EQUITY FUND RESEARCH, LLC

INVESTMENT MANAGEMENT SERVICE

EQUITY FUND RESEARCH provides investment management services to individuals and retirement plans. Client objectives are met through the management of custom portfolios of diversified stock mutual funds and Exchange-Traded funds (ETFs). The investment approach stresses obtaining maximum growth, given client risk limits, by selecting and rotating to funds that our research suggest offer the best return potential for their level of risk. Funds used are those available without loads (sales charge). Regular reports keep clients informed on account progress and portfolio characteristics. The minimum initial account size is $500,000. Fees are based on assets. Equity Fund Research does not provide financial planning services, but will cooperate with a client's planner if requested. Equity Fund Research, LLC is registered with the Commonwealth of Massachusetts, Securities Division.

Benefits of the Service

Potential for Meaningful Real Net Returns

Our objective for clients is a return greater than the market over a five-year market cycle. The realized premium over the long run would be expected to vary mostly according the client's risk ceiling, with aggressive investors likely to expect returns higher than market-risk or conservative investors. Very conservative investors might match market returns, but with less-than-market risk. By being invested in a portfolio of about eight carefully chosen equity mutual funds with flexible investment policies and thematic exchange-traded funds (ETFs), a client should have a reasonable probability of being ready to take advantage of the potential for growth offered by the equity markets. (Herafter "fund" includes borh mutual fnds and ETFs).

The goal of providing a premium return over what might be expected for a given risk posture use two strategies:

> First, we select domestic and foreign-stock funds with flexible investment policies and with a reward/risk profile that is among the highest of funds in its capitalization/stock-selection-style category. Such funds usually gain during rising markets at a rate that is relatively greater than what they experience relative to the market during market declines.
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> Second, we adjust portfolios when our fund rating system suggests upgrading to other funds. During major market declines, this process often means rotation to less risky vehicles, which still have an acceptable rating. If there are not enough suitable funds with a buy/hold rating, that slot is replaced with a money market fund until the universe of buyable funds increases to reveal sufficient buy candidates. Such occurrences are rare.

To select the best funds for any portfolio, we maintain a database of over 150 domestic and international growth funds. Each fund is rated weekly to assess suitability for use in client portfolios. We are always adding new funds with good potential. In-house programming abilities ensure that new ideas for analysis can be researched and implemented quickly.

Systematic Control of Risk

Staying within client stated risk preference is implemented by observing fund risk characteristics based on behavior relative to the market during market declines. Weekly monitoring of client portfolios ensures that client risk limits are not exceeded. The flexibly managed stock funds we utilize by their nature offer diversification beyond what all but very wealthy individuals could expect to obtain through direct stock investing. A client portfolio typically holds about eight funds to minimize negative impact from one disappointing result. Variety of investment style among the selected funds tends to reduce portfolio volatility as well. Also, our emphasis on a high reward/risk profile tends to favor vehicles that are less risky than normally needed to obtain expected gains, and our avoidance of specialized ("sector") funds can further temper swings in value. Finally, to avoid runaway declines in a severe bear market, we follow a strict sell discipline based on trendline analysis.

Getting Started

Understanding Client Objectives

There are several steps in the initial account setup process. First, we learn about client needs in terms of expected growth, tolerance for risk, tax considerations and special needs. In a way, all investors have the same objective: make as much return as possible without taking on more risk than what is comfortable and appropriate. We help clients define growth expectations in a way that will allow us to translate their objectives to a portfolio of appropriate funds.

Each investor has limits on what degree of volatility is acceptable. The most important factor is usually time horizon: the longer an investor has to stay invested, the more variability in portfolio value can be tolerated. Of course, personal preferences and temperament are also factors. Whatever the chosen risk attitude, we translate it to a measure of risk relative to the market that will allow us to build a portfolio with maximum potential for growth given the client's risk preference.

Account Set Up

Client accounts are custodied at Charles Schwab and Company. If the client does not already have an account there, we will assist in conveying assets to Schwab. Clients convey to Equity Fund Research a limited power of attorney to make trades in this account. The clients retains all customary rights for their brokerage account and have access through the Schwab website and telephone representatives specifically to service clients of advisers. The Schwab Fund Marketplace offers an extensive range of no-load and low-load funds, including funds not available to individuals directly, load funds with the load waived, and funds available only for advisors using Schwab. Most funds used are available without a brokerage fee, but when this is necessary the fixed charge is only $20.00 on the buy and sell, regardless of the size of the trade per special arrangement with Schwab for EFR clients.

Portfolio Management and Communication

We perform proprietary statistical analysis of funds monthly to derive a fresh reading of growth potential, risk exposure and reward/risk efficiency. The model for this analysis was developed for our highly rated subscription newsletter *Equity Fund Outlook***,** published from 1988 to 2008. A key element of its market-beating model portfolios was our proprietary reward/risk analysis ("Investment Skill Quotient"), one of several factors to rate funds. We often consult with managers of target funds to inquire more fully about the management approach. We review each portfolio weekly for possible changes. Tax efficiency (little or no fund distributions) and avoidance of short-term capital gains realization are considerations for taxable accounts, for which portfolio turnover is usually less than for tax-advantaged plans.

Mid-quarter we provide clients with an e-memo containing a link to a statement of portfolio holdings showing market values and characteristics of the portfolio such as growth potential, risk exposure and reward/risk ratio. A printed report is also prepared quarterly, providing the above analysis, a cumulative history with comparisons to benchmarks, and commentary.

Clients are free to call to discuss any relevant matter at any time. During the first few months, we may call new clients to discuss how the portfolio is developing. As time goes by, needs can change and we are prepared to listen and make adjustment to strategy as appropriate. Often such concerns come up in an in-person visit or telephone review.

Fees

Equity Fund Research fees are charged quarterly in advance as follows: Base fee: $1,200; plus 0.2% of assets over $500,000 and under $1,000,001; plus 0.15% of assets over $1,000,000. With this structure, an increase in account value always results in fees that are lower as a percentage of the account. Thus the annual fee for a $750,000 account would be .91% of assets, while the annual fee for an account of $1,500,000 would be .79% of assets.

Personnel

Thurman L. Smith, principal of Equity Fund Research, LLC has been managing money for clients using mutual funds since 1981. Previously, he was with Fidelity Investments as a systems analyst, applying twelve years of experience in financial and investment systems development work for Boston banking and investment firms to Fidelity's computerized research efforts. He is author of *Investors CAN Beat Inflation* (1980, McGraw Hill/Tab Books) and editor of *Equity Fund Outlook* (1988-2008). He has been a guest on the Bloomberg TV, and has written articles on fund investing in national magazines. Mr. Smith has taught investing courses at the Boston and Cambridge Centers for Adult Education. He holds a BA in History from the University of North Carolina and an MBA in finance and investments from Babson College.