



CORNERSTONE
CAPITAL MANAGEMENT, INC.

Large Cap Growth Strategy Review September 30, 2008

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This presentation book contains verbal descriptions, charts, and diagrams intended to describe the investment process used at Cornerstone Capital Management, Inc. The descriptions, charts, and diagrams contained herein are intended to describe how the investment process works in most circumstances. Nothing herein should be interpreted as applying to every situation. In fact, Cornerstone reserves the right to modify its team or process as it deems appropriate to protect and grow the assets of its clients.

Third Quarter 2008 Investment Review



Andrew S. Wyatt
Chief Executive Officer

When I was growing up, and times got tough, my Dad would look at me and say, “this too shall pass.” My Dad quoting what Abraham Lincoln said during the dark days of the Civil War was always a calming reminder. During this unprecedented financial crisis, it is important to remember now that “this too shall pass.”

The last several weeks have seen a complete disconnect between share prices and the underlying fundamentals. Fear and panic have replaced greed, and the result has been a vicious drop in share prices. The question I have been asked most often is, “with what has happened are you changing anything in your investment process?” The answer is no. As we have told our story over these last two and a half years, we have said that we are short-term contrarians in the context of being long-term fundamental investors. Through rigorous fundamental analysis, we are looking for underappreciated opportunities not recognized by others. Our investment process revolves around four cornerstones: *Great Companies* having *Strong Fundamentals* with *Favorable Valuations*. On top of all of this is the fourth cornerstone: *Risk Management*. By staying true to this discipline we expect strong long-term results even when the short-term at times looks irrational.

History has proven that the stock market always returns to company fundamentals. While we don’t know exactly when that will be, eventually it will happen. When it does, we will be in a strong position to benefit. Tom Kamp’s letter this quarter, “Cash is King,” will give you a good sense of how we are positioned and where we believe we are going. It will also underline the fact that we are sticking to the fundamental analysis that has been the foundation of our past success.

We are pleased to tell you that in spite of the difficult markets we have continued to see strong positive flows into our large-cap growth mutual fund and have won four institutional mandates for separately managed large-cap growth portfolios: three are public funds and one is a corporate pension fund.

Thank you for the confidence you have placed in Cornerstone and please do not hesitate to contact us if you have any questions.

Sincerely,
Andrew S. Wyatt
CEO

Investment Perspective and Outlook (October 2008)



*Thomas G. Kamp, CFA
President, Chief
Investment Officer*

“Cash is King”

In my second quarter 2008 report, “The Eye of the Storm”, I indicated that the financial markets had experienced a temporary calm during the quarter and were bracing for the back side of the housing and credit storm. Due to the breadth and magnitude of the problems in housing and credit, combined with record high commodity and energy costs, there would be painful economic consequences. Despite these words, the impact has dwarfed my expectations. We are witnessing a credit contraction of historic proportion. Some of the pillars of the world financial system are failing, causing an upheaval in the landscape. While I was concerned about the viability of IndyMac and some other mortgage originators in the wake of Countrywide Credit’s collapse, who would have thought that Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers, AIG, Merrill Lynch, Washington Mutual, Wachovia and a host of foreign banks would either fail or be forced into take-unders?

The heavily leveraged balance sheets of these companies are being unwound causing selling pressure. Leverage ratios for the remaining broker/dealers have declined from approximately 30x to near 24x. Increasingly cautious investors have reduced their exposure to everything but Treasury bills to the extent that at times yields have gone negative! The deleveraging of the \$1.5 trillion hedge fund industry has added to the selling pressure. We have reports of hedge funds that have built cash levels to over 40% in anticipation of redemption requests and have reduced their net long exposure to less than 10%. Like vultures circling over a dying animal, the holdings of hedge funds in distress have been circulated for others to short. Overnight yields on interbank borrowings have soared to over 4.3% as banks are hoarding cash. Even the safety of money market funds has been called into question as The Reserve Primary Fund “broke the buck”. In short, we are seeing a flight to quality while risk premiums blow out on the upside. In this environment of extreme pessimism and fear, cash is king.

The swiftness and severity of the downward moves have been surprising as the fundamentals seem divorced from stock prices. In the Aerospace and Defense industry, EPS estimates for 2008 and 2009 have increased by 2% and 1% respectively year to date; however, the stocks in this sector are down 28% through the third quarter. The 2008 and 2009 EPS estimates for one of our holdings in this space, Textron, are down only 4% year to date, however the stock is down over 59% on concerns about their finance division and fears that their globally diversified 3 year backlog will erode and margins will compress. Our analyst commented, “It is astounding that we are trying to call the bottom in the stock when we haven’t even seen the beginning of the downturn!” Textron now trades at less than 5 times 2009 EPS estimates and less than 11 times an extremely pessimistic estimate of 2010 EPS based on extraordinarily conservative assumptions. This is obviously overdone, but in this environment of fear, Textron’s stock has continued to decline.

Investment Perspective and Outlook (October 2008)

Year to date, we have underperformed our benchmark, the Russell 1000 Growth Index, almost entirely due to negative stock selection. (Our sector selection has resulted in essentially zero contribution – which is normal.) In fact, only 4 stocks account for nearly 74% of our underperformance: Textron, Las Vegas Sands, MEMC Electronics, and Merck. All of these stocks remain in the portfolio due to the disconnect between their earnings power and the stock price.

From a sector perspective, the safest areas have been Consumer Staples and Healthcare, which are only down 2.2% and 11.9%, respectively. While we had a significant overweight in Healthcare which contributed positively to performance, we were underweight the top performing Consumer Staples sector, which detracted.

The broad Consumer Discretionary sector has been volatile as investor sentiment has oscillated between optimism when investors thought the economic downturn would be short lived and pessimism when fears of a deeper collapse in consumer spending took precedence. We have actively traded small positions in the retail industry in anticipation of a cyclical turn. The earnings estimates for Las Vegas Sands have declined due to macro concerns and credit financing fears. We believe that these fears are overdone at the current valuation.

The Energy, Materials, Industrial, Financial, and Information Technology sectors have all declined in excess of 20% year to date. We were underweight Energy early in the year while Energy stocks were running. Our holdings within the sector generally did well; we just didn't have enough of them. As commodity prices rolled over since June, we increased our weighting to a market weight, and have suffered as the stocks have been pummeled. We avoided the carnage in the Materials sector by having no exposure since we took profits in Archer Daniels Midland early in the year.

Our holdings in the Industrial sector included names that are beneficiaries of global infrastructure projects. While we do not believe that the short term earnings power of many of these companies has changed, we recognize that the global economy has slowed due to the expanding credit crisis and declining world stock markets. Consequently, these late cyclical stocks have seen some of the largest price corrections, despite strong near term fundamental performance. We belatedly sold Terex fearing estimate cuts in the future. The remaining names: Textron, ABB, Expeditors International, and Precision Castparts all offer exposure to attractive growth at or near historically low valuation levels.

The Financial sector was one of the worst performing sectors. It was little consolation that we avoided all of the names that have failed or been taken under when survivors like Goldman Sachs, Intercontinental Exchange, Blackstone Group, and American Express all got crushed. Even though we believe that Morgan Stanley is profitable and has a strong enough balance sheet, we exited Morgan Stanley after the Lehman bankruptcy as Morgan's credit default swaps expanded from 200 to 1000 bps and rumors began to fly about its ability to survive. We did not want to take the chance of a ratings downgrade, loss of clients, or other unforeseen calamity. We exited Blackstone due to a perceived inability to monetize their investments at attractive prices in the near future and a desire to reduce our financial weighting. We exited American Express as result of a rapid rise in the charge-off rate on their credit cards (to an annualized rate of over 7%). We exited Sallie Mae after the quarter due to fears of interest rate spread compression and funding risks.

Despite a bias toward the larger, more industry dominant names in the Information Technology sector, performance in the sector suffered in the third quarter as the prices of MEMC Electronics and Apple Computer underperformed the group.

Investment Perspective and Outlook (October 2008)

Where do we go from here? We are fortunate to have Hank Paulson as Secretary of the Treasury. He has taken aggressive action to arrest the crisis:

- The Troubled Asset Relief Program will repurchase up to \$700 billion of illiquid securities.
- The Term Auction Facility (TAF) and Forward TAF have injected US banks and branches with \$900 billion.
- The Term Securities Lending Facility (TSLF) and TSLF Option Program have given primary dealers access to \$250 billion of liquidity.
- Up to \$620 billion of liquidity to foreign central banks through a currency swap program.
- An Asset Backed Money Market Fund Liquidity Facility to purchase Asset Backed Commercial Paper.

In total, the US Treasury will be injecting over \$2 trillion of liquidity. Other foreign central banks have already begun to provide aid in their countries. Finally, an interest rate cut by central banks around the world was coordinated at this week's G-7 summit as we anticipated. Other central banks are sure to follow suit. While I don't know how rapidly the effects of these actions will manifest, they will address the liquidity crisis and provide time to work out of the housing bubble and economic slowdown.

Should we do as some pundits advocate and sell everything in favor of cash or gold? We don't think so. Cash earns little if anything and runs the risk of selling low and buying back at significantly higher levels. An investment in gold runs the same risks, incurs carrying costs, and generates no income.

Should we exit equities and go to bonds? Short term bond yields are low and are likely to stay that way as central banks around the world re-flate their currencies. The resulting steep yield curves will repair the balance sheets of the world's financial institutions and encourage lending to unfreeze the credit markets and spur business activity. The returns on long term bonds could disappoint as yields increase in an inflationary environment.

We recognize that the printed EPS estimates for most companies are at risk. The longer this crisis continues, the more likely we are to see negative earnings estimate revisions for 2009 and beyond. We are not calling for a rapid economic recovery, but as stated above, valuations are down far more than the likely earnings revisions. The S&P500 is trading at the lowest price to book value since 1991.¹ Money market assets currently exceed \$3.5 trillion according to the Investment Company Institute. Hedge fund cash levels are at historic highs and leverage ratios are at historic lows. As depicted below, there is enough cash in Money Market funds alone to buy back over 27% of the S&P500.

No one has ever seen this much cash on the sidelines or this amount of liquidity injected into the world's financial system. As always, the recovery in the market will precede any visible sign in the economy. When the recovery comes, we believe that it will be swift and powerful, as greed replaces fear in investors' minds. We have already gotten a sense of this: our largest holding, Intercontinental Exchange, went up over 24% in a day last week after being oversold. We still believe that the stock has enormous potential as it trades at a 30% discount to its competitors and trades at half of its growth rate.

1. Garthwaite, Andrew. Credit Suisse "Global Investment Strategy". October 7, 2008.

Investment Perspective and Outlook (October 2008)



Source: HaysAdvisory.com, Morning Comment, September 18, 2008, p 6.

We have narrowed the portfolio to just 42 names. The top 10 names represent 42% of the portfolio; the top 25 represent 80%. As a general rule, we have concentrated into those companies with strong product cycles, good cash flow generation, and strong balance sheets. We do have some names that add significant volatility to the portfolio which should benefit the portfolio in any recovery.

We eagerly await a turn. Thank you for the confidence you have placed in us. We look forward to meeting with you in the coming weeks.

Thomas G. Kamp
Chief Investment Officer

Attribution of Returns

Reconciliation of Returns <i>(Representative Account)</i>		
June 30, 2008 – September 30, 2008		
RLG Index Return*		-12.33
Sector Selection	1.88	
<u>Individual Stock Selection</u>	<u>-7.98</u>	
Excess Return (“Alpha”)		-6.09
•Cornerstone Return <i>(Gross of Fees)</i>		-18.42

Attribution Source: FactSet

*Data Source: FactSet. Slight differences are occasionally noted between this data source, used for attribution, and that data from Interactive Data Corp which is used for composite performance reporting. Such differences are generally less than 5 bps.

Attribution of Returns by Sector (6/30/08 to 9/30/08)

Cornerstone vs. RLG

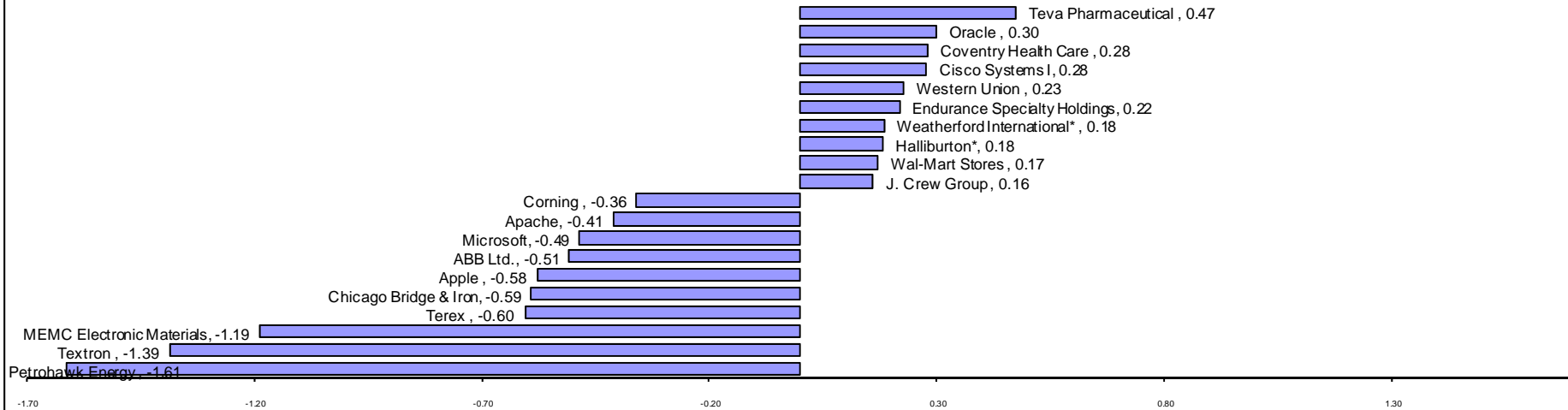
<u>Sector</u>	<u>Sector Allocation</u>	<u>Security Selection</u>	<u>Total Effect</u>
Consumer - Discretionary	-0.15	-0.09	-0.24
Consumer – Staples	-0.61	-0.10	-0.71
Energy	0.31	-0.63	-0.31
Financials	0.29	-0.80	-0.51
Healthcare	0.45	-1.06	-0.60
Industrials	0.02	-2.97	-2.95
Information Technology	0.09	-2.52	-2.43
Materials	0.97	0.00	0.97
Telecommunications Services	0.04	0.00	0.04
Utilities	0.32	0.19	0.51
Cash	0.15	0.00	0.15
Total	1.88	-7.98	-6.09

Attribution Source: FactSet

Numbers may not add, due to rounding. Slight differences are occasionally noted between this data source, used for attribution, and that data from Interactive Data Corp which is used for composite performance reporting.

Largest Contributors to Performance

Largest Contributors to Relative Performance (in %)
Cornerstone vs. RLG
June 30, 2008 - September 30, 2008



*Not owned by Cornerstone Capital during this time period

Attribution of Returns

Reconciliation of Returns <i>(Representative Account)</i>		
December 31, 2007 – September 30, 2008		
RLG Index Return*		-20.26
Sector Selection	.12	
<u>Individual Stock Selection</u>	<u>-7.56</u>	
Excess Return (“Alpha”)		-7.34
Cornerstone Return <i>(Gross of Fees)</i>		-27.60

Attribution Source: FactSet

*Data Source: FactSet. Slight differences are occasionally noted between this data source, used for attribution, and that data from Interactive Data Corp which is used for composite performance reporting. Such differences are generally less than 5 bps.

Attribution of Returns by Sector (12/31/07 to 9/30/08)

Cornerstone vs. RLG

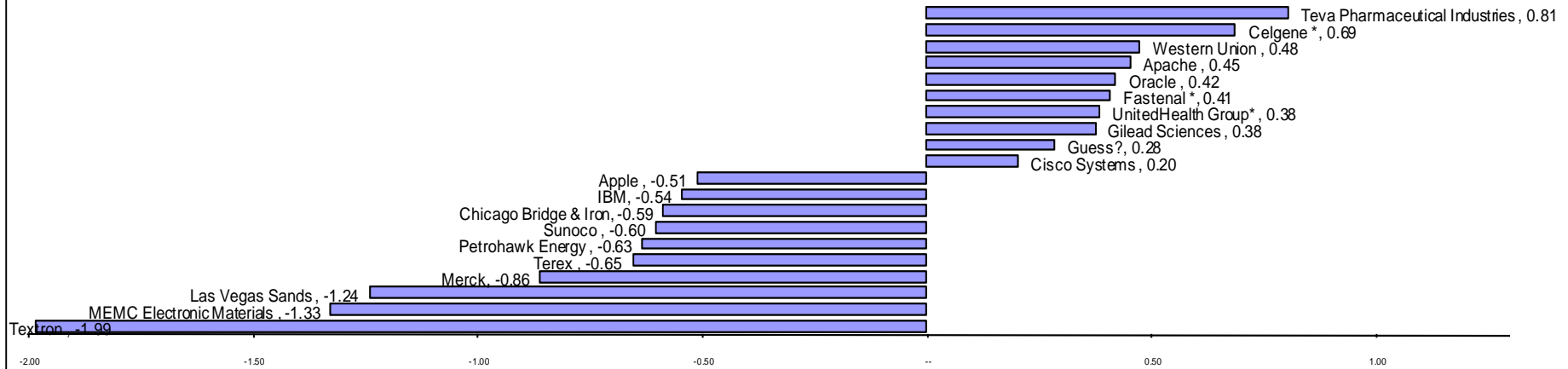
<u>Sector</u>	<u>Sector Allocation</u>	<u>Security Selection</u>	<u>Total Effect</u>
Consumer - Discretionary	-.38	-1.05	-1.41
Consumer – Staples	-.67	-.08	-.73
Energy	-.08	-.39	-.46
Financials	.05	-.57	-.51
Healthcare	.26	-.30	-.02
Industrials	.09	-3.04	-2.95
Information Technology	-.33	-2.39	-2.71
Materials	.58	.03	.62
Telecommunications Services	.03	.00	.03
Utilities	.29	.23	.53
Cash	.28	.00	.28
Total	.12	-7.56	-7.34

Attribution Source: FactSet

Numbers may not add, due to rounding. Slight differences are occasionally noted between this data source, used for attribution, and that data from Interactive Data Corp which is used for composite performance reporting.

Largest Contributors to Performance

Largest Contributors to Relative Performance (in %)
 Cornerstone vs. RLG
 December 31, 2007 - September 30, 2008



*Not owned by Cornerstone Capital during this time period

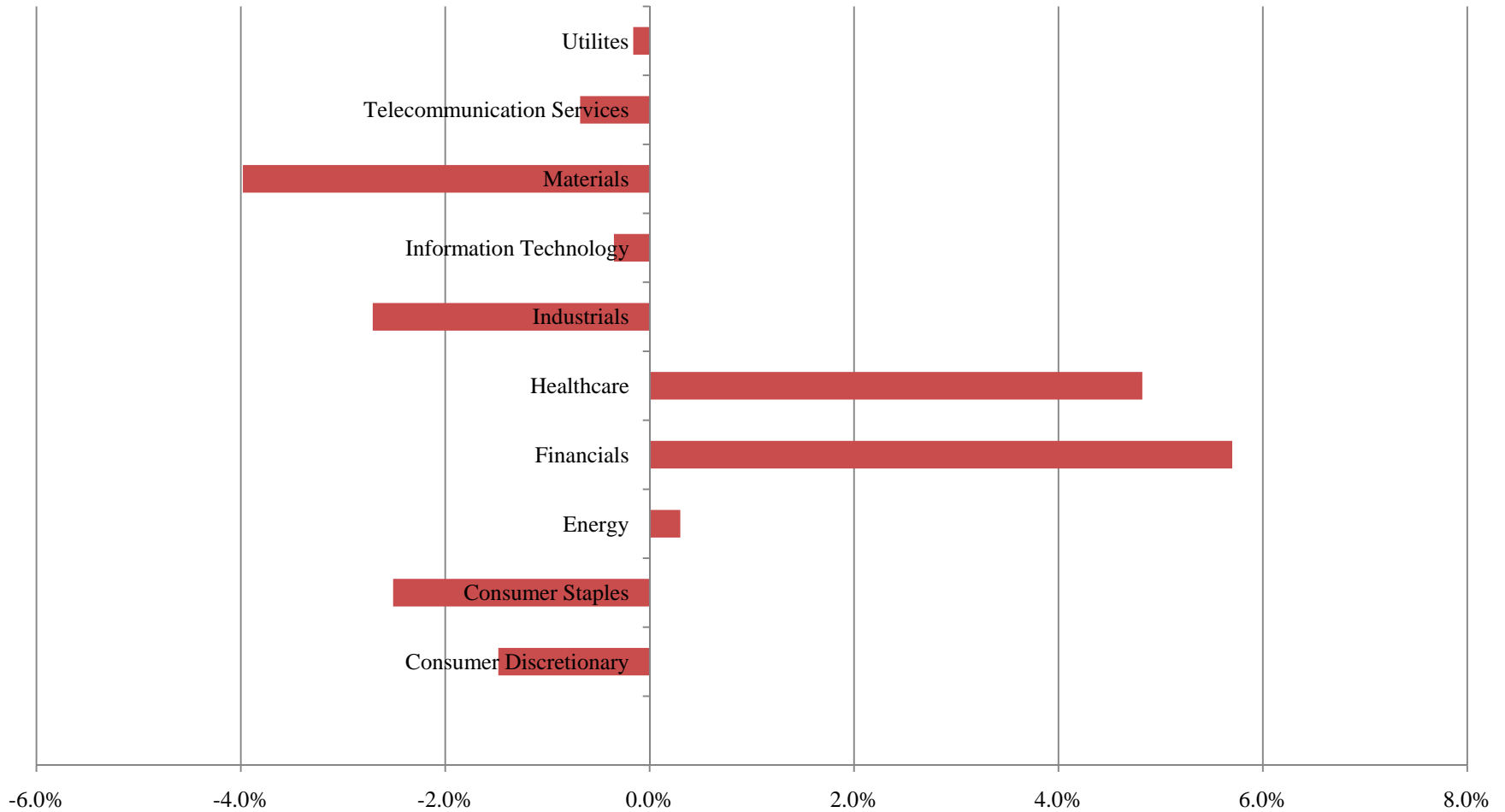
Portfolio Characteristics (As of 09/30/08)

	<u>Cornerstone</u>	<u>Russell1000 Growth</u>
EPS Growth Rates		
▪Long-term	16.74%	15.35%
P/E Ratio		
▪Trailing 4 Quarters	20.66x	22.26x
▪Forward 4 Quarters	14.01x	14.96x
PEG Ratio		
▪Trailing 4 Quarters	1.28x	1.54x
▪Forward 4 Quarters	0.90x	1.08x
Dividend Yield	1.04%	1.49%
Market Capitalization (weighted avg.)	\$63,213	\$66,026
Market Capitalization (median)	\$34,718	\$4,519
Number of Holdings	43	647

Source: FactSet, IBES, Reuters

Sector Weight vs. Russell 1000 Growth (As of 9/30/08)

Relative Weight



Current Holdings (As of 09/30/08)

Security	Pct Assets	Security	Pct Assets
CASH & EQUIVALENTS		HEALTH CARE	
Money Market Fund	1.0	Coventry Health Care, Inc.	2.2
		Gilead Sciences	3.3
CONSUMER – DISCRETIONARY		Medtronic, Inc.	2.2
Amazon.com, Inc.	0.9	Merck & Co., Inc.	3.8
Dick's Sporting Goods	0.7	Schering Plough Corp.	2.9
Disney Walt Holding Co.	1.2	Teva Pharm Inds Ltd.	<u>4.6</u>
Las Vegas Sands Corp.	1.8		19.0
J.C. Penney Co, Inc.	0.6		
Target Corp.	1.6	INDUSTRIALS	
Time Warner Cable, Inc.	<u>1.1</u>	ABB Ltd.	2.7
	8.1	Expeditors Intl Washington, Inc.	2.1
		Precision Castparts Corp.	1.7
CONSUMER– STAPLES		Textron Incorporated	<u>3.9</u>
Coca Cola Co.	2.1		10.4
Diageo PLC	2.1	INFORMATION TECHNOLOGY	
Philip Morris International	0.7	Apple Computer, Inc.	2.9
Procter & Gamble Co.	1.6	CA, Inc.	1.4
Wal-Mart Stores, Inc.	<u>4.7</u>	Cisco Sys, Inc.	5.4
	11.2	Citrix systems, Inc.	0.8
		First Solar, Inc.	1.1
ENERGY		Google, Inc. Class A	3.0
Apache Corp.	3.4	Hewlett-Packard Co.	3.2
National Oilwell Varco	1.2	Intel Corp.	0.8
Petrohawk Energy Corp.	3.2	Mastercard, Inc. Cl A	1.3
Schlumberger Ltd.	<u>2.5</u>	MEMC Electronic Materials Inc.	1.8
	10.3	Oracle Corp.	5.2
		Qualcomm, Inc.	<u>1.0</u>
			27.8
FINANCIALS		UTILITIES	
Endurance Specialty Holdings Ltd.	1.3	FPL Group, Inc.	<u>1.6</u>
Goldman Sachs Group	3.0		1.6
Intercontinental Exchange, Inc.	5.5		
SLM Corp.	<u>0.8</u>		
	10.7		
		TOTAL PORTFOLIO	100.0

Investment Results

Total Returns As of 09/30/08

	Q4 '07	Q1 '08	Q2 '08	Q3'08
Cornerstone Large Cap Growth	0.88%	-11.75%	0.38%	-18.33%
Russell 1000 Growth Index ¹	-0.77%	-10.18%	1.25%	-12.33%

	One Year	Two Years*	2007	Since Inception 02/28/06 – 09/30/08*
Cornerstone Large Cap Growth	-27.02%	-4.89%	17.71%	-4.02%
Russell 1000 Growth Index ¹	-20.88%	-2.82%	11.81%	-1.68%

*Annualized

Note: Performance is based on monthly data and includes all discretionary Large Cap Growth Equity accounts over \$1,000,000. The Inception date of this composite is 2/28/2006. The composite is calculated in U.S. \$'s. Performance is calculated on a time weighted, capitalization-weighted, trade date basis, reflects the reinvestment of dividends and other earnings, is shown net of any foreign withholding tax or trading expenses and gross of other expenses and investment management fees which approximate 0.85% on the first \$20 million invested, 0.60% on the next \$20 million, 0.45% on the next \$20 million, 0.37% on the next \$40 million, 0.30% on the next \$100 million and 0.25% thereafter. A client's actual return would be reduced by these advisory fees and other expenses that may be incurred in the management of their account. As of 09/30/08, this composite includes 12 portfolios with \$539 million in assets, which is approximately 86.1% of all assets under management (\$626MM) and 96.7% of all assets under management in this style. Composite dispersion is calculated using the equal-weighted standard deviation of all portfolios that were included in the composite for the entire year, and is 0.21% YTD*. Cornerstone is an autonomous investment firm. Cornerstone has prepared and presented all time periods of this report in compliance with the Global Investment Performance Standards (GIPS). A complete list and description of all composites is available upon request. Past results are not indicative of future performance.

¹ Data Source: Interactive Data Corp

Tom Kamp Pre-Cornerstone Investment Results

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Tom Kamp	41.4%	28.2%	33.8%	53.8%	32.8%	-15.2%	-17.2%	-29.7%	25.0%	9.5%	16.0%
Russell Large Cap Growth	37.2%	23.1%	30.5%	38.7%	33.2%	-22.4%	-20.4%	-27.9%	29.8%	6.3%	5.3%
S & P 500	37.6%	23.0%	33.4%	28.6%	21.0%	-9.1%	-11.9%	-22.1%	28.7%	10.9%	4.9%

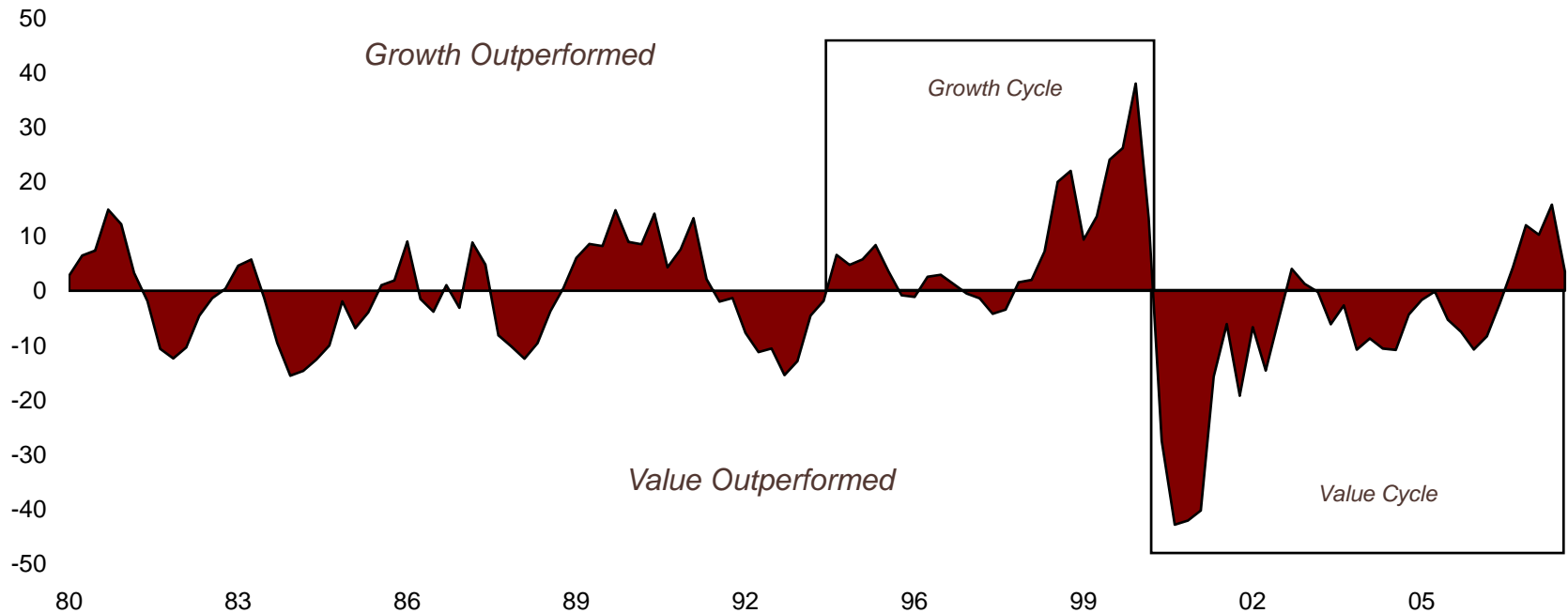
	11 Years	10 Years	9 Years	8 Years	7 Years	6 Years	5 Years	4 Years	3 Years	2 Years	1 Year
Tom Kamp	13.1%	10.6%	8.8%	6.1%	0.6%	-4.0%	-1.6%	2.8%	16.7%	12.7%	16.0%
Russell Large Cap Growth	9.2%	6.7%	5.1%	2.2%	-2.1%	-7.0%	-3.6%	1.2%	13.2%	5.8%	5.3%
S & P 500	11.4%	9.1%	7.6%	4.8%	1.8%	-1.1%	0.5%	3.9%	14.4%	7.9%	4.9%

Tom Kamp represents performance generated for the accounts within Thomas Kamp's composite from 1/1/1995 to 12/31/2005. Mr. Kamp's composite includes all fee-paying discretionary tax-exempt accounts with assets over \$10 million in US dollars. The composite includes the equity segment of balanced accounts. In these portfolios, the asset-allocation mix is generally determined by client guidelines and cash flows are allocated in accordance with these guidelines. Mr. Kamp was a senior member of the Alliance Capital US Large Cap Growth team and the performance represented herein was generated through the support of that team, its investment process and Alliance's growth equity research team. In addition to the assets included in the composite, Mr. Kamp managed a variety of mutual funds including the AllianceBernstein Large Cap Growth Fund, the Alliance Premier Institutional Fund, the AllianceBernstein Variable Products Fund, the ACMGI American Growth Portfolio (Luxembourg based), the ACM Funds, Inc. American Growth Fund (UK based), and the Alliance American Premier Growth Fund (Japan based).

Growth, as a style, beginning to come back into favor

Macro Perspective	Quantitative
Current Market Environment	Qualitative

Russell 1000 Growth Index Vs. Russell 1000 Value Index*
(Trailing 1 year relative performance)

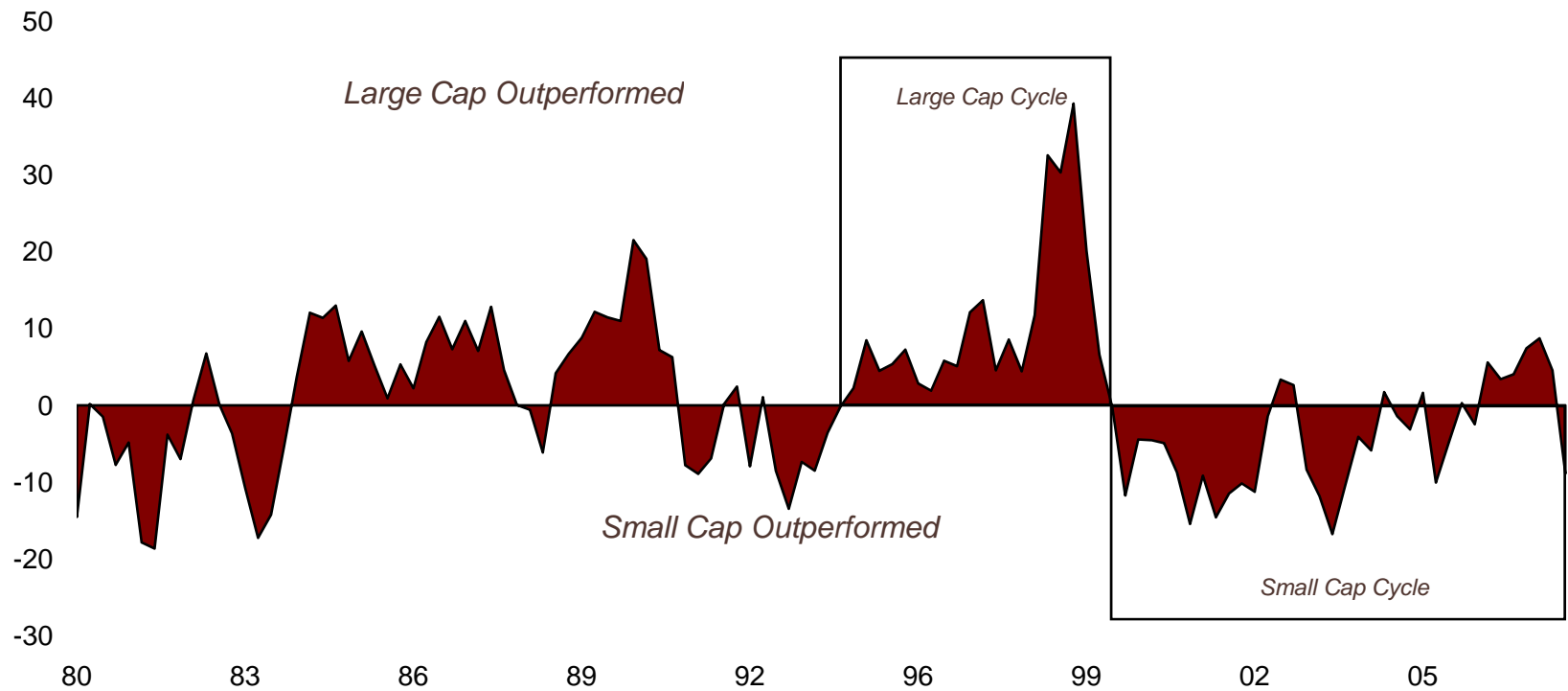


*This chart graphs the one year performance differential on a trailing twelve month basis between the Russell 1000 Growth Index and the Russell 1000 Value Index through September 30, 2008. Source: FactSet

Large Cap, as a style, has endured an unprecedented correction

Macro Perspective	Quantitative
Current Market Environment	Qualitative

Russell 1000 Index Vs. Russell 2000 Index*
(Trailing 1 year relative performance)

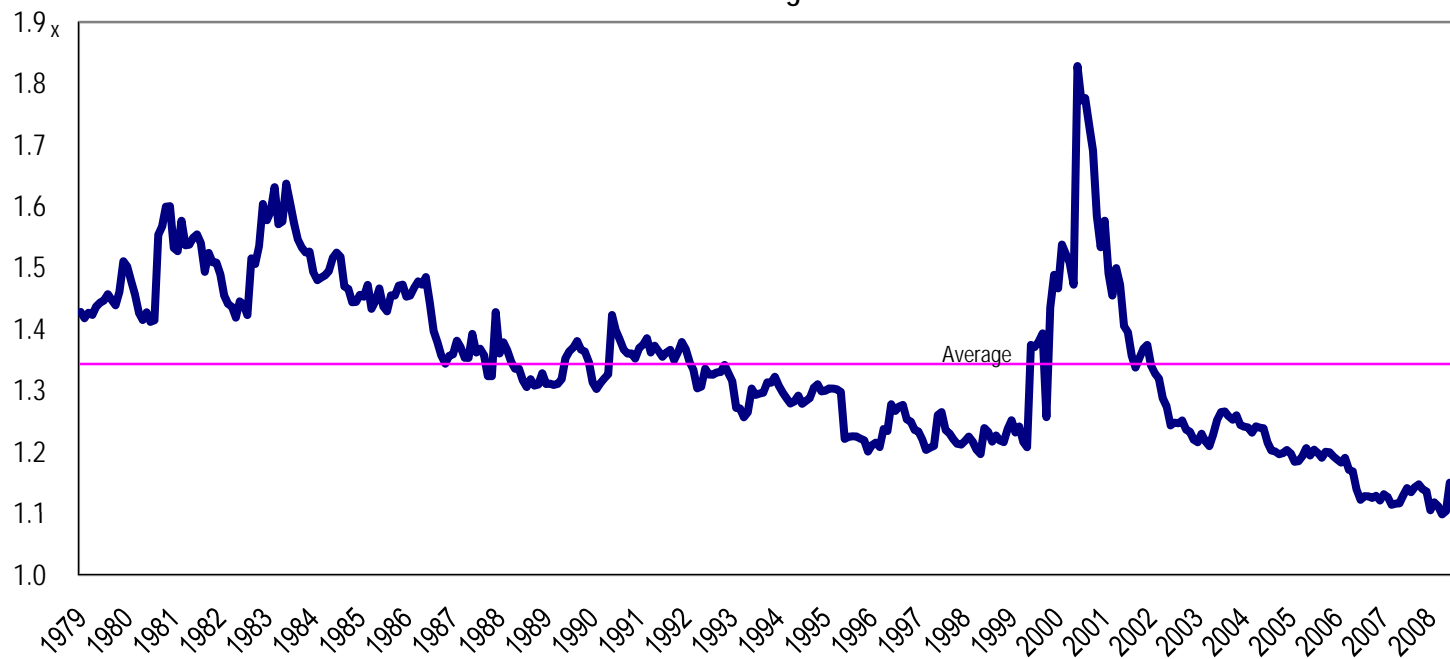


*This chart graphs the one year performance differential on a trailing twelve month basis between the Russell 1000 Index and the Russell 2000 Index through September 30, 2008. Source: FactSet

Large Cap Growth stocks are trading at their most attractive valuation ever!

Macro Perspective	Quantitative
Current Market Environment	Qualitative

Russell 1000 Growth Stocks vs. S&P 500
Relative Valuation Composite*
1979 through June 2008



* Composite is 33.3% Price-to-Cash Flow, 33.3% Forward P/E and 33.3% Price-to-Sales.

Source : Bernstein Research