

# Disclosure Brochure

March 29, 2011

## **Spectrum Management Group, Inc.**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Spectrum Management Group, Inc. (hereinafter "SMG"). If you have any questions about the contents of this brochure, please contact Leslie Thompson at (317) 663-5600. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Spectrum Management Group, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Spectrum Management Group, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred since SMG's last annual update. This is SMG's first annual updating amendment and, as such, SMG has no disclosures pursuant to this Item.

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## Item 4. Advisory Business

SMG provides financial planning, consulting, investment management, and wealth management services. Prior to engaging SMG to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with SMG setting forth the terms and conditions under which SMG renders its services (collectively the “*Agreement*”).

SMG has been in business as an SEC registered investment adviser since October 18, 2010. Robert C. Phillips and Leslie D. Thompson are the principal owners of SMG.

SMG has \$306,977,800 of assets under management as of January 3, 2011. \$306,272,281 of these assets are managed on a discretionary basis and \$705,519 are managed on a non-discretionary basis.

This Disclosure Brochure describes the business of SMG. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of SMG’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on SMG’s behalf and is subject to SMG’s supervision or control.

### Financial Planning and Consulting Services

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SMG may provide its clients with a broad range of comprehensive financial planning and consulting services. These services include business planning, investments, insurance, retirement, education, estate planning, and tax and cash flow needs of the client. These services may be included as part of SMG’s wealth management services, described below.

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

### Investment Management and Wealth Management Services

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Clients can engage SMG to manage all or a portion of their assets on a discretionary or non-discretionary basis. In addition, SMG may provide clients with wealth management services which generally/may

include a broad range of comprehensive financial planning and consulting services as well as discretionary and/or non-discretionary management of investment portfolios.

SMG primarily allocates clients' investment management assets among *Independent Managers* (as defined below), mutual funds, exchange-traded funds ("ETFs"), and individual debt and equity securities in accordance with the investment objectives of the client. In addition, SMG may recommend that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. SMG also provides advice about any type of investment held in clients' portfolios.

SMG also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, SMG either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

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

Clients are advised to promptly notify SMG if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon SMG's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in SMG's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

### **Use of Independent Managers**

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As mentioned above, SMG recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between SMG or the client and the designated *Independent Managers*. SMG renders services to the client relative to the discretionary and/or non-discretionary recommendation of *Independent Managers*. SMG also monitors and reviews the account performance and the client's investment objectives. SMG receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

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When recommending or selecting an *Independent Manager* for a client, SMG reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that SMG considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, SMG's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by SMG, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to SMG's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than SMG. In such instances, SMG may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

If SMG refers a client to an *Independent Manager* where SMG's compensation is included in the advisory fee charged by such *Independent Manager* and the client engages the *Independent Manager*, SMG is compensated for its services by receipt of a fee to be paid directly by the *Independent Manager* to SMG in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities laws, rules, regulations, or requirements. Any such fee is paid solely from the *Independent Manager's* investment management fee, and does not result in any additional charge to the client.

## Item 5. Fees and Compensation

SMG offers its services on a fee basis, which may include fixed fees, as well as fees based upon assets under management. Additionally, certain of SMG's *Supervised Persons*, in their individual capacities, may offer insurance products under a commission arrangement.

### Financial Planning and Consulting Fees

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SMG may charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$3,000 to \$15,000 on a fixed fee basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services. If the client engages SMG for additional investment advisory services, SMG may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging SMG to provide financial planning and/or consulting services, the client is required to enter into a written agreement with SMG setting forth the terms and conditions of the engagement. Generally, SMG requires one-half of the financial planning and/or consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### Investment Management Fee

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SMG provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by SMG. SMG's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. SMG does not, however, receive any portion of these commissions, fees, and costs. SMG's annual fee is prorated and charged quarterly, in arrears, based upon the market value of the assets being managed by SMG on the last day of the previous quarter. The annual fee varies (between 0.50% and 1.25%) depending upon the market value of the assets under management and the type of investment management services to be rendered.

### Wealth Management Fee

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In addition, SMG may provide wealth management services, which generally include a broad range of comprehensive financial planning and consulting services, as well as discretionary investment management services. SMG charges an annual fee based on the market value of the assets being managed by SMG. As discussed above, SMG's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. SMG does not receive any portion of these commissions, fees, and costs. SMG's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by on the

last day of the previous quarter. The annual fee varies (between 0.50% and 1.50%) depending upon the market value of the assets under management and the type of wealth management services to be rendered.

SMG, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

### **Fees Charged by Financial Institutions**

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As further discussed in response to Item 12 (below), SMG generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. ("*Schwab*") for investment management accounts.

SMG may only implement its investment management recommendations after the client has arranged for and furnished SMG with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Schwab*, any other broker-dealer recommended by SMG, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers* (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), 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. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to SMG's fee.

SMG's *Agreement* and the separate agreement with any *Financial Institutions* may authorize SMG or *Independent Managers* to debit the client's account for the amount of SMG's fee and to directly remit that management fee to SMG or the *Independent Managers*. Any *Financial Institutions* recommended by SMG have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to SMG.

### **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between SMG and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. SMG's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.



Clients may make additions to and withdrawals from their account at any time, subject to SMG's right to terminate an account. Additions may be in cash or securities provided that SMG reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to SMG, subject to the usual and customary securities settlement procedures. However, SMG designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. SMG may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

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

## Item 7. Types of Clients

SMG provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Fee

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As a condition for starting and maintaining a relationship, SMG generally imposes a minimum annual fee of \$7,500. This minimum fee may have the effect of making SMG's service impractical for clients, particularly those with portfolios less than \$250,000 under SMG's management. SMG, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than SMG. In such instances, SMG may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

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

### Methods of Analysis

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SMG's primary methods of analysis are fundamental and technical analysis.

*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. SMG will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that SMG will be able to accurately predict such a reoccurrence.

### Investment Strategies

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SMG maintains three core model strategies, SMG Equity Strategy, SMG Bond Strategy and SMG All Cap Strategy. In addition to these strategies, the use of outside separate account managers and/or outside alternative investment strategies may be incorporated into client portfolios.

#### *SMG Equity Strategy*

This Strategy incorporates a universe of seven open-ended mutual funds and ETFs that are selected based upon broad assets classes and consistency to style of the represented assets class in which the investment is selected. SMG deploys a quantitative approach with a technical overlay in which the inclusion or exclusion of any one or all of the funds must pass. The Strategy is based upon a risk-balancing process to capture growth when the markets are rising and to protect capital in falling markets. As such, the Strategy can be partially or fully invested in cash should certain factors warrant such allocation.

#### *SMG Bond Strategy*

This Strategy incorporates the use of four mutual funds selected based upon diverse areas of the fixed income markets and consistency to style of the represented area of exposure in which the investment is selected. SMG utilizes a quantitative approach with a technical overlay in which the inclusion or exclusion of any one or all of the funds must pass. The Strategy is based upon a risk-balancing process

to capture growth when the markets are rising and to protect capital in falling markets. As such, the Strategy can be partially or fully invested in cash should quantitative factors warrant such allocation.

### *SMG All Cap Strategy*

This Strategy invests in equity securities and ETFs, and includes investments in a broad cross-section of economic and industry sectors. However, at times, the Strategy may be concentrated in issuer and/or sector. Investment selections are based upon an analysis of a company's cash flow, return on equity, book value, revenue and prospects for future earnings growth. A combination of value and growth-oriented screening methods are used to support the Strategy's objective of long-term growth of assets. The Strategy is based upon a risk-balancing process to capture growth when the markets are rising and to protect capital in falling markets. As such, the Strategy can be partially or fully invested in cash should quantitative factors warrant such allocation.

## **Risks of Loss**

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### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

## *Market Risks*

The profitability of a significant portion of SMG's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that SMG will be able to predict those price movements accurately.

## *Use of Independent Managers*

SMG may recommend the use of *Independent Managers* for certain clients. SMG will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, SMG does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

## *Use of Private Collective Investment Vehicles*

SMG may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

## *Management Through Similarly Managed Accounts*

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

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

The *investment strategy* may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to the Registrant's clients may be limited. For example, various mutual funds or insurance companies may limit the ability of the Registrant to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12B (below), SMG allocates investment opportunities among its clients on a fair and equitable basis.

### *General Risk of Loss*

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

### **Item 9. Disciplinary Information**

SMG is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. SMG does not have any required disclosures to this Item.



## Item 10. Other Financial Industry Activities and Affiliations

SMG is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. SMG has described such relationships and arrangements below.

### **Receipt of Insurance Commission**

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Certain of SMG's *Supervised Persons*, in their individual capacities, are also licensed insurance agents with various insurance companies, and in such capacity, may recommend, on a fully-disclosed commission basis, the purchase of certain insurance products. While SMG does not sell such insurance products to its investment advisory clients, SMG does permit its *Supervised Persons*, in their individual capacities as licensed insurance agents, to sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that SMG recommends the purchase of insurance products where SMG's *Supervised Persons* receive insurance commissions or other additional compensation.

## Item 11. Code of Ethics

SMG and persons associated with SMG ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with SMG's policies and procedures.

SMG has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by SMG or any of its associated persons. The *Code of Ethics* also requires that certain of SMG's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

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

When SMG is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when SMG is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact SMG to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, SMG generally recommends that clients utilize the brokerage and clearing services of *Schwab*.

Factors which SMG considers in recommending *Schwab* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab* enables SMG to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. In addition, *Schwab* has agreed to compensate clients for any transfer fees that may be assessed for moving their account(s) to *Schwab*. The commissions and/or transaction fees charged by *Schwab* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by SMG's clients comply with SMG's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where SMG determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. SMG seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

SMG periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

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

Transactions for each client generally will be effected independently, unless SMG decides to purchase or sell the same securities for several clients at approximately the same time. SMG may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among SMG's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among SMG's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that SMG determines to aggregate client orders for the purchase or sale of securities, including securities

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

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

### **Software and Support Provided by Financial Institutions**

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SMG may receive from *Schwab*, without cost to SMG, computer software and related systems support, which allow SMG to better monitor client accounts maintained at *Schwab*. In addition, SMG may receive financial support from *Schwab* to offset the cost of software or other business services. SMG may receive the software and related support without cost because SMG renders investment management services to clients that maintain assets at *Schwab*. The software and related systems support may benefit SMG, but not its clients directly. In fulfilling its duties to its clients, SMG endeavors at all times to put the interests of its clients first. Clients should be aware, however, that SMG's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence SMG's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

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

### Item 13. Review of Accounts

For those clients to whom SMG provides investment management services, SMG monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom SMG provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of SMG’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with SMG and to keep SMG informed of any changes thereto. SMG contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom SMG provides investment advisory services will also receive a report from SMG that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis or as clients may request from time to time. Clients should compare the account statements they receive from their custodian with those they receive from SMG.

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

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

SMG is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, SMG is required to disclose any direct or indirect compensation that it provides for client referrals. SMG does not have any required disclosures to this Item.

### Item 15. Custody

SMG's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize SMG through such *Financial Institution* to debit the client's account for the amount of SMG's fee and to directly remit that management fee to SMG in accordance with applicable custody rules.

The *Financial Institutions* recommended by SMG have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to SMG. In addition, as discussed in Item 13, SMG also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from SMG.



### Item 16. Investment Discretion

SMG may be given the authority to exercise discretion on behalf of clients. SMG is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. SMG is given this authority through a power-of-attorney included in the agreement between SMG and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). SMG takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

## Item 17. Voting Client Securities

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

- SMG has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to SMG's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, SMG devotes an appropriate amount of time and resources to monitor these changes.

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

### **Item 18. Financial Information**

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

## **Spectrum Management Group, Inc.**

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