MERSBERGER FINANCIAL GROUP

MANAGED INVESTMENT MODEL

Terrapin Fixed Income Portfolio

BENCHMARK

Bloomberg Barclays US Universal Index

OBJECTIVE

To provide clients with broad access to domestic fixed income markets.

Investment Strategy

The strategy is a core and satellite portfolio, with the core of the portfolio consisting of a broadly diversified core bond fund and satellite funds being used to provide exposure to various sub asset classes. The strategy is tactically managed with weights to each asset class being reviewed semi-annually to establish target weights for each asset class within preset minimum and maximum constraints.

The strategy is a core and satellite portfolio that provides exposure to broad domestic fixed income markets.

FUND EXPOSURE

The core of the Terrapin Strategy will consist of an actively managed core bond fund to provide exposure to the broad domestic fixed income market.

The strategy will also incorporate **three to five satellite funds** to provide exposure to various sectors of the domestic fixed income market. These sectors include TIPS, United States Treasuries, Investment Grade Corporate Bonds, Preferred Equity Securities and High Yield Corporate Bonds.

The allocation to these sub asset classes will be evaluated **semiannually** based on the current macroeconomic and market environments, with credit spreads dictating the weighting to corporate bonds, high yield bonds and US Treasuries, and the degree of inflation risk dictating the weighting to TIPS securities.

The strategy seeks to **overweight relatively undervalued asset classes** as credit spreads widen and may seek protection through higher treasury allocations when credit spreads do not properly compensate investors for bearing credit risk.

Suitability and Best Interest

RISK TOLERANCE

The portfolio may not be suitable for clients seeking to minimize tracking error relative to the strategy's benchmark, the Bloomberg Barclays US Universal Bond Index, or for clients who do not seek exposure to high yield corporate bonds.

PORTFOLIO ALLOCATION

This portfolio has been designed to be used as the core for most clients' fixed income portfolios. Exceptions may be highly risk-averse clients who may need to further decrease portfolio risk with short duration funds or invest in risk-free CDs and Treasuries, or clients with specific tax constraints limiting their ability to invest in taxable fixed income securities.

Risk Management

Like all fixed income investments, this portfolio carries risk outlined below:

INTEREST RATE RISK

Interest rate risk is present for all fixed income investments and is the risk that the principal value of bonds may decline due to a rise in interest rates. In the context of the Terrapin Portfolio, investors may see a decline in the value of their mutual funds if interest rates rise significantly. The firm seeks to control this risk by managing duration inside the portfolio and not significantly deviating from the average duration of the strategy's benchmark. While this does not eliminate interest rate risk, it should limit the portfolio's tracking error to its benchmark attributable to significant deviations from the market's duration.

CREDIT RISK

Credit risk is the risk of losses inside the portfolio due to deteriorating financial conditions of the issuers of bonds held by the funds in the strategy. This may stem from not only actual company defaults, but also from an increase in probability of defaults. Due to the use of mutual funds within the strategy, the Terrapin Strategy's credit risk exposure is spread widely among thousands of bond issuers, and the impact of a single default or credit deterioration should have a minimal impact the portfolio as a whole. However, if there is a significant rise in the aggregate default rate of corporations or a rise in credit spreads associated with increased probability of defaults, then the portfolio may decline in value as a result. The portfolio's High Yield allocation is particularly susceptible to losses arising from increased credit risk and is capped at a maximum of 15% of the total portfolio.

ACTIVE RISK

Active Risk is the risk that returns may deviate from the benchmark due to active asset allocation decisions by the portfolio manager or through the use of active funds which deviate from their benchmarks. If the portfolio manager over-weighs asset classes which ultimately under perform, then this strategy may under perform its benchmark. If the active managers selected by the strategy's portfolio manager under perform their respective asset classes and benchmarks, then the strategy may also under perform its benchmark.

REINVESTMENT RISK

Reinvestment risk is closely related to interest rate risk and is the risk that as bonds mature or coupons are received, the proceeds are reinvested into a lower interest rate environment than the investor had initially invested in.

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