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Dear Client:

As we continue to learn more about the alleged fraud perpetrated by Bernard Madoff and his firm, Madoff Investment Securities, the list of affected investors seems to grow on a daily basis. In response to questions about whether clients of The Colony Group have been or could be exposed to this fraud, I first want to assure you that The Colony Group and its investment strategies have no exposure to Mr. Madoff or to his firm. I also want to remind you of some of the measures The Colony Group has taken over the past 23 years to protect its investment management clients from this type of fraud.

Independent Custodian. First and foremost, Mr. Madoff allegedly was able to defraud his investors because his firm served not only as the clients' advisor but also as the custodian of their assets. Despite the fact that this practice of serving as both advisor and custodian – with its inherent exposure – remains common for advisory firms, The Colony Group does not serve as custodian for any client assets. Instead, The Colony Group serves as the advisor of assets that are custodied with large, established, and independent companies such as Charles Schwab, Fidelity Investments, T.D. Ameritrade, Smith Barney, A.G. Edwards, Merrill Lynch, and UBS.

When a client engages The Colony Group for discretionary investment management services, the client first signs a limited power of attorney that grants The Colony Group the authority to order trades in the client's account. It does not grant The Colony Group any authority to access the client's funds other than to (1) withdraw prearranged management fees and (2) move funds between the client's own accounts. The trading of securities and movement of funds are effectuated solely by independent brokerages, and assets never pass through The Colony Group. This fundamental separation of the advisory service from the custodial function was one of the distinguishing principles upon which The Colony Group was founded.

Redundant Reporting. Mr. Madoff allegedly prohibited his clients from accessing their accounts electronically, requiring them to rely solely on written statements prepared and provided by his firm. In stark contrast, clients of The Colony Group are provided with redundant reporting from different sources. First, clients can always access their accounts through their independent custodians' websites. In addition, all of our custodians offer clients monthly reports accounting for their holdings and performance. Finally, The Colony Group provides clients its own quarterly holding and performance reports. We also reconcile our client portfolio records with those of the respective custodians on a daily basis.

Independent Audits. Another factor that allegedly enabled Mr. Madoff to defraud his clients was the absence of any real, independent verification of his performance and his clients' holdings. Evidently, he utilized a two-person accounting firm, with only one active accountant, to audit his firm's holdings, even though that firm reported in 1993, in writing, to the American Institute of Certified Public Accountants that it does not conduct audits. By contrast, our clients' holdings at the various custodians are subject to regular audits by public accounting firms.

Transparency. Perhaps the biggest red flag flying over Mr. Madoff and his firm was the fact that no one seemed able to understand his investment philosophy. At least nine years ago, analysts began questioning whether it was even possible to produce the returns alleged by Mr. Madoff.

At The Colony Group, we believe that it is our responsibility to provide clear communication regarding our investment philosophy and its implementation. Moreover, unlike many registered investment advisors, we engage an independent verification firm, ACA Beacon Verification Services, to verify that our performance measurement processes and procedures comply with Global Investment Performance Standards (GIPS®). While we are not required to submit ourselves to this level of scrutiny, we do so as a “best practice,” a philosophy that pervades our company.

At The Colony Group, we maintain a culture of compliance. At many other advisory firms, the role of Chief Compliance Officer is secondary to the officer’s other responsibilities. My primary role is to serve as The Colony Group’s Chief Compliance Officer. I do so with the full support of all of the company’s other officers and directors, and, together, we ensure that our clients’ best interests are always the top priority.

Very truly yours,

A handwritten signature in black ink, appearing to read 'VJ Gratch', written over a horizontal line.

Vincent J. Gratch, JD
Chief Compliance Officer