

LCG

ASSOCIATES

July 1, 2005

To clients and prospective clients:

As you may have seen in the press, the Securities and Exchange Commission (SEC) has recently concluded its investigation of twenty-four investment consulting firms regarding conflicts of interest within their consulting practices. Specifically, the SEC investigated “pay-to-play” schemes in which consulting firms recommended investment managers who also paid the consulting firm fees for a variety of services including conferences, data and/or other marketing-related services. The SEC also examined whether consulting firms financially benefited from recommending managers based in part by the fact they utilized the consulting firm’s brokerage subsidiaries and affiliates to conduct portfolio transactions.

The bottom line: The SEC wanted to determine if these firms had conflicts of interest and if the firms were disclosing such conflicts to their clients.

There are several things you already know about LCG but bear repeating:

First, LCG was not one of the twenty-four firms investigated by the SEC. We were quite pleased to hear the investigation had started and, quite frankly, we thought it was about time a regulatory body investigated such practices.

Second, LCG has never participated in any “pay-to-play” schemes. We do not receive “finder’s fees”, commissions, soft dollars, or rebates from any investment management firm. We do not receive payment from managers to participate in conferences. We do not provide marketing consulting services to investment managers. We do not sell performance data to managers nor do we charge them to have their information in our proprietary database. 100% of our revenue comes from our clients to provide independent investment consulting advice.

Third, LCG has compliance procedures and policies in place to prevent conflicts of interest including a code of ethics, which every employee must read and sign. Furthermore, LCG has a Chief Compliance Officer and an outside compliance consultant. We update (and send to you) our ADV on a regular basis. The LCG Board of Directors monitors compliance at every Board Meeting.

To help plan sponsors better understand whether their investment consultants face potential conflicts of interest, the SEC and the Department of Labor (DOL) developed a set of “ten questions” for reference. We have attached those questions and also provided LCG’s responses for your review.

As a fiduciary to your organization’s assets, we believe the only way to operate is by being objective in reality and appearance. As stated earlier, we believe this investigation was past due and we hope it leads to real reform in our industry. We hope you feel comfortable knowing LCG has none of these issues.

If you have any questions or comments regarding the SEC’s investigation of the investment consultant industry and/or any of our policies, please contact me or any member of your consulting team. We remain committed to providing our clients the best objective advice possible and we appreciate the faith and trust you have placed in LCG.

Very truly yours,



Edward F. Johnson



Responses to SEC/DOL Conflicts of Interest Questions

1. **Are you registered with the SEC or a state securities regulator as an investment adviser? If so, have you provided me with all the disclosures required under those laws (including Part II of Form ADV)?**

Yes, LCG is a registered investment advisor with the SEC under the Investment Advisors Act of 1940 and provides all the required disclosures. Upon being retained, we provide our clients with a copy of our ADV Part II. Also, we annually provide our clients with an updated ADV Part II.

2. **Do you or a related company have relationships with money managers that you recommend, consider for recommendation, or otherwise mention to the plan for our consideration? If so, describe those relationships?**

No, LCG does not have relationships with money managers that we recommend, consider for recommendation, or otherwise mention to the plan for our consideration.

3. **Do you or a related company receive any payments from money managers you recommend, consider for recommendation, or otherwise mention to the plan for our consideration? If so, what is the extent of these payments in relation to your other income (revenue)?**

No, LCG does not receive any payments from money managers we recommend, consider for recommendation or otherwise mention to clients for consideration.

4. **Do you have any policies or procedures to address conflicts of interest or to prevent these payments or relationships from being considered when you provide advice to your clients?**

Yes, LCG has numerous compliance procedures and policies for conflicts of interest. The LCG Board of Directors regularly monitors compliance with these procedures. As a firm, we believe this is the only way to truly provide unbiased, independent investment consulting services. LCG strives to be objective in fact and in appearance. We have the following policies and procedures with appropriate monitoring, follow-up and, if required, penalties:

- **Compliance Manual:** This manual is given to all employees. It serves as a reference to LCG policies and applicable rules and regulations of the SEC, including the avoidance of potential and perceived conflicts of interest.
- **Disciplinary Questionnaire:** This form is completed and signed by all "advisory affiliates" (as defined by the SEC) of LCG Associates, Inc. upon their date of hire and is required to be updated and re-filed annually. This information is used for internal purposes and to accurately complete the Form ADV.
- **Statement of Policy Relating to Securities Transactions:** LCG has policies and procedures designed to prevent employees from misusing material, nonpublic information in connection with the purchase or sale of securities. This policy also prohibits employees from purchasing or selling securities of a LCG client. Broader than required by the SEC, our policy applies to all employees. Every employee must sign an acknowledgement of this policy upon his or her hiring and re-sign the policy periodically.
- **Report of Securities Transactions:** Within ten days after the end of a calendar quarter, each individual covered by the Statement of Policy Relating to Securities Transactions must report whether or not he or she had any reportable transactions. Employees are periodically required to disclose reportable securities. LCG's Compliance Officer is required to report to the Board of Directors at the Board meeting following quarter end stating whether or not all reports were received.
- **Code of Ethics and Business Conduct:** When hired by LCG, all employees are required to read and sign the Code of Ethics and Business Conduct of LCG Associates, Inc. In doing so, all employees agree to abide by our required

standards in providing quality service. Periodically, employees again sign the Code of Ethics and Business Conduct. A violation of the Code is grounds for employee termination. Each employee re-signs periodically.

- **Shareholders Agreement:** LCG's Shareholders Agreement sets policies and guidelines regarding conflicts of interest for owners of the Company. LCG is owned by its consultants.
 - **LCG has a Compliance Officer, John Burgin, CPA, who is also the CFO of LCG:** Mr. Burgin joined LCG in 1982. One of his responsibilities is to ensure that all employees are familiar with the Company's policies and procedures, including those that are designed to eliminate real or perceived conflicts of interest. To complement John's efforts, LCG has retained outside legal counsel to assist with compliance issues, perform periodic reviews of our compliance policies, and review the effectiveness of monitoring procedures.
5. **If you allow plans to pay your consulting fees using the plan's brokerage commissions, do you monitor the amount of commissions paid and alert plans when consulting fees have been paid in full? If not, how can a plan make sure it does not over-pay its consulting fees?**

No, LCG does not allow clients to pay our consulting fees using the plan's brokerage commissions.

6. **If you allow plans to pay your consulting fees using the plan's brokerage commissions, what steps do you take to ensure that the plan receives best execution for its securities trades?**

LCG does not participate in any soft-dollar arrangements.

7. **Do you have any arrangements with broker-dealers under which you or a related company will benefit if money managers place trades for their clients with such broker-dealers?**

No, LCG does not have any arrangements with broker-dealers under which LCG will benefit if money managers place trades for their clients with such broker-dealers.

8. **If you are hired, will you acknowledge in writing that you have a fiduciary obligation as an investment adviser to the plan while providing the consulting services we are seeking?**

Yes, in our contracts with clients, this is commonly referred to as a Letter of Agreement, LCG states that we have and understand our fiduciary relationship.

9. **Do you consider yourself a fiduciary under ERISA with respect to the recommendations you provide the plan?**

Yes, we accept fiduciary responsibility as a registered investment advisor even though we do not have custody or discretion. As a fiduciary, we believe our role is to always act in the best interest of our clients and to avoid conflicts of interest whether real or apparent.

10. **What percentage of your plan clients utilize money managers, investment funds, brokerage services or other service providers from whom you receive fees?**

Zero. As previously mentioned, LCG does not receive any type of fees from money managers, investment funds, or brokerage service providers.

We hereby incorporate by reference our Form ADV Part II, which is available on the SEC's web site and by request.

For more information on selecting and monitoring investment consultants or the SEC's investigation, please refer to the SEC's web site:

<http://www.sec.gov/investor/pubs/sponsortips.htm>