



The Watchman Group, Inc.

FORM ADV PART 2

BROCHURE COVER PAGE

The Watchman Group, Inc.

SEC File No. 801-63818

Address: 5045 Lorimar Drive, Suite 200

Plano, Texas 75093

Phone: 469-241-0122

Email: mark@watchmangroup.com

Website: www.watchmangroup.com

Date: March 10, 2014

This brochure provides information about the qualifications and business practices of The Watchman Group, Inc. If you have any questions about the contents of this brochure, please contact us at the above email address.

The information in this brochure has not been approved or verified by the United State Securities and Exchange Commission or by any state securities authority.

Additional information about The Watchman Group, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.



The Watchman Group, Inc.

2012 Material Changes:

Item 4 ADVISORY BUSINESS Section E:

Change in AUM from 12/31/2012 \$117,911,000 to 12/31/13 \$155,321,453



The Watchman Group, Inc.

Table of Contents

Advisory Business - Item 4	3
Fees and Compensation – Item 5	5
Performance-Based Fees and Side-By-Side Management – Item 6	7
Types of Clients – Item 7	8
Methods of Analysis, Investment Strategies and Risk of Loss – Item 8	9
Disciplinary Information – Item 9	12
Other Financial Industry Activities and Affiliations – Item 10	12
Code of Ethics, Participation or Interest in Client Transactions and – Item 11	13
Brokerage Practices – Item 12	14
Review of Accounts – Item 13	17
Client Referrals and Other Compensation – Item 14	18
Custody – Item 15	18
Investment Discretion – Item 16	18
Voting Client Securities – Item 17	19
Financial Information – Item 18	20



The Watchman Group, Inc.

Item 4 ADVISORY BUSINESS

A. Advisory Services

The Watchman Group, Inc. (hereafter known as TWG) is an independent, fee only, SEC Registered Investment Advisor. The firm was founded and incorporated in the state of Texas in 2004. The firm is principally owned by Mark G. Robinson and Janell Robinson who each own 50% of the company.

B. TWG is an investment adviser providing financial planning, consulting, and investment management services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities. TWG, depending upon the engagement, offers its services on a fee basis which may include hourly and/or fixed fees as well as fees based upon assets under management.

Our goal as a firm is to build a continued working relationship with our clients. We offer a free one hour meeting with potential clients. Prior to the meeting we request that the potential client complete a financial profile questionnaire. This information will help us to better understand the client's goals and risk profile. From that point we can discuss if our services are appropriate for the client.

Prior to engaging TWG to provide any of the foregoing investment advisory services, the client will be required to enter into one or more written agreements with TWG setting forth the terms and conditions under which TWG shall render its services (collectively the "*Agreement*").

TWG offers advice on the following Securities:

Equity Securities - exchange-listed securities	Municipal securities
Equity Securities - securities traded over-the-counter	Investment company securities-variable annuities
Equity Securities - foreign issues	Investment company securities - variable life insurance
Warrants	Investment company securities - mutual fund shares
Corporate debt securities	Exchange Traded Funds (ETFs)
Commercial paper	United States government securities
Certificates of deposit	Options contracts on: securities
Other	

TWG may also provide advice about other types of investments held in a client's portfolio at the beginning of the advisory relationship.

In performing its services, TWG shall not be required to verify any information received from the client or from the client's other professionals (i.e., attorney, accountant, etc.) and is expressly authorized to rely on such information. TWG may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if TWG recommends its own services. The client is under no obligation to act upon any of the recommendations made by TWG under a financial planning / consulting engagement and/or engage the services of any such recommended professional, including TWG itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of TWG's recommendations. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify TWG if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing, evaluating, or revising TWG's previous recommendations and/or services.



The Watchman Group, Inc.

C. TWG specializes in the design and management of custom portfolios that are uniquely suited to each person's needs, objectives and risk parameters. The portfolio and investment process is transparent so that our clients always know where their portfolio stands. We also provide additional financial planning services for a separate fee to those who require additional guidance and direction.

D. TWG does not participate in any wrap fee programs.

E. As of December 31, 2012 TWG has \$155,321,453 in assets under management. \$155,235,085 is managed on a discretionary basis and \$86,368 is managed on a non-discretionary basis. Assets under management include all discretionary accounts custodied at TD Ameritrade and annuities under advisement with other custodians.



The Watchman Group, Inc.

ITEM 5 Fees and Compensation

A) Compensation for Advisory Services:

In the event the client decides to engage TWG to provide investment management services, TWG shall do so on a fee basis. If engaged, TWG shall charge an annual fee based upon a percentage of the market value of the assets being managed by TWG. The annual fee shall be prorated and charged quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter.

Fee Schedule:

The annual fee shall vary (between 0.50% and 1.00%) depending upon the market value of the assets under management and the type of investment management services to be rendered, as follows:

<u>PORTFOLIO VALUE</u>	<u>ANNUAL FEE</u>
UP TO \$1,000,000.....	1.00%
\$1,000,001 - \$2,000,000.....	0.75%
Above \$2,000,000.....	0.50%

TWG generally imposes a minimum portfolio value of \$500,000 for its investment management services. TWG, in its sole discretion, may negotiate to waive its stated account minimum or charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.)

TWG may also provide certain financial planning and/or investment-related consulting services. TWG may charge a separate fee for these services. In such circumstances, an additional hourly or fixed fee shall be agreed upon prior to rendering the consulting services. Generally, these fees range from \$500 to \$10,000 on a fixed fee basis and/or \$175 on an hourly basis, depending upon the level and scope of the services and professional rendering the financial planning and/or consulting services.

B) Billing

The specific manner in which fees are charged by TWG is established in a client's written agreement with TWG. TWG will generally bill its fees on a quarterly basis. Clients are billed in advance for each quarter. The client agrees to have TWG directly debit fees from client's accounts.

Management fees shall be prorated for each capital contribution and withdrawal made during the applicable quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

The client may make additions to and withdrawals from the account at any time, subject to TWG's right to terminate an account. If assets are deposited into an account after the inception of a quarter that exceed \$500,000, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter. Clients may withdraw account assets on notice to TWG, subject to the usual and customary securities settlement procedures. For partial withdrawals in excess of \$500,000 within a billing period, TWG shall credit its unearned fee toward the next quarter's fee.



The Watchman Group, Inc.

However, TWG designs its portfolios as long-term investments and assets withdrawals may impair the achievement of a client's investment objectives.

Additions may be in cash or securities provided that TWG reserves the right to liquidate any transferred securities, or decline to accept particular securities into a client's account. TWG may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e., contingent deferred sales charge) and/or tax ramifications.

C) Additional Fees - not TWG advisory charges

TWG's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as 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 and exchanged traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive and in addition to TWG's fees and TWG shall not receive any portion of these commissions, fees and costs.

D) Prorated Fees and Refunds

For the initial quarter of investment management services, the first quarter's fees shall be calculated on a *pro rata* basis. The *Agreement* between TWG and client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. TWG's annual fee shall be prorated through the date of the termination and any remaining balances shall be charged or refunded to the client, as appropriate, in a timely manner.

E) Employee Compensation

TWG is compensated on a fee-only basis and does not receive commissions or other remuneration from the sale or redemption of securities in a portfolio, from the sale or recommendation of insurance products or from any source other than directly from the client.



The Watchman Group, Inc.

ITEM 6 Performance-Based Fees and Side-By-Side Management

TWG nor any supervised persons accept any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).



The Watchman Group, Inc.

ITEM 7 Types of Clients

TWG provides investment management services to the following types of clients:

- Individuals (other than high net worth individual);
- High net worth individuals;
- Corporate pension and Profit-sharing plans (other than plan participants);
- Trust;
- Estates; and,
- Charitable organizations.

TWG generally imposes a beginning minimum portfolio value of \$500,000 for its investment management services. TWG, in its sole discretion, may negotiate to waive its stated account minimum or charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.)



The Watchman Group, Inc.

ITEM 8 Methods of Analysis, Investment Strategies and Risk of Loss

A. TWG's uses the following methods of analysis in formulating our investment advice for managing client assets.

1) Fundamental Analysis:

The Advisor attempts to measure the intrinsic value of a security by reviewing financial and economic factors to determine if the security is underpriced or overpriced. These factors could include financial conditions, industry conditions, economic conditions, and the management strategy for the company.

Fundamental Analysis does not attempt to anticipate general market movements. This presents a potential risk as the price of the security can move up or down with the overall stock market regardless of the economic and financial factors considered in evaluating the security.

2) Technical Analysis:

The Advisor analyzes past market data, primarily price and volume in an effort to forecast the direction of prices.

Technical analysis does not consider the underlying financial condition of a company. Instead it holds that prices already reflect all such trends before investors are aware of them.

This presents a risk in that unexpected future events may cause certain securities to rise or fall regardless of market movements. The Advisor discounts the usefulness of any results produced by "technical analysis" and performs this type of analysis primarily to gain insight into the motivations of competing advisors who rely on "technical analysis" when formulating their investment strategies.

3) Cyclical Analysis:

In this type of technical analysis, the Advisor measures the movements of a particular stock against the overall market in an attempt to predict the price movement of the security. The Advisor discounts the usefulness of any results produced by "cyclical analysis" and performs this type of analysis primarily to gain insight in the motivations of competing advisors who rely on "cyclical analysis" when formulating their investment strategies.

4) Quantitative Analysis:

The Advisor may use certain mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.



The Watchman Group, Inc.

5) Qualitative Analysis:

The Advisor subjectively evaluates non-quantifiable factors such as quality of management, labor relations, and strength of research development factors not readily subject to measurement, in an attempt to predict changes to share price based on that data. Qualitative analysis is important to the formulation of the Advisor's investment strategies.

A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

6) Asset Allocation:

Rather than focusing primarily on securities selection, the Advisor attempts to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance. Asset allocation is very important to the design of each client's portfolio.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock market movements and, if not corrected, will no longer be appropriate for the client's goals.

Risks for all forms of analysis: The Advisor's securities analysis methods rely on the assumption that the companies whose securities the Advisor purchases and sells, the rating agencies that review these securities and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While the Advisor is alert to indications that data may be incorrect, there is always a risk that the Advisor's analysis may be compromised by inaccurate or misleading information.

Investing in securities involves risk of loss that clients should be prepared to bear. Such risks include:

- Market Risk
- Interest Rate Risk
- Currency Risk
- Geopolitical Risk,
- Etc.

In addition, frequent trading of securities can affect investment performance particularly through increased brokerage and other transaction fees.



The Watchman Group, Inc.

B. TWG uses the following sources of information:

- Financial newspapers and magazines
- Inspections of corporate activities
- Research materials prepared by others
- Corporate rating services
- Annual reports, prospectuses, filings with the SEC
- Company press releases

C. The investment strategies used to implement any investment advice given to clients includes:

The Advisor uses the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

Long-Term Purchases: The Advisor purchases securities with the intent of holding them in the client's account for a year or longer.

Typically the Advisor employs this strategy when:

The Advisor believes the securities to be currently undervalued; and/or

The Advisor wants exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, the Advisor may not take advantage of short-term gains that could be profitable to a client.

Moreover, if the Advisor's predictions are incorrect, a security may decline sharply in value before the Advisor makes the decision to sell.

Short-Term Purchases: When utilizing this strategy, the Advisor purchases securities with the idea of selling them within a relatively short time (typically a year or less). The Advisor does this in an attempt to take advantage of conditions that the Advisor believes will soon result in a price swing in the securities purchased.

Trading: The Advisor purchased securities with the idea of selling them very quickly (typically within 30 days or less). The Advisor does this in an attempt to take advantage of predictions of brief price swings. The Advisor rarely utilizes this strategy.

Short Sales: The Advisor borrows shares of a stock for the client's portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. The Advisor engages in short selling in an attempt to profit from a decline in the price of the security. If the Advisor is correct and the stock price declines the client will realize a profit for the transaction. The Advisor rarely utilizes this strategy.



The Watchman Group, Inc.

Margin transactions: The Advisor may purchase or own securities in client's accounts with money borrowed from the client's brokerage account. This allows the client to own more securities than the client would be able to with cash that is available. The Advisor may use this strategy for circumstances specific to a certain client.

Option writing: The Advisor may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell a security at a specified price on or before a certain date. The Advisor may utilize this strategy for circumstances specific to a certain client.

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 TWG or the integrity of TWG's management. There has been no disciplinary action against The Watchman Group, Inc. or any of its affiliates.

ITEM 10 Other Financial Industry Activities and Affiliations

In addition to giving investment advice, TWG also provides financial planning services. Neither TWG nor any of its affiliated people are engaged in any other financial industry activities and have no other affiliations.



The Watchman Group, Inc.

Item 11 Code of Ethics, Participation or Interest in Client Transactions

TWG has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at TWG must acknowledge the terms of the Code of Ethics annually, or as amended. Clients may contact TWG to request its Code of Ethics.

TWG anticipates that, in appropriate circumstances, consistent with client's investment objectives, it will cause accounts over which TWG has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which TWG. Its affiliates and/or clients, directly or indirectly, have a position of interest. TWG's employees and persons associated with TWG are required to follow TWG's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of TWG and its affiliates may trade for their own accounts in securities which are recommended to and/or purchase for TWG's clients. The Code of Ethics, which prohibits "front running" is designed to assure that the personal securities transactions, activities and interests of the employees of TWG will not interfere with (I) making decisions in the best interest of the advisory clients and (II) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of TWG's clients.

Because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between TWG and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with TWG's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price.

TWG's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting TWG.



The Watchman Group, Inc

Item 12 Brokerage Practices

A) Factors for Selecting or recommending broker-dealers

TWG shall generally recommend that client's utilize the brokerage and clearing services of TD Ameritrade Institutional, a division of TD Ameritrade Investors Services ("TD Ameritrade") for investment management accounts.

Factors which TWG considers in recommending TD Ameritrade or any other broker-dealer, to clients include their respective financial strength, reputation, execution, pricing, research, and service. TD Ameritrade enables TWG to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by TD Ameritrade may be higher or lower than those charged by other broker-dealers.

The commissions paid by the TWG's clients shall comply with the TWG's duty to obtain "best execution." However, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where TWG determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while TWG will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

If the client request TWG to arrange for the execution of securities brokerage transactions for the client's account, TWG shall direct such transactions through broker-dealers that TWG reasonably believes will provide best execution. Transactions may be cleared through other broker-dealers with whom TWG and the Financial Institution(s) have entered into agreements for prime brokerage clearing services. TWG shall periodically and systematically review its policies and procedures regarding recommending broker-dealers to its client in light of its duty to obtain best execution.

The client may direct TWG in writing to use a particular broker-dealer to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and TWG will not seek better execution services or prices from other broker-dealers or be able to "batch" client transactions for execution through other broker-dealers with orders for other accounts managed by TWG (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, TWG may decline a client's request to direct brokerage if, in TWG's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.



The Watchman Group, Inc.

Item 12 Brokerage Practices- Continued

Transactions for each client generally will be effected independently, unless TWG decides to purchase or sell the same securities for several clients at approximately the same time. TWG may (but is not obligated to) combine or "batch" such orders to obtain the best execution, to negotiate more favorable commission rates, or to allocate equitably among TWG's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently.

Under this procedure, transactions will be generally be averaged as to price and allocated among TWG's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that TWG determines to aggregate client orders for the purchase or sale of securities, including securities in which TWG's Advisory Affiliate(s) may invest, TWG shall generally do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. TWG shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that TWG determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order of the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a de minimis allocation to one or more accounts, TWG may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist TWG in its investment decision-making process. Such research generally will be used to service all of TWG's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest.



The Watchman Group, Inc.

Item 12 Brokerage Practices- Continued

B) Research and Soft Dollar Benefits:

TWG may receive from TD Ameritrade, without cost to TWG, computer software and related systems support, which will allow TWG to better monitor client accounts maintained at TD Ameritrade.

TWG may receive the software and related support without cost because TWG renders investment management services to clients that maintain assets at TD Ameritrade.

Specifically, TWG may receive the following benefits from TD Ameritrade:

- access to a trading desk that exclusively services its registered investment advisor
- access to block trading which provides the ability to aggregate securities transactions
- access to an electronic communication network for client order entry and account information
- educational conferences and events
- consulting on technology, compliance, legal and business needs
- research
- pricing and other market data

Except as provided for in any applicable wrap fee program, the brokerage commission and/or transaction fees charged by TD Ameritrade or any other designated broker-dealer are exclusive of and in addition to the TWG's fee.

Soft dollar benefits are not limited to those clients who may have generated a particular benefit although certain soft dollar allocations are connected to particular clients or groups of clients.



The Watchman Group, Inc.

Item 13 Review of Accounts

For those clients to whom TWG provides investment management services, TWG monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom TWG provides financial planning and/or consulting services, reviews are conducted on an "as needed" basis. Such reviews are conducted by the Principal of TWG, Mark G. Robinson, Chris Troseth and Nathan W. Ohlinger. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with TWG and to keep TWG informed of any changes in their financial situation. TWG shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Reports:

Investment management clients are provided with transaction confirmation notices and monthly account statements directly from the broker-dealer or custodian.

Those clients to whom TWG provides investment advisory services will also receive a quarterly report from TWG that includes such relevant account and/or market-related information such as an inventory of account holdings and account performance.

Those clients to whom TWG provides financial planning and/or consulting services will receive reports from TWG summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by TWG.



The Watchman Group, Inc.

Item 14 Client Referrals and Other Compensation

TWG does not compensate any outside parties for client referrals, nor does TWG receive any non cash economic benefit for client referrals.

Item 15 Custody

TWG does not accept custody of client's funds, but rather recommends a third party custodian, TD Ameritrade Institutional Services to hold and maintain client assets. TWG urges all clients to carefully review custodial statements and compare to the accounts reports that TWG provide. Our statements may vary from custodial statements based upon accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 Investment Discretion

TWG usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is exercised in a manner consistent with the stated investment objectives for the particular client.

Clients opening discretionary accounts are required to execute an Investment Advisory Agreement and a Limited Power of Attorney that grants TWG authority to manage their assets on a discretionary basis, meaning we have the authority to select the identity and amount of securities to be bought or sold in the client's account.

When selecting securities and determining amounts, TWG observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, TWG's authority to trade securities may also be limited by certain federal securities tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions should be provided to TWG in writing.



The Watchman Group, Inc.

Item 17 Voting Client Securities

TWG may vote proxies on behalf of its clients. When TWG accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in TWG's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in TWG's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. At any time, clients may contact TWG to request information about how TWG voted proxies for that client's securities or to get a copy of TWG's Proxy Voting Policies and Procedures. A brief summary of TWG's Proxy Voting Policies and Procedures is as follows:

TWG has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.

The Proxy Voting Committee will generally vote proxies according to TWG's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.

Although the Proxy Voting Guidelines are to be followed as a general policy, certain issues will be considered as a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, TWG shall devote an appropriate amount of time and resources to monitor these changes.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that TWG maintains with persons having an interest in the outcome of certain votes, TWG will take appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.



The Watchman Group, Inc.

Item 18 Financial Information

Registered investment advisers are required in this item to provide you with certain financial information or disclosures about TWG's financial condition.

TWG has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.