

# **Austin Capital Consulting, LLC**

**1700 Pacific Avenue**

**Suite 3650**

**Dallas, TX 75201**

**(214) 624-1007**

**3/28/2013**

This Brochure provides information about the qualifications and business practices of Austin Capital Consulting, LLC. If you have any questions about the contents of this Brochure, please contact us at (214) 624-1007 or via email at [info@austincapitalllc.com](mailto:info@austincapitalllc.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Austin Capital Consulting, LLC is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you may use to determine whether to hire or retain them. Additional information about Austin Capital Consulting, LLC is also available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 - Material Changes

---

Since our last filing, we have we have updated our assets under management, which can be found under Item 4, "Advisory Business Introduction." We have no other changes to our business.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year which is December 31st. We will provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure, as necessary, based on changes or new information. Currently, our Brochure may be requested at any time, without charge, by contacting Christine Mora at (214) 624-1007.

Additional information about Austin Capital Consulting, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for Austin Capital Consulting, LLC is 147870. The SEC's web site also provides information about any persons affiliated with Austin Capital Consulting, LLC who are registered, or are required to be registered, as investment adviser representatives of Austin Capital Consulting, LLC.

## Item 3 - Table of Contents

---

<b>Item 2 - Material Changes .....</b>	<b>2</b>
<b>Item 3 - Table of Contents .....</b>	<b>3</b>
<b>Item 4 - Advisory Business Introduction .....</b>	<b>5</b>
<b>Services .....</b>	<b>5</b>
1. Investment Policy Service .....	6
2. Strategic Allocation Modeling Service .....	6
3. Manager Selection Service.....	7
4. Portfolio Information and Measurement Service.....	8
<b>Item 5 - Fees and Compensation.....</b>	<b>10</b>
1. Investment Policy Service .....	11
2. Strategic Allocation Modeling Service .....	11
3. Manager Selection Service.....	11
4. Portfolio Information and Measurement Service.....	11
5. Termination of Services .....	11
<b>Item 6 - Performance Based Fee and Side by Side Management .....</b>	<b>11</b>
<b>Item 7 - Types of Client(s).....</b>	<b>12</b>
<b>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>12</b>
1. Screening and Selection Process.....	12
2. Fundamental Analysis.....	13
3. Modern Portfolio Theory (MPT) .....	14
4. Technical Analysis .....	14
5. Cyclical Analysis .....	15
6. Risks .....	15
<b>Item 9 - Disciplinary Information .....</b>	<b>16</b>
<b>Item 10 - Other Financial Industry Activities and Affiliations.....</b>	<b>16</b>
<b>Item 11 - Code of Ethics.....</b>	<b>17</b>
1. General Information .....	17
2. Responsibility .....	18
3. Privacy Statement.....	18
4. Prohibited Acts.....	18
5. Conflicts of Interest.....	18
6. Use of Disclaimers.....	18
7. Suitability .....	18
<b>Item 12 - Brokerage Practices .....</b>	<b>19</b>

1. Soft Dollars.....	19
2. Brokerage for Client Referrals .....	19
3. Directed Brokerage .....	19
<b>Item 13 - Review of Accounts .....</b>	<b>20</b>
1. Duty to Supervise .....	20
2. Reviews .....	20
3. Reports.....	20
<b>Item 14 - Client Referrals and Other Compensation.....</b>	<b>20</b>
<b>Item 15 - Custody.....</b>	<b>22</b>
<b>Item 16 - Investment Discretion .....</b>	<b>22</b>
<b>Item 17 - Voting Client Securities .....</b>	<b>22</b>
<b>Item 18 - Financial Information.....</b>	<b>22</b>
<b>Glossary of Key Terms .....</b>	<b>23</b>

## Item 4 - Advisory Business Introduction

---

Austin Capital Consulting, LLC (“ACC”) is a Registered Investment Adviser (“Adviser”) and a leading global consultant to trustees, investment committee members, institutional investors, and any fiduciary involved in managing an investment selection process. We are registered with and regulated by the United States Securities and Exchange Commission (“SEC”).

We provide consulting and advice through representatives (“Consultants”) associated with us. These individuals are appropriately qualified and authorized to provide consulting services on our behalf. We generally maintain no rigid educational or business background requirements for our employees, but professional personnel generally have a minimum of a college degree or equivalent business experience, with experience in other fields, as well as their current activities with us. Employees are subject to our Guidelines of Business Conduct and are committed to the observation of the highest ethical standards and the exercise of proper judgment in all aspects of their business dealings.

ACC was founded in August 1, 2005 by David Park who serves as Director and Managing Partner. ACC is a wholly-owned subsidiary of SJP Corporate Holdings, LLC; ACC is affiliated with SJP Capital Management, LLC DBA Austin Capital Management, LLC (“ACM”), which is also a wholly-owned subsidiary of SJP Corporate Holdings, LLC. We provide investment fiduciaries with an organized process for making informed and consistent decisions. We are committed to the precept that by placing the clients’ interests first, we will add value to the asset management process and earn the client’s trust and respect. We value long term relationships with our clients whom we regard as strategic partners in our business.

## Services

---

ACC defines Global Standard of Excellence and what can be done to improve an Investment Committee and Fiduciaries decision-making process. The excellence is established by best practices which are intended to provide the framework of a disciplined investment process. The best practices are organized under a four-step Fiduciary Quality Management System. The steps are consistent with the global ISO 9000 Quality Management System standard, which emphasizes continual improvements to a decision-making process: Organize, Formalize, Implement, and Monitor.

We also offer banks, trust companies and investment advisers (collectively, “Advisors”) asset allocation tools, which an Advisor may use in providing advisory services to its clients (the “Private Label Platform”). The Private Label Platform relies upon third party applications as well as proprietary techniques and methods that ACC uses in connection with recommending asset allocations for its clients, performance reviews, and monitoring clients’ portfolios. The Advisor alone has a contractual relationship with, and is solely responsible for, providing advisory services to its clients. ACC does not have a contractual arrangement with, and is not an investment adviser to, the Advisor’s client.

Employee benefit plan clients subject to the Employee Retirement Income Security Act (“ERISA”) of 1974 or comparable federal statutes should understand that our services are offered to assist plan fiduciaries as they carry out their investment related responsibilities and are not intended to be the only basis for

your decision. Moreover, these services should not substitute for or diminish the careful deliberation and determination of those plan fiduciaries, after appropriate consultation with their other professional advisers and the review of relevant plan documentation.

As of December 31, 2012 we provide consulting services for plan assets for 74 accounts totaling \$678,993,345.

The services we offer are as follows:

## **1. Investment Policy Service**

Our Investment Policy Service is designed to assist you in creating a written investment policy statement ("IPS") to document your investment goals and objectives for an account as well as certain policies governing the investment of assets. The IPS also identifies an investment strategy that seeks to attain your goals. The service is generally designed for corporate retirement plans that are managed on a non-discretionary basis by numerous investment managers.

We will prepare a draft of the IPS based upon information furnished by you and your firm designed to profile various factors for the account such as investment objectives, risk tolerances, projected cash flow, and demographics of your retirement plan participants. It is your responsibility to provide all necessary information for the preparation of the IPS, particularly any limitations imposed by law or otherwise. The IPS will be prepared based on the information provided by you and your firm. This draft IPS is then submitted to you for review and approval. We recommend that your professional advisors, such as an attorney, actuary, and/or accountant, also review the IPS. The review and acceptance of the IPS is the ultimate responsibility of you and your retirement program's governing entity.

Upon your final approval, the IPS is ready to be sent to your Investment Committee. It is your responsibility to confirm the Investment Committee's acceptance of the IPS, and it is the Investment Committee's responsibility to adhere to the IPS in managing the retirement program. We encourage you to review accounts periodically to verify investment committee's compliance with the IPS. Your IPS will be reviewed, modified or updated at least once annually.

## **2. Strategic Allocation Modeling Service**

Our Strategic Allocation Modeling service offers asset allocation modeling capabilities which can assist you in identifying an appropriate long-term asset mix to meet your needs and goals. We will conduct a Strategic Allocation Modeling study where sophisticated computer models are used to construct asset allocations and to project potential ranges of returns and market values over various time periods and using various cash flows. This modeling uses resources at ACM and forward looking capital market assumptions of risk and return for the different asset mixes. The Strategic Allocation Modeling service is intended to help test a variety of customized "what if" scenarios to better understand the impact of different asset allocations on their accounts.

It is your responsibility to select the final asset allocation mix and to determine whether to implement any asset allocation strategy. After you select an asset allocation alternative, it is important that you periodically review your accounts' actual asset allocation to verify that it remains in line with your investment guidelines. You may also choose from three predetermined model portfolios rather than using the Strategic Allocation Modeling service. These three models include growth, balanced and

conservative portfolios and are constructed using the same forward looking capital market assumptions of risk and return. If you choose from any one of these three portfolios you can also use our asset allocation questionnaire that takes in consideration your time horizon and risk tolerance to determine the appropriate model portfolio. It is your duty to continue to assess their risk tolerance and time horizon and make changes appropriately.

The asset class data presented in a Strategic Allocation Modeling study is based on estimated, forward-looking performance of various asset classes and subclasses to create our forward looking capital markets assumptions (e.g., expected return, expected standard deviation, correlation, etc.). Past performance and the return estimates of the asset classes and the indexes that correspond to these asset classes may not be representative of actual future performance. Actual results could differ, based on various factors including the expenses associated with the management of the portfolio, the portfolio's securities versus the securities comprising the various indexes and general market conditions. Before a specific asset allocation strategy is selected, other factors such as economic trends, which may influence the choice of investments and risk tolerance, should be considered. We also encourage you to consult with your other professional advisors since we do not provide tax or legal advice that may affect asset classes or allocations used in the modeling. We will apply guidelines you supply, as directed, however, compliance with these restrictions or guidelines, is your responsibility.

Extensive analysis is used to derive our forward looking capital market assumptions. We receive guidance from the ACM research department and use information from academia, and other sources. Several models are used to derive estimates based in part on the Capital Asset Pricing Model and models based on long-term economic growth and other metrics and statistics. These studies are designed to provide estimates of long-term asset class risk and return assumptions over future decades and may significantly differ from more short-term forecasts published by other business units of SJP Corporate Holdings, LLC. These inputs are used in optimization models used to derive long term strategic allocation targets, but may include short-term tactical tilts at the direction of the client. Other non-proprietary sources of information, including information from various computer software systems and consulting firms, may be used to analyze the data and generate the allocation modeling studies. Such information is obtained from sources believed to be reliable but cannot be guaranteed.

Subsequent reviews of your asset allocation strategy by us will not be performed unless specifically requested.

### **3. Manager Selection Service**

Our Manager Selection service is designed to assist you with the identification and evaluation of professional investment managers so that you can select one or more such managers. The service is generally designed for clients with \$1,000,000 or more in assets to be managed. Some managers restrict their service to clients with asset greater than \$1,000,000.

We use various sources of information to this service. You will provide us data regarding your investment objectives and risk tolerance. This information is then compared against data about investment managers available to us from a variety of sources, including both non-proprietary databases and subscription services. Information about investment managers is obtained from sources believed to be reliable but cannot be guaranteed.

In identifying potential investment manager candidates for you, we leverage our industry knowledge and also use an initial computerized screening process to generate a preliminary list of potential investment managers. We then apply various criteria to reduce the number of investment manager candidates to a group of typically fifteen (15) investment managers that appear appropriate for you based on your financial objectives, risk tolerances, and other requirements. Unless you request otherwise, the investment manager candidates presented to you will be firms that are not affiliated with us. Once a final group of investment manager candidates has been identified, you will be presented with summary information in a format designed to help you make comparisons among the investment managers.

The Manager Selection service is completed once we present the list of investment managers to you. It is your responsibility to select and/or retain any of the investment managers presented and to negotiate the terms of any investment manager agreement. We will review the existing investment manager(s) and make any necessary recommendations on an annual basis. We will provide ongoing due diligence for the investment managers you selected.

While our due diligence does screen an investment manager's past performance, we do not perform an audit of this data to verify either its accuracy or consistency with industry standards or uniformity with other managers. Performance information provided by the manager or obtained from third-party sources may include data pertaining to types of accounts (e.g., mutual funds or other commingled accounts) that may be different from the type of account you are interested in having managed. You are encouraged to evaluate this performance data carefully and to consider all relevant factors in selecting or retaining one or more managers.

The Manager Selection ("MS") service does not present information on all of the investment managers that might be potentially appropriate for you. We are limited by the size of the database utilized and other practical considerations. In addition, we and our consultants may have relationships or dealings with, and may receive direct or indirect compensation or other benefits from, investment managers presented to you under the Manager Selection service. These investment managers may also be available for client selection in our other investment advisory programs.

Upon client request and in certain limited circumstances (such as if the applicable client portfolio does not meet the investment minimum required for an investment manager identified in a MS search), we may provide a list of mutual funds to you for consideration. The list will generally include information to help you compare the mutual funds. Unless you request it, the list of mutual funds will not include any funds managed by ACC or its advisory affiliates, including ACM. While you may discuss these mutual funds with an Advisor, this listing is not a recommendation of any particular fund. The decision to invest in any mutual fund is your sole responsibility. You should not base your decision solely upon this material. We will provide on-going due diligence or other advice regarding any mutual funds you do select.

#### **4. Portfolio Information and Measurement Service**

Our Portfolio Information and Measurement Service can assist you in monitoring and evaluating the performance of your investment accounts by providing periodic reports containing returns and other statistical performance analyses. In consultation with your Advisor or our Consultant, you can customize



the performance measurement report by choosing specific indices and other benchmarks for portfolio comparison purposes. You may also select the level of report detail that meets your needs. Performance on your account is compared to the returns of selected market indexes and other professionally managed investment accounts. The Portfolio Information and Measurement Service also provides an analysis of the effect on performance of the investment manager's securities selections and asset allocation decisions. An assessment of the risk taken to achieve the returns is also presented. We recommend that you use the report to evaluate your investment managers and your investment managers' progress towards selected goals. Your Advisor or our Consultant will assist you in understanding the content of the Portfolio Information and Measurement Service report, which includes graphic and tabular presentations of performance.

The principal source of information for the Portfolio Information and Measurement Service report is data from your custodian. We also use outside information from computer and data analysis firms. This information is obtained from sources believed to be reliable, but cannot be guaranteed. The inclusion of any particular securities in the Portfolio Information and Measurement Service report does not constitute a recommendation with regard to suitability or the appropriateness of continued investment.

You may select the level of report detail that meets your needs. You should know the following regarding the Portfolio Information and Measurement service report:

- Changes in account valuations due to capital gains or losses, dividends, interest or other income are included in the calculation of returns.
- Transaction costs, such as commissions, are included in the purchase cost or deducted from the sale proceeds of a sale of a security.
- Account returns may be shown both before and after the deductions of investment advisory fees (if fee is known) depending upon the report selected.
- Because your assets are maintained by an unaffiliated custodian, we will rely upon the data supplied by the custodian or third party manager in preparing the Portfolio Information and Measurement Service report. We are not responsible for the accuracy of this data.
- When special circumstances come to our attention, we reserve the right to make adjustments which, in our judgment, would more accurately reflect the value of securities held in, and the performance of, a particular account.

When making performance comparisons, you should note that:

- Differences in transaction costs among accounts will affect account comparisons.
- The market indexes shown in the Portfolio Information and Measurement Service report do not include transaction costs. If available, an actual investment in these indexes, or in the securities comprising the indexes, would require an investor to incur transaction costs and performance would be reduced by such costs and their compounded effect.
- Performance information from third-party sources may differ from that shown in the Portfolio Information and Measurement Service report. These differences may be due to different methods of analysis, different pricing sources, treatment of accrued income investment in these indexes, or in the securities comprising the indexes, would require an investor to incur

transaction costs and performance would be reduced by such costs and their compounded effect.

- Performance information from third-party sources may differ from that shown in the Portfolio Information and Measurement Service report. These differences may be due to different methods of analysis, different pricing sources, treatment of accrued income or different accounting procedures. For example, infrequently traded fixed income securities may be priced according to yields calculated on a matrix system, which may vary among pricing sources. As another example, if sufficient data is available, Portfolio Information and Measurement Service reports are prepared on a trade date basis, and Portfolio Information and Measurement Service report performance information may differ from reports prepared on a settlement date or other basis.
- Mutual fund data analysis reports as well as valuations of hedge funds, and other alternative investment products are prepared based on information from third-party sources. This information has not been verified and cannot be guaranteed. This data may include estimates and is subject to revision.

All Portfolio Information and Measurement Service reports will identify and include all information necessary to understand the report.

## **Item 5 - Fees and Compensation**

---

We provide consulting services for a fee. Our fees do not include brokerage commissions, transaction fees, and other related costs and expenses. You may incur certain charges imposed by custodians, third party investment companies and other third parties. These include fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, money market funds and exchange traded funds also charge internal management fees, which are disclosed in the fund's prospectus. These fees may include, but are not limited to, a management fee, upfront sales charges, and other fund expenses. We do not receive any compensation from these fees. All of these fees are in addition to the consultation fee you pay us. You should review all fees charged to fully understand the total amount of fees you will pay. Services similar to those offered by us may be available elsewhere for more or less than the amounts we charge.

You could invest in a mutual fund directly, without our services. In that case, you would not receive the services provided by us which are designed, among other things, to assist you in determining which mutual fund or funds are most appropriate to your financial condition and objectives.

The fees for our consulting services are negotiable. They may be higher or lower than the listed schedules depending upon a number of factors including, but not limited to, the amount of consultation and customization provided or the number and size of related accounts, the range and extent of services provided or to be provided to you, and the Advisor assisting you. Further individualized services may also be provided on a negotiated basis.

The various services described here may also be offered to you for a single, bundled "retainer" fee or asset based fee. The asset based fee will typically be paid quarterly based on the estimated market

value of the portfolio as of the last business day of the previous calendar quarter as reported in the Consulting Portfolio Information and Measurement Service Quarterly Performance Report. All of the assets in that Report will be subject to the asset based fee, whether or not those assets are also within other ACC Consulting programs or included in other performance reports.

### **1. Investment Policy Service**

The standard fee for drafting an Investment Policy Statement for each Retirement Plan is \$5,000. Alternative pricing arrangements, including using an annual fee or asset based fee, may also be available. The fee you will pay will be listed in your Advisory Agreement with ACC. Please discuss the fee structure with your Advisor or our Consultant.

### **2. Strategic Allocation Modeling Service**

The standard fee for a Standard Asset Allocation Study is \$5,000. Alternative pricing arrangements, including using an annual retainer fee or asset based fee, may also be available. The fee you will pay will be listed in your Advisory Agreement with ACC. Please discuss the fee structure with your Advisor or our Consultant.

### **3. Manager Selection Service**

The minimum fee for the Manager Selection service is \$10,000 and applies to each portfolio for which you would like to utilize the service. Alternative pricing arrangements, including using an annual retainer fee or asset based fee, may also be available. The fee you will pay will be listed in your Advisory Agreement with ACC. Please discuss the fee structure with your Advisor or our Consultant.

### **4. Portfolio Information and Measurement Service**

The fees for the Portfolio Information and Measurement Service depend upon the level of the service provided; however, the fee for the Portfolio Information and Measurement service starts at \$2,000. You can select the level of report detail that meets your needs. Alternative pricing arrangements, including using an annual retainer fee or asset based fee, may also be available. The fee you will pay will be listed in your Advisory or Consulting Agreement with ACC. Please discuss the fee structure with your Advisor or our Consultant.

### **5. Termination of Services**

Either party may terminate the Consulting Services Agreement in writing in accordance with the provisions set forth in the Consulting Services Agreement. Up to the date of termination, any unearned fees will be promptly refunded. Payment for any unpaid services up to the date of termination will be due immediately.

## **Item 6 - Performance Based Fee and Side by Side Management**

---

We do not charge any performance-based fees. These are fees based on a share of capital gains on or capital appreciation of the assets of a client.

## Item 7 - Types of Client(s)

---

We provide consulting services to individuals, trusts, investment advisers, estates, charitable organizations, banks, insurance companies, thrift institutions, pension and profit sharing plans, corporations, businesses and governmental entities.

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

---

To deliver our Quality Management System, ACC may use certain screening processes, techniques; create in-depth analysis, strategies, and processes:

### 1. Screening and Selection Process

ACC's manager screening and selection process employs objective criteria to screen the investment manager universe for the most appropriate investments. Starting with over 14,000 managers, ACC creates a Focus List based upon the following rigorous selection process. We analyze, evaluate, and scrutinize until we feel we have the best of the best.

#### First Screening

The initial screening evaluates investment managers by asset class with evaluations of the total return over the past 3 years, category percentile rank, Sharpe ratio and expense ratio. This screening brings the available investment managers down to about 600.

#### Second Screening

Managers passing the initial screening are reviewed for the Institutional Availability and Same Day Exchange Trading. The list is then reviewed by the fund selection committee on the basis of 3-, 5-, and 10-year returns, category ranks for the respective periods, Sharpe Ratio, standard deviation, bear market returns, and expense ratio. Managers that beat their respective average in each category remain. Approximately 300 managers remain after the second screening.

#### Third Screening

A Consistency Ratio ("CR") is applied to the remaining managers. The CR is a measure of the manager's performance against the benchmark over the previous 5-year period. It is intended to measure both the frequency and magnitude of a fund's over/under performance relative to the benchmark. The asset class and benchmarks are detailed below.

The CR is calculated as follows:

$$\text{CR} = [(\text{Number of years fund outperformed the benchmark/number of years analyzed}) + (\text{cumulative 5-year performance of the fund/cumulative 5-year performance of benchmark})] - 1$$

## Final Selection

At this point, approximately 50 managers remain with a limit of no more than 3 managers per category before the index funds are added. If the results include more than 3 managers in the category, the 3 managers with the best Sharpe Ratio are selected.

## 2. Fundamental Analysis

ACC may use the fundamental method of investment analysis for the selection of investments and managers. The process filters the potential number of investments and managers for their respective investment style.

Fundamental analysis serves to answer questions, such as:

- What is the size of the investment company?
- Is the money manager or management team consistent in their investment style?
- Is the manager's performance consistent when compared to his peers?
- What is that manager's tenure with the investment company?
- Are the internal costs competitive relative to other manager's in that style?

One of the primary objectives of fundamental analysis is to provide current analysis of investments and managers we recommend, whether for selection or de-selection. We use a combination of qualitative and quantitative factors to try and find investments and managers that will perform well in their investment style. We look at both investment performance (relative to the peer group and the market) and modern portfolio statistics (like beta and standard deviation) to analyze the level of risk a manager takes to achieve those returns. When we are examining an investment, we will look at the annual turnover, sector weightings and many other quantitative factors.

The end goal of performing fundamental analysis is to produce short list of investments and managers, with the aim of figuring out what sort of position to take with those investments.

In order to perform this fundamental analysis, we use many resources, such as:

- Morningstar
- Financial newspapers and magazines (e.g. Wall Street Journal, Forbes, etc.)
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Research materials prepared by others
- Company press releases
- Corporate rating services
- Company websites
- Inspections of corporate activities

We also review the investment strategies of the managers including, but not limited to:

- Long term purchases -securities held at least a year
- Short term purchases - securities sold within a year
- Trading -securities sold within 30 days

- Short sales
- Margin Transactions
- Option writing, including covered options, uncovered options or spreading strategies

### **3. Modern Portfolio Theory (MPT)**

ACC uses publically available research and reports regarding individual securities, issuers, investment strategies and performance of asset classes to select the investments that will make our Focus List. We use Modern Portfolio Theory to help select the investments and managers. Modern Portfolio Theory was created by some of the world's leading academic economists. They conducted extensive research, demonstrating that asset class selection (such as small-cap vs. large-cap, value vs. growth and U.S. vs. international) - not stock selection or market timing - is the most important determinant of portfolio performance. They also received a Nobel Prize for revealing these four tenets:

1. Markets process information so rapidly when determining security prices, that it is extremely difficult to gain a competitive edge by taking advantage of market anomalies or inefficiencies.
2. Over time, riskier investments provide higher returns as compensation to investors for accepting greater risk.
3. Adding high-risk, low correlating asset classes to a portfolio can actually reduce volatility and increase expected rates of return.
4. Passive asset class fund portfolios can be designed to deliver over time the highest expected returns for a chosen level of risk.

Modern portfolio theory tries to understand the market as a whole, rather than looking for what makes each investment opportunity unique. Investments are described statistically, in terms of their expected long-term return rate and their expected short-term volatility. The volatility is equated with "risk", measuring how much worse than average an investment's bad years are likely to be. The end goal is to identify your acceptable level of risk tolerance, and then to find a portfolio with the maximum expected return for that level of risk.

### **4. Technical Analysis**

Technical Analysis is a technique that attempts to determine a security's value by developing models and trading rules based upon price and volume transformation. Technical analysis assumes that a market's price reflects all relevant information so the analysis focuses on the history of a security's trading behavior rather than external drivers such as economic, fundamental and news events. The practice of technical analysis incorporates the importance of understanding how market participants perceive and act upon relevant information rather than focusing on the information itself. Ultimately, technical analysts develop trading models and rules by evaluating factors such as market trends, market participant behaviors, supply and demand and pricing patterns and correlations.

In order to perform technical analysis, we use the following techniques:

- Calculate moving averages
- Stochastic oscillators, which incorporate support and resistance levels to determine momentum.
- Charting and chart patterns
- Supply and demand indicators

- Investor behavior and psychology

We review investment strategies managers can use to implement any investment advice given to you include, but are not limited to:

- Long term purchases (securities held at least a year)
- Short term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Margin Transaction
- Option writing, including covered, uncovered and spread option strategies

As with other types of analysis, the predictive nature of technical analysis can vary greatly; models and rules are often modified and updated as new patterns and behaviors develop. Past performance is not an indicator of future return.

## **5. Cyclical Analysis**

While we do not attempt to time the market, we may use cyclical analysis in conjunction with other strategies to help determine if shifts are required in our Asset Allocation Models depending upon long and short-term trends in financial markets and the performance of the overall national and global economy.

## **6. Risks**

We cannot guarantee these analysis methods will yield a return. In fact, a loss of principle is always a risk. Investing in securities involves a risk of loss that you should be prepared to handle. You need to understand that investment decisions made for your account by us are subject to various market, currency, economics, political and business risks. The investment decisions will not always be profitable nor can we guarantee any level of performance.

There is no assurance that the performance results of any benchmark or index used in connection with Consulting Services, including those shown on the reports, can be attained.

Clients who may be using the services described in this Brochure may determine not to use certain services being offered to them, to make their investment related decisions contrary to the suggestions being offered by us, or to make their own decisions in such matters without the benefit of the assistance of our personnel. For example, a Consulting Services client may elect not to receive the Investment Policy Service, even though the client is offered this service for an additional fee. Similarly, a Consulting Services client may determine to select an investment manager (or continue the use of an investment manager) without the benefit of the Manager Selection Service. In such circumstances, we have no responsibility whatsoever for the client's decision, its continued appropriateness or its consequences.

For a more comprehensive description of all the risks associated with strategies, methodologies, and products please refer to the glossary under Risks.

## 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 your evaluation of us or the integrity of our management. We have no information to disclose here about the firm or any of our investment advisors. We adhere to high ethical standards for all advisors and associates. We strive to do what's in your best interests.

## Item 10 - Other Financial Industry Activities and Affiliations

---

ACC is affiliated with ACM, which may provide research and assistance with the Strategic Allocation Modeling Service. ACC is wholly owned by SJP Corporate Holdings, LLC, which also owns ACM.

ACC, its affiliates, and employees may benefit from the fees and charges paid by you for the services described in this Brochure. You may also use other products or services available from or through ACC and pay additional compensation. Advisors offering these services and providing on-going assistance to you will receive compensation from us. However, you are not obligated to implement any Consulting Services recommendations or use the recommended custodian or Trust Company.

Additionally, ACC and the client's Advisors may benefit from additional compensation when certain clients utilize its affiliates including but not limited to recordkeeping services provided by WPS Corporate and Retirement Plan Services, LLC ("WPS"), SJP Retirement Plan Services, LLC ("SJPR"), SJP Capital Management, LLC DBA Austin Capital Management, LLC ("ACM") or use one of our Trust Company or Custodial relationship. Such additional compensation creates a financial incentive to recommend the use of these firms. You should understand all these potential conflicts of interest before making a decision. Our Code of Ethics prohibits us from placing our own interests ahead of yours and our Chief Compliance Officer monitors accounts to ensure we do not.

Further, either as part of Consulting Services, or in a brokerage or trust relationship separate and apart from the Consulting Services agreement, Advisors or our Consultants may assist certain clients by executing transactions, for the purchase or sale of securities, including stocks, bonds, mutual funds and other investments, as well as other ACC products and services. In such cases, mutual fund distributors and advisers generally pay the selling broker compensation associated with or generated by such products, services and transactions. This compensation may include finder's fees, commissions, revenue sharing, mark-ups, or mark-downs, asset base or subscription fees, mutual funds, sale loads, fees permitted under Rule 12b-1 of the Investment Company Act of 1940 ("12b-1 fees") or other remuneration as may be described in the applicable confirmations, prospectuses, subscription agreements, or other offering documents (collectively, "Selling Broker Compensation"). To the extent that an Advisor is broker of record for the transaction, ACC and the client's Advisor may receive Selling Broker Compensation associated for mutual funds that the Consulting Services client purchases, including for purchases executed outside of ACC. Clients are encouraged to speak with their Advisors at any time about any of these matters, including the extent to which the Selling Broker Compensation varies among share classes. Clients should also review the prospectuses for such products for a full description of all fees.



## Item 11 - Code of Ethics

---

### 1. General Information

We have adopted a Code of Ethics for all supervised persons of the firm describing its high standards of business conduct, and fiduciary duty to you, our client. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All of our supervised persons must acknowledge the terms of the Code of Ethics annually, or as amended.

We may recommend securities to you that we have purchased for our own accounts. We may trade securities in our account that we have recommended to you as long as we place our orders after your orders. This policy is meant to prevent us from benefiting as a result of transactions placed on behalf of advisory accounts.

We have established the following restrictions in order to ensure our fiduciary responsibilities to you are met:

- We shall not buy or sell securities for our personal portfolio(s) where this decision is substantially derived, in whole or in part, from our role as a Consultant of ACC unless the information is also available to the investing public on reasonable inquiry. In no case, shall we put our own interests ahead of yours.
- We emphasize your unrestricted right to decline to implement any advice rendered.

However, some securities trade in sufficiently broad markets to permit transactions by clients to be completed without an appreciable impact on the markets of the securities. Under certain circumstances, exceptions may be made to the policies stated above. Records of these trades, including the reasons for the exceptions, will be maintained with our records as required.

In addition, open-end mutual funds and/or investment sub-accounts which may comprise a variable insurance product are purchased or redeemed at a fixed net asset value. Therefore, purchases of mutual funds and/or variable insurance products by a Consultant are not likely to have an impact on the prices of the fund in which you invest. These types of transactions are not prohibited by our policies and procedures.

Certain affiliated accounts may trade in the same securities with your accounts on an aggregated basis when consistent with our obligation of best execution. When trades are aggregated, all parties will share the costs in proportion to their investment. We will retain records of the trade order (specifying each participating account) and its allocation. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

You may request a copy of the firm's Code of Ethics by contacting Christine Mora, Esq., Executive Vice President.

## **2. Responsibility**

It is the responsibility of all supervisory personnel to ensure that we conduct business with the highest level of ethical standards and in keeping with our fiduciary duties to you. We must put your interests first and refrain from having outside interests that conflict with your interests.

## **3. Privacy Statement**

We are committed to safeguarding your confidential information and hold all personal information provided to it in the strictest confidence. These records include all personal information that we collect from you or receive from other firms in connection with any of the financial services they provide. We also require other firms with whom we deal with to restrict the use of your information. Our Privacy Policy is available upon request.

## **4. Prohibited Acts**

The following acts are prohibited:

- Employing any device, scheme or artifice to defraud
- Making any untrue statement of a material fact
- Omitting to state a material fact necessary in order to make a statement, in light of the circumstances under which it is made, not misleading
- Engaging in any fraudulent or deceitful act, practice or course of business
- Engaging in any manipulative practices
- Participating in client accounts, including being a trustee, executor or having a durable Power of Attorney

## **5. Conflicts of Interest**

We have a duty to disclose potential and actual conflicts of interest. We have a duty to report potential and actual conflicts of interest to management. Gifts (other than de minimis gifts, which are usually defined as having a value under \$100.00) should not be accepted from persons or entities doing business with us.

We act in a fiduciary capacity. If a conflict of interest arises between us and you, we shall make every effort to resolve the conflict in your favor. Conflicts of interest may also arise in the allocation of investment opportunities among the accounts that we advise. We will seek to allocate investment opportunities according to what we believe is appropriate for each account. We strive to do what is equitable and in the best interest of all the accounts we advise.

## **6. Use of Disclaimers**

We shall not attempt to limit liability for willful misconduct or gross negligence through the use of disclaimers.

## **7. Suitability**

We shall only recommend those investments that we believe are suitable for you based upon your particular situation and circumstances. In addition, you must notify us of any significant changes in your situation or circumstances so that we can respond appropriately.

## Item 12 - Brokerage Practices

---

### 1. Soft Dollars

We do not receive any soft dollars from broker-dealers, custodians or third party money managers.

### 2. Brokerage for Client Referrals

We do not receive any compensation or incentive for referring you to broker-dealers for brokerage trades.

### 3. Directed Brokerage

If requested, we will arrange for the execution of securities brokerage transactions for your account through Broker-Dealers that we reasonably believe will provide “best execution.” These transactions will take place through one of several broker-dealers depending upon where your account is custodied. In seeking best execution, the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Broker-Dealer’s services including the value of research provided, execution capability, commission rates, and responsiveness. Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for account transactions.

Transactions placed in an asset management account by a third party manager will be executed through their broker-dealer or custodian. In determining best execution for these transactions, the third party manager is looking at whether the transaction represents the best qualitative execution, taking into consideration the full range of a Broker-Dealer’s services including the value of research provided, execution capability, commission rates, and responsiveness. While they look for competitive commission rates, they may not obtain the lowest possible commission rates for account transactions.

Similarly, directed brokerage and other commission arrangements raise conflicts of interest that clients should carefully consider, notwithstanding the potential benefit that these arrangements may offer. For example, Charles Schwab will be compensated for securities transactions executed by the firm on behalf of client’s directed brokerage account.

Clients are not obligated to implement any of the advice, suggestions, or recommendations provided through the various Consulting Services. However, after having received such Consulting Services, such as those relating to asset allocation or investment manager selection, clients may decide to change allocations or managers or take other action resulting in new investments or additional securities transactions. The decision to proceed with such a course of action, belongs to the client and, as applicable, the client’s investment manager(s). Clients may pay for the Consulting Services on a “hard dollar” basis or as a percentage of assets. In the latter case, clients direct their investment managers to execute some or all of their securities transactions through ACC custodial and trust company relationships and subject to and consistent with best execution requirements. If a client chooses to pay for Consulting Services in whole or in part through directed brokerage, commissions on eligible trades are the responsibility of the client and does not offset Consulting Services fee(s).

## Item 13 - Review of Accounts

---

### 1. Duty to Supervise

We are responsible for ensuring adequate supervision over the activities of all of our consultants who act on our behalf. Specific duties include:

- Establish procedures that could be reasonably expected to prevent and detect violations of law by our Consultants
- Analyze operations and create a system of controls to ensure compliance with applicable securities laws
- Ensure that all ACC personnel fully understand the Company's policies and procedures
- Establish a review system designed to provide reasonable assurance that our policies and procedures are effective and being followed

### 2. Reviews

Reviews will be conducted in accordance with your Consulting Services Agreement. You should notify us promptly of any changes to your financial goals, objectives or financial situation as such changes may require us to review your portfolio and make recommendations for changes.

### 3. Reports

Reports provided to you will be in accordance with your Consulting Services Agreement. We are not responsible for the accuracy of third-party statements and will rely upon the data and other information presented therein or in other reports provided to us by your custodian to prepare Portfolio Information and Measurement Service reports, as applicable to your Consulting Services Agreement. Consulting Services clients may also receive reports directly from their selected investment manager.

ACC does not act as custodian. If a Consulting Services client uses one of ACC's custodians, the custodian or trust company can but is not required to provide periodic custodial or trust statements. ACC is not responsible for the accuracy of these statements and will rely upon the data and other information presented therein or in other reports provided to ACC by the client's custodian to prepare PM reports for clients.

## Item 14 - Client Referrals and Other Compensation

---

We have entered or may enter into marketing arrangements with third parties who, for compensation, will provide consulting or other services to us in connection with the marketing of our various programs, including consulting services or otherwise refer prospective clients to us. Each such marketing arrangement is or will be governed by a written agreement between us and the third party, and will be disclosed to you, as required by law.

We, our affiliates, and our employees may benefit from the fees and charges paid by you for the services described in your Consulting Services Agreement. You may also use other products or services available from or through us and our affiliates and, in such case, pay additional compensation. Advisors offering these services and providing on-going assistance to you will, in turn, receive compensation from us.

Additionally, we and your advisors may benefit from additional compensation if you utilize our affiliates including but not limited to services provided by WPS, ACM, SJPR, or use a trust company or custodial relationship. Such additional compensation creates a financial incentive to recommend the use of our custodian and trust company relationship, WPS, SJPR, and ACM. You should understand all potential conflicts before determining a course of action and making the types of portfolio and investment decisions described in this Brochure.

You are not obligated to implement any consulting services recommendations or use the recommended custodians or trust companies. You may be able to separately obtain some or all of the types of services available through consulting services from us or other firms. Depending upon the circumstances, the aggregate of any separately paid fees may be lower or higher than the applicable consulting services fees. Further, consulting services fees may be higher or lower than the fees charged by other firms for comparable services, assuming such services are available.

Further, either as part of consulting services, or in a brokerage or trust relationship separate and apart from the consulting services agreement, Advisors may assist you by executing transactions, including, for example, the purchase or sale of securities, including stocks, bonds, mutual funds and other investments, as well as other ACC products and services. In such cases, mutual fund distributors and Investment Companies generally pay the selling broker compensation associated with or generated by such products, services and transactions. This compensation may include finder's fees, commissions, revenue sharing, mark-ups, or mark-downs, asset base or subscription fees, mutual funds, sale loads, fees permitted under Rule 12b-1 of the Investment Company Act of 1940 ("12b-1 fees") or other remuneration as may be described in the applicable confirmations, prospectuses, subscription agreements, or other offering documents (collectively, "Selling Broker Compensation"). To the extent that an Advisor is broker of record for the transaction, ACC and your Advisor may receive selling broker compensation associated for mutual funds that you may purchase, including purchases executed outside of ACC. You are encouraged to speak with your Advisors at any time about any of these matters, including the extent to which the selling broker compensation varies among share classes.

We have business relationships with many investment managers, including those presented to or retained by clients receiving Consulting Services. ACC and Advisors (including Consultants providing the consulting services) may receive compensation in connection with such transactions and other services. You are encouraged to speak with your Advisors or our Consultants to discuss any questions that you may have about existing or potential conflicts of interest relating to our business relationships that these investment managers may have with us or your Advisor.

We may also have business relationships with the officers, directors, or employee of a variety of clients, including corporations, pension and retirement plans, and other entities receiving Consulting Services. These business arrangements may create a conflict of interest to the extent that these individuals have any role or influence in the hiring or retention of ACC and your Advisors or with respect to their compensation. It is your responsibility to determine whether any of our business relationships create a conflict of interest, to implement appropriate policies and procedures for the disclosure and handling of such matters and to resolve any such conflicts in your best interest.

Investment managers or their affiliates (including investment managers for separate accounts and advisers to mutual funds and other pooled vehicles that may be purchased for consulting services accounts) presented to you may pay, or reimburse us, for various costs arising from or relating to providing consulting services and asset management. These investment managers or their affiliates may also participate with our personnel in other conferences and seminars unrelated to consulting services and may reimburse us to cover various costs of these conferences and seminars. In addition, these investment managers or their affiliates may make charitable donations or cover the costs of reasonable entertainment in connection with our sponsored related events.

## **Item 15 - Custody**

---

We do not have custody of any accounts. You may or may not receive a statement from the broker-dealer or custodian that holds and maintains your investment assets. If you do receive a statement from the custodian, we urge you to carefully review such statements and compare this official custodial record to the account statements that we may provide to you.

## **Item 16 - Investment Discretion**

---

We do not usually receive discretionary authority from you to select the type of securities and amount of securities to be bought or sold. The Third Party money manager and/or custodians may have discretion over your account. You will be educated about this and sign the Advisory Agreement which details this in full.

## **Item 17 - Voting Client Securities**

---

As a matter of firm policy and practice, we do not have any authority to and do not vote proxies on behalf of advisory clients. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. We may provide advice to you regarding your voting of proxies. We are authorized to instruct the Custodian to forward you copies of all proxies and shareholder communications relating to your account assets.

## **Item 18 - Financial Information**

---

We are required to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that would impair our ability to meet any contractual and fiduciary commitments to you, our client. We have not been the subject of any bankruptcy proceedings.

# Glossary of Key Terms

---

**Adviser** – Austin Capital Consulting, LLC

**Advisor** – the banks, trust companies and investment advisers that are our typical clients

**Asset Allocation** – the process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institutions specific situation and goals; a key concept in financial planning and money management.

**Asset-class investment portfolios** – an asset class is a grouping of similar investments whose prices tend to move together. Asset classes can be defined on a very general level, such as stocks or on a more specific level, such as American silver producing companies. The concept of asset classes is important because one of the goals when building an investment portfolio is to use different asset classes which are not correlated with each other.

**Capital Markets** - markets for securities (debt or equity) where business entities and governments can raise long-term funds. Capital markets include funds that have periods of one year or longer. Capital Markets include stock and bond markets and are typically regulated by governmental organizations such as the United States' SEC and the United Kingdom's FSA. Capital markets can be primary, where new securities are sold to investors, secondary, where existing securities are bought and sold between investors or traders.

**Consultant** – the advisors who work for Austin Capital Consulting, LLC

**Diversification** – a portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction. The goal of diversification is to reduce the risk in a portfolio. Volatility is limited by the fact that not all asset classes or industries or individual companies move up and down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

**Exchange-Traded Funds (ETFs)** — A type of an investment company (either an open-end company or UIT) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end companies and UITs, because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a secondary market and are only redeemable from the fund itself in very large blocks (blocks of 50,000 shares for example).

**Expense Ratio** — the fund's total annual operating expenses (including management fees, distribution (12b-1) fees, and other expenses) expressed as a percentage of average net assets.

**Fees**— a list of all fees associated with different products we offer are listed below:

1. 12b-1 Fees — Fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. "Distribution fees" include fees to compensate brokers and others who sell fund shares and to

pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. "Shareholder Service Fees" are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.

2. **Account Fee**— A fee that some funds separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.
3. **Distribution Fees** — Fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as "12b-1 fees."
4. **Management Fee** — fee paid out of fund assets to the fund's investment adviser or its affiliates for managing the fund's portfolio, any other management fee payable to the fund's investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not included in the "Other Expenses" category. A fund's management fee appears as a category under "Annual Fund Operating Expenses" in the Fee Table.
5. **Operating Expenses** — the costs a fund incurs in connection with running the fund, including management fees, distribution (12b-1) fees, and other expenses.
6. **Purchase Fee** — a shareholder fee that some funds charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.
7. **Redemption Fee** — a shareholder fee that some funds charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.
8. **Sales Charge (or "Load")** — the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund, similar to a commission. The SEC's rules do not limit the size of sales load a fund may charge, but FINRA rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.
9. **Shareholder Service Fees** — fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also "12b-1 fees."

**Index Fund** — describes a type of mutual fund or Unit Investment Trust (UIT) whose investment objective typically is to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Wilshire 5000 Total Market Index.

**Investment Adviser** — generally, a person or entity who receives compensation for giving individually tailored advice to a specific person on investing in stocks, bonds, or mutual funds. Some investment advisers also manage portfolios of securities, including mutual funds.

**Investment Company** — a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are mutual funds, closed-end funds, and unit investment trusts (UITs).



**Investment Goals** – objective or target, usually driven by specific future financial needs. Some common goals for an individual are: saving for a comfortable retirement, saving to send children to college, managing finances to enable a home purchase, minimizing taxes, and maximizing return on investments given a certain risk tolerance, and estate or trust planning.

**Investment Objectives** – The financial goal or goals of an investor. An investor may wish to maximize current income, maximize capital gains, or set a middle course of current income with some appreciation of capital. Defining investment objectives helps to determine the investments an individual should select.

**Mutual Fund** — the common name for an open-end investment company. Like other types of investment companies, mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market.

**NAV (Net Asset Value)** — the value of the fund's assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund's liabilities from its assets and then divide the result by the number of shares outstanding.

**No-load Fund** — a fund that does not charge any type of sales load. Not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

**Open-End Company** — the legal name for a mutual fund. An open-end company is a type of Investment Company that continuously offers new shares for sale.

**Portfolio** — an individual's or entity's combined holdings of stocks, bonds, or other securities and assets.

**Profile** — summarizes key information about a mutual fund's costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

**Prospectus** — describes the mutual fund to prospective investors. Every mutual fund has a prospectus. The prospectus contains information about the mutual fund's costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker can also provide you with a copy.

**Risks** – a list of all risks associated with the strategies, products and methodologies we offer are listed below:

1. Alternative Investment Risk

Investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices

- Lack of liquidity in that there may be no secondary market for the fund and none expected to develop
- Volatility of returns
- Restrictions on transferring interests in the fund
- Absence of information regarding valuations and pricing
- Delays in tax reporting
- Less regulation and higher fees than mutual funds

## 2. Bond Fund Risk

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields of the risks associated with bond funds include:

- Call Risk - The possibility that falling interest rates will cause a bond issuer to redeem—or call—its high-yielding bond before the bond's maturity date.
- Credit Risk — the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.
- Interest Rate Risk — the risk that the market value of the bonds will go down when interest rates go up. Because of this, you can lose money in any bond fund, including those that invest only in insured bonds or Treasury bonds.
- Prepayment Risk — the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or "retire") its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

## 3. Fundamental Analysis Risk

Fundamental analysis, when used in isolation, has a number of risks:

- There are an infinite number of factors that can affect the earnings of a company, and its stock price, over time. These can include economic, political and social factors, in addition to the various company statistics.
- When using this method with mutual funds, the funds are composed of many companies and not all of them will be undervalued
- The data used may be at least six months out of date.
- It is difficult to give appropriate weightings to the factors.
- In the early 1970s and 1980s price/earnings multiples of 80 or 90 were considered acceptable by some for 'blue chip' stocks in the United States.

- In the 1980s in the United States some biotechnology stocks sold at '50 times sales'. The companies had no earnings and paid no dividend. The new yardstick to value these became 'products in the pipeline'. By the late 1980s most had lost three-quarters of their stock price.
- It assumes that the analyst is competent.
- A fundamental analyst assumes that other fundamental analysts will form the same view about the company and buy the stock, thus restoring its value and returning the trader or investor a capital gain. In practice, an undervalued company's stock price can stay at approximately the same level (or decline) for years.
- It ignores the influence of random events such as oil spills, product defects being exposed, and acts of God and so on.
- It assumes that there is no monopolistic power over markets.
- Even when fundamental analysis reveals an undervalued company, or a stock with high growth prospects, it does not tell us anything about the timing of the purchase of the stock. In other words, we may have discovered a grossly undervalued stock whose price has been falling for some time, and may well continue falling.

#### 4. Insurance Product Risk

The rate of return on variable insurance products is not stable, but varies with the stock, bond and money market subaccounts that you choose as investment options. There is no guarantee that you will earn any return on your investment and there is a risk that you will lose money. Before you consider purchasing a variable product, make sure you fully understand all of its terms. Carefully read the prospectus. Some of the major risks include:

- Liquidity and Early Withdrawal Risk – There may be a surrender charges for withdrawals within a specified period, which can be as long as six to eight years. Any withdrawals before a client reaches the age of 59 ½ are generally subject to a 10 percent income tax penalty in addition to any gain being taxed as ordinary income.
- Sales and Surrender Charges –Asset-based sales charges or surrender charges. These charges normally decline and eventually are eliminated the longer you hold your shares. For example, a surrender charge could start at 7 percent in the first year and decline by 1 percent per year until it reaches zero.
- Fees and Expenses – There are a variety of fees and expenses which can reach 2% and more such as:
  - Mortality and expense risk charges
  - Administrative fees
  - Underlying fund expenses
  - Charges for any special features or riders
- Bonus Credits – Some products offer bonus credits that can add a specified percentage to the amount invested ranging from 1 percent to 5 percent for each premium payment. Bonus credits, however, are usually not free. In order to fund them, insurance companies typically impose high mortality and expense charges and lengthy surrender charge periods.

- Guarantees - Insurance companies provide a number of specific guarantees. For example, they may guarantee a death benefit or an annuity payout option that can provide income for life. These guarantees are only as good as the insurance company that gives them.
- Market Risk -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- Principal Risk – The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

## 5. Mutual Funds Risk

Mutual funds can offer the advantages of diversification and professional management. But, as with other investment choices, investing in mutual funds involves risk and fees and taxes will diminish a fund's returns.

But mutual funds also have features that some clients might view as disadvantages, such as:

- Costs despite Negative Returns — Clients must pay sales charges, annual fees, and other expenses) regardless of how the fund performs. And, depending on the timing of their investment, clients may also have to pay taxes on any capital gains distribution they receive — even if the fund went on to perform poorly after they bought shares.
- Lack of Control — Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.
- Price Uncertainty — with an individual stock, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling your advisor. You can also monitor how a stock's price changes from hour to hour. But with a mutual fund, the price you purchase or redeem shares for will typically depend on the fund's NAV, which the fund might not calculate until many hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

The following is a list of some general risks associated with investing in mutual funds.

- Country Risk - The possibility that political events (a war, national elections), financial problems (rising inflation, government default), or natural disasters (an earthquake, a poor harvest) will weaken a country's economy and cause investments in that country to decline.
- Currency Risk -The possibility that returns could be reduced for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Also called exchange-rate risk.
- Income Risk - The possibility that a fixed-income fund's dividends will decline as a result of falling overall interest rates.
- Industry Risk - The possibility that a group of stocks in a single industry will decline in price due to developments in that industry.

- Inflation Risk - The possibility that increases in the cost of living will reduce or eliminate a fund's real inflation-adjusted returns.
- Manager Risk -The possibility that an actively managed mutual fund's investment adviser will fail to execute the fund's investment strategy effectively resulting in the failure of stated objectives.
- Market Risk -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- Principal Risk -The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

## 6. Overall Fund Risk

- Clients need to remember that past performance is no guarantee of future results. All funds carry some level of risk. You may lose some or all of the money you invest, including your principal, because the securities held by a fund goes up and down in value. Dividend or interest payments may also fluctuate, or stop completely, as market conditions change.
- Before you invest, be sure to read a fund's prospectus and shareholder reports to learn about its investment strategy and the potential risks. Funds with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your financial goals.

While past performance does not necessarily predict future returns, it can tell you how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the higher the investment risk. If you'll need your money to meet a financial goal in the near-term, you probably can't afford the risk of investing in a fund with a volatile history because you will not have enough time to ride out any declines in the stock market.

## 7. Stock Fund Risk

Although a stock fund's value can rise and fall quickly over the short term, historically stocks have performed better over the long term than other types of investments — including corporate bonds, government bonds, and treasury securities.

Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons, such as the overall strength of the economy or demand for particular products or services.

Not all stock funds are the same. For example:

- Growth funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains.
- Income funds invest in stocks that pay regular dividends.
- Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Index, by investing in all — or perhaps a representative sample — of the companies included in an index.

- Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks.

## 8. Technical Analysis Risk

- Technical analysis is derived from the study of market participant behavior and its efficacy is a matter of controversy.
- Methods vary greatly and can be highly subjective; different technical analysts can sometimes make contradictory predictions from the same data.
- Models and rules can incur sufficiently high transaction costs.

**Risk Tolerance** – the extent to which an investor is willing to accept more risk in exchange for the possibility of a higher return. An investor with a high risk tolerance is likely to invest in securities, such as stocks in startup companies, and is willing to accept the possibility that the value of his/her portfolio will decline, at least in the short-term. An investor with a low risk tolerance, on the other hand, tends to invest predominantly in stable stocks and/or highly-graded bonds. One's risk tolerance is subjective and may vary according to age, needs, goals, and even personal dispositions

**Sharpe Ratio** - a measure of the excess return (or risk premium) per unit of risk in an investment asset or trading strategy. The Sharpe Ratio is calculated by subtracting the risk free rate of return from the asset return and then dividing the result by the standard deviation of the excess of the asset return. This ratio is used to characterize how well the return of an asset compensates an investor for the risk taken; the higher the Sharpe ratio number, the better.

**Standard Deviation** - a widely used measurement of variability or diversity in a set of data or population group, it is used in a wide variety of statistical analyses. Standard deviation shows how much variation or dispersion there is from the average. Expressed as percentage, standard deviation increases as individual data are farther from the average of the data set; conversely, standard deviation decreases when individual data are closer to the average of the data set. In finance, the standard deviation on the rate of return on an investment is a measure of the volatility of the investment.

**Third Party Money Manager**— the professional management of various securities (shares, bonds and other securities) and assets (e.g., real estate), to meet specified investment goals for the benefit of the investors. The managers are not the actual advisers working with the investor. Investors may be institutions (insurance companies, pension funds, corporations, individuals etc.

**Total Annual Fund Operating Expense** — the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. You'll find the total in the fund's fee table in the prospectus.

**Unit Investment Trust (UIT)** — a type of investment company that typically makes a one-time "public offering" of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

**You** – the client