CORNERSTONE

Investment Management and Consulting

Research Process and Selection

We believe we have created a better investment management firm able to serve all clients:

1) Our firm is based on two major principals--stewardship and justice. We established Cornerstone to use our skills to serve clients rather than sell them investment products.

2) We are independent and do not offer some "one-size-fits-all" prototype from the corporate office. Our solutions for clients are customized to their unique and individual needs because we do not represent the limited investment products of a bank, broker or mutual fund company.

3) Only adaptability ensures the competitive advantage of providing strong investment returns for clients. Our aim is not simply to change with the times, but to be dedicated to improve the firm by learning over time.

4) Our strength is original research, and details of that process are presented in this document. We spend significant resources on our research efforts on behalf of our clients. Why? The best analogy we have come up with is diamond mining; you have to go through tons of slag in order to find just one precious gem, and that is what we do every day.

Why we do our own homework:

1) It is incumbent on fiduciaries to do critical analysis, not to "sell" the product *du jour* or "sell out" to the path of least resistance.

2) We must have a global view to serve and protect our clients; opportunities for return always exist, but often in different places at different times.

3) Thinking creatively and differently from others creates opportunities for excess return.

Some thoughts of the time horizon for our investment ideas:

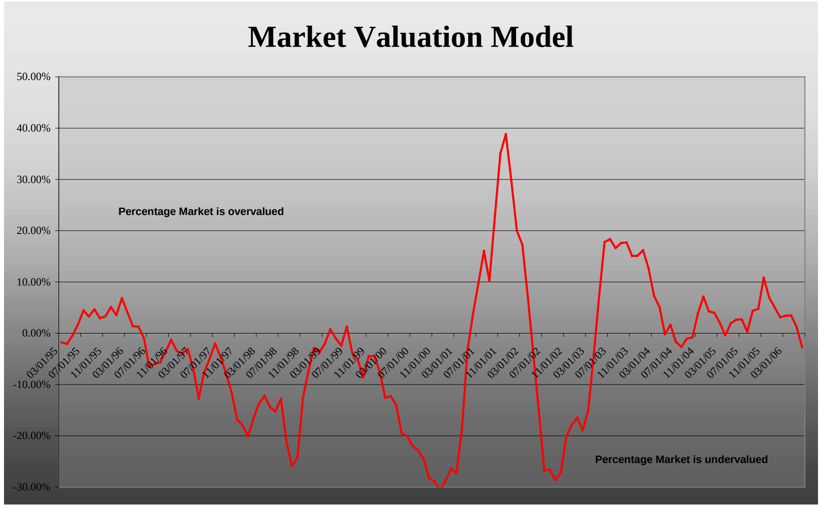
A day trader is worried about the next three to five minutes.
A speculator is worried about the next three to five days.
A market timer is worried about the next three to five months.
An investor is worried about the next three to five years.

At Cornerstone we are investors, and our investment selection process is determined by what we believe will be successful over the coming three to five years.

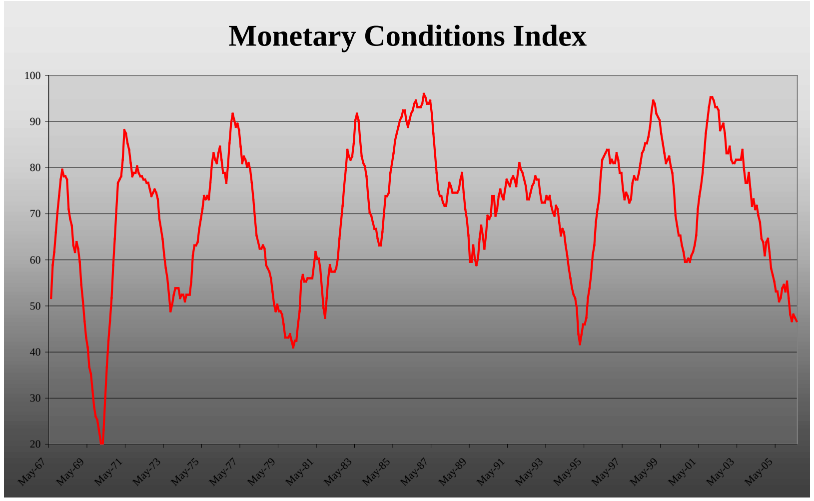
Macro economy

Each month, we update and evaluate about fifteen proprietary models to gain insight on the domestic and international economy, market valuation and the factors that will likely affect market valuation. We do not buy the research from other firms, only data to serve as inputs into the models we have developed. However, it is important to note that we use these models to understand interactions within the financial marketplace; and, we are not governed solely by their results.

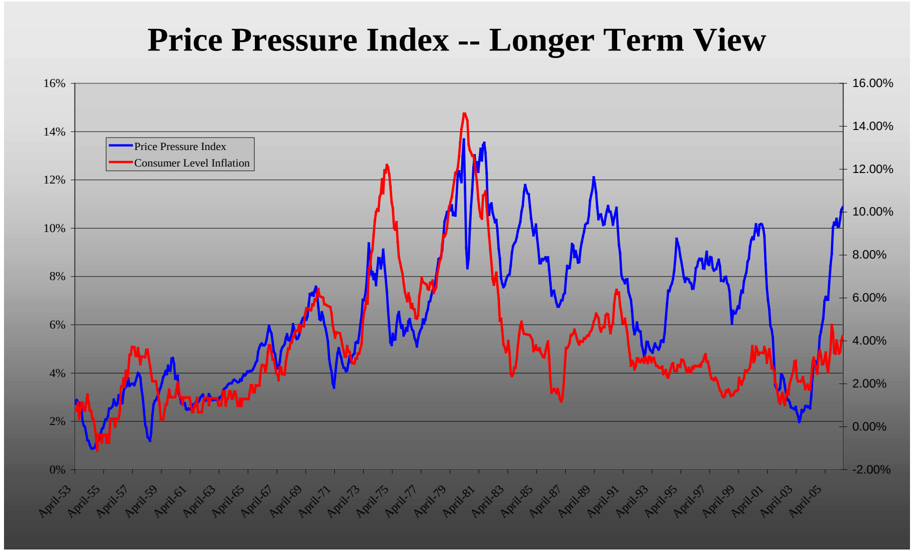
Of these, our three primary models track stock market valuation, the monetary environment, interest rates, inflation and earnings growth. Our **econometric model** uses several monthly data points to create a consensus forecast for the valuation of the equity marketplace. This becomes our benchmark for the overall market and determines how much risk to assume in the current environment.



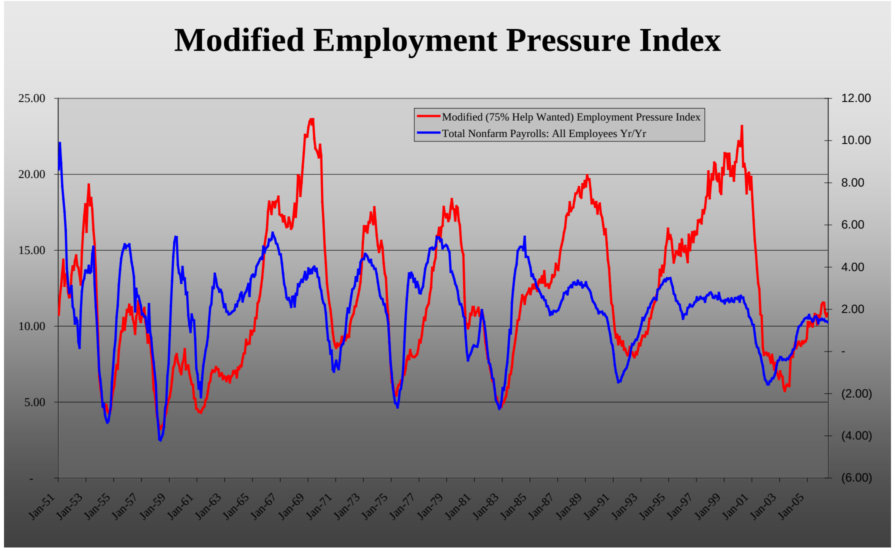
Our **monetary model** distills “Fed speak” into a concise metric that tracks changes in interest rates and money supply over time; this helps us gauge the current levels of monetary stimulus in the economy.



Our **pricing cycle** model measures pricing power, inflation and interest rates and provides forecasts for each allowing us to target the appropriate bond allocation and duration in client portfolios.

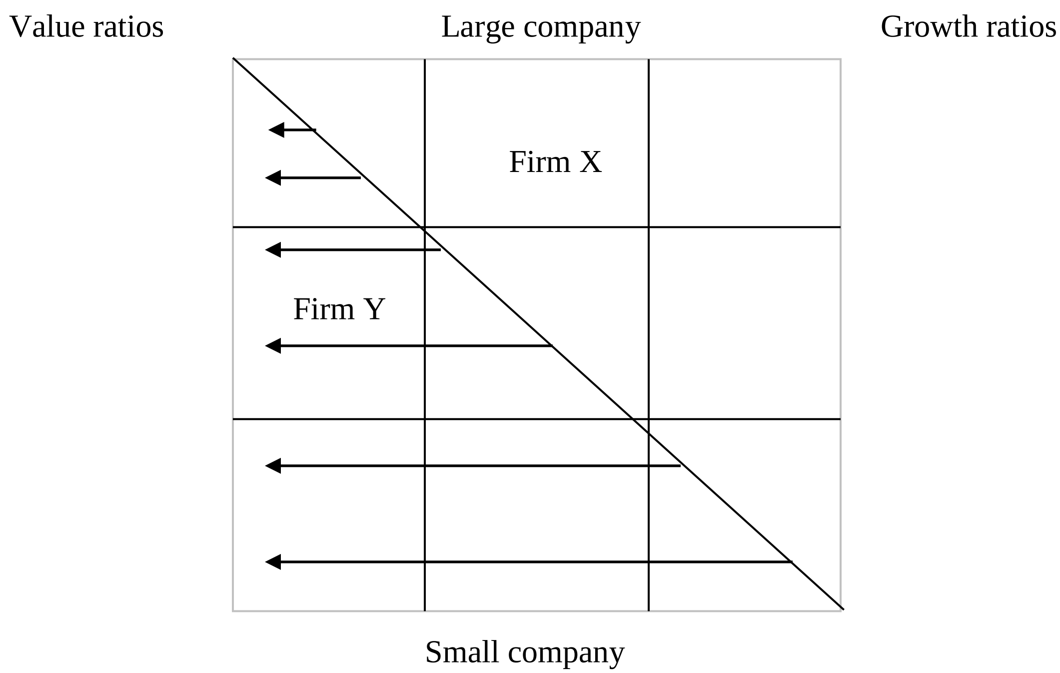


In addition, we have a number of supplemental models to assist us in allocating capital. Some of these are viewed and updated monthly, and some are more appropriate at specific times in the business cycle. Our **employment pressure** index indicates whether the hiring environment is pressuring workers or those hiring, which could potentially lead to wage inflation.



Style Tilt

In client accounts where Cornerstone serves as the sole investment manager, exposure to only one investment style is not adequate for proper diversification. Often, clients are pigeon-holed into one type of investment philosophy and achieve out-sized returns if that style is favored by the market, but under-perform if investors are not seeking return there. For example, we believe that the style with the most long-term opportunity over time is Small Value; but if the market favors Large Growth, returns to our chosen sector could be truncated. In order to provide clients broad market exposure, we created a proprietary **Style Tilt** to actively manage passive indexes--orienting client portfolios to those sectors of the marketplace that hold the most upside potential. Our Style Tilt utilizes the same rigorous examination of fundamentals, risk and return that we apply to individual stocks. Our goal is to create accounts with "core" portfolios that contain the best performing asset classes with our best equity ideas adding value at the margin.



Exchange Traded Funds

To execute the Style Tilt, we use exchange-traded funds (ETFs) as an inexpensive way to gain exposure to attractive asset classes. Each month, we review a universe of over 100 ETFs for global or sector opportunities as well as modifications to the current tilt. These funds trade like stocks (with constant pricing throughout the day) but represent a basket of stocks within a specific sector of the market such as the following:

-Broad Market (total market fund)
-Styles (small growth)
-Sectors (utilities, technology)
-Countries (Japan, Brazil, etc)

Each month, these funds are ranked by relative price performance, and those with attractive potential are evaluated to determine a reasonable expected return (domestic ETFs) or to review that country's macro-economic conditions (international ETFs).

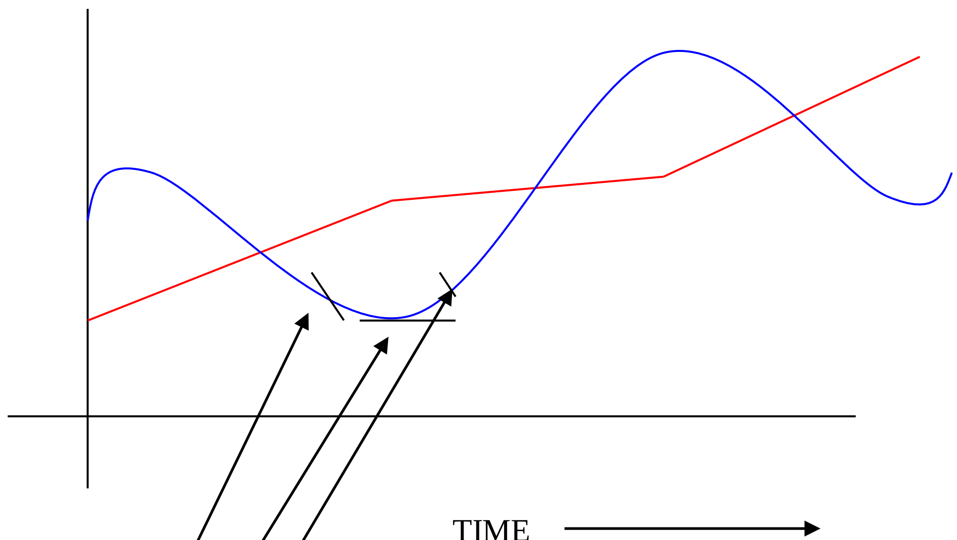
Equity Research & Analysis -- our goal is to purchase stocks that are mis-priced and / or misunderstood.

At the beginning of the month, we start with the universe of 10,000 publicly traded stocks and apply eight broad filters to select stocks with certain characteristics (dividend yield, value, growth, blue chip, etc.). After filtering, between 250 and 350 stocks remain; each is assessed in a proprietary valuation model to determine its one to three year expected return and expected price performance. Our objective is to find equities selling cheaper than their intrinsic value and, at the same time, viewed favorably by the capital markets so there will be increased demand for the shares in the coming periods.

As a result of this analysis, between two and ten stocks are subject to further research. Each stock is assigned to a partner to undergo a detailed due diligence checklist of the fundamentals, competitive position, risk and return. Each month Cornerstone may purchase one or two stocks with superior risk/return characteristics. We believe it is difficult to maintain and monitor a portfolio of fifty "good ideas"; rather, we try to select approximately fifteen equities with significant upside potential and gain broader market diversification through the Style Tilt.

---- Stock price

---- Intrinsic value



A – an out-of-favor stock can continue to fall below intrinsic value

B – we do not attempt to buy at the low point because we need the market's positve signal

C – at this point, the stock is both under-priced and favorably viewed; this is where we buy

Fixed Income (bonds)

We selectively buy individual bonds for clients when appropriate and focus on vanilla corporate bonds or governments since arcane structures usually benefit the brokerage house packaging the deal. Our approach to fixed income is simple and somewhat passive, as there is not a great deal of potential return to capture through original research. Also, before purchasing a bond we always review the fundamentals of the company issuing the debt.

The three big decisions that we make regarding fixed income are as follows:

- Measure the environment.
- Identify what is mis-priced.
- Pick our duration (this is a measure of interest rate volatility).

Mutual Funds

Although our default decision is to index to certain asset classes or styles, it is sometimes appropriate to use mutual funds in client accounts. We only use active funds in the case of clear manager skill or to take advantage of special situations outside our area of expertise. The investment universe is divided into style boxes, and each segment is critically evaluated based on risk, return and fund expense. To separate manager skill from luck, we use advanced factor analysis so we can identify the most appropriate benchmark for a given manager. Finally, we offer custom social screening of funds for investors who wish to avoid holding certain objectionable investments in there portfolios.

The advantages of professional investment management explained along the "Advice Spectrum":

No medal → Bronze → Silver → Gold

No medal -- Traditional brokerage arrangement chasing "hot performers" and paying excessive commissions.

Bronze – Indexing removes the high expenses and the performance chasing, but is often "buy and hold" and applied naively (i.e., only to certain asset classes); there are opportunities for portfolio modification that will add value over time.

Silver – Style tilt introduces the active management of passive indexes; benchmarks are difficult to beat year in and year out, but active management towards those sectors with potentially more upside return will out-perform naïve indexing.

Gold – Active management uses the style tilt as the core of the portfolio and seeks individual securities with tremendous potential to add return over time; this also includes selective use of additional sectors with positive characteristics not appropriate for a more passive style tilt managed portfolio.