

Firm Brochure
(Part 2A of Form ADV)



Tellone Management Group, Inc.
A Registered Investment Advisor

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This brochure provides information about the qualification and business practices of *Tellone Management Group, Inc.* If you have any questions about the contents of this brochure, please contact us at: 714-921-2102, or e-mail us at info@tellone.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. In addition, registration by *Tellone Management Group, Inc.* alone does not imply a certain level of skill or training.

Additional information about *Tellone Management Group, Inc.* is available on the SEC's website at www.adviserinfo.sec.gov

March 31, 2017

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Material Changes

The purpose of this page is to inform you of material changes since the previous annual update to our brochure. If you are receiving this brochure for the first time, this section may not be relevant to you.

Tellone Management Group, Inc. (hereafter, *TMG*) reviews and updates our brochure at least annually to confirm that it remains current. We have not made material changes since the brochure dated March 30, 2016.

Advisory Business

Firm Description

With a passion for helping others grow and manage their wealth, Dean Tellone founded *TMG* in 1976. With over 30 years in business, the team at *TMG* has grown to include loyal financial experts that are highly qualified, credentialed, and motivated. This team based approach has been an effective method to help clients who have a wide variety of financial needs. *TMG* takes a proactive approach to helping clients develop a strategy to address their clients' financial goals and objectives, using what they believe to be the most efficient methods available. The company mission is to keep clients on track toward a meaningful and successful financial future through Active Wealth Management.

Active Wealth Management is about forming a partnership with a team of financial experts and choosing an active role in your future. Everyone has a unique perspective on what makes for the "ideal life." Whatever it may be, your ideal life is about you! For this reason, it is our belief that a proper wealth management program must be centered on the values and relationships that are most treasured and meaningful in your world. *TMG's* approach is focused on the big picture, but multi-faceted to capture details, plan accordingly, monitor progress, and adjust as necessary. *TMG* understands that life is a journey with many twists and turns along the way. We are here to increase confidence and comfort for accomplishing goals by uncovering your vision for the future and the role your finances play in making that future a reality. We understand that money is often the root of some of the most stressful concerns in life. We are here to assist in reducing those anxieties through appropriate guidance and counsel. We understand that life is a beautiful thing. We are here to help you live it to the fullest and celebrate those many milestones by your side.

TMG recognizes that asset management is a means to an end. This is the process that aims to maximize and maintain wealth to live your values and realize your goals. While specific goals may vary over a life span, proper investing within the scope of wealth management seeks to provide a pathway to your ideal life. *TMG* works with clients to help clarify investment objectives and determine a risk tolerance balance that fits their lifestyle.

TMG is not a “Buy and Hold” investment advisor. *TMG* goes beyond with Active Asset Management that seeks to capitalize on both overbought and oversold conditions in the market, prioritizes quality stock ownership with upside potential, and proactively adjusts investment exposure to adapt to the current market environment. Since the markets are always adjusting to new information and expectations, *TMG* believes that investing requires an ongoing assessment of the changing landscape of opportunities. By focusing on active stock and sector selection, proper asset allocation, and income-generating option strategies, *TMG* strives to provide superior returns with reduced volatility.

The Investment Committee works as a team to build and maintain investment portfolios. With the constant flow of information in today’s world, managing investments is an ongoing commitment. *TMG* embraces that responsibility wholeheartedly. Decades of investment experience that span multiple business cycles and top-tier investment professional credentials demonstrate an ability to make prudent investment decisions. *TMG* is not shaken by short-term swings in sentiment, nor are we blissfully ignorant to potential challenges. *TMG*’s knowledge from time and education is an indispensable asset in managing portfolios built to last. Furthermore, disciplined risk management is a major part of our portfolio construction. While it is important to understand that investments do not always move in a straight line, *TMG* works hard to smooth out the ride. By appropriately limiting risk in a variety of ways and striving to preserve assets during times of volatility, clients are able to put those assets to work for future growth and stay on track for the long-term.

With the use of pooled portfolio funds, *TMG* also allows qualified investors the opportunity to participate in a diversified asset management. Each partnership offers an individual management strategy, ranging from conservative fixed income to growth oriented capital appreciation investments. *TMG* manages five limited partnership investment funds.

The fiduciary standard of care requires that a financial adviser act solely in the client’s best interest when offering personalized financial advice. From the top-down, *TMG* has adopted this stance of putting client’s first since day one. *TMG* stands for transparency in our reasoning and our investment management because it is the right way to operate. This is aided by the fact that *TMG* is independent, fee-only, and 100% employee-owned, meaning that solutions are based on client needs, period. *TMG* is not swayed by outside shareholders, internal quarterly earnings, commission payments, or corporate mandates.

We realize how important financial peace of mind is to our clients. Therefore, our number one objective is to help them realize and maintain their financial goals and independence. By integrating our services into one comprehensive program, we strive to maximize the overall net worth of our clients.

Principal Owner

Dean C. Tellone is President and sole owner of Tellone Management Group, Inc., an investment advisory business that provides investment advice and financial planning. Mr. Tellone attended the University of Arizona in Tucson. He received a Bachelor of Science Degree in Accounting in 1971 and a Masters in Business Administration from California State Polytechnic University, Pomona, California in 1987. He graduated from the College for Financial Planning in 1988.

Mr. Tellone is also President and sole owner of Tellone Financial Services, Inc., a business that specializes in accounting and tax services for individuals, partnerships, corporations, and trusts. The company has been in existence since 1975.

Mr. Tellone holds the following professional designations:

Series 2 - Non Member General Securities Exam - NASD 12/13/85
Enrolled Agent (EA) with the IRS - 4/22/91
Certified Financial Planner, (CFP®) - 9/12/88

Types of Advisory Services

TMG manages investment accounts for many types of clients, including individuals, retirement accounts, trusts, estates, charitable organizations, corporations, small businesses, and partnerships. In most instances, *TMG* will provide complete supervisory services for discretionary accounts. Management of client portfolios will be unique to each client's investment goals, and will account for the client's retirement needs, liquidity requirements, objectives and preferences, and other related circumstances. Management of client accounts will include analysis of investment portfolios, implementing trading and transaction procedures, and monitoring account allocation and performance.

Tailored Relationships

Based on financial goals, risk levels, age, retirement, and an array of investment needs, each relationship with the advisor will be tailored to fit the needs of the investor. *TMG* is not a one-size-fits-all investor. Investors may maintain preference in their account(s) to include and/or exclude certain equities, sectors, or investment vehicles to suit their own desires and goals.

Agreements

Clients will be required to sign the investment advisory agreement at the time they invest. The agreement stipulates the fee schedule that will be discussed with the advisor to clarify any issues or concerns that may arise.

Financial Planning

Budget – At their request, *TMG* works with clients in order to determine their current and future living expenses, set financial goals, and to coordinate their expenditures and investments to meet their expectations. To assist clients in this area, *TMG* may develop a Balance Sheet, Cash Flow Statement, or Income Tax Estimate.

Retirement – *TMG* reviews, takes inventory, and analyzes all resources available for retirement. *TMG* projects future retirement needs, estimates qualified retirement benefits, and determines viable solutions to help meet the client's retirement goals.

Estate – *TMG* works with clients to help develop estate dissolution strategies designed to reduce estate taxes and provide efficient transfer of assets.

Reviews of financial plans will be made upon client's request.

Retainer Agreement

Specific client relationships that include an ongoing delivery of multiple services, investment, financial, estate, tax planning, or accounting, may be provided on a retainer basis. These relationships will be documented with a detailed client retainer agreement.

Investment Management Agreement/Client Profile

Clients who engage *TMG* for asset management services will be required to complete a Client Profile Assessment. This document provides *TMG* valuable personal information regarding the client's financial situation and risk tolerance.

Assets Under Management

TMG manages client assets in discretionary accounts on a continuous and regular basis. As of 12/31/2016, the total amount of discretionary assets under our management was \$338,942,946.

Fees and Compensation

Description & Fee Billing

Compensation for investment management varies according to the client/advisor account relationship. Generally, client accounts will be charged a quarterly investment management and advisory fee based on a percentage of the total portfolio value. *TMG* carefully analyzes all securities in each account to determine an accurate total portfolio value. The fees will be paid in arrears at the end of each quarter, and will be deducted automatically from the managed account. *TMG*'s current fee schedule for such accounts is as follows:

<u>Managed Assets</u>	<u>Annual Percentage Rate</u>
Less than \$1,000,000	1.00%
\$1,000,000 but less than \$2,000,000	.90%
\$2,000,000 but less than \$3,000,000	.80%
\$3,000,000 but less than \$4,000,000	.70%
\$4,000,000 but less than \$5,000,000	.60%
\$5,000,000 or more	.50%

The minimum annual advisor's fee per household is \$1,000.

Compensation for some investment management services, such as non-discretionary accounts or those not involving direct supervisory services, may vary from the schedule above. Also, in certain circumstances, compensation may be pre-negotiated between client and advisor. In these instances, *TMG* will be compensated by a specified percentage of assets under management, on an hourly basis, or through a set and pre-arranged fixed fee.

TMG also manages private Limited Partnership accounts that consist of pooled investment portfolios designed to allow qualified investors the opportunity to participate in an alternative investment fund. *TMG* receives compensation monthly from these accounts based upon the individual partnership agreements.

TMG is compensated for Financial Planning services either as included as part of the client's advisory fee or based on a quoted rate which will be provided to the client prior to services.

Other Fees

In addition to fees charged directly by *TMG*, client accounts may be subject to other costs related to brokerage commissions or related service fees assessed by the custodian. *TMG* uses an approach when dealing with such cost that is geared to provide the client with the best value and service experience.

Performance Based Fees

Sharing Capital Gains

To avoid any conflicts of interest, *TMG* does not utilize any type of performance based fee schedule as compensation for its management services.

Types of Clients

Description

The valued clients of *TMG* vary by stage in life and place of residence. They have unique stories and personalities. What they have in common is the desire to align their financial choices with their most important goals and deeply held values with the assistance of a trusted financial advisor partnership. Whether planning as an individual or for the entire family, clients often are looking to reduce stressful concerns regarding money in order to put their time, attention, and focus on what matters most to them and live their ideal life.

The majority of clients are High Net Worth individuals, individuals (other than high net worth), corporations, and company pension and profit sharing plans.

Account Minimums

Presently, there is no established minimum to open a Separate Account. The limited partnerships that *TMG* manages have minimums pre-established in their partnership agreements and these would be discussed when opening such an account.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

When analyzing potential investments and monitoring existing positions, *TMG* uses a comprehensive approach that includes cyclical, technical, and fundamental analysis. Utilizing a top-down method that analyzes key macroeconomic variables and broad market technical indicators, *TMG* begins with thorough analysis of the big picture in order to make economic forecasts and best identify strong sectors. From there, analysis of individual companies is used to refine and determine which investments provide for the best risk-adjusted returns. Stock selection criteria include, but are not limited to, measures of financial health, profitability, sustainable and increasing dividends, and fair value

assessments. Potential catalysts to unleash value and provide price appreciation are also critical considerations.

The main sources of outside data and professional opinion used by *TMG* in performing its analysis are independent investment research, financial periodicals, corporate rating services, market timing reports, prospectuses, and filings with the Securities and Exchange Commission. Due to *TMG's* investor relationships with Charles Schwab & Co, Inc., as well as Fidelity Investments, *TMG* has access to the Schwab & Fidelity research departments for use in analyzing both broad market trends and specific investments.

TMG utilizes a team based approach for investment management. As such, investment decisions go through the Investment Committee, which is comprised of three generations of investment professionals. This collaborative effort encourages engaged dialogue and the vetting of investment ideas to promote a better end result. *TMG* utilizes top level portfolio management technology to maintain streamlined, efficient, and effective investment processes. The investment management is scalable to allow for all accounts to participate fairly and equally in all investment decisions.

Investment Strategies

As a registered investment advisor that strives to provide active asset management, *TMG* is not a buy and hold investment advisor. Specific strategies may vary between accounts due to client specific goals and risk tolerance levels. *TMG* recognizes the dynamic nature of the market and incorporates proactive asset management strategies to adapt to the current market environment.

A main focus for investors is having their funds available when needed. This requires expectations of time horizon to be identified and aligned with the investment portfolio from the onset. *TMG* provides solutions to match client income needs.

Diversification and asset allocation is implemented for to create portfolios that are resilient, dependable, and built to last. The managed portfolios are diversified across assets classes and industries. Allocations are reviewed regularly and adjusted based on short-term and long-term opportunities.

TMG harnesses the plethora of benefits associated with market movements. By going beyond emotions and looking deeper at the fundamental and technical factors of markets, opportunities emerge from volatility. *TMG* champions the use of conservative option strategies to generate additional income to dampen overall account volatility. Just like an expert shopper at the mall, *TMG* is always looking for “bargains.”

Clients of *TMG* work hard to earn a living for themselves and their family. By having an in-office related tax practice that works directly with investment advisors, clients are assured that their wealth accumulation strategies and financial goals are synchronized with their tax plans.

The *TMG* philosophy of active management means that the Investment Committee is proactive in identifying trends and making necessary adjustments. *TMG* has full discretion to protect and grow your assets. When investment decisions are made, they are done swiftly.

TMG attempts to add value with a dual emphasis on short-term trading and long-term wealth accumulation.

Short-term strategies include:

- trading to profit on temporary market inefficiencies
- ETFs for hedging, sector rotation, and capitalizing on broad overbought and oversold conditions in the market
- options for hedging, speculation, and additional income.

Long-term strategies are evident in a core asset allocation that is diversified between asset classes and company sectors. Additionally, *TMG* believes in reducing risk by maintaining adequate exposure to alternative investments that do not respond to market volatility. Typical portfolios consist of stocks of companies that:

- have demonstrated strong competitive advantages
- are likely to be sustainable far into the future
- are financially sound
- have strong positions in stable and highly profitable industries
- have good management.

Risk of Loss

TMG continually assesses risk and reward within its investments and utilizes strategies to control for various types of risk; however, there is no guarantee that *TMG* will be able to achieve the stated goals of its managed portfolios. As such, risk factors should be considered before investing. Among others, these include:

- **Purchasing Power Risk** – The risk that future inflation will cause the purchasing power of cash flow from an investment to fall
- **Reinvestment Rate Risk** – The risk that falling interest rates will cause the cash flow from an investment to fall when the principal or interest payments of that investment are reinvested at lower rates
- **Interest Rate Risk** – The risk that a change in interest rates, especially rising rates, will cause the market value of a fixed-income security to fall
- **Market Risk** – The risk that changes in overall market prices will cause changes in the market value of a specific security
- **Exchange Rate Risk** – The risk that an appreciating home-country currency, compared to a foreign currency, will cause an investment in a foreign security denominated in the foreign currency to be worth less, in dollar

terms, than what that investment would have been worth if the currency rates had remained stable

- Business Risk – The risk associated with the nature of the business
- Credit Risk – The risk that an enterprise's financial condition will deteriorate, resulting in a downgrading of its debt
- Default Risk – The risk that an enterprise's financial conditions will deteriorate to the point where it will not meet its financial obligations, most commonly illustrated by an issuer of a bond issue not paying interest and/or principal when due
- Event Risk – The possibility that an investment will be adversely affected by an unanticipated and damaging event
- Financial Risk – The risk associated with the extent to which debt has been used to finance a company's operations
- Marketability Risk – The risk that an investment does not have an active market within which to trade the investment
- Liquidity Risk – The degree of uncertainty associated with the time it takes to sell an investment with a minimum of capital loss from the current market price

While *TMG* is committed to a low fee structure and best trade pricing, frequent trading and increased turnover may increase trading costs and carry adverse tax consequences when compared to more passive strategies. All investing, especially investments in long options, carry risk of loss of some or all of principal.

Investments in Limited Partnerships managed by *TMG* may contain stated policies that are narrowly defined and may not be diversified. These Limited Partnerships are meant to be part of a carefully constructed asset allocation policy.

Disciplinary Information

Legal and Disciplinary

There have been no legal or disciplinary actions taken against *TMG* and its advisors in its thirty-five year history. Additionally, there are no pending legal actions against *TMG* or any of its advisors.

Other Financial Industry Activities and Affiliations

Financial Industry Activities

Tellone Financial Services, Inc., whose President is Dean C. Tellone, is an accounting firm and is a related party to *TMG*. Tellone Financial provides accounting and tax services for

TMG, and its employees are affiliated with *TMG*. Clients of *TMG* may or may not be clients of Tellone Financial Services, Inc.

Affiliations

TMG is also a general partner or the Registered Investment Advisor in five partnerships in which clients are solicited to invest. The partnerships are as follows: Pure Growth, L.P., Select Fixed Income, L.P., Tellone Mortgage Fund, L.P., Hall Mortgage Fund, L.P., and Touchdown Mortgage Fund, L.P. The partnerships are organized to offer various investment allocations to applicant's clients. They contain one or more of the following: equities, bonds, mutual funds, options, mortgages, cash, and money market funds.

TMG also has affiliations with Touchdown, Inc. and Hall & Co. which both receive fees from several of the partnerships listed above. These fees are outlined in the partnership agreements.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

TMG follows a strict Code of Ethics which establishes written standards promulgated to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships
- full, fair, accurate, timely, and understandable disclosure in reports and documents that *TMG* or its affiliates file with, or submits to, the Securities and Exchange Commission (SEC) and in other public communications made by *TMG*
- compliance with governmental laws, rules, and regulations that apply to *TMG*.

This Code of Ethics or any amended version of it will be distributed to all clients or prospective clients of *TMG* and its affiliates upon request. Clients or prospective clients will have the option to request and receive the Code of Ethics in paper or electronic formats.

Participation or Interest in Client Transactions

From time to time, *TMG* or a related person of *TMG* may buy or sell securities that it also recommends to clients. To ensure no clients are treated unfairly during these transactions, and all clients are giving equal opportunity to obtain favorable pricing, *TMG* monitors all such trades. Furthermore, *TMG* and its related parties are not allowed to buy and sell

securities it recommends to clients if such transaction could directly manipulate the price of the securities.

Personal Trading

TMG and/or related persons will trade in securities it recommends to clients, and realizes in certain situations this could create a conflict of interest. Such transactions, therefore, are monitored to insure client accounts are not adversely affected. Any thinly traded securities are avoided when trading simultaneously in clients' accounts. *TMG* also has strict oversight of employees' or related person's individually managed accounts outside the firm proper.

Brokerage Practices

Selecting Brokerage Firms

Brokers are chosen by *TMG* based upon the value they offer to its clients. Brokers are evaluated by comparing commission rates, service quality and dependability, and research products available. Although *TMG* may determine or suggest which broker to use for a client account, at no time does *TMG* select a certain broker in return for products and research services received. Brokers are also evaluated periodically to ensure that all client accounts are receiving favorable commission rates, service, access to research products, and timely execution of trades.

Execution

Brokers are chosen by the adviser based upon the value and "best-pricing" they offer to the clients. Brokers are evaluated by comparing commission rates, service quality and dependability, and research products available.

Research and Other Soft Dollar Benefits

TMG may receive from our broker-dealers/custodians, without cost (or at a discount), support services and/or products that benefit *TMG* but may not directly benefit our clients' accounts. Charles Schwab and Fidelity make available products and services that may be used to service all or a substantial number of *TMG's* accounts, including accounts not maintained with these brokers. Charles Schwab and Fidelity make available products and services that assist *TMG* in managing and administering clients' accounts including software and other technology that:

1. provide access to client account data (such as trade confirmations and account statements);

2. facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
3. provide research, pricing and other market data;
4. facilitate payment of *TMG*'s fees from our clients' accounts; and
5. assist with back-office functions, recordkeeping, and client reporting.

Fidelity also provides other benefits such as educational events or conferences on practice management, regulatory compliance, information technology, and business success.

Fidelity may discount or waive fees it would otherwise charge for some of these services, reimburse *TMG* for the cost of conferences or related expenses, or pay all or a part of the fees of a third party providing these services to *TMG*. Additionally, *TMG* has entered into an agreement with Charles Schwab where we receive an economic benefit to be used toward technology related expenses.

Order Aggregation

TMG seeks, but is not obligated, to aggregate or block orders for the purchase or sale of the same security for client accounts where *TMG* deems appropriate, in the best interests of the client accounts, and consistent with applicable regulatory requirements. Aggregation of orders may involve in more favorable execution or more efficient execution than separately placing each client's orders and in a way in which dollar cost averaging can be easily obtained. When a block trade is filled in its entirety, each participating client will participate at the average share price for the block trade on the same business day, and transaction costs shall be shared pro rata based on each client's participation of the order. When an aggregated trade is partially filled, the securities purchased will be allocated on a pro rata basis to each account participating in the order based upon pre-allocation instructions, except in limited circumstances that are approved by the Chief Compliance Officer (e.g., de minimis executions and/or odd lots), at the same average share price.

Clients may direct *TMG* to use a particular broker-dealer to execute some or all transactions in your account. Accounts custodied away from Charles Schwab or Fidelity may not participate in aggregated orders or may incur additional ticket charges. As a result, accounts custodied away from Charles Schwab or Fidelity may pay higher commissions, transactions costs, or receive less favorable net prices on transactions than would otherwise be the case.

Review of Accounts

Periodic Reviews

TMG reviews managed client accounts at least on a quarterly basis. Certain accounts may receive more frequent monitoring due to the account type, investment portfolio, and client

objectives. Reviews are conducted for the purpose of evaluating, reporting, rebalancing, and implementing the investment objective of each client. Reviews will focus on ensuring that account asset allocation is in line with client risk tolerance and investment objectives. This process measures the client's portfolio against any changes in the market environment, world economy, specific investment suitability, and investment developments unique to each individual account. *TMG's Portfolio Managers* will head all account reviews with assistance from the staff related to *TMG*.

Review Triggers

In addition to quarterly periodic client account reviews, *TMG* will review accounts when deemed necessary by significant changes in the economic environment, stock fundamentals, and sector emphasis. Other review triggers would be implemented by client requests and client specific events.

Regular Reports

TMG will provide clients with quarterly performance analysis reports. These reports include a breakdown of beginning value, net contributions, capital appreciation, income, expenses, and ending value. Additionally, a snapshot view of asset allocation and holdings will also be provided.

The broker dealer or custodian that maintains custody of the client's account will provide notification of all securities transactions directly, along with annual tax documents, and monthly or quarterly account statements. Brokerage account statements include the total current market value of their individual portfolio, a record of all security transactions, and a portfolio summary. Furthermore, clients are encouraged to sign up for electronic delivery and online access to their accounts in order to facilitate full transparency in real time.

Client Referrals and Other Compensation

TMG has no referral for compensation arrangements. All compensation paid to *TMG* is paid directly by the client.

Custody

Account Statements

TMG manages five limited partnership investment funds. Account holders of these limited partnership accounts receive monthly statements. There are no quarterly or biannual

reports delivered as the statement shows both the monthly rate of return as well as the year-to-date rate of return. As required, these limited partnership accounts are audited annually by a certified accounting firm. Holders of accounts established with Charles Schwab & Co., Inc. Fidelity Investments, or Millennium Trust Co. receive monthly reports for their Separate Accounts.

Performance Reports

TMG provides quarterly reports showing portfolio values, capital flows, investment performance, asset allocation, holdings, and other notable items. Clients are encouraged to compare the statements from the brokerage house to the reports provided by *TMG*. In the case of discrepancies, the client is encouraged to contact *TMG* in order to clarify any and all variances in the reporting.

Investment Discretion

Discretionary Authority for Trading & Limited Power of Attorney

In most cases *TMG* will hold discretionary authority over client accounts. However, clients also have the right to limit the trading done by *TMG* in their Separate Accounts. Some clients have certain stocks that have preferred status with the client. The client should establish upfront that these stocks are not to be traded or sold for any reason.

Voting Client Securities

Proxy Votes

TMG does not accept the authority for proxy votes in client accounts. *TMG* will vote on issues related to the assets held only in its limited partnerships and will disclose upon request its voting policy. Clients will receive their solicitations for votes directly from the custodians.

Financial Information

Financial Condition

The financial health and security of *TMG* remains strong. There is presently no financial condition that would impair the adviser's ability to meet contractual commitments to clients. *TMG* has not been the subject of a court judgment nor has the corporation been the

subject of an arbitration hearing. There has been no decision rendered that would create a financial condition that would impact the corporation or its clients negatively.

TMG does not require prepayment of fees. All fees are paid in arrears as spelled out in the section entitled “Fees and Compensation.”