

# Wrap Fee Brochure

March 27, 2014

## **Tembion Capital Management, LLC**

*a Registered Investment Adviser*

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This wrap fee brochure provides information about the qualifications and business practices of Tembion Capital Management, LLC. If you have any questions about the contents of this brochure, please contact Mark J. Jensen at (505) 820-6464. 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. Additional information about Tembion Capital Management, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Tembion Capital Management, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This section of the wrap fee brochure discusses only the material changes that have occurred since Tembion Capital Management, LLC's last annual update of the wrap fee brochure on March 27, 2013. Tembion Capital Management, LLC has no material changes to report.

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## Item 4. Services, Fees, and Compensation

The Tembion Capital Management Wrap Program (the “*Program*”) is an investment advisory program sponsored by Tembion Capital Management, LLC. The *Program* provides clients with the ability to trade in certain investment products without incurring separate brokerage commissions or transaction charges.

To join the *Program*, a client must complete an investor profile that describes the client’s financial needs, investment objectives, time horizon, and risk tolerance, as well as any other factors relevant to the client’s specific financial situation and any other supporting documentation the *Program* requires; complete the investment advisory wrap fee agreement (the “*Agreement*”) with Tembion Capital Management, LLC; complete a new account agreement with Charles Schwab & Co. (“*Schwab*”) or another broker dealer Tembion Capital Management, LLC approves for participation in the *Program* (“*Financial Institution*”); and open a securities brokerage account with the *Financial Institution* and deposit those assets designated for participation in the *Program* into the account.

After an analysis of any information provided by clients, Tembion Capital Management, LLC assists in developing an appropriate investment strategy for the assets in their accounts. Thereafter, all clients are encouraged to discuss their needs, goals, and objectives with Tembion Capital Management, LLC and to keep Tembion Capital Management, LLC informed of any changes thereto. Tembion Capital Management, LLC contacts ongoing clients at least annually to review its previous services and/or recommendations and to determine whether changes should be made to their investment strategy.

### Management of Your Portfolio

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All clients in the *Program* grant Tembion Capital Management, LLC discretionary or non-discretionary authority to buy, sell, and otherwise trade in the type of securities described in Item 6 below for their accounts and to liquidate previously-purchased securities that the clients have transferred to their accounts. Assets are managed by one of Tembion Capital Management, LLC’s investment adviser representatives.

### Fees for the *Program*

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Clients in the *Program* pay a single annualized fee for participation in the *Program* (the “*Program Fee*”). The *Program Fee* is prorated and charged monthly, in arrears, based upon the average daily market value of the assets being managed by Tembion Capital Management, LLC during the prior month. The *Program Fee* varies between 1.10% and 1.60% depending upon the market value of the assets under management and the type of investment management services to be rendered.

If the client engages Tembion Capital Management, LLC for a disproportionate amount of services, Tembion Capital Management, LLC may adjust the *Program Fee* accordingly. The firm will clearly indicate the *Program Fee* before the client enters into an *Agreement*.

Tembion Capital Management, LLC may, in its sole discretion, negotiate to charge a lower *Program Fee* depending on a client's unique circumstances (e.g. frequency of trading, value of related accounts, or *pro bono* activities).

### Fee Comparison

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Under the *Program*, clients receive both investment advisory services and the execution of transactions for a single, combined annualized fee, the *Program Fee*. Participation in the *Program* may cost a client more or less than purchasing such services separately. The number of transactions made in an account, as well as the commissions charged for each transaction, determine the relative cost of the *Program* versus paying for execution on a per transaction basis and paying a separate fee for advisory services. The *Program Fee* may be higher or lower than fees charged by other sponsors of comparable investment advisory programs.

### Other Charges

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Clients may incur certain charges and fees imposed by the *Financial Institutions* and other third parties such as custodial fees, charges imposed directly by a mutual fund or exchange-traded fund (ETF) in the account which are disclosed in the fund's prospectus (e.g. fund management fees and expenses, front-end loads, and deferred sales charges), wire transfer fees, security transaction fees, account closure fees, margin interest, and taxes. Such charges and fees are exclusive of and in addition to the *Program Fee*.

## Item 5. Account Requirements and Types of Clients

Tembion Capital Management, LLC provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and business entities.

Tembion Capital Management, LLC does not impose a minimum portfolio size.

## Item 6. Portfolio Manager Selection and Evaluation

Tembion Capital Management, LLC acts as the sponsor and portfolio manager of the *Program*. Certain wrap programs involve the services of multiple parties in these capacities, which may involve additional conflicts of interest that the sponsor would be required to disclose in this section. Tembion Capital Management, LLC has no disclosures to make under this section.

## Advisory Business

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Tembion Capital Management, LLC manages assets in the *Program* on a discretionary or non-discretionary basis. Tembion Capital Management, LLC primarily allocates assets in the *Program* among open-end mutual funds, closed-end mutual funds, ETFs, individual debt and equity securities and/or options in accordance with clients' investment objectives.

Tembion Capital Management, LLC tailors its advisory services to the individual needs of clients. Tembion Capital Management, LLC consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon, and other factors that may impact the clients' investment needs. Tembion Capital Management, LLC ensures that clients' investments are suitable for their investment needs, goals, objectives, and risk tolerance.

Clients are advised to promptly notify Tembion Capital Management, LLC if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Tembion Capital Management, LLC's management services. Clients may impose reasonable restrictions or mandates on the management of their account if, in Tembion Capital Management, LLC's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Performance-Based Fees and Side-by-Side Management

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Tembion Capital Management, LLC does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Methods of Analysis

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Tembion Capital Management, LLC's primary methods of analysis are fundamental, technical, and cyclical analysis.

*Fundamental analysis* involves attempting to measure the intrinsic value of an investment based on financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position among its competition. Opportunities and risk are uncovered by comparing intrinsic value against current market price. While such analysis offers the potential for increased returns and protection of principal, there is also the risk of loss or underperformance should overall market or investment-specific conditions deteriorate, or should expected competitive advantages ultimately prove unfounded or unjustified.

*Technical analysis* involves attempting to predict future performance by comparing current trends to historical data, with the understanding that historical patterns often repeat themselves. While such analysis offers the potential for increased returns and protection of principal, there is

also the risk of loss or underperformance should actual behaviors fail to follow expected historical patterns.

*Cyclical analysis* involves attempting to estimate future performance based on the present status of the economy relative to a typical business cycle and how specific investments tend to perform relative to each other as a business cycle advances. While such analysis offers the potential for increased returns and protection of principal, there is also the risk of loss or underperformance should actual behaviors fail to follow expected historical patterns.

### **Investment Strategies**

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Tembion Capital Management, LLC manages accounts for superior long-term return while striving to limit losses during periods of severe stock market decline. The firm maintains and adapts a number of portfolio models that provide differing levels of stock market upside participation and downside protection. Two basic strategies are used: (1) asset allocation and (2) options/bonds. Asset allocation strategies combine investments with distinctly different characteristics (asset classes) that in aggregate are expected to optimize expected long-term return for a given risk tolerance. Options/bonds strategies combine a bond-focused core portfolio with a modest investment in equity index call options contracts or equity ETF call options contracts. This combination can produce a portfolio that is able to closely track stock markets during periods of appreciation while significantly limiting losses during periods of decline.

With asset allocation, there is the risk of loss or underperformance should asset classes that have historically been negatively correlated or uncorrelated drop in value simultaneously or if future correlations fail to follow historical trends. With options/bonds strategies, there is the risk of loss or underperformance if call option prices are prohibitively high or if total return on the bond portfolio is less than anticipated.

### **Risks of Loss**

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#### *Open-End Mutual Funds, Closed-End Mutual Funds, and ETFs*

An investment in an open-end mutual fund, closed-end mutual fund, or ETF involves risk, including the loss of principal. These instruments are necessarily subject to the risks stemming from the individual issuers of the fund's underlying securities. Shareholders are liable for taxes on any fund-level capital gains. At least once per year the funds are required by law to pass through net capital gains.

Shares of closed-end funds and ETFs are listed on securities exchanges. ETFs can also be traded at negotiated prices in the secondary market. Generally, closed-end funds and ETFs trade at or near net asset value (NAV), which is generally calculated at least once daily.

However, certain inefficiencies may cause the shares to trade at a premium or discount to their NAV. There is no guarantee that an active secondary market for ETF shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Options*

Options allow investors to buy or sell a security at a contracted “strike” price (not necessarily the current market price) at or within a specific period of time. Investors may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the strike price. Investors are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

### *Management Through Similarly Managed Accounts*

Tembion Capital Management, LLC manages portfolios by allocating portfolio assets among various mutual funds and other securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, Tembion Capital Management, LLC buys, sells, exchanges, and/or transfers shares of mutual funds and other securities based upon the *investment strategy*.

Tembion Capital Management, LLC’s management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Certain investment opportunities that become available to Tembion Capital Management, LLC’s clients may be limited. For example, various mutual funds or insurance companies may limit the ability of Tembion Capital Management, LLC to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12B (below), Tembion Capital Management, LLC allocates investment opportunities among its clients on a fair and equitable basis.

### *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by Tembion Capital Management, LLC in the management of the client’s investment portfolio, the market value of the client’s account and corresponding fee payable by the client to Tembion Capital Management, LLC will not be increased.



While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio is subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations, and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profits.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Voting of Client Securities**

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Tembion Capital Management, LLC does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

## **Item 7. Client Information Provided to Portfolio Managers**

Tembion Capital Management, LLC acts as the sponsor and portfolio manager of the *Program*. Certain wrap programs involve the services of multiple parties in these capacities. In those circumstances, the sponsor is required to disclose how and what types of client information are provided to portfolio managers. Tembion Capital Management, LLC has no disclosures to make under this section.

## **Item 8. Client Contact with Portfolio Managers**

There are no restrictions on a client's ability to contact and consult with Tembion Capital Management, LLC.

## **Item 9. Additional Information**

### **Disciplinary Information**

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Tembion Capital Management, LLC is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of

management. Tembion Capital Management, LLC does not have any required disclosures to this Item.

### Other Financial Industry Activities and Affiliations

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Tembion Capital Management, LLC does not have any other financial industry activities or affiliations.

### Code of Ethics

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Tembion Capital Management, LLC and persons associated with Tembion Capital Management, LLC (“*Associated Persons*”) are permitted to buy or sell securities that it also recommends to clients consistent with Tembion Capital Management, LLC’s policies and procedures.

Tembion Capital Management, LLC has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Tembion Capital Management, LLC or any of its *Associated Persons*.

The *Code of Ethics* also requires that certain of Tembion Capital Management, LLC’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Tembion Capital Management, LLC’s *Code of Ethics*, none of Tembion Capital Management, LLC’s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Tembion Capital Management, LLC’s clients.

When Tembion Capital Management, LLC is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Tembion Capital Management, LLC is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, and other high-quality short-term debt instruments, including repurchase agreements; (iii)

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shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Tembion Capital Management, LLC to request a copy of its *Code of Ethics*.

### Review of Accounts and General Reports

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Tembion Capital Management, LLC conducts regular account reviews at least quarterly.

Clients are provided with transaction confirmation notices and regular summary account statements directly from the *Financial Institutions* for assets. Participants also receive a report from Tembion Capital Management, LLC that may include account and/or market-related information such as an inventory of account holdings and account performance as clients may request from time to time. Clients should compare the account statements they receive from the *Financial Institutions* with those they receive from Tembion Capital Management, LLC.

### Client Referrals and Other Compensation

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Tembion Capital Management, LLC does not compensate any unaffiliated third party for referring clients to the *Program*.

### Receipt of Economic Benefit

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Tembion Capital Management, LLC has arrangements in place whereby the firm receives an economic benefit from a third party for providing investment advice to clients participating in the *Program*.

Tembion Capital Management, LLC may receive from *Schwab*, without cost to Tembion Capital Management, LLC, computer software and related systems support, which allow Tembion Capital Management, LLC to better monitor client accounts maintained at *Schwab*. Tembion Capital Management, LLC may receive the software and related support without cost because Tembion Capital Management, LLC renders investment management services to clients that maintain assets at *Schwab*. The software and support is not provided in connection with securities transactions of clients (i.e. not “soft dollars”). The software and related systems support may benefit Tembion Capital Management, LLC, but not its clients directly. In fulfilling its duties to its clients, Tembion Capital Management, LLC endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Tembion Capital Management, LLC’s receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Tembion Capital Management, LLC’s choice of one broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Tembion Capital Management, LLC may receive the following benefits from *Schwab* through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Schwab Institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### **Financial Information**

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Tembion Capital Management, LLC does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Tembion Capital Management, LLC is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Tembion Capital Management, LLC has no disclosures pursuant to this Item.

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