

TOTAL COMPENSATION GROUP  
INVESTMENT ADVISORY SERVICES, LP  
(dba TCG ADVISORS, LP)

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This Brochure provides information about the qualifications and business practices of TCG ADVISORS, LP. If you have any questions about the contents of this Brochure, please contact David E. Friedman at 512.600.5225 or [dfriedman@tcggroupholdings.com](mailto:dfriedman@tcggroupholdings.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.

TCG ADVISORS, LP is a registered Investment Advisor. Registration of an Investment Advisor does not imply any level of skill or training. The oral and written communications of an Advisor provide you with information which will help you determine to hire or retain an Advisor.

Additional information about TCG ADVISORS, LP also is available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov). Input "Total Compensation Group" to search for us.

## **Item 2 — Material Changes**

Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

You may request our Brochure by contacting David E. Friedman at 512.600.5225 or [dfriedman@tcggroupholdings.com](mailto:dfriedman@tcggroupholdings.com). Our Brochure is also available on our website, [www.tcginvestments.com](http://www.tcginvestments.com), also free of charge.

Additional information about TCG Advisors, LP is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with TCG Advisors, LP who are registered, or are required to be registered, as investment advisor representatives of TCG Advisors, LP.

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## Item 4 — Advisory Business

### Who We Are

TCG ADVISORS, LP has operated since 2001. We are a privately-held partnership owned by Total Compensation Group Holdings, LLP and Total Compensation Group Investment Advisory Services Management, LLC. John J. Pesce, CEO, and Mike W. Cochran, Chairman, are the Founding Partners. John J. Pesce is the single largest partner of TCG Group Holdings, LLP and the single largest member of Total Compensation Group Investment Advisory Services Management, LLC.

We provide investment advisory services and detailed, written financial and retirement plans to individuals, pension and profit-sharing plans, trusts, businesses, individual retirement accounts, state and municipal government retirement plans, public school district general obligation and project development funds, and sub-advisory services to insurance companies and other entities. Occasionally, we provide non-securities related advice to our Clients, such as advice on compensation, retirement plans and benefits for employees. In designing our services, we consider the Client's financial situation, investment objectives, time horizon, risk tolerance and other Client needs.

Through our affiliate—Total Compensation Group Consulting, LP ("TCG Consulting")—we also provide consulting services to institutional Clients to analyze and to assist in preparing Requests for Proposals for insurance and investment products, and to employers and employees on the negotiation of terms for employment contracts. Some of these Clients are also investment advisory Clients of TCG ADVISORS, LP.

### Portfolio Management

We design and manage eight (8) discretionary investment portfolios for individual Clients—the Managed Account Program (also referred to as "MAP"). "Discretionary" means that the Client, you, gives us permission to make trades in your account(s) without first getting your approval. If you have securities in your account that you do not want traded, we will segregate those securities and only trade the remainder of the account(s).

We seek to manage risk by using a mixture of growth equities (usually exchange traded funds (ETFs), but also mutual funds) and fixed income investments (bonds, fixed income ETFs, bond funds and other cash equivalent funds). The portfolios range from a speculative portfolio invested 100% in growth equities to a conservative preservation portfolio invested 100% in fixed income investments. The portfolios are

- Aggressive Growth
- Growth
- Balanced
- Conservative
- Preservation
- TCG Signature Model 100% Equities

- TCG Signature Balanced Model
- TCG Signature Model 100% Fixed Income

With the exception of the signature models, you may invest one hundred percent (100%) in one of our other six models as your core asset, or you may choose to have some of your assets in a satellite allocation. (When using the satellite with the core assets, the split is usually 80% core and 20% satellite, though this may vary based upon your total investable assets and your tolerance for risk.) The satellite allocation is frequently an alternative investment, such as a private equity fund, that seeks to increase the *Alpha* of your portfolio. *Alpha* is a measurement of the performance of your portfolio on a risk-adjusted basis, comparing the volatility or price risk of your investment to its risk-adjusted performance compared to an appropriate benchmark (e.g., the S&P 500, the Lehman Brothers Aggregate Bond Index, etc.). The higher the *Alpha* is the better the return is for the expected risk. Remember that past performance is not, however, a guarantee of future returns.

We discuss each Client's tolerance for risk when assisting him/her in deciding into which portfolio his/her account(s) should be invested. All Clients are given an Investment Policy Statement that will

- establish reasonable expectations, objectives, and guidelines in the investment of the Portfolio's assets;
- set forth an investment structure detailing permitted asset classes, normal allocations and permissible ranges of exposure for the Portfolio;
- encourage effective communication between the Investor and the Advisor; and
- create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the Investor.

We review accounts on a regular basis and then we discuss that analysis with each Client to determine if he/she should continue in such portfolio or change into a new one based upon current circumstances.

#### Par 4

Our "Par 4" equity strategy is a domestic large cap equity portfolio designed to generate a flow of steady current income as well as provide the potential for long term capital appreciation. The portfolio is comprised of 25 blue chip common stocks in evenly weighted positions (4% in each stock) to minimize stock specific risk; the Par 4 portfolio is broadly diversified among the major industry groups to help minimize economic sector risk. Individual stock positions are selected based on each company's sound fundamentals and its ability to pay substantial regular dividends. We target the average current yield of the Par 4 portfolio at 4%, though there is no guarantee that we will achieve such yield.

#### TCG Select Investors, LLC

TCG Select Investors, LLC is a limited liability company formed to provide a business loan to Excel Finance Holding Company ("Excel Holdings"), Excel Finance Company, a Texas corporation ("Excel Texas") and Excel Finance Company, a Louisiana corporation ("Excel

Louisiana”). The members of TCG Select Investors, LLC are charged an annual one percent (1.0%) management fee on a monthly basis at a rate of 0.000833333. Only Accredited Investors or Qualified Clients may participate in this alternative investment.

TCG Select Investors, LLC is currently closed to new investors.

The Company may acquire thinly traded investments that are difficult to dispose of quickly. In addition, investments that were once liquid may become illiquid, making it difficult to acquire or dispose of them at the prices at which they are valued by the Company and/or its administrator and/or its auditor. The Company’s ability to respond to market movements may be impaired and the Company may experience adverse price movements upon liquidation of its investments.

Illiquid securities may sell at a lower price than similar securities that are not illiquid, and the sale of illiquid investments often requires more time and results in higher selling expenses. Any premature sales or dispositions may prevent the Company from realizing as great an overall return on investment as may have been realized if such sales or dispositions had been made at a later date.

*General Credit Risks.* The Company may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although the Company may invest in subordinate or second priority liens). There is no assurance that the Company will correctly evaluate the value of the assets collateralizing the loan or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to borrower, the Company may lose all or part of the amounts advanced to that borrower. The Company cannot guarantee the adequacy of the protection of the Company’s interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Company cannot assure that claims may not be asserted that might interfere with enforcement of the Company’s rights. In the event of a foreclosure, the Company or an affiliate of the Company may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Company. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

### **TCG Select Investors Two, LLC**

TCG Select Investors Two, LLC is a limited liability company formed to provide a business loan to 1845 Oilfield Services, Inc. (“1845”). D&T Trucking paid a \$100,000 management fee upfront to TCG, which was not charged to the members of Select Investors Two. Only Accredited Investors or Qualified Clients may participate in this alternative investment.

The Company may acquire thinly traded investments that are difficult to dispose of quickly. In addition, investments that were once liquid may become illiquid, making it difficult to acquire or dispose of them at the prices at which they are valued by the Company and/or

its administrator and/or its auditor. The Company's ability to respond to market movements may be impaired and the Company may experience adverse price movements upon liquidation of its investments.

Illiquid securities may sell at a lower price than similar securities that are not illiquid, and the sale of illiquid investments often requires more time and results in higher selling expenses. Any premature sales or dispositions may prevent the Company from realizing as great an overall return on investment as may have been realized if such sales or dispositions had been made at a later date.

An upfront fee in the amount of \$100,000 was paid by a parent company of the issuer of the Select II Fund's single holding to TCG for management fees that the Select II investors would otherwise have paid to TCG. There is a potential conflict of interest inherent in TCG accepting payment for an investment that was offered to investors. The investors were notified of such payment in the offering documents and the payment was applied to set off all management and administration fees associated with the investment.

TCG Select Investors Two, LLC is currently closed to new investors.

*Concentration of Investments.* The Company holds a single investment, which could subject the Company to significant losses if its investment declines in value or is otherwise adversely affected. In addition, the same result might occur if the Company's investment experiences a greater than anticipated correlation.

*Lending Risks.* The Company invests in a single promissory note; ie., a loan. Such lending activities entails a number of risks:

*General Credit Risks.* The Company may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although the Company may invest in subordinate or second priority liens). There is no assurance that the Company will correctly evaluate the value of the assets collateralizing the loan or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to borrower, the Company may lose all or part of the amounts advanced to that borrower. The Company cannot guarantee the adequacy of the protection of the Company's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Company cannot assure that claims may not be asserted that might interfere with enforcement of the Company's rights. In the event of a foreclosure, the Company or an affiliate of the Company may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Company. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

*Lower Credit Quality Loan.* The Loan held by the Company may be deemed to have



substantial vulnerability to default in payment of interest and/or principal. The loan which the Company may fund has uncertainties or risk exposures to adverse conditions, and may be considered to be speculative.

### **1845 Real Estate Holdings, LLC**

1845 Real Estate Holdings, LLC is a limited liability company formed to purchase, own and improve two properties that are leased to 1845. 1845 is engaged in the business of transporting and providing logistics for the transport of proppant (sand, ceramics, etc.), a critical component of the hydraulic fracturing process, from storage facilities or rail spurs to drilling sites. Only Accredited Investors or Qualified Clients may participate in this alternative investment. The members of 1845 Real Estate Holdings, LLC are charged an annual one percent (1.0%) management fee on such member's unreturned capital contributions; as well as a twenty percent (20%) performance fee following the return of (a) the members capital contributions plus (b) an eight percent (8%) preferred return, all as more fully described in the company agreement and accompanying documentation.

1845 Real Estate Holdings, LLC is currently closed to new investors.

#### **General Real Estate Risk.**

Real estate investments have inherent risks, including variations in rental income and occupancy, lack of liquidity and changes in the value of the Properties. The properties may require further improvements. Accordingly, 1845 Real Estate Holdings, LLC is further subject to construction risks and environmental risks associated with such improvements.

For a more detailed listing of risk factors for TCG Select Investors, LLC, TCG Select Investors Two, LLC, and 1845 Real Estate Holdings, LLC, please refer to the full subscription documentation provided for each limited liability company.

### **Managed Asset Portfolio Program (MAPP)**

MAPP is a portfolio management program for municipal entities (i.e., public schools, county governments, etc.) that constructs, invests, and monitors the entity's funds (e.g., general obligation funds, project development funds, etc.), subject to the investment objectives and risk profiles of such fund and the Texas Public Funds Investment Act. We will develop a Written Investment Strategy for each entity's separate fund account.

### **Single Member LLCs**

TCG provides financial advice to a single member private fund limited liability company. This fund is not open to Clients other than the respective single member.

### **Retirement and Financial Plans**

Our retirement and financial planning provides a detailed, written plan designed to assist

our Clients in achieving their stated objectives and goals. Our plans address some or all of the following areas:

- *Personal*: A review of liquid assets, an analysis of debt and a review of personal savings and spending patterns.
- *Risk Management*: An evaluation of the adequacy of a Client's risk management techniques (with respect to common risks, such as premature death, disability, illness, property loss and/or damage, liability, long-term care and unemployment).
- *Investments*: A review of a Client's investments to ensure they are consistent with the Client's risk tolerance and appropriate in light of the Client's objectives and goals (e.g., time horizon, liquidity and marketability, rate of return and risk).
- *Tax*: A review of the impact of taxes on a Client's portfolio and assistance in selecting appropriate investments based on tax efficiency.
- *Retirement Planning*: An evaluation of a Client's current financial situation and retirement plans/needs and the appropriateness of current investment vehicles and potential investment vehicles, individually or as a composite.
- *Estate Planning*: A review of estate planning techniques to achieve the proper distribution of property, the minimization of estate settlement costs and taxes, and the care of dependents.

When providing retirement and financial plans, we may make general and/or specific product and strategy recommendations. If we make such recommendations, they will be tailored to meet the objectives, goals and risk tolerance of that specific Client. The Client is under no obligation to use our services to implement such recommendations.

### Assets Under Management

We currently manage, as of December 31, 2016, the following Client assets:

Discretionary Assets	1,043,893,571
Non-discretionary Assets	190,058,166
TOTAL	1,233,951,737

Over 90% of the Non-discretionary Assets are held by institutional Clients that use Investment Advisory Committees. TCG ADVISORS, LP provides information and advice to these Committees, which then make their investment decisions.

### Item 5 — Fees and Compensation

We receive an asset management fee based on the Net Assets of each account for which we provide investment advisory services. ("Net Assets" means the market value of your account—or fair market value in the absence of a market value as of a specified date—, plus any credit balance or minus any debit balance.) The asset management fee may vary based on the nature, size and complexity of each Client's account and is negotiable. The satellite

allocations may have a different asset management fee; however, such funds allocated to the satellite position will only be charged that satellite's asset management fee and not the core asset management fee. You are not charged twice by us on your assets.

The asset management fee does not include brokerage commissions, ticket charges, interest charges, exchange fees, wire transfer fees, or other costs or fees associated with securities transactions or those required by law. The Client, you, may incur charges imposed 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 exchange traded funds also charge internal management fees, which are disclosed in the fund's prospectus.

Item 12 below further describes the factors that we consider in selecting or recommending broker/dealers for *Client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

Such charges, fees and commissions are exclusive of and in addition to our asset management fee, and we do not receive any portion of these commissions, fees, and costs.

### Asset Management Fees

Our standard annual asset management fee schedule for individuals is as follows:

Net Assets	Management Fee
\$ 0 — \$ 99,999.99	1.50 %
\$ 100,000 — \$ 999,999.99	1.25 %
\$ 1,000,000 — \$ 2,999,999.99	1.00 %
\$ 3,000,000 — \$ 6,999,999.99	0.75 %
\$ 7,000,000 — \$ 9,999,999.99	0.50 %
\$10,000,000 and over	Negotiated

There may be an annual management fee charged by a third-party advisor for certain sub-accounts of our Managed Account Program. This amount is passed on directly to the outside advisor. This fee is in addition to our standard annual asset management fee and is charged only to those Clients who are invested in such sub-account.

Asset management fees are typically payable in advance on the first day of the specified period. The fees are based on the Net Assets of the account on the last day of the prior period and are a proportionate share of the annual management fee (*e.g.*,  $\frac{1}{4}$  of the annual fee for quarterly deductions, etc.). The specified period may be monthly, quarterly or semiannually. Typically, asset management fees are deducted by the custodian of your account(s) quarterly. Alternate fee-payment arrangements (*i.e.*, payment by check) may be made. Asset management fees shall not be prorated for each capital contribution and withdrawal made during the applicable calendar quarter.

If you open or terminate an Account during a calendar quarter, you will be charged a prorated asset management fee. Such prorated asset management fee for the initial or

terminal quarter is calculated as of the first day of a month based on the Net Asset value of the account on the last day of the prior month and is proportionate for the remaining number of months in the quarter. For example, when opening an account in the first month of the quarter, the proportionate asset management fee is calculated on the first day of the second month and then  $\frac{2}{3}$  of such fee is payable for the quarter. Upon termination of any account, any prepaid, unearned asset management fees, calculated in the same manner, will be promptly refunded, and any earned, unpaid fees will be due and payable.

### **MAPP Fees**

TCG receives a Management Fee and a Performance Fee (the Performance Fee will be explained under Item 6 below). The Management Fee is 0.1% (10 basis points) billed monthly at a rate of 0.0000833333 for MAPP accounts of \$50 million or less. Accounts over \$50 million are charged under the following schedule:

<u>Assets</u>	<u>Management Fee</u>
\$ 0.00 — \$ 50,000,000	0.10 %
\$ 50,000,000.01 — \$ 100,000,000	0.08 %
\$ 100,000,000.01 — \$ 150,000,000	0.06 %
\$ 150,000,000.01 and over	0.05 %

We may negotiate the Management and Performance Fees based on the size, duration and number of the municipality's account(s).

MAPP also has a reporting only component that charges the following fees:

<u>Funds Under Management</u>	<u>Monthly Fee</u>
1-5 Funds	\$ 1,000
6-10 Funds	\$ 1,250
More than 10 Funds	\$ 1,500

### **Retirement and Financial Plan Fees**

Retirement/financial planning services fees may be an hourly rate, a flat fee and/or a percentage of the assets under management. We charge \$1,750 for a full financial plan, \$850 for a retirement plan and \$500 for an investment plan. These fees may vary based on the nature, size and complexity of each Client's account and are negotiable. All fees are agreed to in advance of us entering into an agreement with any Client. Such fees are payable only after the plan has been delivered to the Client; however, alternative fee-payment arrangements may be made.

An agreement for retirement/financial planning services may usually be terminated, for any reason, upon written notice by either party. Since, however, these are often longer-term contracts negotiated with employers and other institutions, these contracts may have more restrictive termination provisions. If cancellation occurs, any unearned fees will be refunded promptly to the Client, and any unpaid fees become due and payable as of the date of the termination.

## **Item 6 — Performance-Based Fees and Side-By-Side Management**

TCG ADVISORS, LP has no trading portfolios for individuals that charge a performance-based fee (fees based on a share of capital gains on or capital appreciation of the assets of a Client). We may recommend these investment opportunities to some of our Clients. Investments with performance-based fees are only available to Qualified Clients.

The MAPP accounts are charged a Performance Fee. The Performance Fee is ten percent (10%) on the amount over the benchmark. The benchmark for these accounts is the US Government 1-Year Treasury rate determined on the Anniversary Date for each account. The Anniversary Date is the last day of the month for the month in which the entity's account is fully allocated. To be fully allocated the funds in the account will have purchased all investments determined as needed under the Written Investment Strategy for that account.

The portfolio's benchmark for the purposes of fee calculations will be the stated daily current rate of either a) TexPool, an investment pool overseen by the Texas State Comptrollers of Public Accounts, b) Lone Star Investment Pool, an investment pool sponsored by the Texas Association of School Boards, or c) the US Government 1-Year Treasury rate. The benchmark used will be at the Investor's discretion. On each successive anniversary, we will review the Portfolio Yield and Benchmark rate, and if the current Benchmark Rate is higher than the last year's Benchmark rate, we will adjust the Benchmark to the new rate. If the current Benchmark rate is equal to or lower than last year's Benchmark rate, then the Benchmark will not be changed. If the Portfolio Yield over the Benchmark is zero or less, then no Performance Fee will be paid for the year.

TCG ADVISORS, LP will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. Performance based fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. TCG ADVISORS, LP has procedures designed and implemented to ensure that all investors are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among investors.

## **Item 7 — Types of Clients**

We provide portfolio management and retirement/financial planning services to individuals, high net worth individuals, corporate pension and profit-sharing plans, state and municipal entities, foundations, trusts, estates, and private investment funds, all considered our advisory clients ("Client" or "Clients"). The minimum account size for Clients in our Managed Account Program is \$100,000. The TCG Signature Models have a

recommended minimum of \$50,000. We may, at our sole discretion, waive these minimums. We also provide educational seminars and send periodicals related to advisory services.

TCG Consulting, our affiliate, provides consulting services to financial services companies, public school administrators, pension consultants, and insurance companies that may provide products and services to Clients.

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

Our investment strategy seeks to achieve higher returns while managing risk. While we cannot remove all risk, we seek to keep the level of risk low to the potential gains. Past performance is not, however, a guarantee of future returns.

### **Analysis Methods for Individual Client Managed Accounts**

Accounts in the Managed Account Program are reviewed and evaluated quarterly. From time-to-time, market conditions may cause the Programs' investments to vary from our established allocation. To remain consistent with our asset allocation guidelines, we rebalance the investments back to the guideline weighting (what percentage each investment is of the total allocation) if the actual weighting varies by five percent (5%) or more from the guidelines.

We use various analysis methods to determine the investments that should be part of the model portfolios. These methods are technical analysis and cyclical analysis, using charts and fundamentals.

Technical analysis forecasts the direction of prices through the study of past market data. Charting allows us to see visually how a security is trending, so we can decide whether or not to keep that security in our portfolios.

Cyclical analysis looks at economic conditions to determine whether the country is prospering or in recession. Certain securities will follow these trends both up and down, while others will run in a contrary manner, so we can determine which securities to put in or to remove from our portfolios.

The investments in our MAP portfolios are also compared to appropriate benchmarks to evaluate how they are doing in relation to other similar investments. We also review how well the investments line up with the MAP Investment Policy Statements.

### **Analysis Methods for Institutional Accounts**

Institutional accounts, where we serve as a non-discretionary advisor, are reviewed and evaluated quarterly. The securities and their performance are compared to the institution's investment policy statement. The evaluation process includes the following:

- Comparing the rate of return for each security (net of investment manager fees and

- fund expenses) to its benchmark (peer group universe);
- Determining the progress made in achieving the goals in the investment policy statement;
- Noting deviations from the investment policy;
- Reviewing market and economic conditions;
- Making projections for the coming quarter's market and economic conditions;
- Preparing recommendations for each fund—hold, remove, or place on the watch list; and
- Recommending new funds to add, if any.

If, based upon the evaluation, we believe that changes are necessary, we take those recommendations to the institution's investment committee to vote on the changes. Changes may be to remove a security, to place it on a watch list (or remove from the watch list) or to add a security.

## Risk of Loss

**Clients should understand that all investment strategies and the investments made when implementing those investment strategies involve risk of loss and Clients should be prepared to bear the loss of assets invested. The investment performance and the success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a Client's investments fluctuates due to market conditions and other factors. The investment decisions made and the actions taken for Clients accounts are subject to various market, liquidity, currency, economic and political risks, and will not necessarily be profitable. Past performance of Clients accounts is not indicative of future performance.**

This Brochure does not include every potential risk associated with an investment strategy, or all of the risks applicable to a particular Client account. Rather, it is a general description of the nature and risks of the strategies and securities and other financial instruments in which Client accounts may invest. The following risks may apply to strategies managed by us:

- **Asset Allocation and Rebalancing Risk** – The risk that a Client accounts assets may be out of balance with the target allocation. Any rebalancing of such assets by us may be limited by several factors and, even if achieved, may have an adverse effect on the performance of the Client account's assets. Asset allocation strategies do not assure profit or diversification and do not protect against loss.
- **Asset Class Risk** – Securities in a portfolio may underperform in comparison to the general securities markets, a particular securities market, or other asset classes.



- ***Capital Markets Risk*** – The risk that the Client may not receive distributions or may experience a significant loss in the value of their investment if the issuer cannot obtain funding in the capital markets.
- ***Competition; Availability of Investments*** – Certain markets in which we invest or may invest Client assets are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that we will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. There has been significant growth in the number of firms organized to make such investments, which may result in increased competition to us in obtaining suitable investments.
- ***Concentration Risk*** – The increased risk of loss associated with not having a diversified portfolio (i.e., Client accounts concentrated in a geographic region, industry sector or issuer are more likely to experience greater loss due to an adverse economic, business or political development affecting the region, sector or issuer than an account that is diversified and therefore has less overall exposure to a particular region, sector or issuer).
- ***Conversion of Equity Investments*** – After its purchase, a non-equity investment directly or indirectly held by a Client's portfolio (such as a convertible debt obligation) may convert to an equity security (converted investment). Alternatively, a Client's portfolio may directly or indirectly acquire equity securities in connection with a restructuring even related to one or more of its non-equity investments. The Client's portfolio may be unable to liquidate the converted investment at an advantageous time, impacting the performance of the portfolio.
- ***Correlation Risk*** – The risk that the performance of the underlying investment held in a Client's account may underperform or differ from the market, or prior to maturity, perform differently than the payment at maturity formula due to changes in factors influencing the structured investments, including equity performance and/or changes in credit spreads, implied volatility, interest rates and/or dividends.
- ***Counterparty Credit Risk*** – We have established relationships to engage in derivative and commodities interest transactions and obtain brokerage services all of which permit our Clients to trade in any variety of markets or asset classes over time; however, there can be no assurance that we will be able to maintain



such relationships. An inability to maintain such relationships would limit Client trading activities and could create losses, preclude Clients from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent Clients from trading at optimal rates and terms. Moreover, a disruption in the derivative, commodities interest trading and brokerage services provided by any such relationships before we establish additional relationships could have a significant impact on the Client's business due to the Client's reliance on such counterparties.

Some of the markets in which we effect Client transactions are "over-the-counter" or "inter-dealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes Clients to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing the Client to suffer a loss. In addition, in the case of a default, the Client could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Client has concentrated its transactions with a single counterparty or small group of counterparties.

Clients may use counterparties located in jurisdictions outside the United States. Such counterparties are subject to the laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to Client assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on Clients and their assets.

Clients are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, our internal credit function which evaluates the creditworthiness of its counterparties may prove insufficient. The ability of Clients to transact business with any one or more counterparties, the lack of complete and "foolproof" evaluation of the financial capabilities of counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by Clients.

- **Credit Diversification Risk** – The risk that the credit diversification of the strategy may be limited due to the lack of availability of structured investments from one or more issuers at a given time.
- **Credit/Default Risk** – Debt issuers and other counterparties of fixed income securities or instruments may default on their obligation to pay interest, repay

principal or make a margin payment, or default on any other obligation. Additionally, the credit quality of securities or instruments may deteriorate (e.g., be downgraded by ratings agencies), which may impair a security's or instruments liquidity and decrease its value.

- **Currency Risk** – Currencies may be purchased or sold for a Client's portfolio through the use of forward contracts or other instruments. A Client's portfolio that seeks to trade in foreign currencies may have limited access to certain currency markets due to a variety of factors including government regulations, adverse tax treatment, exchange controls, and currency convertibility issues. A Client's portfolio may hold investments denominated in currencies other than the currency in which the Client's portfolio is denominated. Currency exchange rates can be volatile, particularly during times of political or economic unrest or as a result of actions taken by central banks. A change in the exchange rates may produce significant losses to a Client's portfolio.
- **Cyber Security Risk** – With the increased use of technologies such as the Internet to conduct business, a portfolio is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and are not limited to, gaining unauthorized access to digital systems, and misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches by a third party service provider and the issuers of securities in which the portfolio invests, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.
- **Derivative Risk** – Investments in derivatives, or similar instrument, including but not limited to, options, futures, options on futures, forwards, participatory notes, swaps, structured securities, tender-option bonds and derivatives relating to foreign currency transactions, which can be used to hedge a portfolio's investments or to seek to enhance returns, entail specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Losses in a Client's portfolio from investments in derivative instruments can result from the potential illiquidity of the markets for derivative instruments, the failure of the counterparty to fulfill its contractual obligations, the portfolio receiving cash collateral under the transactions and some or all of that collateral being invested in the market, or the risks arising from margin posting

requirements and related leverage factors associated with such transactions. In addition, many jurisdictions globally have proposed or adopted new regulations for derivatives transactions (e.g., U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010). The full extent and impact of some of the regulations are not yet known and may not be known for some time. New regulations may make derivatives more costly, may limit the availability of derivatives, or may otherwise adversely affect the value or performance of derivatives.

- ***Developed Countries Risk*** – Investment in developed countries may subject a Client’s portfolio to regulatory, political, currency, security, demographic, and economic risk specific to developed countries. Developed countries may be impacted by changes to the economic health of certain key trading partners, regulatory burdens, debt burdens and the price or availability of certain commodities. Developed countries tend to represent a significant portion of the global economy and have generally experienced slower economic growth than some other countries or regions.
- ***Emerging Markets Risk*** – Investments in emerging markets may be subject to a greater risk of loss than investments in more developed markets, as they are more likely to experience inflation risk, political turmoil and rapid changes in economic conditions. Investing in the securities of emerging markets involves certain considerations not typically associated with investing in more developed markets, including but not limited to, the small size of such securities markets and the low volume of trading (possibly resulting in potential lack of liquidity and in price volatility), political risks of emerging markets which may include unstable governments, government intervention in securities or currency markets, nationalization, restrictions on foreign ownership and investment, laws preventing repatriation of assets and legal systems that do not adequately protect property rights. Further, emerging markets may be adversely affected by changes to the economic health of certain key trading partners, such as the U.S., regional and global conflicts and terrorism and war. Emerging markets often have less uniformity in accounting and reporting requirements, unreliable securities valuation and greater risk associated with custody of securities
- ***Environmental Risks*** – The risk of loss as a result of statutes, rules and regulations relating to environmental protection negatively impacting the business of the issuers.
- ***Equity Risks*** – The market price of securities owned by Clients may go up or down, sometimes rapidly or unpredictably. The equity securities in Clients’ portfolios may decline in value due to factors affecting equity securities markets

generally or the energy sector. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, including the basic minerals sector, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which we believe are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame we anticipate. As a result, Clients may lose all or substantially all of their investments in any particular instance.

- ***Fixed Income Securities*** – We may invest Client assets in bonds or other fixed income securities of issuers including, without limitation, bonds, notes and debentures issued by corporations; debt securities and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which we invest will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).
- ***Frontier Markets Risk*** – Investments in frontier markets may be subject to a greater risk of loss than investments in more developed and traditional emerging markets. Frontier markets are more likely to experience inflation, currency and liquidity risks, political turmoil and rapid changes in economic conditions than more developed and traditional emerging markets. Frontier markets often have less uniformity in accounting and reporting requirements, unreliable securities valuation and greater risk associated with custody of securities.
- ***General Economic and Market Conditions*** – The success of our activities is affected by general economic and market conditions, such as changes in interest

rates, availability of credit and debt-related issues, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of Client investments), trade barriers, unemployment rates, release of economic data, currency exchange controls and national and international political circumstances (including wars, terrorist acts, natural disasters, security operations, the European debt crisis or the U.S. budget negotiations). These factors may affect the level and volatility of securities prices and the liquidity of Client investments. Volatility and/or illiquidity could impair a we profitability or result in losses. Clients could incur material losses even if we react quickly to difficult market or economic conditions, and there can be no assurance that Clients will not suffer material losses and other adverse effects from broad and rapid changes in economic and market conditions in the future. Clients should realize that markets for the financial instruments in which we invest Client assets can correlate strongly with each other at times or in ways that are difficult for us to predict. Even a well-analyzed approach may not protect Clients from significant losses under certain market conditions.

- ***Hedging Risk*** – Hedging techniques could involve a variety of derivatives, including futures contracts, exchange listed and over-the-counter put and call options on securities, financial indices, forward foreign currency contracts, and various interest rate transactions. A transaction used as a hedge to reduce or eliminate losses associated with a Client’s portfolio holding or particular market that a Client’s portfolio has exposure, including currency exposure, can also reduce or eliminate gains. Hedges are sometimes subject to imperfect matching between the hedging transaction and its reference portfolio holding or market (correlation risk), and there can be no assurance that a Client’s portfolio hedging transaction will be effective. In particular, the variable degree of correlation between price movements of hedging instruments and price movements in the position being hedged creates the possibility that losses on the hedge may be greater than gains in the value of the positions of the Client’s portfolio. Increased volatility will generally reduce the effectiveness of the Client’s portfolio currency hedging strategy. Hedging techniques involve costs, which could be significant, whether or not the hedging strategy is successful. Hedging transactions, to the extent they are implemented, may not be completely effective in insulating the Client’s portfolio from currency or other risks.
- ***Highly Volatile Markets*** – The prices of financial instruments in which we may invest Client assets can be highly volatile. Price movements of the financial instruments in which Client assets are invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and

national and international political and economic events and policies. Clients are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses. In addition, governments from time to time intervene in certain markets, directly and by regulation, particularly in currencies, futures and options. Such intervention is often intended to directly influence prices and may, together with other factors, cause some or all of these markets to move rapidly in the same direction. The effect of such intervention is often heightened by a group of governments acting in concert.

- ***Illiquid Investments*** – Under certain market conditions, such as during volatile markets or when trading in an interest or market is otherwise impaired, the liquidity of Client investments may be reduced. In addition, a Client may from time to time hold large positions with respect to a specific type of investment, which may reduce the Client's liquidity. During such times, the Client may be unable to dispose of certain assets, which would adversely affect the Client's ability to rebalance its portfolio or to meet withdrawal requests. In addition, such circumstances may force the Client to dispose of assets at reduced prices, thereby adversely affecting the Client's performance. If there are other market participants seeking to dispose of similar assets at the same time, the Client may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if a Client incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In conjunction with a market downturn, the Client's counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Client's credit risk to them. Many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, liquidity may be reduced for Client investments.

Investments in commodity related futures contracts may be less liquid than investments in publicly traded securities. Commodities investments by Clients are typically made on the major exchanges such as CME or ICE or in the over-the-counter markets. Accordingly, any premature sales or dispositions of these investments also may adversely affect the investment results of Clients.

- ***Income Risk*** – A Client's portfolio income may decline when interest rates decrease. During periods of falling interest rates an issuer may be able to repay principal prior to the security's maturity ("prepayment"), causing the Client's portfolio to have to reinvest in securities with a lower yield, resulting in a decline in the Client's portfolio income.
- ***Index Contracts*** – We may also invest Client assets in customized instruments seeking to hedge against the risk of changes in the level of prices of broad



market averages or indices, as well as narrower indices or baskets of securities or commodities interests. These hedging strategies may be executed by us through the use of exchange-traded index options or futures contracts or options thereon, standardized or individually negotiated over-the-counter contracts or other forms of derivative contracts (collectively, “index contracts”) structured by investment banking or other institutions.

Index contracts generally have substantial risks associated with them, including possible default by the counterparty to the transaction, illiquidity and, to the extent our view as to certain market movements is incorrect, the risk that the use of such index contracts could result in losses greater than if they had not been used. Moreover, any lack of correlation between price movements of index contracts and price movements in the position of a Client may create the possibility that losses in the value of the Client’s position may be greater than the gain on the hedging instrument (or that a gain in the Client’s position may be less than the loss on the hedging instrument). In addition, futures and options markets may not be liquid in all circumstances and certain over-the-counter index contracts may have no markets. As a result, in certain markets, a Client might not be able to close a transaction without incurring substantial losses, if at all. Any such result may have a material adverse effect on the Client.

- ***Index-Related Risk*** – Index strategies are passively managed and do not take defensive positions in declining markets. There is no guarantee that a Client’s portfolio managed to an index strategy (“index portfolio”) will achieve a high degree of correlation to its underlying index and therefore achieve its investment objective. Market disruptions and regulatory restrictions could have an adverse effect on the index portfolio’s ability to adjust its exposure to the required levels in order to track its underlying index. Errors in index data may occur from time to time and may not be identified and corrected for a period of time, and may have an adverse impact on a portfolio managed to the index. The index provider does not provide any warranty or accept any liability in relation to the quality, accuracy or completeness of data in respect of their indices, and does not guarantee that the Index will be in line with its described index methodology. Errors and rebalances carried out by the index provider to the underlying index may increase the costs and market exposure risk of a portfolio.
- ***Interest Rate Risk*** – When interest rates increase, fixed income securities or instruments will generally decline in value. Long-term fixed income securities or instruments will normally have more price volatility because of this risk than short-term fixed income securities or instruments.
- ***Investment and Trading Risks Generally*** – All investments risk the loss of capital. No guarantee or representation is or can be made that our investment

program will be successful. Our investment program may involve, without limitation, risks associated with limited diversification, short-selling, commodity interest trading, equity risks, distressed issuers, interest rates, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in our activities. Certain investment techniques may, in certain circumstances, substantially increase the impact of adverse market movements to which our Clients may be subject. In addition, Client investments may be materially affected by conditions in the financial markets and U.S. and worldwide economic conditions. Our methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

- ***Investment Style Risk*** – Different investment styles tend to shift in and out of favor depending upon market and economic conditions and investor sentiment. Client portfolios may outperform or underperform other Client portfolios that invest in similar asset classes but employ different investment styles.
- ***Investments in Distressed Issuers*** – We might invest Client assets in equity securities of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems and “below investment-grade” debt securities, including companies involved in covenant or payment default or in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies’ securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies



experiencing significant business and financial difficulties is high, and there is no assurance that we will analyze such investments correctly.

- ***IPO Risk*** – The market value of IPO shares will fluctuate considerably due to factors such as the absence of a prior public market, unseasoned trading, the small number of shares available for trading and limited information about the issuer. The purchase of IPO shares may involve high transaction costs. IPO shares are subject to market risk and liquidity risk.
- ***Large-Cap Company Risk*** – Larger, more established companies may be unable to attain the high growth rates of successful, smaller companies during periods of economic expansion.
- ***Leverage and Liquidity Risks*** – We may have the authority to borrow funds and may do so when deemed necessary or appropriate by us or our affiliates. We may borrow funds on behalf of its Clients from brokers, banks and other lenders to finance its investing and trading operations, which borrowings may be secured by Client assets. The use of such leverage can, in certain circumstances, maximize the losses to which a Client's investment portfolio may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that a particular asset or the Client as a whole is leveraged. The cumulative effect of the use of leverage in a market that moves adversely to Client investments could result in a substantial loss to Clients, which would be greater than if Clients were not leveraged. Leverage may be achieved through, among other methods, direct borrowing and purchases of securities on margin and the use of options and other derivatives.

The purchase of options generally involves little or no margin deposit and, therefore, will provide substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to a Client. In addition, a Client may have unlimited discretion to use derivative instruments, which generally provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment.

- ***Leveraging Risk*** – Certain Client transactions, including futures contracts and short positions in financial instruments, may give rise to a form of leverage. Leverage can magnify the effects of changes in the value of the Client's investments and make the Client's portfolio more volatile. Leverage creates a risk of loss of value on a larger pool of assets than the Client would otherwise have had, potentially resulting in the loss of all assets. The Client may also have to sell assets at inopportune times to satisfy its obligations in connection with such transactions.

- **Limited Diversification and Risk Management Failures** – At any given time, Client assets may not be diversified to any material extent and, as a result, Clients could experience significant losses if general economic conditions, and, in particular, those relevant to the issuers whose securities are owned by our Clients (i.e., REIT-related securities), decline. In addition, Client portfolios could become significantly concentrated in a limited number of issuers, types of financial instruments, industries, strategies, countries or geographic regions, and any such concentration of risk may increase losses suffered by Clients. This limited diversity could expose Clients to losses disproportionate to market movements in general. Other investment funds pursue similar strategies, which creates the risk that many funds may be forced to liquidate positions at the same time, reducing liquidity, increasing volatility and exacerbating losses. Although we attempt to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in our risk management efforts could result in material losses for Clients.
- **Liquidity Risk** – The risk that a Client may not be able to monetize investments and may have to hold to maturity or may also only be able to obtain a lower price for investments either because those investments have become less liquid or illiquid in response to market developments or adverse investor perceptions. Investments that are illiquid or that trade in lower volumes may be more difficult to value.
- **Litigation** – Our investment activities may subject us, our affiliates and our Clients to the risks of becoming involved in litigation with third parties. The expense of defending against claims against a Client by third parties and the payment of any amounts pursuant to settlements or judgments would be borne by the Client. We and our affiliates will generally be indemnified by its Clients in connection with any such litigation, subject to certain conditions.
- **Low Trading Volume Risk** – The risk that a Client may not be able to monetize his/her investment or will have to do so at a loss as a result of generally lower trading volumes of the securities compared to other types of securities or financial instruments.
- **Management and Strategy Risk** – The value of a Client's investment depends on our judgment about the quality, relative yield, value or market trends affecting a particular security, industry, sector or region, which may prove to be incorrect. Investment strategies employed by us in selecting investments for a Client may

not result in an increase in the value of the Client's investment or in overall performance equal to other investments.

- ***Market/Volatility Risk*** – The risk that the value of the assets in which a Client invests may decrease (potentially dramatically) in response to the prospects of individual companies, particular industry sectors or governments, changes in interest rates and national and international political and economic events due to increasingly interconnected global economies and financial markets.
- ***Micro-cap Companies Risk*** – Stock prices of microcap companies are significantly more volatile, and more vulnerable to adverse business and economic developments, than those of larger companies. Microcap stocks may also be thinly traded, making it difficult for a Client's portfolio to buy and sell them.
- ***Municipal Securities Risk*** – Municipal securities can be significantly affected by political or economic changes, as well as uncertainties in the municipal market related to taxation, changes in interest rates, relative lack of information about certain issuers of municipal securities, legislative changes or the rights of municipal security holders. Municipal securities backed by current or anticipated revenues from a specific project or specific assets can be negatively affected by the inability to collect revenues for the project or from the assets.
- ***Natural Resources Risk*** – We might periodically invest Client assets in companies principally engaged in owning or developing natural resources (i.e., oil, timber and minerals) and industrial materials, or supplying goods or services to such companies. Investing in natural resources issuers will be subject to the risk that prices of these investments may fluctuate widely in response to the level and volatility of commodity prices; exchange rates; import controls; domestic and global competition; environmental regulation and liability for environmental damage; mandated expenditures for safety or pollution control; the success of exploration projects; depletion of resources; tax policies; and other governmental regulation. Investments in natural resources issuers can be significantly affected by changes in the supply of or demand for natural resources. The value of investments in natural resources issuers may be adversely affected by a change in inflation.
- ***Non-Diversification Risk*** – Non-diversification of investments means a Client's portfolio may invest a large percentage of its assets in securities issued by or representing a small number of issuers or exposure types. As a result, a Client's portfolio performance may depend on the performance of a small number of issuers or exposures.

- Non-U.S. Investments*** – We might periodically invest Client assets in financial instruments of non-U.S. corporations and governments. Investing in the financial instruments of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains or other income, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, we may be unable to structure Client transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce our Clients' rights in such markets. For example, financial instruments traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to Clients under such laws and regulations are unavailable for transactions on foreign exchanges and with foreign counterparties.
- Operational Risk*** – The risk of loss arising from shortcomings or failures in internal processes or systems, external events impacting those systems and human error. Operational risk can arise from many factors ranging from routine processing errors to potentially costly incidents such as major system failures.
- Other Derivative Instruments*** – We may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with our Clients' investment objective and legally permissible. Special risks may apply to instruments that are invested in by our Clients in the future that cannot be determined at this time or until such instruments are developed or invested in by our Clients. Certain swaps, options and other derivative instruments may be

subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

In general, using derivatives can have a leveraging effect and increase a Client's portfolio volatility. Derivatives can be highly illiquid and difficult to unwind or value, and changes in the value of a derivative held by the Client's portfolio may not correlate with the value of the underlying instrument or the Client's portfolio of other investments. Many of the risks applicable to trading the instruments underlying derivatives are also applicable to derivatives trading. However, additional risks are associated with derivatives trading that are possibly greater than the risks associated with investing directly in the underlying instruments. These additional risks include but are not limited to illiquidity risk, operational leverage risk and counterparty credit risk. A small investment in derivatives could have a potentially large impact on the Client's portfolio performance. Recent legislation in the United States calls for new regulation of the derivatives markets. The extent and impact of the regulation are not yet fully known and may not be for some time. New regulation of derivatives may make them more costly, may limit their availability, or may otherwise adversely affect their value or performance.

- **Portfolio Turnover Risk** – Active and frequent trading of securities and financial instruments in a Client's portfolio may result in increased transaction costs, including potentially substantial brokerage commissions, fees and other transaction costs. In addition, frequent trading is likely to result in short-term capital gains tax treatment. As a result of portfolio turnover, the performance of a Client's portfolio may be adversely effected.
- **Position Limits** – "Position limits" imposed by various regulators may also limit our ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular financial instrument. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if we do not intend to exceed applicable position limits, it is possible that different accounts managed by us may be aggregated. To the extent that Client position limits were collapsed, the effect on Clients and resulting restriction on their investment activities may be significant. If at any time positions managed by us were to exceed applicable position limits, we would be required to liquidate positions of our Clients to the extent necessary to come within those limits. Further, to avoid exceeding the position limits, we might have to forego or modify certain of Client contemplated trades.

- **Private Investment Risk** – Investments in private investments, which may include debt or equity investments in operating and holding companies, investment funds, joint ventures, royalty streams, commodities, physical assets and other similar types of investments that are highly illiquid and long-term. A Client's ability to transfer and/or dispose of private investments is expected to be highly restricted.
- **Put and Call Options** – We, on behalf of our Clients, may also purchase exchange-listed and over-the-counter put and call options on specific securities or commodities interests. In addition, we may write and sell covered or uncovered call and put option contracts. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security or commodities interest at a stated exercise price at any time prior to the expiration of the option. Similarly, a put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying security or commodities interest at a stated exercise price at any time prior to the expiration of the option. Options written by our Clients may be wholly or partially covered (meaning that the Client holds an offsetting position) or uncovered. Options on specific securities or commodities interests may be used by to seek enhanced profits with respect to a particular security or commodities interest. Alternatively, we may use options for various defensive or hedging purposes.

Use of put and call options may result in losses to Clients, force the sale or purchase of portfolio holdings at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation Clients can realize on their investments or cause a Client to hold a security or commodities interest it might otherwise sell. For example, a decline in the market price of a particular security could result in a complete loss of the amount expended by a Client to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by a Client. The use of uncovered option writing techniques may entail greater risks of potential loss to a Client than other forms of options transactions. For example, a rise in the market price of the underlying security will result in Clients realizing a loss on the calls written, which would not be offset by the increase in the value of the security or commodities interest to the extent the call option position was uncovered.

- **Real Estate Risk** – Historically real estate has experienced significant fluctuations and cycles in value and local market conditions which may result in reductions in real estate opportunities, value of real property interests and, possibly, the amount of income generated by real property. All real estate-



related investments are subject to the risk attributable to, but not limited to: (i) inability to consummate investments on favorable terms; (ii) inability to complete renovation, expansion or development on advantageous terms; (iii) adverse government, environmental and tax regulations; (iv) leasing delays, tenant bankruptcies and low occupancy levels and lease rates; and (v) changes in the liquidity of real estate markets. Real estate investment strategies which employ leverage are subject to risks normally associated with debt financing, including the risk that; (a) cash flow after debt service will be insufficient to accumulate sufficient cash for distributions; (b) existing indebtedness (which is unlikely to be fully amortized at maturity) will not be able to be refinanced; (c) terms of available refinancing will not be as favorable as the terms of existing indebtedness; or that the loan covenants will not be complied with. It is possible that property could be foreclosed upon or otherwise transferred to the mortgagee, with a consequent loss of income and asset value.

The real estate sector may suffer and property values may fall due to increasing vacancies or declining rents resulting from unanticipated economic, legal, employment, cultural or technological developments, fluctuations in rent schedules and operating expenses, unfavorable changes in applicable taxes, governmental regulations, zoning, building, environmental and other laws and interest rates, operating or development expenses, unexpected increases in the cost of energy and environmental factors and lack of available financing. . The value of real estate company securities also may decline because of the failure of borrowers to pay their loans and poor property management. Residential developers, in particular, could be negatively impacted by falling home prices, slower mortgage origination and rising construction costs.

In addition to the risks associated with securities of companies participating in the real estate industry, such as declines in the value of real estate, risks related to general and local economic conditions, decreases in property revenues, and increases in prevailing interest rates, property taxes and operating expenses, REITs are subject to certain other risks related to their structure and focus. REITs are dependent upon management skills and generally may not be diversified. REITs are also subject to heavy cash flow dependency, defaults by borrowers and self-liquidation. A REIT could possibly fail to qualify for favorable U.S. federal income tax treatment and so become subject to additional income tax liability that could cause to liquidate investments, borrow funds under adverse conditions or fail, or to maintain its exemption from registration under the 1940 Act. Various factors including the above may also adversely affect a borrower's or a lessee's ability to meet its obligations to the REIT. In addition, the REIT may experience delays in enforcing its rights as a lessor and may incur substantial costs associated with protecting its investments.

- ***Repurchase and Reverse Repurchase Agreements*** – We may enter into, on behalf of its Clients, repurchase and reverse repurchase agreements. When a

Client enters into a repurchase agreement, it “sells” securities or commodities interests to a broker or financial institution, and agrees to repurchase such securities or commodities interests on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Client “buys” securities or commodities interests issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities or commodities interests at the price paid by the Client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements involves certain risks. For example, if the seller of securities to a Client under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Client will seek to dispose of such securities, this action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Client’s ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that a Client may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Client may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

- **Secondary Market / Limited Liquidity Risk** – The risk that the secondary market for one or more of the underlying structured investments may be limited due to a particular issuer exposure, volatility of a referenced asset or for other reasons. This lack of liquidity in the secondary market may make one or more of the underlying investments more difficult to dispose of and to value, and, therefore, may result in the strategy being less liquid than other strategies and may negatively impact secondary market valuations.
- **Short Sales** – We, on behalf of it Clients, may effect short sales of securities, commodities and derivative investments made in the over-the-counter markets. Short selling is the practice of selling securities, commodities or other underlying investments (as applicable, “Underlying Investments”) or derivative investments that are not owned by the seller, generally when the seller anticipates a decline in the price of the underlying investment or for hedging purposes. To complete a short sale, Clients generally must borrow the Underlying Investments from a third party in order to make delivery to the buyer. We generally will be required to pay a brokerage commission that will



increase the cost to Clients of selling such Underlying Investments. The proceeds of the short sale plus additional cash or Underlying Investments must be deposited as collateral with the lender of the Underlying Investments to the extent necessary to meet margin requirements. The amount of the required deposit will be adjusted periodically to reflect any change in the market price of the Underlying Investments that a Client is required to return to the lender. The Client generally will be entitled to receive payments from the lender with respect to the short sale proceeds and additional cash on deposit with the lender at negotiated interest rates. The Client will be obligated to return the applicable Underlying Investments equivalent to those borrowed at any time on demand of the lender of the Underlying Investments borrowed by purchasing them at the market price at the time of replacement. Until the Underlying Investments are replaced, the Client will be required to pay to the lender amounts equal to any dividends or interest that accrue during the period of the loan of the Underlying Investments. An increase in the value of any Underlying Investment that is the subject of short selling by a Client may, as a result of the foregoing, have a material adverse effect on the assets of the Client, and therefore the return on investment of the Client.

- ***Small-Cap and Mid-Cap Company Risk*** – The securities of small-capitalization and mid-capitalization companies may be subject to more abrupt or erratic market movements and may have lower trading volumes or more erratic trading than securities of larger, more established companies or market averages in general. In addition, such companies typically are more likely to be adversely affected than large capitalization companies by changes in earning results, business prospects, investor expectations or poor economic or market conditions.

- **Swap Agreements** – Clients may enter into swap agreements and options on swap agreements (“swaptions”). Swap agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. A Client, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease Client exposure to, for example, long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, credit spreads, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. We are not limited to any particular form of swap agreement if consistent with the Client’s investment objective and policies.

Swap agreements tend to shift Client investment exposure from one type of investment to another. For example, if a Client agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease the Client’s exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Client’s portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Client. If a swap agreement calls for payments by a Client, the Client must be prepared to make such payments when due. In addition, if a counterparty’s creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Client.

Whether a Client’s use of swap agreements or swaptions will be successful will depend on our ability to select appropriate transactions for the Client. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Client’s portfolio. Moreover, the Client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Client also bears the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Client to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Client’s ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

- **Tax, Legal and Regulatory Risks** – The risk of loss due to increased costs and reduced investment and trading opportunities resulting from unanticipated legal, tax and regulatory changes, including the risk that the current tax

treatment of securities, such as MLPs, could change in a manner that would have adverse consequences for existing investors.

- ***Terrorist Attacks, War and Natural Disasters*** – Terrorist activities, anti-terrorist efforts, armed conflicts involving the United States or its interests abroad and natural disasters may adversely affect the United States, its financial markets and global economies and markets and could prevent us and our Clients from meeting their respective investment objectives and other obligations. The potential for future terrorist attacks, the national and international response to terrorist attacks, acts of war or hostility and recent natural disasters have created many economic and political uncertainties, which may adversely affect the United States and world financial markets and our Clients for the short or long-term in ways that cannot presently be predicted.
- ***Underperformance Risk*** – The risk that the strategy may underperform the underlying investments due to reasons such as the capped feature of one or more investments and the fact that such structured investments do not receive dividends.

## **Item 9 — Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of TCG ADVISORS, LP or the integrity of our management. None of our management or Partners has any disciplinary information to disclose.

## **Item 10 — Other Financial Industry Activities and Affiliations**

TCG ADVISORS, LP is a part of TCG Group Holdings, LLP. We have various affiliates (wholly-owned subsidiaries of TCG Group Holdings, LLP) that sometimes provide services to our Clients. These affiliates are Total Compensation Group Consulting, LP; JEM Resource Partners, LP; and TCG Benefits (f/k/a The Paragon Group, LP; Paragon National, LP; and Paragon Benefits, LP, collectively).

### **TCG Consulting**

Total Compensation Group Consulting, LP (“TCG Consulting”) provides consulting services for a fee to institutional Clients (*e.g.* school districts, municipalities, etc.), including analyzing a Client’s needs, assisting in the preparation of Request for Proposals for insurance and investment products and assisting in the evaluation of responses as well as in providing evaluation services with respect to existing programs.

Additionally, TCG Consulting provides consulting services to employers and employees with respect to the negotiation and terms of employment agreements. TCG Consulting provides consulting services to some of the Clients for which TCG ADVISORS, LP serves as

an investment advisor. TCG ADVISORS, LP and TCG Consulting may recommend the other company's services, as appropriate, to meet the needs of Clients.

### **TCG Administrators**

TCG Administrators (f/k/a JEM Resource Partners or JEM), an affiliate of TCG ADVISORS, LP, provides third-party administrative services to Clients in the markets served by TCG. From time to time, we recommend TCG Administrators' services to Clients. Our recommendation of TCG Administrators' services is in those situations where we believe that it is appropriate and in the Client's best interest to use those services. TCG Administrators is a fee-only administrator and does not sell any investment products. TCG Administrators has engaged its auditor to perform an internal controls report (SSAE 16) that complies with Rule 206(4)-2(a)(6)(A) which contains an opinion of an independent public accountant as to the control objectives relating to custodial services, including the safeguarding of funds and securities held by either the Adviser or a related person on behalf of advisory clients.

### **TCG Benefits, LLC**

TCG Benefits, LLC formerly sold insurance products in the same markets as TCG ADVISORS, LP.

## **Item 11 — Code of Ethics**

We have 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 relating to the confidentiality of Client information and a prohibition on insider trading, among other things. All associated and supervised persons must acknowledge the terms of the Code of Ethics annually, or as amended. You may request a copy of our Code of Ethics by contacting David E. Friedman.

### **Personal Securities Transactions**

We anticipate that, in appropriate circumstances and consistent with Clients' investment objectives, we will recommend to investment advisory Clients or prospective Clients, the purchase or sale of securities in which we, our affiliates and/or our Clients, directly or indirectly, have a position of interest. Our employees and persons associated with us are required to follow our Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of TCG ADVISORS, LP and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for our Clients.

We designed the Code of Ethics to ensure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of our Clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to Client trading activity.

Nonetheless, 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 us and our Clients.

### **Trade Order Practices**

Certain affiliated accounts may trade in the same securities with Client accounts on an aggregated basis when consistent with our 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. We retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

### **Cross Securities Transactions**

It is our policy that the firm will not affect any principal or agency cross securities transactions for Client accounts. We will also not cross trades between Client accounts. Principal transactions are generally defined as transactions where an advisor, acting as principal for its own account or the account of an affiliated broker/dealer, buys from or sells any security to any advisory Client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another Client account. An agency cross transaction is defined as a transaction where a person acts as an investment advisor in relation to a transaction in which the investment advisor, or any person controlled by or under common control with the investment advisor, acts as broker for both the advisory Client and for another person on the other side of the transaction. Agency cross transactions may arise where an advisor is dually registered as a broker/dealer or has an affiliated broker/dealer.

### **Item 12 — Brokerage Practices**

We do not receive any soft dollar benefits from broker/dealers for placing trades through such broker/dealer. We recommend broker/dealers with whom we have an approved selling agreement and who, in our opinion, are able to provide the best price and execution. We evaluate broker/dealers on a variety of factors: the ability to achieve prompt and reliable executions; the executed trades are done at favorable prices; the operational efficiency with which the broker/dealer executes the transactions; the financial strength, integrity and stability of the broker/dealer; and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria.

Many broker/dealers offer research services. This is an additional component in our choosing with which broker/dealers to enter into a selling arrangement. We look at the quality, comprehensiveness and frequency of such research services to determine who we select as broker/dealers for our managed account program. The research services that

these broker/dealers provide supplements the other tools that we use to analyze the securities that we recommend.

Advisor participates in the institutional advisor program (AdvisorDirect, the “Program”) offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC (“TD Ameritrade”), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the Program.

### **Item 13 — Review of Accounts**

Under current securities law we are required to periodically review Client accounts.

#### **Managed Accounts**

Managed accounts are reviewed on a regular basis by appropriate supervisory personnel. We review and evaluate each account’s performance on a quarterly basis and review each account’s portfolio and individual investments. For investment management accounts, we require that each account be reviewed annually and most accounts are reviewed quarterly. The nature and frequency of the reports to Clients are determined primarily by the particular needs of each Client. Generally, we provide quarterly reports detailing the individual assets and performance of the managed portfolio, unless the Client requests information on a more frequent basis, to supplement the reports from the custodian.

#### **Institutional Accounts**

For institutional Clients, reviews are made by appropriate supervisory personnel. These individuals conduct Client portfolio reviews on a quarterly basis. Performance is measured and evaluated. Each Client is expected to complete an investment policy statement outlining the investment objectives, expectations, and guidelines. This investment policy statement then serves as the benchmark, providing investment guidance to the Client. Allocations are reviewed against the investment policy statement to insure compliance within the framework of the Client’s stated objectives.

#### **Accounts with Outside Managers**

When outside professional managers are used in an account, the following evaluation process will be followed:

- 1) Measure rates of return for each fund net of investment manager fees and all fund expenses relative to a peer group universe (benchmark) and other relevant market indices on a quarterly basis;
- 2) Determine progress towards achieving stated objectives in the investment policy statement—the primary goal is to fulfill the values and goals as outlined;
- 3) Review fund characteristics including duration of manager with the fund, fund objective, style and description of fund performance.

- 4) Provide comments and observations as it relates to funds investment objectives, style and performance. Note deviations from stated policy, objectives and/or style. Note also any change in key personnel (fund manager or research team);
- 5) Make recommendations for each fund (Hold-Remove-Watch List);
- 6) Recommend any new funds (if applicable) on a quarterly basis; and
- 7) Provide market and economic summary comments from the prior quarter and accompany it with as a forecast for the coming period.

If we believe that an allocation change is appropriate based on its account review, we will promptly advise the Client and make recommendations to effect such changes. To supplement the reports from the custodian, we generally provide Clients with a quarterly review of their accounts, unless the Client requests reviews on a more frequent basis.

We review discretionary accounts quarterly. Written quarterly performance reports are provided to each investor. The reports list the individual holdings, sector weightings, and quarterly performance. Benchmark comparisons are provided. Additional reports may include

Transaction Reports	Income & Expense Reports
Performance by Security	Performance History
Realized Gains and Losses	Unrealized Gains and Losses
Portfolio Appraisal	

#### **Item 14 — Client Referrals and Other Compensation**

We do not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to our Clients, except, as disclosed in Item 12 above, for our participation in TD Ameritrade's institutional customer program, AdvisorDirect, which may produce economic benefits. We may recommend TD Ameritrade to Clients for custody and brokerage services. There is, however, no direct link between our participation in the Program and the investment advice we give to our Clients. We do receive economic benefits through our participation in the Program that are typically not available to TD Ameritrade retail investors. The benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors. TD Ameritrade may also pay for business consulting and professional services received by our related persons.



Some of the products and services made available by TD Ameritrade through the Program may benefit us, but may not benefit our Clients' accounts. These products or services may assist us in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits received by us or our personnel through participation in the Program do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware that the receipt of economic benefits by us or our related persons creates a potential conflict of interest that may indirectly influence our choice of TD Ameritrade for custody and brokerage services; however, as part of our fiduciary duties to clients, we endeavor at all times to put the interests of our Clients first.

We may receive client referrals from TD Ameritrade through our participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, we may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with us, and there is no employee or agency relationship between us and them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise us and has no responsibility for our management of client portfolios or our other advice or services. We pay TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the Client pays us ("Solicitation Fee"). We will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by us from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired us on the recommendation of such referred client. We will not charge Clients referred through AdvisorDirect any fees or costs higher than our standard fee schedule offered to our Clients or otherwise pass Solicitation Fees paid to TD Ameritrade to our Clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

Our participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, to obtain client referrals from TD Ameritrade, we may have an incentive to recommend to Clients that the assets under management by us be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. In addition, we have agreed not to solicit clients referred to us through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when our fiduciary duties require doing so. Our participation in AdvisorDirect does not diminish our duty to seek best execution of trades for Client accounts.



We are a paying sponsor of certain associations and organizations, and may receive Client referrals from these relationships. We currently provide direct or indirect compensation as a corporate partner to the Texas Association of School Administrators, the Urban Superintendents Association of America, the National Association of Governmental Defined Contribution Administrators, the National Center for Education Research and Technology, the American Latino Superintendents and Administrators, the Association of Educational Service Agencies (AESA), the Virginia Association of School Superintendents, the Lake County (Illinois) Superintendents Association, the Center for Quality Leadership, the Texas Association of Suburban/Mid-Urban Superintendents, and various other state and local educational organizations and associations, which allows us to market our services through our interactions with fellow association members. We have a contract with Association of California School Administrators (ACSA) under which we provide discounted fees for our retirement planning services to its members. We do not have any relationships with third-party placement agents.

### **Item 15 — Custody**

In the case of our Fund Clients, while it is our practice not to accept or maintain physical possession of any Client assets, we are deemed to have custody of the Funds' assets, because we have the authority to deduct fees from Clients accounts and its affiliate acts as general partner of the Funds.

In order to comply with Rule 206(4)-2, we utilize the services of a bank or qualified custodian (as defined under Rule 206(4)-2) to hold all of Clients' assets. In accordance with Rule 206(4)-2, the Advisor also (1) engages an outside auditor to audit our Clients at the end of each fiscal year and (2) distributes the results of the audit in audited financial statements that are prepared in accordance with United States generally accepted accounting principles to all investors in our Clients within 120 days after the end of the fiscal year. In some special situations an audit is not available. In that case, we engage our PCAOB registered auditor to conduct a surprise examination and statements are sent from the qualified custodian quarterly.

In the case of our individual and institutional Clients, we do not have nor are we deemed to have custody of Client assets. For institutional accounts, our affiliate, JNT Resource Partners, LP (dba TCG Administrators or JEM Resource Partners ("JEM")), may act as a qualified custodian through its receipt and temporary custody of advisory clients' funds. JEM immediately forwards such funds to the appropriate qualified custodian for those accounts. JEM has engaged its auditor to perform an internal controls report (SSAE 16) that complies with Rule 206(4)-2(a)(6) which contains an opinion of an independent public accountant as to the control objectives relating to custodial services, including the safeguarding of funds and securities held by either the Adviser or a related person on behalf of advisory clients.

### **Item 16 — Investment Discretion**

We usually receive discretionary authority from our Clients 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 to be exercised in a manner consistent with the stated investment objectives for the particular Client account.

When selecting securities and determining amounts to be invested in specific securities or sectors, we observe the investment policies, limitations and restrictions of the Clients for which the advice applies. For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

#### **Item 17 — Voting Client Securities**

As a matter of firm policy and practice, we do not vote proxies on behalf of advisory Clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in Client portfolios. We may provide advice to Clients regarding the Clients' voting of proxies.

#### **Item 18 — Financial Information**

We do not require or solicit prepayment of any fees greater than 6 months in advance. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to our Clients, and have not been the subject of a bankruptcy proceeding.

#### **Item 19 — Requirements for State-Registered Advisors**

This Item is not applicable.