activity as it relates to their portfolio. Institutional clients are the most sophisticated users of our services.

As described above, at the beginning of a High Net Worth client relationship, Cornerstone meets with the client, gathers information, and performs limited research and analysis as necessary to understand the client's Investment Objectives and Guidelines. Cornerstone does not provide retirement, cash flow, tax or liquidity planning for its clients. The Investment Objectives and Guidelines will be updated from time to time when requested by the client, or when determined to be necessary or advisable by Cornerstone based on updates to the client's financial or other circumstances.

To implement the client's Investment Plan, Cornerstone will manage the client's investment portfolio on a discretionary or a non-discretionary basis. As a discretionary investment adviser, Cornerstone will have the authority to supervise and direct the portfolio without prior consultation with the client. Under a non-discretionary arrangement, clients must be contacted prior to the execution of any trade in the account(s) under management. This can result in a delay in executing recommended trades, which could adversely affect the performance of the portfolio. This delay also normally means the affected account(s) will not be able to participate in block trades, a practice designed to enhance the execution quality, timing and/or cost for all accounts included in the block. In a non-discretionary arrangement, the client retains the responsibility for the final decision on all actions taken with respect to the portfolio.

Notwithstanding the foregoing, clients may impose certain written restrictions on Cornerstone in the management of their investment portfolios, such as prohibiting the inclusion of certain types of investments in an investment portfolio or prohibiting the sale of certain investments held in the account at the commencement of the relationship. Each client should note, however, that restrictions imposed by a client may adversely affect the composition and performance of the client's investment portfolio. Each client should also note that his or her investment portfolio is treated individually by giving consideration to each purchase or sale for the client's account. For these and other reasons, performance of client investment portfolios within the same investment objectives, goals and/or risk tolerance may differ and clients should not expect that the composition or performance of their investment portfolios would necessarily be consistent with similar clients of Cornerstone.

Asset Management for Clients of other Investment Professionals

Other registered investment advisers and investment professionals may recommend or hire Cornerstone to manage their clients' assets. In these arrangements, Cornerstone will implement and manage an investment strategy in the client's account; however, Cornerstone does not serve as the primary adviser to the client. The primary adviser will retain direct contact with the client and will manage the client relationship. The primary adviser's client will typically enter into an advisory contract directly with Cornerstone or alternatively, depending on the contractual arrangement the client has with the primary adviser, Cornerstone may contract directly with the primary adviser to provide the client investment advisory services.

Cornerstone will have exclusive investment discretion as to which securities shall be purchased or sold in the client's account in a manner consistent with the client's selected product, investment objectives, policies and restrictions (if any) and the capabilities of the broker-dealer. In order to determine whether the strategy is suitable for a client, the primary adviser and the client are responsible for ascertaining the goals and objectives of the portfolio in question. In addition, Cornerstone will obtain initial documentation of the client's risk parameters and investment objectives. However, it is the responsibility of the primary adviser and/or the client to promptly notify Cornerstone of any changes in financial condition of the client that would necessitate a change in the client's investment objective.

Clients may impose certain written restrictions on Cornerstone in the management of their investment portfolios, such as prohibiting the inclusion of certain types of investments in an investment portfolio or prohibiting the sale of certain investments held in the account at the commencement of the relationship.

Wrap Program Clients

Cornerstone participates in a number of managed account/wrap programs sponsored by broker/dealers who are also registered investment advisers (“Sponsors”). Clients of these Sponsors may pay a bundled fee that includes the investment management, custodial services and brokerage commissions to the extent transactions are executed through the Sponsor. In cases where Cornerstone’s fee is not bundled with the Sponsor’s fee, Cornerstone’s fee is billed and collected separately and is in addition to the Sponsor’s fee.

Sub-Advisory Services – AdvisorShares Cornerstone Small Cap ETF

Cornerstone serves as investment sub-advisor to a Registered Investment Company, the AdvisorShares Cornerstone Small Cap ETF (the “Fund”).

Retirement Plan Advisory Services

Establishing a sound fiduciary governance process is vital to good decision-making and to ensuring that prudent procedural steps are followed in making investment decisions. Cornerstone will provide Retirement Plan consulting services to Plans and Plan Fiduciaries as described below. The particular services provided will be detailed in the consulting agreement. The appropriate Plan Fiduciary(ies) designated in the Plan documents (e.g., the Plan sponsor or named fiduciary) will (i) make the decision to retain our firm; (ii) agree to the scope of the services that we will provide.

The Employee Retirement Income Security Act of 1974 (“ERISA”) sets forth rules under which Plan Fiduciaries may retain investment advisers for various types of services with respect to Plan assets. For certain services, Cornerstone will be considered a fiduciary under ERISA. To the extent that the Plan Fiduciaries retain Cornerstone to act as an investment manager within the meaning of ERISA § 3(38), Cornerstone will provide discretionary investment management services to the Plan. With respect to any account for which Cornerstone meets the definition of a fiduciary under Department Of Labor rules, Cornerstone acknowledges that both Cornerstone and its Related Persons are acting as fiduciaries. Additional disclosure may be found elsewhere in this Brochure or in the written agreement between Cornerstone and Client. With respect to any account for which Cornerstone meets the definition of a fiduciary under Department of Labor rules, Cornerstone acknowledges that both Cornerstone and its Related Persons are acting as fiduciaries. Additional disclosure may be found elsewhere in this Brochure or in the written agreement between Cornerstone and Client.

Discretionary Management Services

When retained as an investment manager within the meaning of ERISA § 3(38), Cornerstone provides continuous and ongoing supervision over the designated retirement plan assets. Cornerstone will actively monitor the designated retirement plan assets and provide ongoing management of the assets. When applicable, Cornerstone will have discretionary authority to make all decisions to buy, sell or hold securities, cash or other investments for the designated retirement plan assets in our sole discretion without first consulting with the Plan Fiduciaries. We also have the power and authority to carry out these decisions by giving instructions, on your behalf, to brokers and dealers and the qualified custodian(s) of the Plan for our management of the designated retirement plan assets.

Item 5 - Fees and Compensation

General Fee Information

Unless an account is managed in a wrap fee program, fees paid to Cornerstone are exclusive of all custodial and transaction costs paid to the client's custodian, brokers or other third party consultants. Please see ***Item 12 - Brokerage Practices*** for additional information. Fees paid to Cornerstone are also separate and distinct from the fees and expenses charged by mutual funds, ETFs (exchange traded funds) or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund's prospectus or offering materials). The client should review all fees charged by funds, brokers, custodians, Cornerstone and others to fully understand the total amount of fees paid by the client for investment and financial-related services.

Portfolio Management Fees for Institutional and High Net Worth Clients

The annual fee schedule, based on a percentage of assets under management, is as follows:

Institutional Client Large Cap Fee Schedule

First \$10,000,000	0.75%
Next \$10,000,000	0.55%
Thereafter	0.35%

Institutional Client Mid & SMID Cap Fee Schedule

First \$10,000,000	0.90%
Next \$40,000,000	0.75%
Thereafter	0.50%

Institutional Client Small Cap Fee Schedule

First \$10,000,000	1.00%
Next \$40,000,000	0.75%
Thereafter	0.50%

High Net Worth Client Fee Schedule

First \$10,000,000	1.00%
Next \$10,000,000	0.75%
Thereafter	0.55%

Cornerstone may, at its discretion, make exceptions to the foregoing fee structures or negotiate special fee arrangements where Cornerstone deems it appropriate under the circumstances.

Portfolio management fees are generally payable quarterly, in arrears. If management begins after the start of a quarter, fees will be prorated accordingly. For accounts of \$1 million or greater, fees will be prorated for asset flows that equal or exceed 30% of the account value.

Either Cornerstone or the client may terminate their Investment Management Agreement at any time, subject to any written notice requirements in the agreement. In the event of termination, any fees due to Cornerstone from the client will be invoiced or deducted from the client's account prior to termination.

Asset Management Fees for Clients of other Investment Professionals

Fees for asset management services are individually negotiated with each primary adviser that retains or recommends Cornerstone to manage its clients' accounts and are based on a percentage of assets under management. Payment arrangements, including the timing (in advance or arrears), frequency and billing procedures, will be agreed upon by Cornerstone and the primary adviser. The specific manner in which advisory fees are charged by Cornerstone for asset management services will be established in the primary adviser's or the client's written agreement with Cornerstone, as applicable to each arrangement. The client should see the primary adviser's Form ADV Part 2A for more information regarding its fees, as fees will vary by adviser.

Wrap Program Fees

In some instances, Cornerstone is retained under wrap fee arrangements offered or sponsored by certain institutions which may be organized as a Broker/Dealer, a Registered Investment Adviser or both (each collectively referred to herein as a "Sponsor"). Clients participating in such arrangements generally pay the Sponsor an inclusive annual fee to cover the cost of securities transactions executed by or through the Sponsor, as well as advisory and custodial services provided. In some cases the Sponsor collects the entire fee and remits a portion to Cornerstone; in other cases Cornerstone may collect its fee separately. In either case the fee arrangements are disclosed to the client. Each Sponsor determines if its fees are paid in advance or in arrears.

Sub-advisory Fees- AdvisorShares Cornerstone Small Cap ETF

Cornerstone receives fees for the investment sub-advisory services provided to the Fund. These fees are a portion of the fees and expenses charged by the Fund to their shareholders. Please refer to the Prospectus and Statement of Additional Information applicable to the Fund for more information regarding the Fund's fees and expenses.

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

Cornerstone does not currently have any performance-based fee arrangements. "Side-by-Side Management" refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Because Cornerstone has no performance-based fee accounts, it has no side-by-side management. While Cornerstone does not currently have any clients with performance-based fee arrangements it may do so in the future without prior notice.

Item 7 - Types of Clients

Cornerstone serves pension and profit-sharing plans, corporations, state or municipal government entities, other pooled investment vehicles, Registered Investment Companies, trusts, estates, individuals and charitable organizations. Cornerstone does not impose a minimum portfolio size or minimum annual fee on Institutional or High Net Worth Clients. When serving as the asset manager to clients of other investment professionals, Cornerstone requires a \$100,000 minimum portfolio size to engage its asset management services. At the discretion of Cornerstone, the minimum amount to open such accounts may be lowered.

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

Cornerstone believes that stock prices of large companies are more volatile than the underlying fundamentals of a given company. This anomaly provides an opportunity for us, as disciplined investors, to exploit security mispricing.

Key Tenets of our Investment Philosophy

1. **Fundamentals Determine Value:** Large companies have embedded characteristics that tend to persist. The focus of our investment research is to determine if a company's historical fundamentals are likely to continue into the future. Over the long-term, price and value tend to converge as near term issues are resolved. If our assessment is correct, a company we buy needs only to continue its past history to outperform. We see this as a much lower risk approach to investing than requiring that a company does something unproven or exceptional in order to outperform.
2. **Information is a Commodity:** We believe the market is efficient in so far as it incorporates all current available information. There is no sustainable advantage to be derived from trying to uncover incremental material information that is not yet known by the market. However, the market price overly weights investor fears, hopes, forecasts, and expectations about the future that are often overly optimistic or pessimistic. We believe we have a better way of processing information and that is our competitive advantage.
3. **Avoid Forecasting Inputs:** Forecasting forms a precarious basis for any investment process. The ability to forecast the future accurately and consistently is extremely rare. Furthermore, to be useful, a forecast must be not only correct, but it must also be different from the consensus (otherwise the forecast is already reflected in current prices). Relying upon forecasts interjects an over-confidence bias to security selection that puts value at risk.

Overview of the Large Cap Investment Process

The investment team uses its internally developed investment model (Fair Value Model) to screen for attractive companies. The model is based in financial theory; it identifies a company's fair value based on operating and financial fundamentals. Risk is controlled at the stock level by focusing on companies with demonstrated financial strength, long-term profitability, and a stock price that is below intrinsic value.

Universe: Cornerstone Investment Partners' has constructed a universe of 800 large, liquid securities, including non-US companies, traded on US exchanges. Roughly 50 of these names are ADRs, acknowledging that many large cap firms are multinational organizations and that the philosophy persists regardless of domicile. Additionally, Cornerstone maintains a separate universe of approximately 325 ADRs. The overwhelming majority of securities owned in large cap portfolios are drawn from these universes.

The investment team makes adjustments to the reported data to put all companies on equal footing with respect to their return metrics. Stocks are then ranked based on their current discount to fair value. Those companies trading at the largest discounts should theoretically provide higher returns. These stocks are then reviewed by the investment team to determine if the historical track record is relevant and ultimately repeatable.

Fundamental Analysis: The investment team begins work by analyzing the most attractive names filtering through our proprietary valuation screen. The investment team goes through these names each week and culls out those that would obviously not clear fundamental review. For example, a name that is in danger of going bankrupt may look very inexpensive, but the team will usually avoid

these names as we seek first to preserve capital for our clients. Stocks may be excluded because the team is familiar with management and considers them weak, the competitive position is poor, or we believe there are financial disclosure problems. This process of exclusion allows the investment team to spend greater time analyzing each surviving name.

Estimation of Fair Value: Our investment team conducts fundamental research to identify the embedded characteristics that have enabled the company to achieve its long-term profitability and to ensure those characteristics are still in place. Embedded characteristics would include quality of management, patents, products, distribution, culture, brand value, etc.

Cornerstone continues to use its valuation methodology throughout the selection process to estimate the fair value for each company based on scenario analysis (continuing earnings trends, worst case scenarios, etc.) and sensitivity analysis. This is possible because our valuation work not only identifies securities that appear undervalued, but also explains why they appear undervalued. This differentiating capability allows the investment team to direct their research on the key determinants of value. We judge companies on their relevant proven financial record and the repeatability of that record. The team will not value a company using unrealistic profitability assumptions or a level of growth the company has never achieved. We use a long-term investment horizon when evaluating the respective outlooks for each company.

During the portfolio design stage of our investment process, it is our objective to include those names with the greatest margin of safety and the greatest chance of achieving fair value. The majority of portfolios, industry and sector weightings are strictly an outgrowth of our bottom-up, stock selection process.

We use a model portfolio approach to ensure that all clients with like mandates receive similar holdings and weightings.

Overview of the Small and Mid Cap Investment Process

The investment team primarily uses a cash flow return methodology to determine which stocks the market is pricing with muted expectations for profitability and growth. This approach is based in financial theory of discounted cash flow analysis;

Universe: Cornerstone Investment Partners' screens from a universe of roughly 2500 stocks. Stocks are only considered if they fit the market cap ranges of the market cap benchmarks of the strategy.

The team screens for names that ideally demonstrate repeatable growth, stable or improving profitability, a history of economic profit creation and a track record of sufficient length operating under a consistent business model. These stocks are then reviewed by the investment team to determine if the historical track record is relevant and ultimately repeatable.

Fundamental Analysis: The investment team begins work by analyzing the candidates with the greatest mispricing. The investment team goes through these names each week and culls out those that would obviously not clear fundamental review. For example, a name that is in danger of going bankrupt may look very inexpensive, but the team will usually avoid these names as we seek first to preserve capital for our clients. Stocks may be excluded because the team is familiar with management and considers them weak, the competitive position is poor, or we believe there are

financial disclosure problems. This process of exclusion allows the investment team to spend greater time analyzing each surviving name.

Determining Mispricing of Fundamentals: The investment team performs multiple valuation analyses when evaluating a stock, utilizing different inputs for profitability (e.g., cash flows, operating earnings, etc.) and growth (e.g., asset growth, earnings growth, etc.). If a stock appears to be mispriced, the investment seeks to determine the degree of business continuity risk associated with the company in question through financial statement analysis. Through a thorough inspection of the company's financial statements that includes but is not limited to interest coverage and free cash flow generation, the investment team can discern the degree of risk to the company's business continuity. For companies with low business continuity risk, the investment team performs additional research on the company's business model. This stage of research is broad, but generally seeks to determine whether or not the company's business model is sustainable. Examples of analysis at this stage include an examination of the competitive landscape across the industry as well as the company's customer base. The investment team will also assess management through an analysis of the company's financial performance during their tenure. We use a long-term investment horizon when evaluating each company.

During the portfolio construction stage of our investment process, it is our objective to construct a portfolio of the stocks we have the greatest conviction that the market has mispriced. In the majority of portfolios, we hold a fixed number of securities in order to create a dynamic tension between stocks in the portfolio and stock outside the portfolio. Each newly bought stock forces another stock out of the portfolio, and vice versa. Through the integration of the buy and sell decision, we force ourselves to have conviction in each name that we hold. Since we expect the source of our outperformance to be driven by bottom up stock selection, we seek to derive a meaningful portion of the active risk in the portfolio from stock selection, the idiosyncratic risk of the stocks we have selected. We use a model portfolio approach to ensure that all clients with like mandates receive similar holdings and weightings.

Overview of the Diversified Small Cap Investment Process

The Diversified Small Cap Investment Strategy is a rules-based approach that utilizes a fundamentals-based methodology to build and maintain a diversified portfolio of securities.

Universe: Cornerstone Investment Partners screens from an active universe of roughly 1800 stocks, which generally represent the 1000th through 2800th largest securities (by market capitalization) that trade on US exchanges. Stocks are only considered if they fit the market cap ranges of the strategy.

Screening Methodology: Cornerstone ranks this investible universe using a proprietary rules-based methodology with the goal of identifying an attractive portfolio relative to the small cap core benchmark on a risk-adjusted basis.

Our proprietary methodology is designed around four key fundamental characteristics. Two of these characteristics are focused on earnings results. First, we seek companies that are exhibiting improving fundamentals. This enables us to identify businesses where expectations are either accelerating, suggesting continued strong execution or a better market environment; or are exhibiting a positive inflection in performance. To ensure that the underlying fundamentals are robust, and as a method to measurably judge a management team, we seek companies that have a history of achieving their expected performance.

We also consider two characteristics related to the company's balance sheet and cash flow. Given that small cap companies are often riskier than large cap peers, since they are generally younger, less profitable, and less economically diversified, the methodology is designed to identify companies that have a robust balance sheet and strong cash flows. We focus on companies with significant tangible assets on the balance sheet and the financial flexibility versus fixed cash obligations to weather cyclical downturns.

Another key issue Cornerstone seeks to mitigate with this strategy is the collection of behavioral biases many managers exhibit in the small cap asset class, given a larger investible universe and less information available in the market. By utilizing a rules-based approach incorporating these four key characteristics, we are able to minimize the effect of behavioral biases such as anchoring, familiarity, and confirmation biases, and add discipline to our process.

Although rules-based, Cornerstone's security selection process is bottom up and designed to principally deliver performance by individual stock selection, not sector allocation. Thus, sector underweights or overweights are an outcome of this bottom up process, rather than an input to it. It is our objective to construct a portfolio for which relative performance is driven principally by individual stock selection.

Portfolio Construction: In this approach, Cornerstone maintains a diversified portfolio with a fixed number of stocks. The diversification of the portfolio helps minimize the potential downside impact from the idiosyncratic risk of an individual stock. By holding a consistent number of securities, it ensures that we maintain adherence to our process due to the dynamic tension between names to be added and names to be exited. We reconstitute a portion of the portfolio quarterly. We purchase stocks at an equal weight, and engage in a buy-and-hold strategy until they are exited. We use a model portfolio approach to ensure that all clients with like mandates receive similar holdings and weightings.

Investment Strategies

Cornerstone's strategic approach is to invest each portfolio in accordance with the investment guidelines established for each client. This means that the following strategies may be used in varying combinations over time for a given client, depending upon the client's individual circumstances.

Long Term Purchases – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

Risk of Loss

While Cornerstone seeks to diversify clients' investment portfolios across various securities consistent with their investment objectives in an effort to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below is a description of several of the principal risks that client investment portfolios face.

Management Risks. While Cornerstone manages client investment portfolios based on Cornerstone's experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying securities in which they are

invested. Accordingly, client investment portfolios are subject to the risk that Cornerstone allocates client assets to individual securities and/or asset classes that are adversely affected by unanticipated market movements, and the risk that Cornerstone's specific investment choices could underperform their relevant indexes.

Risks of Investments in Mutual Funds, ETFs and Other Investment Pools. As described above, Cornerstone may invest client portfolios in mutual funds, ETFs and other investment pools ("pooled investment funds"). Investments in pooled investment funds are generally less risky than investing in individual securities because of their diversified portfolios; however, these investments are still subject to risks associated with the markets in which they invest. In addition, pooled investment funds' success will be related to the skills of their particular managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

Equity Market Risks. Cornerstone will invest portions of client assets directly into equity investments, primarily stocks, or into pooled investment funds that invest in the stock market. As noted above, while pooled investments have diversified portfolios that may make them less risky than investments in individual securities, funds that invest in stocks and other equity securities are nevertheless subject to the risks of the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security's prospects.

Fixed Income Risks. Cornerstone may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, either directly or through pooled investment funds, is generally less volatile than investing in stock (equity) markets, fixed income investments nevertheless are subject to risks. These risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

Foreign Securities Risks. Cornerstone may invest portions of client assets into foreign securities (either through ADRs or through ordinary shares) or pooled investment funds that invest internationally. While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Finally, foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency.

Real Estate Risks. Cornerstone may invest portions of client assets into real estate investment trusts ("REITS"). REITS whose underlying properties are concentrated in a particular industry or geographic region are subject to risks affecting such industries and regions. The securities of REITS involve greater risks than those associated with larger, more established companies and may be subject to more abrupt or erratic price movements because of interest rate changes, economic conditions and other factors.

Margin Risk. Cornerstone does not use margin as an investment strategy. However, clients may elect to borrow funds against their investment portfolio. When securities are purchased, they may be paid for in full or the client may borrow part of the purchase price from the account custodian. If a client borrows part of the purchase price, the client is engaging in margin transactions and there is risk involved with this. The securities held in a margin account are collateral for the custodian that loaned the client money. If those securities decline in value, then the value of the collateral supporting the client's loan also declines. As a result, the brokerage firm is required to take action in order to maintain the necessary level of equity in the client's account. The brokerage firm may issue a margin call and/or sell other assets in the client's account to accomplish this. It is important that clients fully understand the risks involved in trading securities on margin, including but not limited to:

- It is possible to lose more funds than is deposited into a margin account;
- The account custodian can force the sale of assets in the account;
- The account custodian can sell assets in the account without contacting the client first;
- The account holder is not entitled to choose which assets in a margin account may be sold to meet a margin call;
- The account custodian can increase its "house" maintenance margin requirements at any time without advance written notice; and
- The account holder is not entitled to an extension of time on a margin call.

Item 9 - Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Cornerstone or the integrity of Cornerstone's management. Cornerstone has no disciplinary events to report.

Item 10 - Other Financial Industry Activities and Affiliations

Wrap Fee Arrangements

In some instances, Cornerstone is retained under wrap fee arrangements offered or sponsored by certain institutions which may be organized as a Broker/Dealer, a Registered Investment Adviser or both (each collectively referred to herein as a "Sponsor"). Clients participating in such arrangements generally pay the Sponsor an all-inclusive annual fee to cover the cost of securities transactions executed by or through the Sponsor, as well as advisory and custodial services provided through the Sponsor. These fees may be paid in advance or in arrears as determined by each Sponsor. In evaluating such an arrangement, a client should recognize that brokerage commissions for the execution of transactions in the clients' accounts are typically not negotiated by Cornerstone. Transactions are executed "gross," i.e., without commission, and a portion of the wrap fee payable to the Sponsor is generally considered to be in lieu of commissions. Trades are generally executed only with the specific Sponsor, so that Cornerstone might not be able to seek the best price and execution by placing brokerage transactions with other Broker/Advisers. This is typically the case in light of the all-inclusive nature of the wrap fee payable by the client and the fact that brokerage transactions effected through other Broker/Dealers could subject the clients' accounts to additional expense which is otherwise covered under the wrap fee arrangement.

While it has been Cornerstone's experience that the Sponsor generally can offer best price and execution for securities transactions, no assurance can be given that this will be the case for each brokerage transaction effected on behalf of a client who has entered into a wrap fee arrangement

with a Sponsor. Accordingly, the client may wish to satisfy himself that the Sponsor can provide adequate price and execution on most or all securities transactions. The client should also consider whether, depending upon the level of the fees charged by the Sponsor, the amount of portfolio activity in the client's account, the value of custodial, advisory and other services which are provided under the particular wrap fee arrangement, and other factors, the fee may or may not exceed the aggregate cost of such services if they were to be provided separately and if Cornerstone were free to negotiate commissions and seek best price and execution of securities transactions for the client's account. At the same time, clients should weigh that the advisory and other services provided by the Sponsors pursuant to wrap fee arrangements might not be available to the client otherwise than pursuant to that arrangement.

Sub-Advisory Arrangements - AdvisorShares Cornerstone Small Cap ETF

As previously described, Cornerstone is the sub-advisor to the AdvisorShares Cornerstone Small Cap ETF, a series fund offered by the AdvisorShares Trust. Cornerstone may, from time to time, recommend the purchase of shares of the Fund to clients for whom the strategies are suitable. Where clients' funds are invested in the Fund, Cornerstone will not charge an advisory fee based on those assets, rather; Cornerstone will earn a fee on those assets through its position as sub-advisor to the Fund.

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

Code of Ethics and Personal Trading

Cornerstone has adopted a Code of Ethics ("the Code"), the full text of which is available to you upon request. Cornerstone's Code has several goals. First, the Code is designed to assist Cornerstone in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940, Cornerstone owes fiduciary duties to its clients. Pursuant to these fiduciary duties, the Code requires persons associated with Cornerstone (managers, officers and employees) to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits such associated persons from trading or otherwise acting on insider information.

Next, the Code sets forth guidelines for professional standards for Cornerstone's associated persons. Under the Code's Professional Standards, Cornerstone expects its associated persons to put the interests of its clients first, ahead of personal interests. In this regard, Cornerstone associated persons are not to take inappropriate advantage of their positions in relation to Cornerstone's clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time, Cornerstone's associated persons may invest in the same securities recommended to clients. Under its Code, Cornerstone has adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code's personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading and pre-clearance of certain types of personal trading activities. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action as appropriate for violations.

Participation or Interest in Client Transactions

As described in Item 10, when appropriate for client circumstances, Cornerstone may recommend that clients invest in the Fund for which Cornerstone serves as sub-advisor. Under such circumstances, clients will not be assessed Cornerstone's portfolio management fee on assets invested in the Fund. However, clients will be subject to the management fee imposed directly by the Fund, a portion of which is payable to Cornerstone.

Because associated persons may invest in the same securities as those held in client accounts, Cornerstone has established a policy requiring its associated persons to pre-clear transactions in some types of securities with the Chief Compliance Officer. The goal of this policy is to avoid any conflict of interest that arise in these situations. Some types of securities, such as CDs, treasury obligations and open-end mutual funds, which are not advised or sub-advised by Cornerstone are exempt from this pre-clearance requirement. However, in the event of other identified potential trading conflicts of interest, Cornerstone's goal is to place client's interests first.

Consistent with the foregoing, Cornerstone maintains policies regarding participation in initial public offerings ("IPOs") and private placements in order to comply with applicable laws and avoid conflicts with client transactions. If a Cornerstone associated person wishes to participate in an IPO or invest in a private placement, he or she must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer.

Item 12 - Brokerage Practices

Best Execution, Benefits of Brokerage Selection and Soft Dollars

When given discretion to select the brokerage firm that will execute orders in client accounts, Cornerstone seeks "best execution" for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, Cornerstone may use or recommend the use of brokers who do not charge the lowest available commission in the recognition of research and securities transaction services, or quality of execution. Research services (soft dollar benefits) received in connection with transactions may include proprietary or third party research (or any combination), and may be used in servicing any or all of Cornerstone's clients. Therefore, research services received may not be used for the account for which the particular transaction was effected. Cornerstone may have an incentive to execute a higher proportion of trades to a broker/dealer providing more favorable soft dollars benefits due to the fact that these brokers provide research and execution services. However, all brokers used for trade execution provide excellent service to client accounts and very competitive commission pricing.

In addition, Cornerstone participates in the institutional platforms established by a number of broker/dealers for investment advisers. These platforms provide, among other things, access to institutional trading, custody, reporting and related services, which are typically not available to retail investors. The broker/dealers may also make available various support services. Some of those services help Cornerstone manage or administer clients' accounts while others help Cornerstone manage and grow our business. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them. These services are not soft dollar arrangements, but are part of the institutional platform offered by the broker/dealers.

Directed Brokerage

Clients may direct Cornerstone to use a particular broker for custodial or transaction services on behalf of the client's portfolio. In directed brokerage arrangements, the client is responsible for negotiating the commission rates and other fees to be paid to the broker. Accordingly, a client who

directs brokerage should consider whether such designation may result in certain costs or disadvantages to the client, either because the client may pay higher commissions or obtain less favorable execution, or the designation limits the investment options available to the client.

By directing brokerage arrangements, the client acknowledges that the economies of scale and levels of efficiency are generally compromised when alternative brokers are used. While every effort is made to treat clients fairly over time, the fact that a client chooses to use the brokerage and/or custodial services of these alternative service providers can in fact result in a certain degree of delay in executing trades for their account(s) and otherwise adversely affect management of their account(s).

By directing Cornerstone to use a specific broker or dealer, clients who are subject to ERISA confirm and agree with Cornerstone that they have the authority to make the direction, that there are no provisions in any client or plan document which are inconsistent with the direction, that the brokerage and other goods and services provided by the broker or dealer through the brokerage transactions are provided solely to and for the benefit of the client's plan, plan participants and their beneficiaries, that the amount paid for the brokerage and other services have been determined by the client and the plan to be reasonable, that any expenses paid by the broker on behalf of the plan are expenses that the plan would otherwise be obligated to pay, and that the specific broker or dealer is not a party in interest of the client or the plan as defined under applicable ERISA regulations.

Aggregated Trade Policy

Accounts are assigned to a Trading Group, each according to the level and type of restriction(s) placed on the account by the client as well as trade direction. Accounts over which Cornerstone exercises full discretion with no restrictions, directed brokerage or other restrictive guidelines imposed by the client, are clearly able to be traded most efficiently, and are therefore normally traded first. Wrap programs and high net worth custodians that allow for step-outs may be traded with the discretionary accounts depending on the applicability of doing so in light of the liquidity and volatility of the security being traded and any additional charges by the Sponsor firm. Cornerstone has full discretion on whether to step out, or trade through the various programs platforms as part of the normal rotation.

Trades in non-discretionary, or otherwise restricted accounts, delays the processing of the trade and may impact the terms of the trade as well. The most restricted accounts are usually traded last. Within each Trading Group, trades in the same security for different client accounts are then aggregated and executed according to executing broker. In each case the executing broker is selected with the objective of minimizing explicit (i.e., commissions) and implicit (i.e., market impact, delay and missed trade opportunity costs) trading costs. With respect to all aggregated trades, each executing broker's trades will be dollar-averaged (i.e., each account receives the same price), but different accounts may pay different commissions owing either to the size of each separate account's position, or to the minimum ticket charges applied by the custodian, or both. In any unfilled aggregated block trade, the trader allocates the fills on a pro rata basis among participating accounts. In some cases, it may be necessary to exclude certain client accounts from aggregated block trades due to legal or regulatory concerns, or client restrictions. UMA Programs are notified of model portfolio updates at the time Wrap Programs are traded.

Item 13 - Review of Accounts

Managed portfolios are reviewed at least quarterly by portfolio managers and staff, but may be reviewed more often if requested by the client, upon receipt of information material to the management of the portfolio, or at any time such review is deemed necessary or advisable by Cornerstone. These factors generally include, but are not limited to, the following: change in general client circumstances (marriage, divorce, retirement), economic, political or market conditions.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account as well as transactions in each account, including fees paid from an account. Account custodians also provide prompt confirmation of all trading activity, and year-end tax statements, such as 1099 forms. In addition, Cornerstone provides at least a quarterly report for each managed portfolio. This written report normally includes a summary of portfolio holdings and performance results. Additional reports are available at the request of the client.

Item 14 - Client Referrals and Other Compensation

From time to time, Cornerstone may enter into arrangements with third parties (“Solicitors”) to identify and refer potential clients to Cornerstone. Consistent with legal requirements under the Investment Advisers Act of 1940, as amended, Cornerstone enters into written agreements with Solicitors under which, among other things, Solicitors are required to disclose their compensation arrangements to prospective clients before they enter into an agreement with Cornerstone.

Item 15 - Custody

It is the custodian’s responsibility to provide clients with confirmations of trading activity, tax forms and at least quarterly account statements. Clients are advised to review this information carefully, and to notify Cornerstone of any questions or concerns. Clients are also asked to promptly notify Cornerstone if the custodian fails to provide statements on each account held.

From time to time and in accordance with Cornerstone’s agreement with clients, Cornerstone will provide additional reports. The account balances reflected on these reports should be compared to the balances shown on the custodian’s statements to ensure accuracy. At times there may be small differences due to the timing of dividend reporting, pending trades and other similar issues.

Item 16 - Investment Discretion

As described in ***Item 4 - Advisory Business***, Cornerstone will accept clients on either a discretionary or non-discretionary basis. For *discretionary accounts*, an Investment Management Agreement (“IMA”) is executed by the client, giving Cornerstone the authority to carry out various activities in the account, generally including the following: trade execution; the ability to request checks on behalf of the client; and, the withdrawal of advisory fees directly from the account. Cornerstone then directs investment of the client’s portfolio using its discretionary authority. The client may limit authority granted to Cornerstone to the extent consistent with the client’s investment advisory agreement with Cornerstone and the requirements of the client’s custodian.

For *non-discretionary* accounts, the client also generally executes an IMA, which allows Cornerstone to carry out trade recommendations and approved actions in the portfolio. However, in accordance with the investment advisory agreement between Cornerstone and the client, Cornerstone does not

implement trading recommendations or other actions in the account unless and until the client has approved the recommendation or action. As with discretionary accounts, clients may limit the authority of Cornerstone.

Item 17 - Voting Client Securities

Pursuant to various provisions of the Investment Advisers Act of 1940, Cornerstone acts in a fiduciary capacity with respect to each of its advisory clients and, therefore, must act in the interest of the beneficial owners of managed accounts. Unless otherwise instructed, Cornerstone will undertake to vote proxies for clients' accounts.

Unless specific voting guidelines or directives are provided by a client, Cornerstone will typically vote proxies in accordance with Taft-Hartley proxy guidelines provided by Egan-Jones Ratings Co. ("Egan-Jones"), an independent provider of proxy research and voting recommendations. We have engaged Broadridge Investor Communication Solutions, Inc. ("Broadridge"), through the use of its electronic system ProxyEdge, to manage and maintain voting records.

Egan-Jones recommendation guidelines are not exhaustive, do not address all potential voting issues, and do not necessarily always correspond with the opinions of Cornerstone. Therefore, there may be instances where Cornerstone may not vote the client's shares in accordance with Egan-Jones guidelines. In the event that Cornerstone believes the Egan-Jones recommendation is not in the best interest of shareholders and on those matters for which Egan-Jones does not provide a specific voting recommendation, Cornerstone will determine how to vote the proxies. There may be instances when Egan-Jones does not send proxy vote recommendations in a timely manner or recommendations are not available. All proxies by an issuer will typically be voted similarly, unless there is a specific conflict of interest or client guidelines dictate otherwise.

A copy of our complete policy, as well as records of proxies voted; are available to clients upon request. Such records are maintained for a period of six (6) years.

Class Action Lawsuits

Cornerstone does not accept responsibility for responding to, completing or delivering to any party, client or otherwise, documentation of any sort associated with class action lawsuit events. However, any assistance that is provided is a service to our clients and does not indicate acceptance of responsibility with respect to class action lawsuits.

Item 18 - Financial Information

Cornerstone does not require nor solicit prepayment of more than \$1,200 in fees per direct advisory client, six months or more in advance, and therefore has no disclosure required for this item.