Merion Capital LLC

Independent Financial Advisors

Officers

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Merion Capital LLC

Investment Handbook

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Introduction

Merion Capital LLC is a registered investment advisor founded in January 2000 to provide investment services to institutional clients and individual investors.

Merion Capital is regulated by state authorities in Michigan, and nationally by the Securities and Exchange Commission under the provisions of the Securities Act of 1933; the Securities Exchange Act of 1934; the Investment Company Act of 1940; and the National Securities Market Improvement Act of 1996.

Our goal is to help our clients achieve their financial goals by providing professional investment advisory services, based upon sound financial and investment principles, unencumbered by inherent conflict of interest faced by traditional providers of financial services.

Recognizing that each client is unique with varied goals and needs, we emphasize:

- The achievement of market rates of return for each client's specific risk profile through the application of the principles of modern finance;
- The integration of investment strategies with actuarial and accounting functions, regulatory compliance, and governance;
- Recognizing strategies/tactics which involve active management and market timing are usually, after fees, detrimental to long-term investor returns;
- Complete transaction transparency, and;
- Minimizing management fees and expenses without sacrificing provider quality.

The number of clients we will accept will be limited in order to provide the highest level of attention and service.

Principals of Merion Capital LLC

Chris C. Ruppel

Chris C. Ruppel is a registered investment advisor with 33 years experience in finance. Mr. Ruppel served as Vice-Chair on pension committees with assets in excess of $1 billion.

Mr. Ruppel retired as Finance Director at Pharmacia Corporation where he managed international equity and fixed income portfolios with assets in excess of $1.6 billion. At Pharmacia Mr. Ruppel also had responsibilities for the financing of subsidiaries in 29 countries in dollars and in local currencies.

Mr. Ruppel has negotiated and implemented major financings in Japan, China, Germany, Puerto Rico, and South Africa as well as several tax-advantaged bond refinancings in the U.S. Mr. Ruppel served as global cash manager for The Upohn Compay for four years.

Affiliations

Merion Capital usually coordinates **individual** client services with Charles Schwab & Co., Inc. Schwab is one of the largest financial service firms in the U.S. Founded in 1971 Schwab provides services for over 7.9 million accounts with assets in excess of $1.65 trillion (Sep2011) throughout more than 350 branch offices.

Schwab offers one of the highest levels of account protection in the industry. The company's financial strength is derived from strict internal controls, highly liquid balance sheet, cash flow and strong capital position. Schwab maintains net capital in excess of SEC requirements.

By using Schwab's innovative services, which are designed to streamline the process of managing our client portfolios, we are able to devote more time to client service and to our investment strategy.

Merion Capital usually coordinates **institutional** client services with State Street Bank and Trust. The availability of State Street as custodian may depend on the size of the client account. Alternative custodial arrangements may be made, but will be held to industry best practices.

Professional Money Managers
Merion Capital works with nationally prominent money managers who devote their resources exclusively to investing client assets in a planned professional manner.

Merion Capital places selected investments with Dimensional Fund Advisors Inc. (DFA), a professional money management firm located in Austin, Texas. DFA manages more than $350 billion in assets. The firm was founded by principals who wanted to apply the principles of academic research on investments and maintains distinguished academics and Nobel laureates on its Board of Directors. Some of the major institutional clients of DFA include Pharmacia Corp., General Motors, IBM, AT&T, Stanford University, and the City/County of Kalamazoo Employees Retirement plans. Merion Capital's relationship with DFA allows our clients to benefit from DFA's investment expertise, particularly in small and value equity asset classes, and allows Merion Capital to control the investment management process in a timely and cost-effective manner.

Merion Capital receives no compensation of any kind from any vendors or suppliers of services. Merion Capital is compensated solely by fees charged to clients.

Clients

Merion Capital LLC advises clients whose investment style is consistent with the philosophy of the firm, principally, the investment of assets for the long term. Long term is taken to mean at least a full market cycle. A market cycle may take from seven to ten years and is the minimum period over which returns from varying investment styles should be evaluated.

Portfolios managed by Merion Capital for its clients are designed to achieve market rates of return with risk characteristics based upon each client's financial position and goals. Merion Capital's approach to investing acknowledges that active asset management and market timing are risky and expensive strategies that rarely meet or exceed market rates of returns.

Merion Capital believes and accepts that past performance may not be indicative of future results. However, historical risk and return measures provide the best estimate of future returns and will be the primary basis for asset allocation recommendations. Since performance of asset classes typically go through market cycles, which take from seven to ten years to complete, a portfolio's performance for shorter time periods may not reflect true long term performance. Even then, past performance does not guarantee future results.

Investment Supervisory Services

Merion Capital works with clients in the development and implementation of an investment program suitable to their investment needs. We assist in the selection of an appropriate portfolio considering various factors including, but not limited to, the following:

- Overall financial goals and investment return objective(s)
- Client age and investment time horizon
- Tax position
- Client tolerance for risk and/or portfolio volatility

Supervisory services include:

- The identification of a universe of asset classes (i.e., domestic equities, international equities, fixed income) and sub-asset classes (i.e., large company, small company, growth, value) in which to invest.
- The implementation of an asset allocation strategy utilizing risk and return measures and the client’s specific risk tolerances.
- Monitoring the asset allocation on both an asset class and an individual investment basis.
- Cost-effective rebalancing the allocation of investments to comply with agreed on investment policy.
- Monitoring the continued suitability of investment managers and the individual products.
- Reporting on the performance of each asset class, each fund and the total investment portfolio.

Fee-Only Investment Management

Merion Capital LLC provides independent, fee-only investment management. Merion does not and will not accept compensation from brokerage firms, banks, mutual funds or insurance companies. Merion has no proprietary interest in any securities or investment products in its recommendations to clients.

As a fee-only manager, Merion avoids conflicts of interest and remains focused on the client's best interest at all times. Because our compensation is generally a percentage of assets managed, we devote our resources to the individualized and on-going management of each client account.

Management Fees
Advisory service fees are based on the market value of assets under management and generally will not exceed 1.0% annually. Fees may be negotiable for larger accounts. As a fee-only advisor, we reserve the right to charge hourly rates or a flat fee for certain investment management services.

Generally, our management fee is billed retrospectively (in arrears) each quarter. Each client receives a quarterly statement showing the amount of management fee due, the account value on which the fee is based and how the fee was calculated. The client can remit payment to Merion Capital upon receipt of the invoice, or the client can authorize Merion Capital to debit the client account for management fees—such debit to occur 3-5 business days after the invoices have been sent by Merion Capital.

Investment Philosophy

Philosophy

Merion Capital's investment philosophy embodies the following principles derived from academic research and the principles of modern finance:

- Securities markets are generally efficient;
- There is a systematic relationship between risk and return;
- Asset allocation is the most important investment decision;
- Active management and market timing are not successful long-term investment strategies, and:
- Fees matter

Asset Class Investing

Academic and industry studies have shown asset allocation to be the most important factor in determining future levels of return. Asset class investing allows us to meet our primary objectives for our clients of optimal diversification at the client's specific risk tolerance.

The classic study by Brinson & Beebower determined that 80% of active money managers, stock pickers and market timers, did not beat the market indices over time. The study also indicated that more than 90% of the variation in portfolio returns can be explained by asset class investing while less than 10% can be explained by attempts at market timing and stock/security selection.

Descriptions of the three major points of the research follow:

- Security Selection
  This strategy attempts to identify and to invest in a limited number of issues, which are expected to provide above average market returns in both the short and long terms. The difficulty is in making the correct selections consistently.

- Market Timing
  Market timers believe they can maximize returns by shifting portfolio investments in and out of the market, or among asset classes, at the right time(s). Again, the problem is consistency.

- Asset Class Investing
  This strategy spreads investments among major asset classes in both equity and fixed income funds, and in sub-asset classes such as large and small companies; domestic and international companies; and value versus growth to gain the highest possible rates of return at the lowest possible risk as measured by the standard deviation.

Merion Capital LLC
Utilization of Short Term Fixed Income

- Short-term fixed income returns have been higher than long term returns for the past 51 years.
- Short-term fund volatility, as measured by standard deviation, has been well below that of longer maturity bonds.
- Short-term fixed income funds have more favorable correlations with both U.S. and international equity funds than long term bonds.

Annualized Return, Standard Deviation & Growth of $1.00
1953 – 2003 (51 years)
Utilizing Short vs. Long Term Fixed Income Reduces Risk

	DFA 5-year Government Fund	Long Term Treasury Bonds	Long Term Corporate Bonds	CPI
Annualized Return	7.30	6.38	6.63	3.87
Standard Deviation	3.75	9.26	8.29	1.11
Growth of $1.00	36.31	23.43	26.42	6.93

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The Structure of Equity (Stock) Returns

- Market Returns. The equity portion of a portfolio will be primarily U.S. equity asset classes determined by the goals and risk profile of the client. The portfolio objective will be to achieve market returns at or below market levels of risk. The primary process for decreasing risk in the portfolio will be diversification within equity asset classes.
- Diversification—International. High returns over the past 25 years have pushed the U.S. equity market capitalization to some $7.7 trillion. This is 47% of the total value of world equity markets. The remaining 53% of the global equity markets are generally used by U.S. investors to diversify their portfolio, i.e. to lower the risk within the total portfolio. Merion Capital takes the position that a U.S. company doing business in a non-U.S. jurisdiction exposes a U.S. dollar denominated portfolio to non-U.S. equity markets to the extent that the U.S. company derives earnings from non-U.S. operations. To add a significant amount of international investments to a portfolio without considering the foreign risk already present in the U.S. names in the portfolio is to overweight non-U.S. risk in the portfolio and is counter-productive to the goal of diversification.
- Diversification – Value versus Growth.
    - Value firms tend to have lower earnings than the median market firm, which is reflected in a share price, which is low relative to the book value of the firm's assets.
    - Shares are purchased at a discount, or, alternatively, with no growth premium.

- Due to lower earnings, the cost of capital for value firms is higher than for the median firm which, in turn, means the value firm is expected to produce higher than median returns.

Annualized Returns, Standard Deviations & Growth of $1.00
1975-2003 (29 years)

Diversification—Value Outperforms Growth

	U.S. Small Cap Funds		U.S. Large Cap Funds		International Funds	
	U.S Micro Cap DFSCX	U.S. Small Cap Value DFSVX	S&P 500 Index	U.S.Large Cap Value DFLVX	EAFE Index	Int'l Large Cap Value DFIVX (1975)
Annualized Return (%)	1889	20.6	13.84	16.2	12.5	17.3
Annual Standard Deviation (%)	21.8	19.4	15.4	17.0	17.2	17.2
Growth of $	151.0	227.7	428.9	75.4	30.4	101.2

Note: The annualized returns depicted above are limited to the fund specified and not to a particular client portfolio. The depiction is for demonstrative purposes only and is not intended to predict future results.

- Diversification—Small versus Large.
  - Small companies grow faster than large companies providing higher rates of return.
  - Small companies have higher volatility than large companies.

Annualized Returns, Standard Deviations & Growth of $1.00
1970-2002 (33 years)

Diversification—Small Outperforms Large

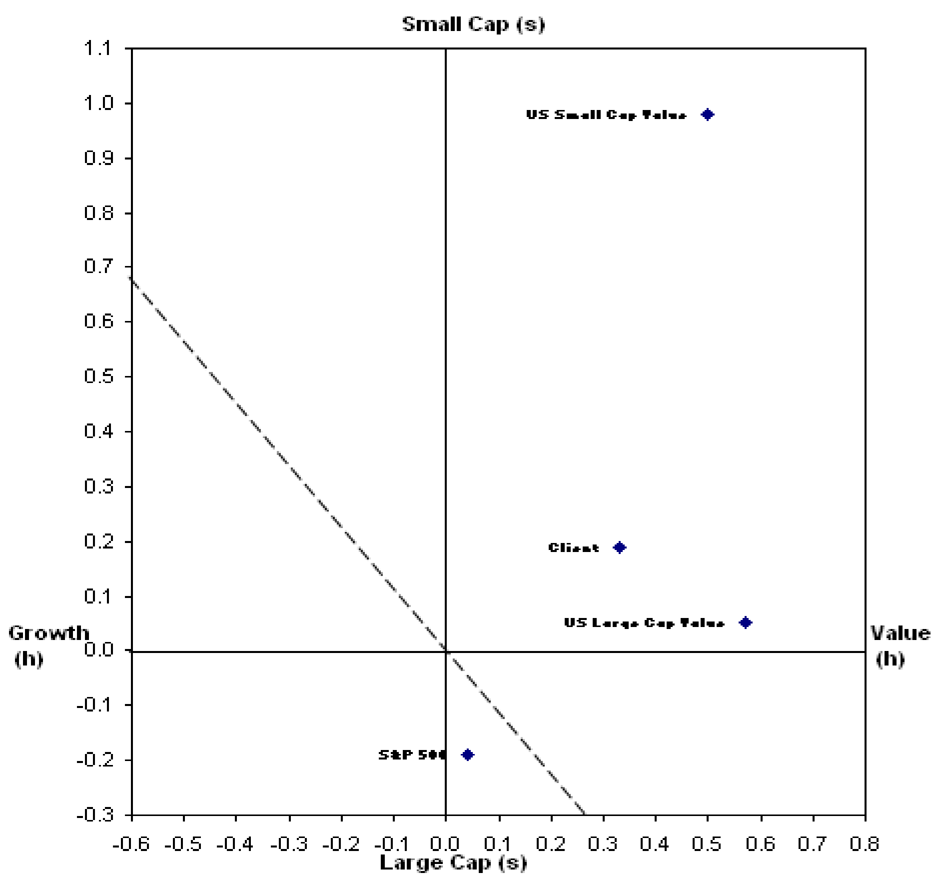
	U.S. Small Cap	S & P 500 Index	Int'l Small Cap	MSCI World
Annualized Return (%)	12.9	11.3	16.1	10.8
Standard Deviation (%)	23	15.7	17.9	16.9
Growth of $	61.7	38.1	161.1	32.8

Note: The annualized returns depicted above are limited to the fund specified and not to a particular client portfolio. The depiction is for demonstrative purposes only and is not intended to predict future results.

The positioning of a client portfolio to benefit from contributions from value and size are depicted in the following graph. Based on the same concept of an efficient market as postulated by Sharpe in 1990, the Fama-French model concluded that three factors—the classic market beta, firm size (market capitalization), and book-to-market (BtM) do the best job of explaining returns. For a client portfolio with a Beta of 1, that is, equal to the market, the Fama-French research indicates additional annual returns can be expected from investment positions in small cap and value equities. In the case below, for illustrative purposes only, the client portfolio should have a return 229 basis points (2.29%) per year in excess of the market.

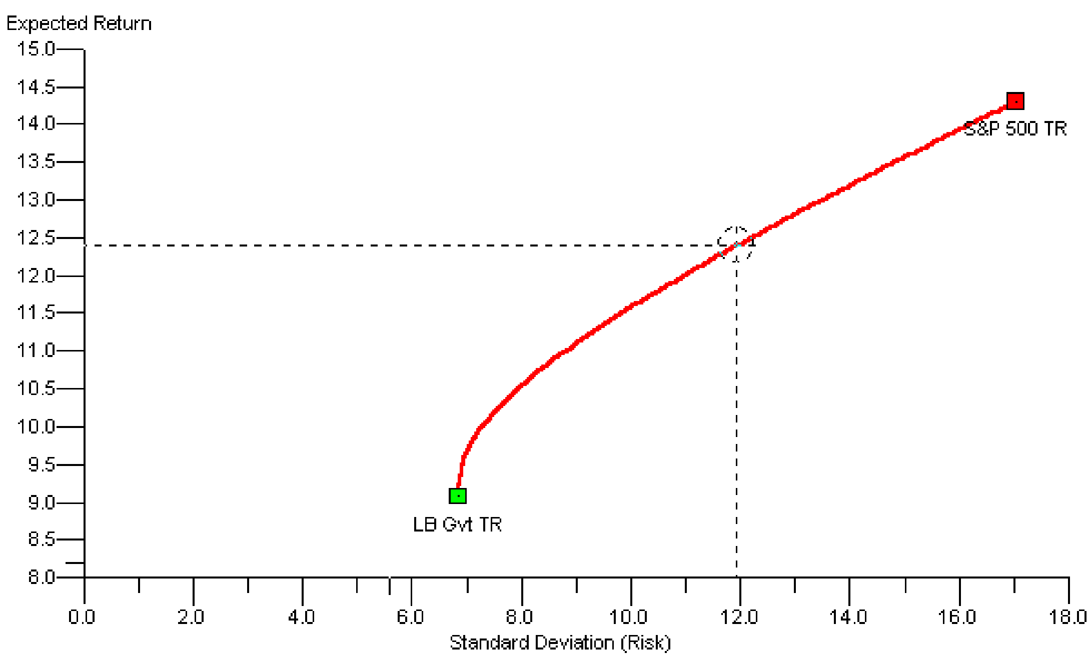
Analysis of Client Equity Portfolio
Fama-French Three Factor Model
Contribution of Value and Size Asset Classes
As of December 31, 2003

The Normal Balanced portfolio (p. 13) has an estimated expected annual return premium over the market of 2.3%



The definition of risk used by Merion Capital is that risk is the uncertainty about future expected returns. Uncertainty is quantified using probability distributions. As long as the probability of an historical return series is more or less symmetrical about the mean, the standard deviation (σ) is considered a proxy for risk. Measures that attempt to take risk into account incorporate both a measure of historic return and a measure of historic variability. Since investment decisions only affect the future, the use of historic results Involves an implicit assumption that the statistics derived from past performance have at least some predictive content for future performance. While measures of historic variability can be useful for predicting future levels of risk, evidence of average or cumulative return are at best imperfect predictors of expected future return. Ultimately, of course, the goal is to use all relevant information to make unbiased forecasts of expected returns, risks, and other relevant characteristics of future performance. Thereafter, these estimates are used to determine an optimal combination of investments in appropriate assets that will provide the highest expected return for a given level of acceptable risk within a client portfolio.

The following chart is an example of a client portfolio. The optimal relationship between risk and return is represented by the line and is known as the efficient frontier. Given the assets in the portfolio, for any chosen level of risk the efficient frontier indicates the optimal expected return. The object of asset allocation among the assets in the portfolio is to get the return of the client portfolio as close to the efficient frontier as possible without increasing risk.



<u>The following sample portfolios are included for illustrative purposes only.</u>

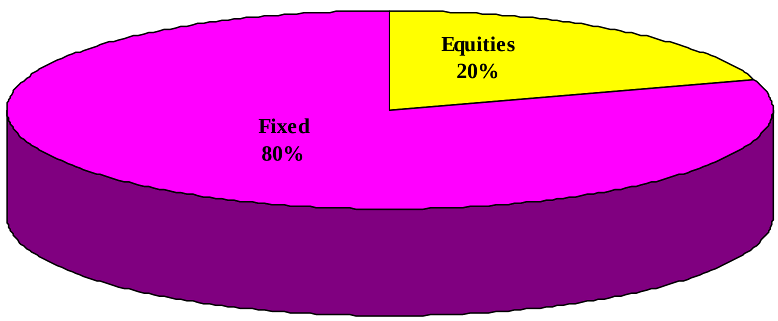
An actual client portfolio will be the result of discussions with the client as to, among other factors, investment objectives, risk profiles, and timing of returns managed by Merion Capital LLC on behalf of the client.

20/80 Portfolio Conservative

A very conservative balanced portfolio is a combination of 20% equities and 80% fixed income. The portfolio offers low risk as measured by low volatility and, subsequently, a relatively low level of potential long term return. The portfolio is most suitable for the elderly, investors that depend on returns from the portfolio for all living expenses, or investors that are highly risk averse. The 20/80 portfolio should be chosen over an all fixed income portfolio because the investor gains substantially higher returns by the inclusion of equities without a significant increase in risk.

Conservative

Annualized Return 1970-2002: 10.1%
Standard Deviation: 7.7%

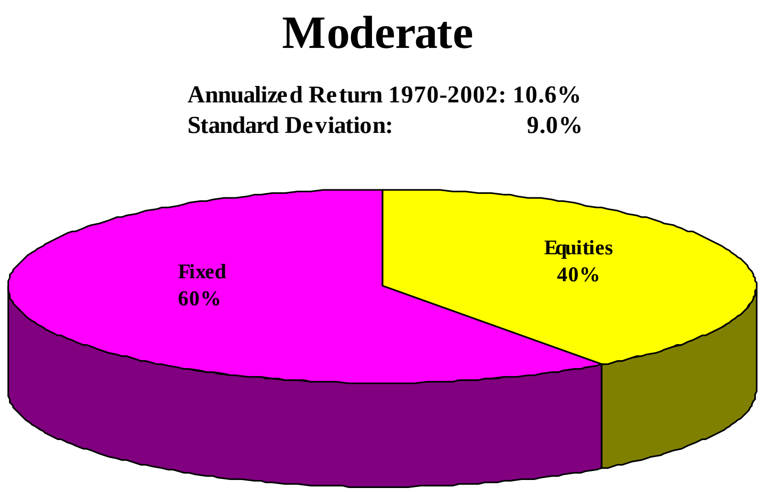


Equity Asset Class		Fixed Income Asset Class	
S&P 500 Index	10	U.S. Long Treasuries	40
U.S. Small Cap	5	U.S. 5 Year Gov'ts	40
U.S. Value	5	Global Fixed	0
International	0	Money Market-U.S.	0
Real Estate	0		
Active/Non-Traditional	0		
Total Equities	**20%**	**Total Fixed Income**	**80%**

Merion Capital reserves the right to make minor changes in the above percentage allocations without prior notice.

40/60 Portfolio Moderate

With the acceptance of a slightly less conservative risk profile relative to a portfolio of U.S. Treasuries, the investor over the last 32 years has realized a 24% increase in the growth of a dollar for a 12% increase in risk as measured by standard deviation. This recognition of the relationship between risk and reward is at the core of the investment philosophy at Merion Capital. Annualized returns over the past 32 years for this **Moderate** portfolio have been triple the rate of inflation with a standard deviation approximately half of that of the S&P 500.



Equity Asset Class		Fixed Income Asset Class	
S&P 500 Index	25	U.S. Long Treasuries	30
U.S. Small Cap	10	U.S. 5 Year Gov'ts	30
U.S. Value	5	Global Fixed	0
International	0	Money Market-U.S.	0
Real Estate	0		
Active/Non-Traditional	0		
Total Equities	**40%**	**Total Fixed Income**	**60%**

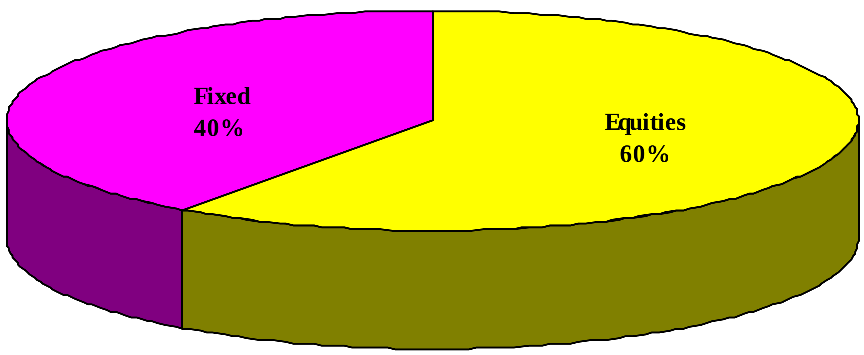
Merion Capital reserves the right to make minor changes in the above percentage allocations without prior notice.

60/40 Portfolio **Normal Balanced**

A common asset allocation for younger or slightly aggressive investors, which may incorporate exposures to international equities and/or U.S. Real Estate Investment Trusts (REITS). International equities and real estate may be included to reduce portfolio volatility relative to a portfolio comprised solely of U.S. equities. The **Normal Balanced** portfolio depicted here increases exposure to size and value in U.S. equities to capture increased return rather than incur international risk. This portfolio has had approximately 70% the volatility of the S&P 500 since 1970 while capturing over all of the return.

Normal Balanced

Annualized Return 1970-2002: 11.3%
Standard Deviation: 11.2%

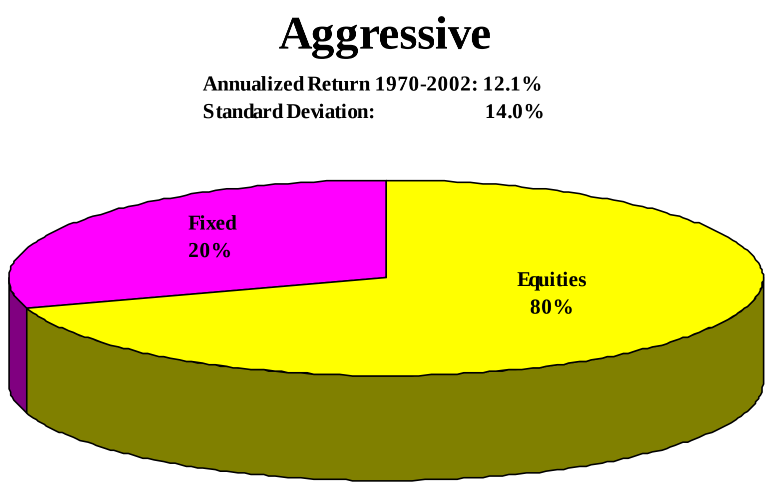


Equity Asset Class		Fixed Income Asset Class	
S&P 500 Index	35	U.S. Long Treasuries	20
U.S. Small Cap	15	U.S. 5 Year Gov'ts	20
U.S. Value	10	Global Fixed	0
International	0	Money Market-U.S.	0
Real Estate	0		
Active/Non-Traditional	0		
Total Equities	**60%**	**Total Fixed Income**	**40%**

Merion Capital reserves the right to make minor changes in the above percentage allocations without prior notice.

80/20 Portfolio Aggressive

This portfolio is recommended for a younger investor with 20+ years to retirement, an older investor with significant assets in excess of lifestyle needs, or an institutional investor willing to incur risk to increase the probability of excess returns. The investor should have a high tolerance to portfolio volatility.



Equity Asset Class		Fixed Income Asset Class	
S&P 500 Index	40	U.S. Long Treasuries	10
U.S. Small Cap	20	U.S. 5 Year Gov'ts	10
U.S. Value	20	Global Fixed	0
International	0	Money Market-U.S.	0
Real Estate	0		
Active/Non-Traditional	0		
Total Equities	**80%**	**Total Fixed Income**	**20%**

Merion Capital reserves the right to make minor changes in the above percentage allocations without prior notice.

Risk and Modern Portfolio Theory (MPT)

In keeping with the commitment of Merion Capital LLC to use published and on-going industry and academic research on behalf of clients, the risk associated with a client portfolio is evaluated using Modern Portfolio Theory. Below is a sample of a typical evaluation of a client position used to determine the effectiveness and risk of a particular investment against a market benchmark.

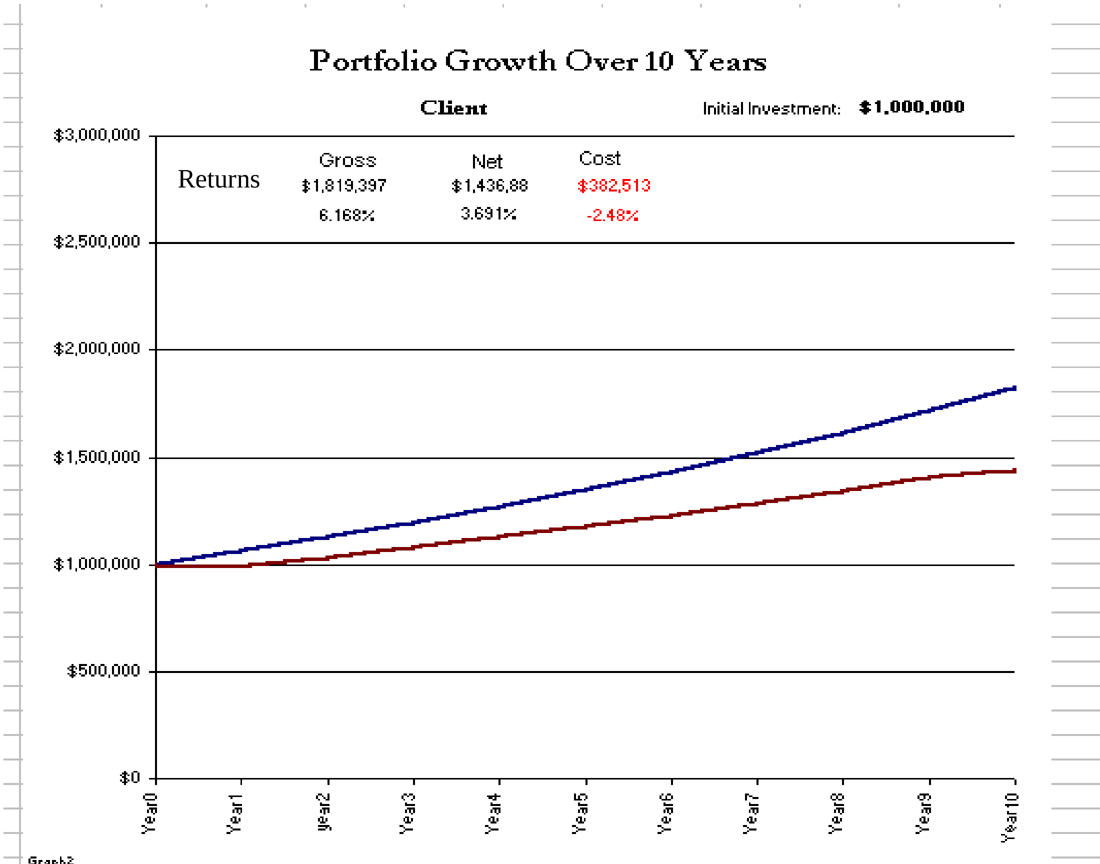
Merion Capital LLC

RISK vs. RETURN ANALYTICS

For the Period:		1-Jan-1998	through	31-Dec-2002	
		Interval:	**5**	Years	
	Client				
Target:	**BGI S&P 500 INDEX KalCo gc (%Total Return)**				
Benchmark:	S&P 500 (%Total Return)				
Risk-Free:	U.S. 30 Day TBill TR (%Total Return)				
					Annualized
RISK INFORMATION					
BGI S&P 500 INDEX KalCo gc (%Total Return)					(0.5100)
S&P 500 (%Total Return)					(0.5100)
	Geometric[Target - Benchmark]				0.0000
	Target STDEV annualized				18.89
	Benchmark STDEV annualized				18.91
	Risk-Free STDEV annualized				0.44657
		Tracking Error			**0.30**
U.S. 30 Day TBill TR (%Total Return)					4.17
RISK STATISTICS					
	Historical Beta				0.998838
	Correlation Coefficient = R				0.999877
	Coeff of Determination = R^2				**0.999754**
	Alpha				**(0.0119)**
	Jensen's Alpha				**(0.0123)**
	Sharpe Ratio				(0.2478)
	Treynor				(4.685)
	Appraisal/Information Ratio				**0.000**
	Sortino				-0.05856
	M-Squared				1.05284

The Effect of Cost on Portfolio Performance

The effect of portfolio costs are often as important, if not more important, as achieving market returns from the invested assets. Merion Capital LLC will make every effort to ensure unnecessary or hidden costs do not reduce the returns on client portfolios. Figures included are indicative, but do not reflect a live portfolio.



Portfolio compounded monthly. Fees and expenses paid quarterly

	Manager Responsibility					Plan Fees		Admin.	Plan Activity	
	Assumed Annual Total Returns	Front End Load	Fund Manager Fees	12b-1 Fees	Exit Charge	Compli-ance	Consult-ant Fees	Admini-stration	Plan Contrib-utions	Plan With-drawals
	Annual	Day1	Annual	Annual	Day Last	Annual	Annual	Annual	Annual	Annual
Year1	6.00%	5.75%	0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year2	6.00%		0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year3	6.00%		0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year4	6.00%		0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year5	6.00%		0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year6	6.00%		0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year7	6.00%		0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year8	6.00%		0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year9	6.00%		0.42%	0.25%		0.15%	0.35%	0.40%	$0	$0
Year10	6.00%		0.42%	0.25%	2.00%	0.15%	0.35%	0.40%	$0	$0

Explanations and Assumptions

The period of analysis used in most comparisons was the period 1973-2010. The period was selected to include the Lehmann Brothers U.S. Treasury benchmark which began in 1973, and to include the recession years of 1973-1974.

Return series reflect total returns, that is, the returns assume immediate reinvestment of dividends and interest.

Returns used in this handbook are gross returns and, therefore, do not reflect transaction costs or taxes. Both transaction costs and taxes are considered for each client on an individual basis.

Prospectus References and Disclosures

Following are the Sources and Descriptions of Data, and the SEC Standardized Data and Disclosures for the mutual funds offered by Dimensional Fund Advisors.

These standard documents are included as representative of disclosures required by state, federal and industry regulators and are to be made available to the client. For whatever funds are proposed for client portfolios, similar information will be furnished to the client before funds are selected for investment.

Although Merion Capital LLC is not an exclusive distributor of funds through Dimensional Fund Advisors, Merion Capital LLC recognizes Dimensional Fund Advisors as one of the premier investment houses in the industry and will often use DFA documentation or procedures as examples of best industry practices.