Q1 | January 1, 2009

Asset class: Fixed Income

Objective: Seeks high current income while minimizing risk

Cornerstone Fixed Income Program[1]

A managed account program seeking low risk income from corporate, government and municipal bonds

The fixed income program tailors its investment in corporate, municipal and treasury securities to meet the individual requirements of each client. We drive performance through security selection, taking into account interest rate risk, credit risk, tax specific risk and income requirements. Average maturities will vary by client with portfolio duration typically three to five years, but not more than seven years.

About Brookstone

Brookstone is focused on providing its clients with investment advice that clearly defines and attempts to limit risk. The goal is to ensure that over time our clients are well compensated for risk and understand the risk and return parameters of their investments. The firm is committed to transparency in all of its investment strategies.

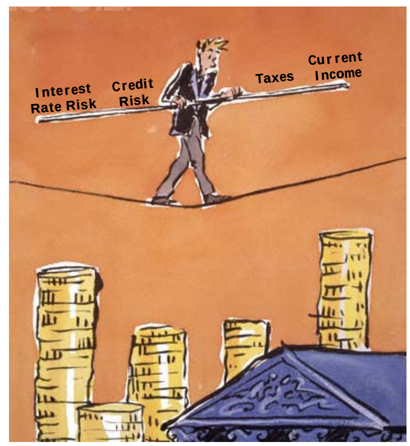
Philosophy

At Brookstone, we believe that markets are efficient in the long term, but from time to time undergo periods of extreme over-valuation (bubbles) and under-valuation (panics). Brookstone's goal is to design portfolios with the goal of protecting investors' capital from these periods of extreme over or under-valuation and provide a less volatile path to exceed market returns over market cycles.

We also carefully study asset correlations in up and down markets and work with clients to identify hidden risks and correlations that may provide a false sense of diversification.

Investment Objective

The Cornerstone Fixed Income program is a managed account program specifically tailored to each individual's requirements. The investment objective of the program is to minimize capital risk and maximize after tax income. Four factors are considered when constructing a client's portfolio: interest rate risk, credit risk, taxes, and current income requirements.



Interest Rate Risk: Generally we will seek to create a laddered portfolio that maintains a three to five year duration but not to exceed seven years. This is normally sufficient to increase portfolio yield with any further increase in term providing only a marginal increase in yield.

Credit Risk: We generally prefer to own securities rated A- or better. Based on our research, lower rated credits begin to take on equity like risk characteristics (although they may still be termed "investment grade"), muddling the purpose of a fixed income portfolio in asset allocation. We believe fixed income provides the steady anchor to a portfolio that allows the remainder of the portfolio to take additional risk for higher returns.

Taxes: We will examine your tax position (federal, state, local, AMT) and will appropriately tailor a portfolio of corporate, treasury and tax free municipal bonds. When selecting bonds, we are focused on the underlying credit rating of the issuer rather than relying on the enhancement of credit insurers.

Current Income: We seek to balance your income requirements with the need to minimize taxes, and interest rate and credit risk. For certain clients, that may mean locking in longer term municipal or corporate bond yields to stabilize cash flow during exceptional market periods.

Portfolio Construction Strategy

Brookstone works closely with each client to understand cashflow requirements and their other portfolio components to properly set the parameters for the Cornerstone Fixed Income Program. We manage the portfolio duration and credit quality to meet client requirements. We attempt to minimize trading since the bond market is not efficient and often bid/asked spreads can range from 1% to 2%.

Brookstone uses three basic asset classes to meet client needs: corporate, municipal and treasury securities. We tend to avoid structured securities, convertibles and high yield bonds as they carry more equity-like features and are inappropriate portfolio anchors. The mix of securities selected is client-specific; however, we will review our selection methodology for each security class below.

Corporate Bonds

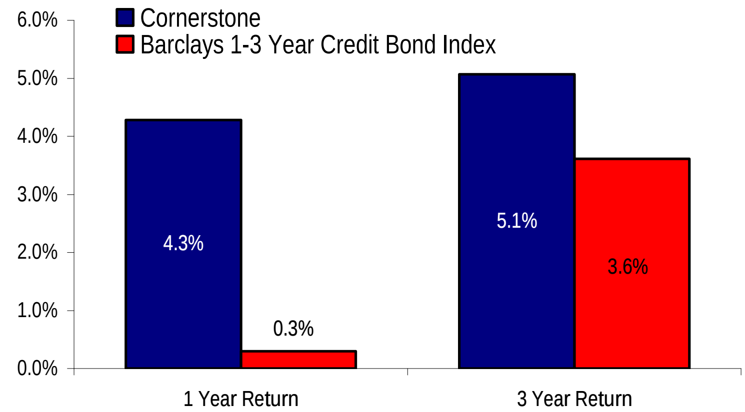
We employ a selection strategy that begins with corporate credit ratings. We will not recommend a security that is rated below A-. Although investment grade bond funds own securities rated as low as BBB- (the lowest investment grade rating), we find the additional yield usually does not compensate for the additional risk that accompanies these bonds. A BBB- bond is quite close to "junk" status, such that if something were to go wrong, a downgrade below investment grade is heavily penalized by the market. We prefer to own bonds with some cushion.

[1] All BPAM investment programs are implemented through a managed account program tailored to each client's needs. All securities are held by Fidelity Investments.

In addition to using credit ratings, which, taken by themselves, are slow to react to changing market conditions, we use the information embedded in the credit default swap (CDS) market to help us select the bonds with the best risk/return ratio. In contrast to ratings, the CDS market is hypersensitive to changes in credit quality and perceived risk. (See Frequently Asked Question #4 for more detail on how we use CDS data to select bonds)

When our credit models are used to select bonds, our selected portfolio performs significantly better than the Barclay's Corporate 1-3 year Credit Bond Index.

Cornerstone Selected Corporate Bonds vs. Barclay's Corporate Bond Index



Note: Back-tested model returns - data represents the portfolio strategy's returns, had they been implemented since 2005 and does not predict future performance. Model cannot be run for periods prior to 2005 as CDS data is unavailable for this time period.

Municipal Bonds

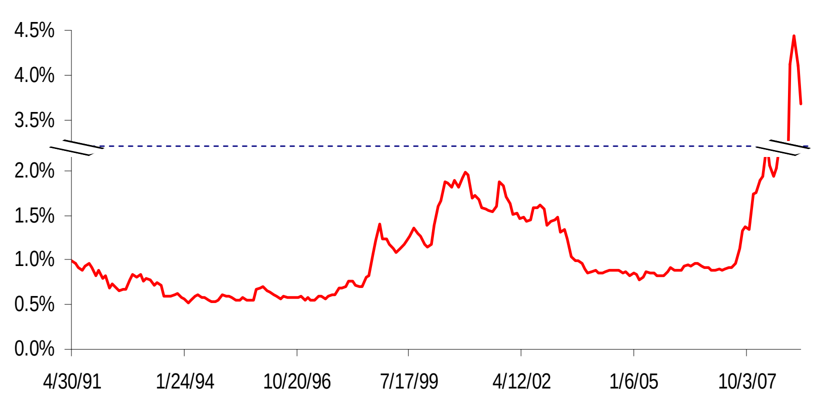
We employ a selection strategy that again, as a first cut, uses credit ratings and then takes into account the specifics of each issuer. We never invest in unrated bonds since they tend to be riskier and less liquid. We also prefer to invest in state general obligation securities, power, water, sewer and infrastructure bonds. They are most liquid and provide good returns with lower risk.

Portfolio allocation to municipal and corporate bonds will heavily depend on a client's other holdings, state of residence and income tax profile. (Please see Frequently Asked Questions #4 on our municipal bond selection process)

Treasury Securities

We tend to use treasury securities for clients at inflection points in the credit cycle. When high quality corporate bonds begin to yield only 50 basis points more than equivalent treasury securities, we begin to accumulate treasuries. Fifty basis points has historically been shown to be insufficient additional yield to compensate for corporate credit risk.

10 Year Corporate A- Rated Bond Spread to 10 Year Treasury



Sometimes it takes the market a few years to realize this, but when it does, it does so violently. By then a significant portion of our client's portfolio is moved to treasuries and benefits from the flight to quality. The concept we stress is return for risk and at 50 basis points, there is not sufficient return for additional corporate credit risk. Many mutual funds seek to enhance yield doing the exact opposite and seek to buy lower credit quality, longer term bonds. In the short term, they may benefit from a higher yield to maturity, but they will later be punished by the market for taking an additional risk at precisely the wrong time.

Results

By properly combining corporate, municipal and treasury securities, the Cornerstone Fixed Income Program forms the basis for any "sleep at night" portfolio strategy.

Brookstone Partners Asset Management provides investment advisory services through Partnervest Advisory Services, LLC, an investment advisor registered with the Securities and Exchange Commission. Results relating to the Cornerstone account performance are based on back-tested model data for a hypothetical investor and do not represent actual results realized by any individual investor. There may exist better benchmark comparisons than those offered herein for modeled performance data. Modeled returns are shown gross of fees. Fees associated with the Cornerstone and RiCE products will vary by investor based on each investor's assets with Brookstone Partners Asset Management and each within each respective product account. Material economic events or conditions will have positive or negative impacts on the performance of both Cornerstone and RiCE accounts. The Cornerstone account model performance shown includes the value of re-investment of interest and dividends from prior periods. Consider the investment objectives, risks and charges and expenses of the Brookstone Partners Asset Management managed account investment programs carefully before investing. For this and other information about Brookstone Partners Asset Management investment programs, please contact Brookstone Partners Asset Management at (212) 302-7667; on the internet at www.BrookstonePAM.com or by mail to Brookstone Partners Asset Management, 317 Madison Avenue, Suite 405, New York, NY 10017.

Frequently Asked Questions

1. What do you mean by interest rate risk?

As interest rates increase, the market value of a bond decreases. For example:

Given: 10 Year Treasury bond, $1,000 face value , 10% Coupon ($100 per year)

Interest Rate Decreases

If interest rates on 10 year Treasury bonds decreased overnight to 5%, then a buyer would be willing to pay a great deal more for the given 10 year bond. The price would rise such that if all of the bond's cash flows were discounted at 5%, a buyer would pay $1,386.

Interest Rate Increases

If interest rates on 10 year Treasuries increased overnight to 15%, then a buyer would be willing to pay significantly less for the given bond. The buyer could invest in a newly issued Treasury at 15% or a 10% coupon bond at a reduced price. The price of a 10% coupon bond would be reduced to $749, creating a yield of 15%.

Illustration: Impact of Interest Rates

	Given	Rate Decrease to 5%	Rate Increase to 15%
Issuer	Treasury	Treasury	Treasury
Term	10 Years	10 Years	10 Years
Face	$1,000	$1,000	$1,000
Coupon	10%	10%	10%
Cupon Payment	$100 per annum	$100 per annum	$100 per annum
Market Price	$1,000	$1,386	$749
Principal Payment at Maturity	$1,000	$1,000	$1,000
Yield to Maturity if Not Sold	10%	10%	10%

Interest rate changes only affect market prices. If the bond in the above example were sold, a significant profit or loss would be realized. If the bond were held to maturity, a 10% return would be obtained by the investor[A] and the fluctuation in the market prices would be irrelevant.

Note: (A) Ignores re-investment risk

2. Are higher or lower interest rates better for a fixed income investment?

In the context of an investor that for the most part holds to maturity a portfolio of laddered (staggered) bond maturities over a few years, the issue becomes somewhat of a moot point.[A]

Lower Rate

Keep in mind that if a portfolio is laddered such that 10% of the funds invested are held at maturities of one to ten years and interest rates drop, the market value of the portfolio rises, but the interest rate at which coupons are re-invested is diminished. Also, as the one year bond matures, and it is re-invested in a ten year bond, that interest rate is reduced. So falling interest rates result in higher market values, but lower re-investment rates.

Illustration: Interest Rate Changes

	Interst Rate Decrease	Interst Rate Increase
Market Value	Increase	Decrease
Coupon Re-invest Rate	Lower Rate	Higher Rate
Principal Roll-Over Rate	Lower Rate	Higher Rate

Higher Rate

If interest rates increased, the market value of the portfolio will decrease. However, at maturity full face value will be recovered. Meanwhile coupon payments will be invested at higher rates as will principal from maturing bonds.

Notes: (A) Except for sudden and permanent interest rate shifts

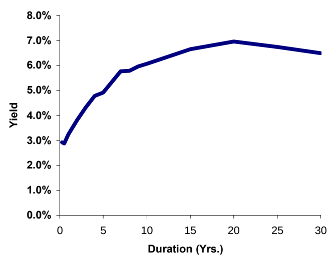
3. Why do you generally prefer short term and intermediate term bonds?

Longer term bonds tend to expose investors to significant interest rate risk arising from unexpected increases in inflation rates. Also, longer term bonds tend to be significantly more correlated to equity markets. Therefore, in times of financial market distress, when the fixed income portion of a portfolio must provide stability and liquidity, there is a higher risk that its value may be diminished.

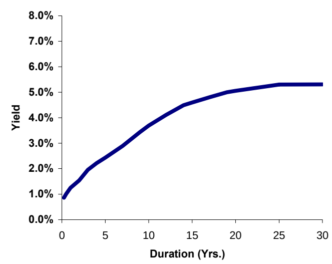
Another reason we prefer short and intermediate term bonds is that it is usually where the market sweet spot lies. That is the point where the incremental yield received for taking on additional time to maturity declines significantly. See the examples below:

Yield Curve and Yield Curve Derivatives

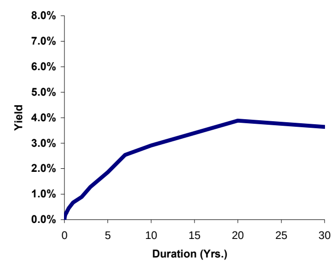
Corporate Yield Curve (3/2/09)



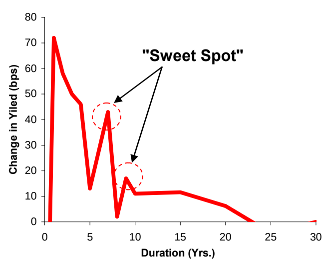
Municipal Yield Curve (3/2/09)



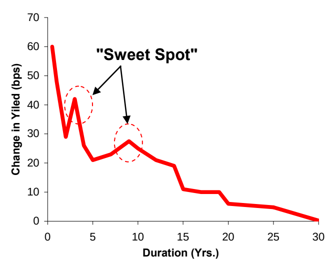
Treasury Yield Curve (3/2/09)



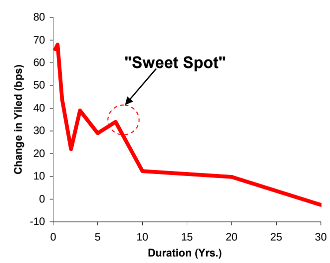
Change In Yield for Increase in Term



Change In Yield for Increase in Term



Change In Yield for Increase in Term

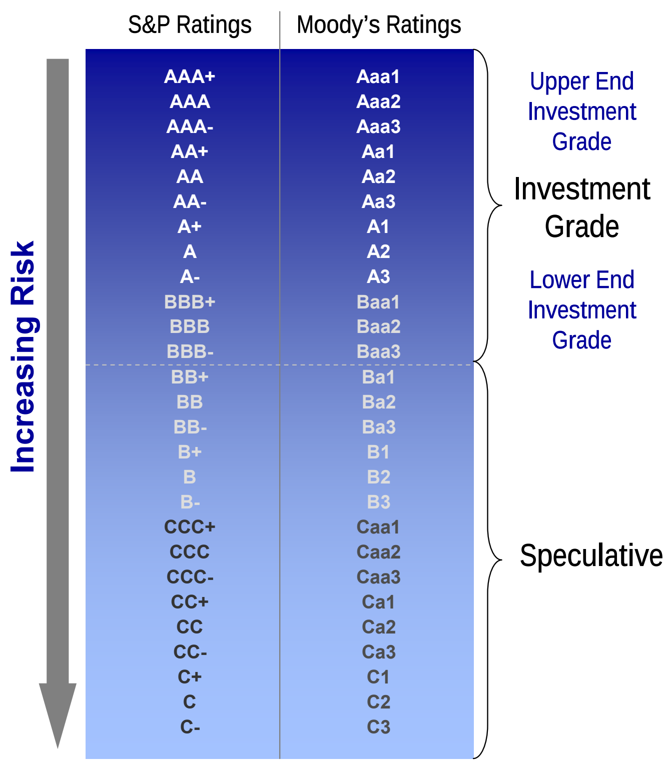


Depending on individual circumstances, we will construct a portfolio that balances the sweet spot position on the yield curve with liquidity, tax and income requirements.

4. How do you assess credit risk?

We begin with using credit agency ratings as a first, very rough screen. It helps eliminate the bonds we would never consider owning, but is far from a sufficient criterion.

When using ratings, it is important to understand that corporate, special purpose and municipal bond ratings are not directly comparable.



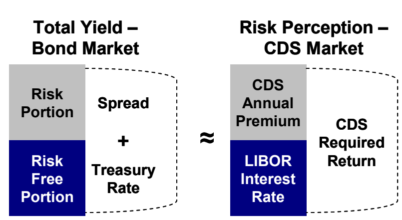
Corporate Security Selection

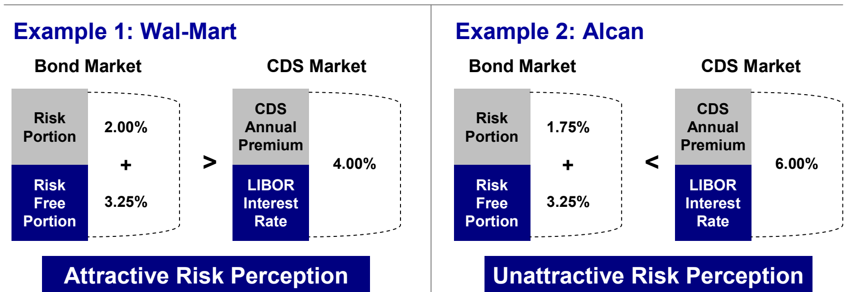
In nearly all circumstances we invest in the high grade segment of the investment grade bond universe. Those bonds are least correlated to equities and are appropriate cornerstone investments for a fixed income portfolio. We seek to avoid fixed income securities that have any elements of equity risk.

In addition to our own fundamental research on each credit, we seek to exploit all of the information embedded in the credit default swap (CDS) market. The CDS market is hypersensitive to perceived changes in credit quality where anyone can purchase credit insurance on an issuer. The buyer of the insurance usually pays an annual insurance premium to the writer of the policy on the agreed upon term, usually five years. The event that triggers a claim on the issuer is defined contractually, but is most often that the underlying bond is in default. In that case there are several mechanisms that can be employed to settle the insurance claim, but all will serve to return the face value of the insured bond to the insured buyer.

We compare the current spread for particular bonds to the cost of insuring default. Theoretically, they should be equal[4]. In reality they are not, and this difference helps us to select especially credit-worthy issuers. <u>Basically we are using the credit insurance market to help us identify especially credit-worthy borrowers.</u>

Decomposing the Bond Return





A Word About Credit Ratings And Municipal Bonds

Credit rating agencies have been notoriously late in downgrading credits. As such, we use the CDS market to give us a market based measure of risk for corporate bonds. It is also vital to understand that not all AAA or A rated bonds are comparable to each other. Based on the historical evidence, municipal bonds with the identical rating as corporate bonds will have a significantly lower risk of default. In fact, a Moody's study found that when compared by rating category, municipal bonds are about ten times less likely to default than similarly rated corporate debt.

The differential for investment grade only debt is significantly more dramatic. Another study[5] that covered a 30 year period ending in 2007, found that overall default rates for investment grade corporate bonds (this includes both high grade and low grade investment grade credits) were almost 90 times higher than investment grade municipal bonds.

Moody's, in fact, states:

> *"If municipalities were rated on the corporate scale, Moody's would likely assign Aaa to the vast majority of general obligation debt issued by fiscally sound, large municipal issuers"*

And also that:

> *"Nearly all performing municipal obligation and essential service revenue bonds would be rated Aa3 or higher on the corporate rating scale "*

Moody's views Baa3 municipal general obligation bonds as being at least as credit worthy as an Aa3 corporate bond and so on down the chain. The overall default rate for investment grade municipal bonds is about half the default rate for AAA corporate bonds.

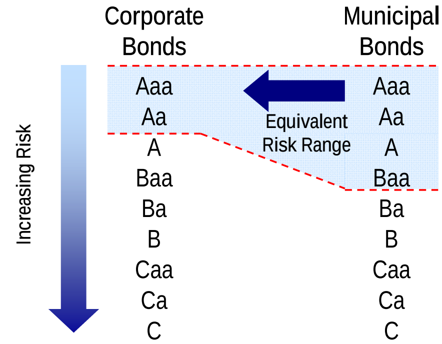
Municipal Bond Credit

Over the period 1970 to 2000 only 18 municipal bonds rated investment grade by Moody's defaulted. However, if a municipal bond falls below investment grade, the risk of default increases by 60 times. The comparable increase in the risk of default for corporate bonds is 14 times.

The municipal bond market is not homogenous. In most cases portfolios would avoid healthcare, multifamily housing and industrial development bonds.

Most importantly, we make our investment decision based on the underlying credit quality and ignore the value of any credit enhancement. As seen in 2007 and 2008, in times of market stress, the value of credit insurance is speculative at best.

Risk Comparison of Municipal and Corporate Bonds

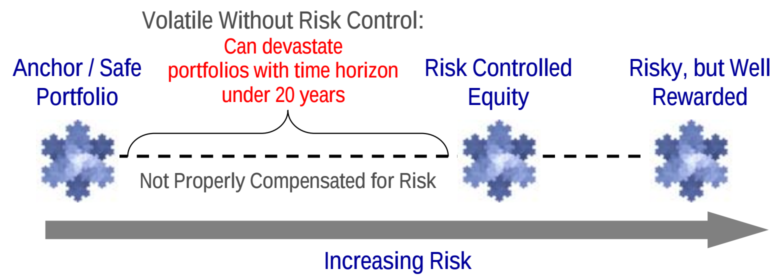


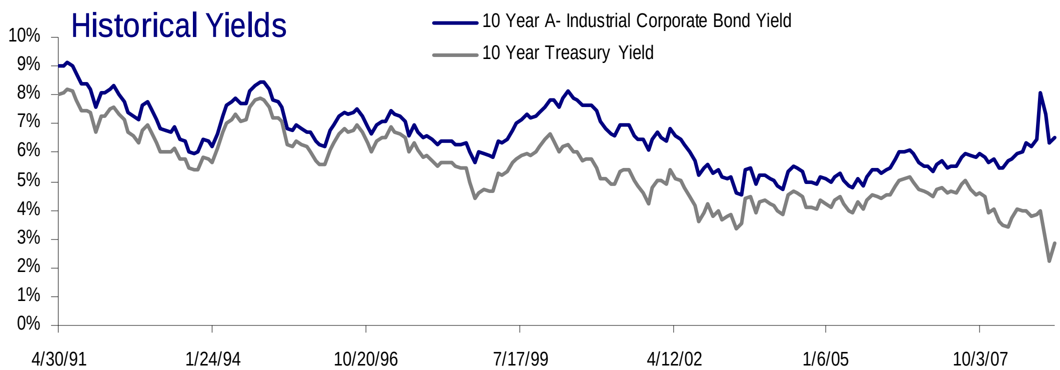
Treasury Bond Allocation

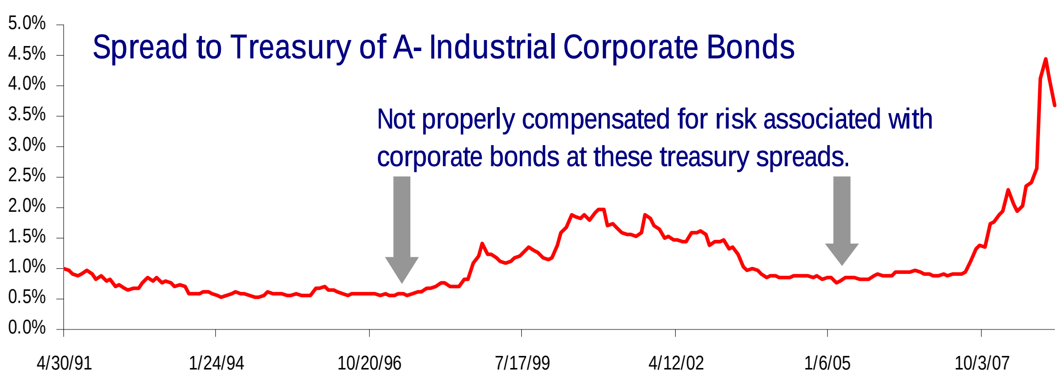
Depending on each individual's requirements and credit market conditions, a portion of the portfolio may be allocated to Treasuries. This will be particularly true at points in the credit cycle when the market offers only a small incremental increase in yield for risk significantly greater than that of Treasuries.

It may be counter-intuitive, but when corporate credit spreads are close to 50 basis points, instead of investing in lower quality securities and extending maturities to reach for yield as many mutual funds might, we seek to reduce risk. We believe that at these yields, the marketplace is not properly compensating investors. Low credit spreads (around 50 bps for a corporate credit A- industrial) signals a market top and has usually signaled that a market disruption is with in 18 months.

Risk Spectrum and Brookstone Partners Asset Management Investments







5. Why is a managed account so important for fixed income investments?

When investors purchase a bond fund, they own their pro rata portion of a portfolio. A managed account provides investors with a portfolio of bonds that exactly meet the investors interest risk, credit risk and income requirements.

From a tax perspective, managed accounts are clearly superior. As part of a fund, the only method to gain liquidity is to sell fund shares, basically a pro rata portion of each bond. A managed account can select a particular bond to sell to maximize after tax proceeds.

An investor in a bond fund can only gain liquidity by selling shares in the fund. There is no option to hold to maturity and thus assure return of principal.

6. How does this program compare to what a typical fund will own?

Most fixed income mutual funds are focused on creating a marketable track record and portfolio. This is accomplished by offering a high current yield, which they achieve by owning securities that are significantly more speculative than those we would recommend.

Usually about 30% of a fund is below A- for corporate bonds and 20% of a fund is below A- for municipal bonds.

Since funds' returns are generated through mark to market, many will move their portfolio maturity to the limit of their mandate to maximize potential returns on interest rate moves. Sometimes they are right and sometimes they are wrong, exposing investors to significant unexpected interest rate risk.

7. How do you decide which bonds I should own?

After establishing your asset allocation to fixed income, we being by understanding the following key items:

Tax Position – We obtain data on your federal tax treatment, state of residency, tax losses that may be available to monetize and any AMT issues

Income Requirements – We carefully review your quarterly and monthly income requirements and tolerance for variability

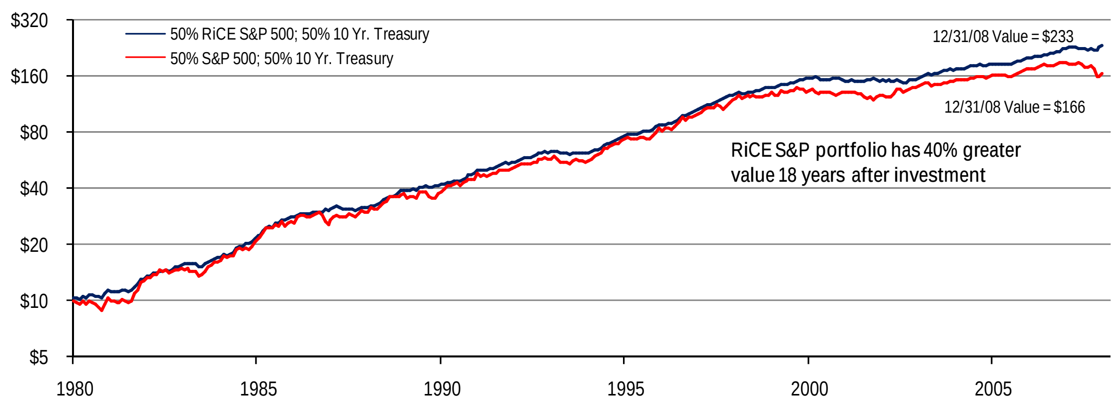
Risk Tolerance – We discuss the need for diversification within municipal, corporate and treasury issuers, the ability to hold securities to maturity and any sudden liquidity needs that may arise.

8. What role can the RiCE S&P 500 product play in my asset allocation program?

The RiCE S&P 500 product should be considered as equity exposure in your asset allocation program. When matched with BPAM's Cornerstone fixed income program, the RiCE S&P 500 product provides investors with a high returning, "sleep at night" portfolio. (Please see our literature on Asset Allocation)

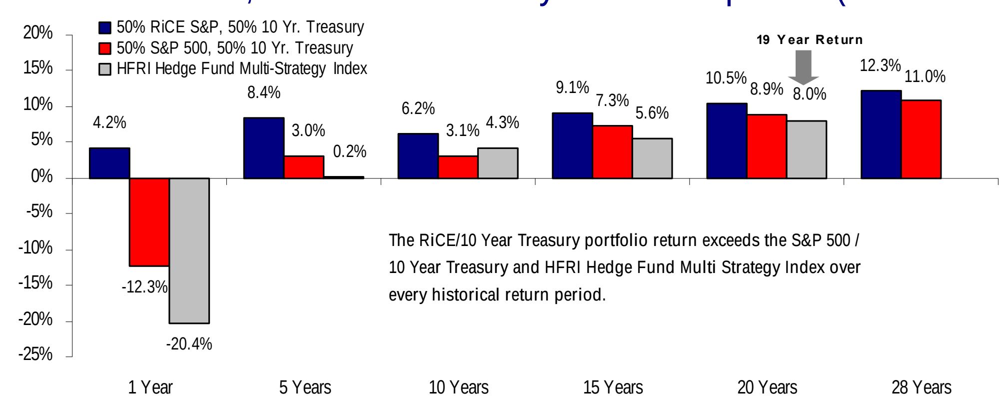
For illustration purposes, if 50% of a portfolio were invested in the BPAM fixed income program and 50% were invested in the RiCE S&P 500 product, the following returns could be achieved:

Comparison of Value of $10 Investment from 1980 through 2008[A]



Note: Due to the Custom Nature of the Cornerstone Fixed Income Product, the 10 year treasury was used as a proxy

50% RiCE S&P 500, 50% 10 Year Treasury Return Comparison (As of 12/31/08)[A]



Note: Due to the custom nature of the Cornerstone Fixed Income Product, the 10 year treasury was used as a proxy

As demonstrated above, the BPAM Fixed Income and RiCE programs can serve as integral components of any asset allocation strategy and outperform the passive indexes as well as the Hedge Fund Index.

Notes: (A) Back-tested model returns - data represents the portfolio strategy's returns, had they been implemented since 1980 and does not predict future performance.

9. How would an investment in the RiCE S&P 500 compare to an investment in mutual funds or hedge funds?

When compared to the complete universe of over 9,000 diversified mutual funds and ETFs, the program is one of only two investments in the top 20 for nearly every time period.

Top Mutual Funds Last 1 Yr

Top Performing Mutual Funds As of 12/31/08	
Fund Name	Annual Return
300 North Capital Sm Cp Gr I	15.0%
Robeco Boston Partners Lg Cp V	4.2%
Calvert Large Cap Value Y	0.6%
Forester Value	0.4%
Embarcadero Alternative Strate	-1.9%
Gabelli ABC	-2.6%
ING Index Plus LargeCap Equity	-4.1%
Reynolds Blue Chip Growth	-5.1%
PMFM Managed Portfolio A	-5.8%
Intrepid Small Cap	-7.1%
Apex Mid Cap Growth	-9.0%
Direxion HCM Freedom Svc	-10.3%
Intrepid Income	-12.6%
Symons Alpha Value Institution	-13.2%
RiCE S&P 500	-15.0%
Copley	-15.6%
Shepherd	-16.1%
Pinnacle Value	-16.9%
Heartland Value Plus	-17.9%
Direxion Evolution Alternative	-18.0%

Top Mutual Funds Last 3 Yrs

Top Performing Mutual Funds As of 12/31/08	
Fund Name	Annual Return
Intrepid Small Cap	5.5%
Gabelli ABC	5.3%
Pinnacle Value	2.8%
CGM Focus	2.3%
RiCE S&P 500	2.1%
Amana Trust Income	1.9%
ING Index Plus LargeCap Equity	1.8%
Shepherd	1.7%
CGM Mutual	1.6%
Lord Abbett Value Opportunitie	1.5%
Reynolds Blue Chip Growth	1.4%
Lord Abbett Value Opportunitie	1.1%
ING Index Plus LargeCap Equity	1.1%
Lord Abbett Value Opportunitie	1.0%
JHancock Large Cap Equity I	1.0%
Neiman Large Cap Value	0.5%
JHancock Large Cap Equity A	0.5%
Lord Abbett Value Opportunitie	0.5%
Parnassus Equity Income - Inv	0.3%
BB&T Equity Income Instl	-0.1%

Top Mutual Funds Last 5 Yrs

Top Performing Mutual Funds As of 12/31/08	
Fund Name	Annual Return
Robeco Boston Partners Lg Cp V	14.8%
CGM Focus	8.6%
Eaton Vance Dividend Builder A	8.2%
Amana Trust Income	7.5%
Pinnacle Value	7.1%
Amana Trust Growth	6.1%
Dreman Contrarian Small Cap Va	6.1%
CGM Mutual	5.9%
Fairholme	5.5%
Paradigm Value	5.5%
Lord Abbett Small-Cap Value I	5.2%
JPMorgan Small Cap Equity Sel	5.2%
Allianz NFJ Small Cap Value In	5.1%
RiCE S&P 500	5.0%
BlackRock U.S. Opportunities I	4.9%
Royce Premier Instl	4.9%
Lord Abbett Small-Cap Value A	4.9%
Lord Abbett Small-Cap Value A	4.9%
Allianz NFJ Small Cap Value Ad	4.8%
Royce Premier Invt	4.8%

Note: Includes all US diversified mutual funds and ETFs in the Morningstar database, excluding narrowly focused sector funds and ETFs.

10. Where is my money held?

All funds are handled by Fidelity Investment Services. They provide custody, accounting and administrative services. They hold all customer assets but each investor's assets are invested at our direction.

Investors will have a separate managed account that is invested in accordance with parameters we agree upon. It is highly customized and you are not forced into a specific type of "model" portfolio.

A managed account offers specific benefits which include:

I. Safety – You own all of the securities in your account. With one call to Fidelity you can remove us from having discretion on the account and do with the assets as you wish.

II. Transparency – You see all of the securities you own and are able to understand exactly how returns are generated.

III. Liquidity – All of the assets in the program are exchange traded, easily marketable and valued by Fidelity every day.