
Analysis Disclosure

This document discloses how the Rainier Group, Inc. (RGI) performs “Monte Carlo” or “Wealth Security” simulations.

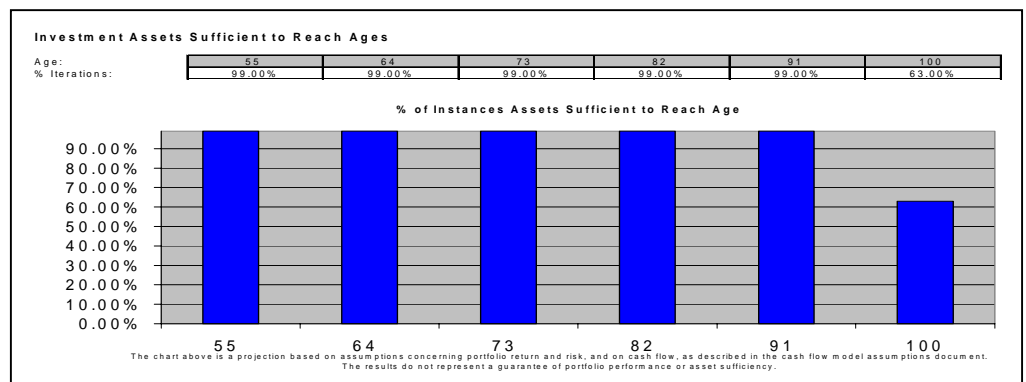
Overview

Simulation refers to an analytical method meant to imitate a real-life system; portfolio returns in this case. Without the aid of simulation, a spreadsheet model shows only a single outcome, generally based on an average return constantly repeated. RGI’s approach uses both a spreadsheet model and simulation to analyze the effect of varying investment returns at multiple points in time.

The simulations or analysis do not represent the past performance of any RGI client’s investments, and the simulations cannot in and of themselves be used to determine which securities to buy or sell, or when to buy or sell them. This is a theoretical discussion of probabilities not an investment forecast.

One type of spreadsheet simulation is the Monte Carlo simulation, which randomly generates values for uncertain variables over and over to simulate a model¹. RGI’s Monte Carlo simulation uses random returns that conform to normal probability distribution based on input mean return and standard deviation for a given asset class’ historical ten year returns.

The simulation calculates multiple scenarios of a model by repeatedly sampling values from the probability distributions for the uncertain variables and using those values for annual investment returns projected over a client’s remaining lifetime. RGI’s simulations can consist of as many trials (or scenarios) as we choose - hundreds or even thousands. During a single trial, the spreadsheet randomly selects a series of values from the defined possibilities (the range and shape of the distribution) for each uncertain variable and then



recalculates the entire spreadsheet. It saves this result to a table, then repeats the cycle using another random number set from within the defined possibilities, and saves that result to the table. At the end of the simulation the table is used to create a histogram (example below) indicating the percentage of instances in which there were positive balances in investment accounts at selected client ages.

¹ For additional info, see sources such as: http://en.wikipedia.org/wiki/Monte_Carlo_method

Data Sources

RGI's wholly owned registered investment advisor RG Investment Advisory, LLC (RGIA) provides the ranges for the uncertain variables used in the simulation, using data produced by Morningstar Principia Pro® and data supplied by RGIA.

Specifically, the following types of data are used in RGI's simulations:

- Average annual portfolio return
- Standard deviation, and
- Percentage of average annual portfolio return that is:
 - Dividend,
 - Interest,
 - The portion of interest that is taxable.

Simulation Types

RGI uses two types of Monte Carlo simulations. These are called Monte Carlo Analysis (MCA), also called Wealth Security Probability Analysis for institutional clients, and Spectrum Analysis (SA).

The MCA is typically applied to the clients' current investment portfolio, while the SA is used to derive alternative portfolios.

Procedure

Monte Carlo Analysis (MCA)

- RGIA compares the client's existing investment holdings to one of 11 Strategic Asset Allocation Models (SAAM's).
- RGIA places investments held by the client into categories, which, in its opinion, most closely match the Morningstar Asset Class Universe Descriptions, recited later in this document. RGIA then determines which SAAM, in its opinion, most closely resembles the clients current portfolio
- The MC analysis is performed using the SAAM's data derived by RGIA as described below.

Spectrum Analysis (SA)

- Without regard to the client's existing investment holdings, a series of MCA's are performed using the data for all 11 SAAM's derived by RGIA as described below

Data Used and Detailed Description of Data Sources

SAAM Data

RGIA creates 11 SAAM's ranging from 100% equities to 100% bonds.

- 100% equities, 0% bonds;
- 90% equities, 10% bonds;
- 80% equities, 20% bonds; and so on through
- 0% equities, 100% bonds.

The allocation to Morningstar's® asset classes within each SAAM is made by RGIA as shown on the following chart (Chart 1).

		Strategic Asset Allocation Models										
		100E/0B	90E/10B	80E/20B	70E/30B	60E/40B	50E/50B	40E/60B	30E/70B	20E/80B	10E/90B	0E/100B
Safety	Money Market (Muni)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
	Money Market (Taxable)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Income	Municipal Bonds	0.0%	3.6%	7.6%	11.6%	15.6%	19.6%	23.6%	27.6%	31.6%	35.6%	39.6%
	Corporate High Quality Bonds	0.0%	3.6%	7.6%	11.6%	15.6%	19.6%	23.6%	27.6%	31.6%	35.6%	39.6%
	Corporate High Yield Bonds	0.0%	0.9%	1.9%	2.9%	3.9%	4.9%	5.9%	6.9%	7.9%	8.9%	9.9%
	Emerging Market Bonds	0.0%	0.9%	1.9%	2.9%	3.9%	4.9%	5.9%	6.9%	7.9%	8.9%	9.9%
		0.0%	9.0%	19.0%	29.0%	39.0%	49.0%	59.0%	69.0%	79.0%	89.0%	99.0%
Growth	Large Cap. Value	20.8%	18.9%	16.8%	14.7%	12.6%	10.5%	8.4%	6.3%	4.2%	2.1%	0.0%
	Large Cap. Growth	20.8%	18.9%	16.8%	14.7%	12.6%	10.5%	8.4%	6.3%	4.2%	2.1%	0.0%
	Mid Cap. Value	8.7%	7.9%	7.0%	6.1%	5.3%	4.4%	3.5%	2.6%	1.8%	0.9%	0.0%
	Mid Cap. Growth	8.7%	7.9%	7.0%	6.1%	5.3%	4.4%	3.5%	2.6%	1.8%	0.9%	0.0%
	International Stock	20.8%	18.9%	16.8%	14.7%	12.6%	10.5%	8.4%	6.3%	4.2%	2.1%	0.0%
		79.7%	72.5%	64.4%	56.4%	48.3%	40.3%	32.2%	24.2%	16.1%	8.1%	0.0%
Aggressive Growth	Small Cap. Value	5.2%	4.7%	4.2%	3.7%	3.2%	2.6%	2.1%	1.6%	1.1%	0.5%	0.0%
	Small Cap. Growth	5.2%	4.7%	4.2%	3.7%	3.2%	2.6%	2.1%	1.6%	1.1%	0.5%	0.0%
	Emerging Market Equity	8.9%	8.1%	7.2%	6.3%	5.4%	4.5%	3.6%	2.7%	1.8%	0.9%	0.0%
		19.3%	17.6%	15.6%	13.7%	11.7%	9.8%	7.8%	5.9%	3.9%	2.0%	0.0%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Chart 1

Direct and Derived Data

The allocation shown in Chart 1 is input to the Morningstar Principia Pro® ("Morningstar®") database as of April 30, 2002 requesting data for the 10-year period ended that day. Morningstar® returns the following information for each SAAM:

- Average annual portfolio return
- Standard deviation, and
- Average annual return for each Morningstar® asset class.

The first two data types (average annual portfolio return and standard deviation) are direct inputs to the MCA or SA. The last data type, the average annual return of each Morningstar asset class, is used to calculate one of three additional factors that impact the MCA or SA.

These three additional inputs to the MCA or SA are derived by

- Estimating the portion of each asset class' annual return that is dividend (as shown on Chart 2),
- Estimating the portion of each asset class' annual return that is interest (as shown on Chart 2),
- Inputting each asset class' annual return from the Morningstar® database, and,
- Estimating the portion of each asset class' interest return that is taxable (as shown on Chart 2),

	Dividend1	Interest2	Return3 &	Taxable4
Safety				
Money Market (Muni)	0.0%	100.0%	2.78%	0.0%
Money Market (Taxable)				
Income				
Municipal Bonds	0.0%	100.0%	5.79%	0.0%
Corporate High Quality Bonds	0.0%	100.0%	6.75%	100.0%
Corporate High Yield Bonds	0.0%	80.0%	6.52%	100.0%
Emerging Market Bonds	0.0%	80.0%	6.88%	100.0%
Growth				
Large Cap. Value	2.3%	0.0%	11.51%	100.0%
Large Cap. Growth	1.0%	0.0%	10.25%	100.0%
Mid Cap. Value	2.3%	0.0%	14.01%	100.0%
Mid Cap. Growth	1.0%	0.0%	12.29%	100.0%
International Stock	2.5%	0.0%	6.69%	100.0%
Aggressive Growth				
Small Cap. Value	2.3%	0.0%	14.94%	100.0%
Small Cap. Growth	1.0%	0.0%	13.31%	100.0%
Emerging Market Equity	1.0%	0.0%	3.88%	100.0%

Chart 2

Additional Information

The rationale for these estimates and for the ten-year period selected is contained in the Appendix A.

SAAM Data Chart

The inputs and allocations used in each MCA and SA are represented in Appendix B.

Formula

In Excel®, the formula into which SAAM data is entered that gives a random number that conforms to a normal distribution is:

Function randNorm(mean As Double, dev As Double) As Double

Application.Volatile

randNorm = 0

For c = 1 To 12

 randNorm = randNorm + Rnd

Next

randNorm = dev * (randNorm - 6) + mean

End Function

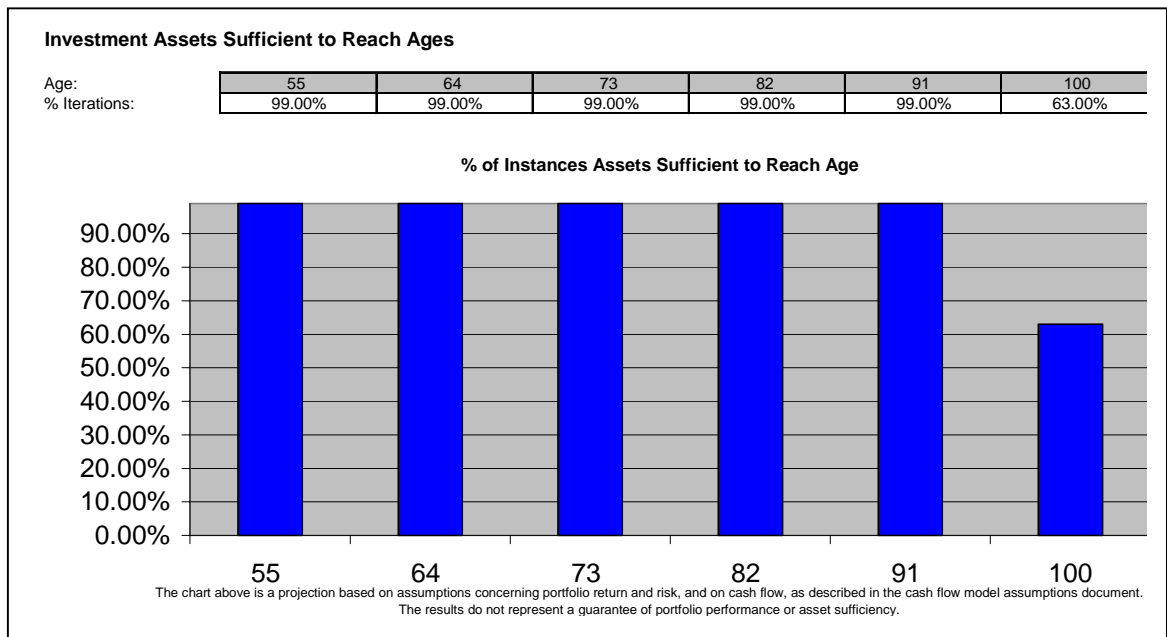
Factors used in addition to the random numbers generated.

RGI's model inserts the applicable percentage of average annual portfolio return that is:

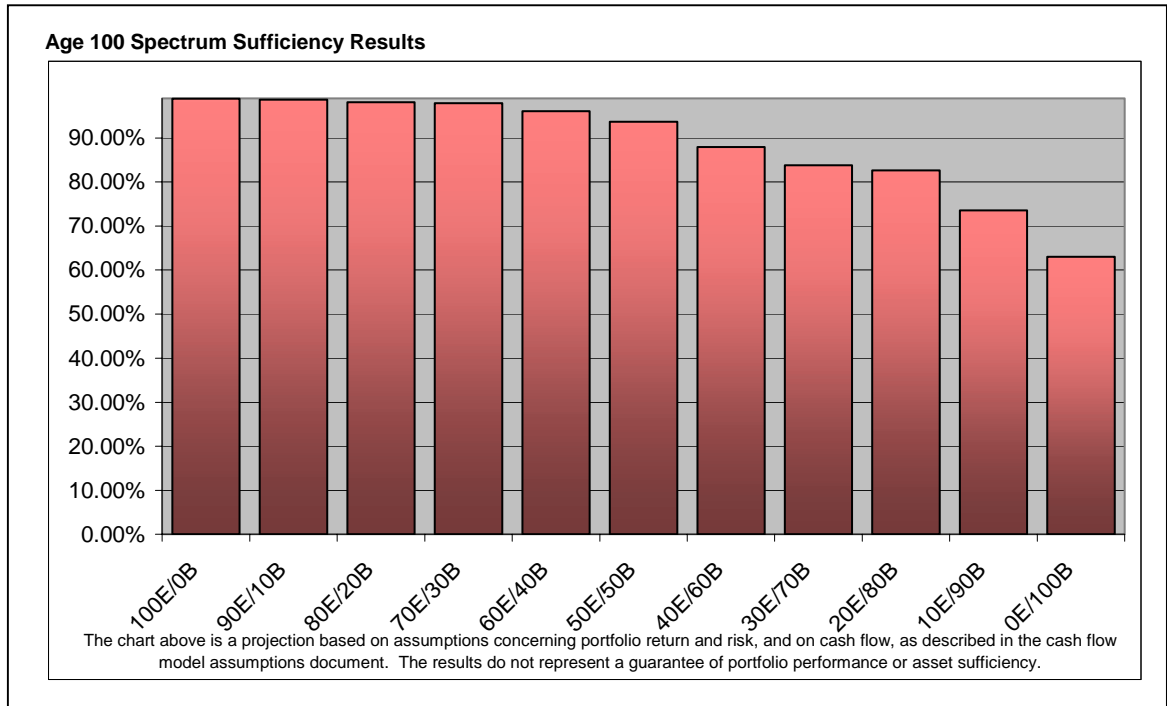
- Dividend,
- Interest,
- The portion of interest that is taxable.

into the spreadsheet as the resulting investment portfolio values are being calculated and counted. The number of times portfolio values are positive at various points in time are stored in a table (aka, "counted") and reported in a histogram.

Sample MCA Histogram



Sample SA Histogram



Histogram Limited to 99%

RGI makes one adjustment when creating the histogram. The percentage of “successful” scenarios is artificially limited to 99%, even where the actual MCA resulted in a positive investment portfolio balance in more than 99% of the simulations. This adjustment is made in an effort to assure no misperceptions that the MCA or SA guarantees success or investment results.

Replicating Simulation Results

This document both describes RGI’s Monte Carlo and Spectrum Analyses and provides data to enable replication. Given the nature of random number generation it will be impossible to exactly replicate any specific simulation. Even if RGI “pushed the button twice”, the specific results of two simulations performed on its own model on the same computer by the same operator using identical inputs would produce distinct outcomes. The nature of this type of analysis is not to exactly replicate results, but to define a likely range of outcome one can expect under the conditions simulated. If RGI’s simulation were to be replicated accurately, one should expect to find a similar range of result, rather than an exact duplication of result.

Appendix A: Rationale for estimates and for the ten-year period selected

Financial Modeling – Supporting Data

Process

Rainier Group Investment Advisory's (RGIA's) Strategic Asset Allocation Models, recast in 2006, serve as the basis of Rainier Group's Financial Modeling projections. While International Small/Mid Cap Equities and Opportunistic Investments are forms of investment that comprise RGIA's Models, they were excluded for Financial Modeling purposes. Morningstar has just recently recognized International Small/Mid Cap Equities as a separate asset class, which means that there is not historical return and standard deviation data available for the 10-year period chosen for measurement. Therefore our weighting to International Small/Mid Cap Equities was allocated into the broader heading of International Stock. Further, Morningstar does not recognize Opportunistic Investments as a separate asset class, since opportunistic forms of investment span many different objectives and risk postures. Subsequently, the weightings given to this excluded asset class was allocated back to the Growth and Aggressive Growth sectors of the Financial Models.

For each Strategic Model, the weightings for each asset class are input into the Morningstar Principia Pro database, along with the selected period for measurement – May 1, 1992 through April 30, 2002. Principia Pro then calculates both an average annualized return and standard deviation for each Strategic Model. These are the return and standard deviation (risk) figures used per model within Rainier Group's Financial Modeling process. The figures are represented by the Principia Pro supporting data attached to this explanatory piece.

Rationale

Model return and standard deviation data is derived from historical data within Morningstar Principia Pro for the 10-year period ending April 30, 2002. This timeframe was chosen as we believe it is most indicative of recent, normalized, full cycles for both the financial markets and the economy, including:

- the 1992 recession, brought on by the first Gulf War
- the “soft landing” of 1994
- the Asian Flu, Long Term Capital Management, and Ruble Crises of 1997-1998
- the Technology-led expansion, and then subsequent recession, of the latter half of the nineties
- the “normalized” market years of 1992 and 1993
- the soft market year of 1994

- the prolonged bull market from 1995 through Q1 2000
- the “normalized” bear market from Q1 2000 through Q1 2002

Additionally, this timeframe was chosen because it **excludes** the “capitulation” period spanning the final 4 months of the 2000-2002 bear market, as well as the low volatility bull market period from 2004 through mid-2007

Further, the data is representative of widely accepted long-term (multi-decade) return patterns for the chosen asset classes.

The portfolios furnished utilize the normalized targets within RGIA’s Strategic Allocation Models as of 9/1/07.

Morningstar Asset Class Universe Descriptions

Municipal Money Market – a universe of managers whose portfolios seek income in short-term municipal money market securities that are often exempt from some federal and state taxes. These funds provide current income and aim to preserve capital.

Intermediate Municipal Bond – a universe of managers whose portfolios seek income in municipality bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes.

Intermediate High Quality Corporate Bond a universe of managers whose portfolios seek income by investing in corporate debt securities rated A or higher. These managers generally maintain average ratings of AA or better.

Corporate High Yield Bond - a universe of managers whose portfolios seek income by investing in bonds rated below BBB in quality. The prices of the inherent issues are generally affected more by the financial condition of the issuing company (similar to a stock) than by the interest rate fluctuation that usually causes bond prices to move up and down.

Emerging Markets Bond - a universe of managers whose portfolios invest in foreign bonds from developing countries, usually with meaningful exposure to bonds from Latin America and Eastern Europe, with lesser exposure to bonds from Africa, the Middle East and Asia .

U.S. Large Cap Value - a universe of managers whose portfolios include stocks with market caps greater than \$10 billion and relatively low prices given anticipated per-share earnings, book value, cash flow, sales and dividends.

U.S. Large Cap Growth - a universe of managers whose portfolios include stocks with market caps greater than \$10 billion that are expected to grow at a faster pace than the overall market as measured by forward earnings, historical earnings, book value, cash flow and sales.

U.S. Mid Cap Value - a universe of managers whose portfolios include stocks with market caps between \$2 billion and \$10 billion and relatively low prices given anticipated per-share earnings, book value, cash flow, sales and dividends.

U.S. Mid Cap Growth - a universe of managers whose portfolios include stocks with market caps between \$2 billion and \$10 billion that are expected to grow at a faster pace than the overall market as measured by forward earnings, historical earnings, book value, cash flow and sales.

International Equities – a universe of managers whose portfolios include stocks that are listed in the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The inherent securities may be large, mid or small cap and from value or growth segments.

U.S. Small Cap Value – a universe of managers whose portfolios include stocks with market caps less than \$2 billion and relatively low prices given anticipated per-share earnings, book value, cash flow, sales and dividends.

U.S. Small Cap Growth – a universe of managers whose portfolios include stocks with market caps less than \$2 billion that are expected to grow at a faster pace than the overall market as measured by forward earnings, historical earnings, book value, cash flow and sales.

Emerging Markets Equities – a universe of managers whose portfolios include stocks that are not listed in: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The securities may be large, mid or small cap and from value or growth segments.

Appendix B: Allocation and SAAM Data Chart

Strategic Asset Allocation Models												Dividend ¹	Interest ²	Return ^{3 & 3a}	Taxable ⁴
	100E/0B	90E/10B	80E/20B	70E/30B	60E/40B	50E/50B	40E/60B	30E/70B	20E/80B	10E/90B	0E/100B				
Safety															
Money Market (Muni)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.0%	100.0%	2.78%	0.0%
Money Market (Taxable)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%				
Income															
Municipal Bonds	0.0%	3.6%	7.6%	11.6%	15.6%	19.6%	23.6%	27.6%	31.6%	35.6%	39.6%	0.0%	100.0%	5.79%	0.0%
Corporate High Quality Bonds	0.0%	3.6%	7.6%	11.6%	15.6%	19.6%	23.6%	27.6%	31.6%	35.6%	39.6%	0.0%	100.0%	6.75%	100.0%
Corporate High Yield Bonds	0.0%	0.9%	1.9%	2.9%	3.9%	4.9%	5.9%	6.9%	7.9%	8.9%	9.9%	0.0%	80.0%	6.52%	100.0%
Emerging Market Bonds	0.0%	0.9%	1.9%	2.9%	3.9%	4.9%	5.9%	6.9%	7.9%	8.9%	9.9%	0.0%	80.0%	6.88%	100.0%
	0.0%	9.0%	19.0%	29.0%	39.0%	49.0%	59.0%	69.0%	79.0%	89.0%	99.0%				
Growth															
Large Cap. Value	20.8%	18.9%	16.8%	14.7%	12.6%	10.5%	8.4%	6.3%	4.2%	2.1%	0.0%	2.3%	0.0%	11.51%	100.0%
Large Cap. Growth	20.8%	18.9%	16.8%	14.7%	12.6%	10.5%	8.4%	6.3%	4.2%	2.1%	0.0%	1.0%	0.0%	10.25%	100.0%
Mid Cap. Value	8.7%	7.9%	7.0%	6.1%	5.3%	4.4%	3.5%	2.6%	1.8%	0.9%	0.0%	2.3%	0.0%	14.01%	100.0%
Mid Cap. Growth	8.7%	7.9%	7.0%	6.1%	5.3%	4.4%	3.5%	2.6%	1.8%	0.9%	0.0%	1.0%	0.0%	12.29%	100.0%
International Stock	20.8%	18.9%	16.8%	14.7%	12.6%	10.5%	8.4%	6.3%	4.2%	2.1%	0.0%	2.5%	0.0%	6.69%	100.0%
	79.7%	72.5%	64.4%	56.4%	48.3%	40.3%	32.2%	24.2%	16.1%	8.1%	0.0%				
Aggressive Growth															
Small Cap. Value	5.2%	4.7%	4.2%	3.7%	3.2%	2.6%	2.1%	1.6%	1.1%	0.5%	0.0%	2.3%	0.0%	14.94%	100.0%
Small Cap. Growth	5.2%	4.7%	4.2%	3.7%	3.2%	2.6%	2.1%	1.6%	1.1%	0.5%	0.0%	1.0%	0.0%	13.31%	100.0%
Emerging Market Equity	8.9%	8.1%	7.2%	6.3%	5.4%	4.5%	3.6%	2.7%	1.8%	0.9%	0.0%	1.0%	0.0%	3.88%	100.0%
	19.3%	17.6%	15.6%	13.7%	11.7%	9.8%	7.8%	5.9%	3.9%	2.0%	0.0%				
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%				
Average Return*:	10.42%	10.17%	9.89%	9.58%	9.26%	8.91%	8.55%	8.17%	7.79%	7.36%	6.93%				
Standard Deviation*:	15.75%	14.43%	13.00%	11.60%	10.24%	8.91%	7.65%	6.48%	5.47%	4.63%	4.14%				
% of Return that is Interest:	0.27%	5.66%	11.98%	18.72%	25.94%	33.79%	42.34%	51.76%	62.10%	74.00%	87.37%				
% of Interest that is Taxable:	0.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%				
% of Return that is Dividend:	19.43%	17.66%	15.70%	13.74%	11.77%	9.81%	7.85%	5.89%	3.92%	1.96%	0.00%				

*Average Return and Standard Deviation calculations are based on the 10 year calculations of the respective category averages for each asset class using Morningstar Principia Pro 4/30/2002 data.

¹ Estimation based on projection future dividend yields

² Estimation of % of return that is interest received versus capital appreciation

³ 10 year return from Morningstar Principia Pro 4/30/02 data disk

^{3a} Emerging Market Debt 5year return from Morningstar Principia Pro 4/30/02 data disk

⁴ Estimation of Interest that is taxable