

STONEBRIDGE CAPITAL MANAGEMENT
INVESTMENT OUTLOOK
3Q 2008

Market Overview

The equity markets began the third quarter with most non-financial companies meeting their quarterly numbers. The slowing economy seemed to only affect the consumer discretionary and financial sectors. However, as the third quarter proceeded into late August, the financial volatility that appeared to be limited to the investment banks, became much more widespread. First Fannie Mae and Freddie Mac were essentially absorbed by the U.S. Treasury, followed by AIG and the bankruptcy of Lehman Brothers. Credit spreads increased to record levels and the financial system, worldwide, effectively ceased normal day-to-day operations. Any financial institution that had capital wasn't about to assume counter-party risk and so lending between these institutions disappeared. This environment was detrimental to all equity investors.

Small Cap Growth

The Stonebridge Small Cap Growth portfolio ended the third quarter -10.33% versus -6.99% for the Russell 2000 Growth Index. We continued to reposition the portfolio during the quarter by taking advantage of the sell-off in the Energy and Industrial Sectors. Waiting patiently for more than 12 months, we saw attractive entry points for several names on our monitor list at discounts ranging between 40-60% from just the second quarter. The companies selected for the portfolio have tremendous organic growth opportunities and strong company fundamentals. Three of the companies purchased during the quarter were investments that we previously held in the portfolio and had sold at prices more than twice the repurchased price. By the end of the third quarter, our portfolio was repositioned for growth. However, these same portfolio changes have led to underperformance in the immediate short-term. But, as in prior periods of transition, our short-term results are generally followed by periods of very strong long-term returns for our clients.

Large Cap Growth

The Stonebridge Large Cap Growth portfolio out-performed the Russell 1000 Growth Index, -9.16% versus -12.33%, respectively. Other than adding to existing portfolio holdings where valuations have become more attractive and company fundamentals remained strong, the portfolio remain was unchanged for the quarter. We the portfolio remains well positioned for strong gains ahead.

Outlook

Overall, we have strategically repositioned the portfolio for future growth. The investments we have in the portfolio are high quality companies that are gaining market share, maintain strong balance sheets and are well positioned for rapid earnings growth even if the overall U.S. economy and worldwide economy remain lackluster. We believe our portfolios are positioned for strong returns for our clients.

