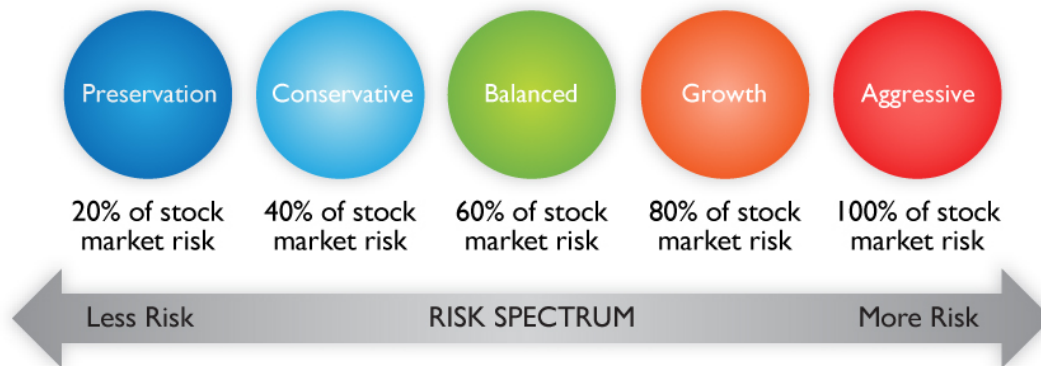


Risk is an inevitable part of the investment process. The good news is that risk can be managed. Beacon Capital Management has developed a process of Risk Optimization that sets a new standard for portfolio design by bringing the relationship between risk and return into sharper focus.

## WHAT IS RISK OPTIMIZATION?

Risk Optimization is a dynamic process centered around the work of Nobel Prize winner William Sharpe. In 1964, Sharpe argued stock market risk is the most important determinant of return. His work estimates 70% of a portfolio's return can be explained by stock market risk accepted.

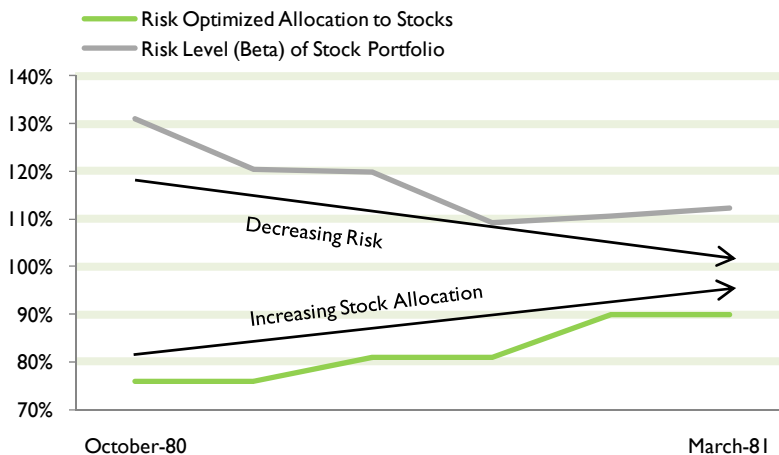
Understanding the importance of stock market risk, Beacon divides the risk spectrum into five distinct portfolios based on the level of stock market risk desired. The risk level of each portfolio is managed to remain consistent throughout the stock markets ups and downs.



## RISK OPTIMIZATION IN ACTION

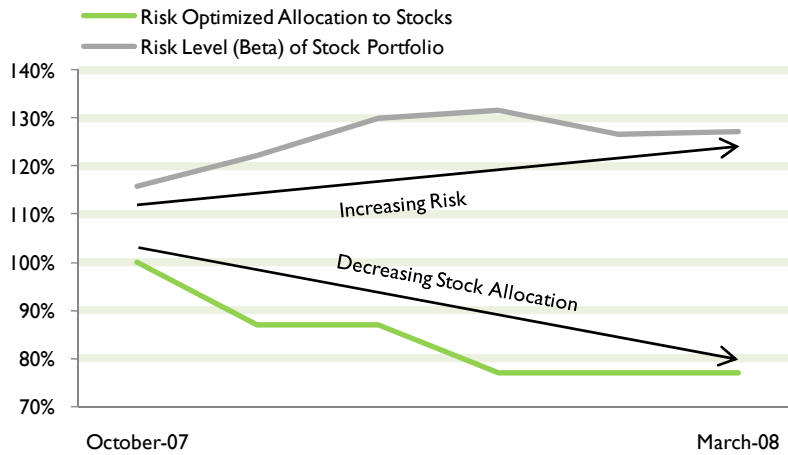
Instead of targeting a specific stock to bond ratio using allocations that never change, Risk Optimization automatically makes adjustments to the stock and bond allocations to maintain a desired level of stock market risk.

### DECREASING RISK



As volatility decreases, Risk Optimization will take advantage of the lower risk by increasing the allocation to stocks.

## INCREASING RISK



As volatility increases, Risk Optimization will account for the added risk by lowering the allocation to stocks.

## ADVANTAGE

A Quantitative Analysis of Investor Behavior study conducted by DALBAR, Inc. in 2008 concluded “market declines cause investors to panic” and sell at the wrong time. Risk Optimization adapts as the market declines and again when the market improves. Although this does not insure against losses, it does provide a sense of focus and confidence on a process that has generated consistent long-term results.

	Static 100% Stock Portfolio	Aggressive Risk Optimized Portfolio (Target 100% of stock market risk)
Return	13.83%	13.19%
Beta	119.00%	100.00%
Worst 1-Year (rolling)	-65.70%	-48.71%
Worst 5-Year (rolling)	-14.01%	-7.21%

### Notes:

All statistics are measured from January 1, 1932 through December 31, 2009.

As with any investment strategy, a review of all disclosures is an integral part of and should be read before investing. Past performance is not predictive of future performance. Please refer to Beacon Capital Management Disclosure page.

The Static 100% Stock Portfolio and the Aggressive Risk Optimized Portfolio are invested in the same stock and bond portfolios. However, the Aggressive Risk Optimized Portfolio changed the percent allocation to the stock and bond portfolios based on the Risk Optimization process. The Static 100% Stock Portfolio maintained a consistent 100% percent allocation to the stock. Each portfolio was rebalanced monthly.

## FREQUENTLY ASKED QUESTIONS

### 1. What is the objective of the Risk Optimization?

The primary objective is to create a series of model strategies that hold risk level constant relative to the stock market across the risk spectrum. Beacon has divided the risk spectrum into five distinct levels as percentage of stock market risk.

1. Preservation – 20% of stock market risk
2. Conservative – 40% of stock market risk
3. Balanced – 60% of stock market risk
4. Growth – 80% of stock market risk
5. Aggressive – 100% of stock market risk

### 2. What is the structure of the Risk Optimization?

The key element of construction is the use of two primary portfolios that represent stocks and bonds. Each portfolio is subdivided into sub-asset-class indexes based on the research of Eugene Fama and Kenneth French. In other words, the stock portfolio has increased exposure to small and value companies. The bond portfolio has limited maturities.

### 3. Why are the stock and bond portfolios equally weighted?

As William Sharpe documented, 70% of performance is determined by stock market risk. Beyond the work of Eugene Fama and Kenneth French there is little evidence that one sub-asset-class delivers consistently better risk-adjusted returns. Therefore, the goal of each primary portfolio is to provide broad and diverse exposure to small and value stocks and bonds with limited maturities.

### 4. Do the stock and bond portfolios change in structure in high risk model strategies as opposed to low risk model strategies?

The underlying structure of the stock and bond portfolios in the high risk index is exactly the same as the low risk index, only the allocation to the stock and bond portfolios changes. Such a structure allows one to simply increase or decrease the systematic risk through allocation to the appropriate stock and/or bond portfolio, thus making the communication of the structure and purpose of the allocations more straightforward.

### 5. How do you adjust the risk of the Risk Optimization model strategies?

By using two primary portfolios representing stocks and bonds as independent securities we can adjust the allocation to the stock and/or bond portfolio to represent a given level of expected risk.

### 6. Do the percentages in the Risk Optimization strategies descriptions and objectives represent the allocation to stocks?

Not exactly, the percentage represents the target percentage of the risk of the stock market and the maximum percentage allowed in the stock portfolio. This construct minimizes the changes in the relationships of each model strategy due to changes in the risk relationship between stocks and bonds. The exact allocation to the stock portfolio is adjusted monthly but it is usually very close to the risk percentage.

### 7. How are the allocation percentages of the primary portfolios determined?

We optimize the risk of a portfolio comprised of two securities represented by the stock and bond portfolios at each given level of risk. The optimization tells us what allocation of the stock and/or bond portfolio to apply to achieve the appropriate level of risk.

### 8. What risk measure is used in Risk Optimization?

The target risk percentage is a percentage of the S&P 500 beta. Beta, as opposed to standard deviation, measures both volatility and correlation. This provides us with a deeper understanding of the relationship between the stock and bond portfolios and the benchmark.

### 9. What historic data period is used for optimization?

We use the most recent 60 months of historic monthly data of the stock and bond portfolios.

### 10. What is the advantage of the Risk Optimization?

Traditional asset allocations call for a static allocation between stocks and bonds. While this approach is superior to market timing, it does not account for the ever-changing relationship between stocks and bonds. Although the relationship of stocks and bonds are connected, the relationship is not always direct and almost never one-to-one. Risk Optimization accounts for these subtle changes in relationship to provide consistency.