



M Financial Holdings Incorporated

FOR USE ONLY IN CONNECTION WITH THE M SECURITIES CLIENT ACCOUNT FORM

Disclosure Statement

M Financial Group and its Member Firms

M Financial Group and its subsidiaries provide a variety of support services to a select network of Member Firms. Member Firms (other than M Benefit Solutions, a Member Firm wholly owned by M Financial Group) are independently owned and managed financial service firms, and are not agents of M Financial Group.

At its origin in 1978, M Financial Group, through its Member Firms, was largely oriented toward providing life insurance related services to affluent and corporate markets. As the needs of customers have evolved, so have M Financial Group's operations. Today, Member Firms provide a broad range of financial products and services, primarily to a highly affluent clientele, including:

- Life insurance
- Fixed and variable annuities
- Disability and long-term care insurance
- Employee benefits
- Mutual funds and private investment funds
- Investment advisory services
- Securities brokerage services
- Life settlements with respect to existing insurance contracts

In providing these and other financial services, M Financial Group is recognized as one of the nation's premier financial services distribution networks for the affluent and corporate markets.

Services to Member Firms

M Financial Group does not deal primarily with purchasers or clients. Rather M Financial Group and its subsidiaries provide to Member Firms a variety of support services, including product design and marketing assistance, as well as access to securities-related products and services. M Financial Group does not regularly contact clients of Member Firms. M Financial Group (on behalf of unaffiliated financial service providers) does have direct dealings with Member Firm clients at the request of a Member Firm, typically in conjunction with a Member Firm client presentation or proposal.

M Financial Group and its subsidiaries do not issue insurance policies or financial services products. However, M Financial Re, a subsidiary of M Financial Group, reinsures a portion of the mortality risk on some policies issued by unaffiliated insurance carriers and sold by Member Firms.

Member Firms are free to offer products and services provided by any financial service provider and are not required to offer products or services designed or promoted by M Financial Group.

Proprietary Insurance Products

M Financial Group negotiates with unaffiliated insurance companies on behalf of Member Firms for access to a number of proprietary products that can be offered only by Member Firms and their affiliated producers. Insurance companies design these products with recommendations from M Financial Group, and typically use M Financial Group's proprietary experience data (such as mortality, persistency, and policy size) derived from policies reinsured by M Financial Re. These proprietary products may include pricing advantages and other features that benefit the highly affluent clientele primarily served by Member Firms.

When M Financial Re reinsures proprietary products, M Financial Group has direct access to policy experience data. This direct access facilitates active management of inforce business. With this data, M Financial Group can continuously monitor the service, experience and performance of inforce business on behalf of Member Firms and their clients. From time to time, policy experience data may result in pricing enhancements that apply to new sales. M Financial uses its influence to encourage insurance carriers to apply these improvements to inforce business as well. Since the first M Financial Group proprietary product was introduced in 1996, there have been nine pricing enhancements for new sales, all of which were also applied to inforce policies. Although M Financial Group has had success encouraging insurance carriers to improve inforce policy performance in the past, carriers are not required to do so and accordingly this success may not continue in the future.

Ownership of M Financial Group

Member Firms and many of their affiliated producers are stockholders of M Financial Group. As stockholders, they share in the profits of M Financial Group via periodic stock dividends.

M Financial Group also maintains an Incentive Compensation Plan pursuant to which it annually distributes to Plan participants (e.g. Member Firms or their producers) most of M Financial Group's consolidated net profits. Although distributions under the Plan are, to some extent, averaged among the various Member Firms, lines of business, and cost centers of M Financial Group, a significant portion of Plan distributions are made in proportion to the revenue that a Member Firm generates.

Distributions of dividends and Incentive Compensation to Member Firms or their producers are in addition to compensation paid to producers by unaffiliated insurance carriers and other financial service providers. Many Member Firms remit these distributions to their owners or individual producers (in some cases in proportion to business generated).

Sources of M Financial Group Revenues

M Financial Group derives its consolidated revenues from a variety of sources, which include both its Member Firms and unaffiliated insurance carriers and other financial service providers. The majority of these revenues comes from two sources:

- **"Override" compensation** paid to M Financial Group by insurance carriers and other financial service providers on both proprietary and non-proprietary products. Override compensation is based upon such factors as aggregate policy premiums paid to a carrier from sales by all Member Firms, aggregate assets placed under financial management from sales by all Member Firms, and profits earned and/or services utilized from sales by all Member Firms. The amount of compensation varies among products and carriers.
- **Reinsurance profits** (or, potentially, losses) from the mortality, investment, and persistency risks assumed by M Financial Re on certain proprietary and non-proprietary policies.

M Financial Group derives revenue from other sources as well, including:

- Annual **membership fees** paid by Member Firms to M Financial Group.
- **Solicitation fees, 12b-1 fees, sales and other forms of compensation** paid to M Financial Group or its subsidiaries by financial service providers, including mutual funds and hedge funds that are investment options under variable insurance products sold by Member Firms.
- **Investment advisory fees** with respect to assets invested in the M Funds, a family of proprietary mutual funds that are available as investment options under insurance products.
- **Investment advisory fees** for investment advisory services provided through registered investment advisor subsidiaries of M Financial Group.
- **Brokerage fees or commissions** for securities transactions executed by a registered broker-dealer subsidiary of M Financial Group.
- **Arrangement fees** for life settlements representing a percentage of the compensation paid to the broker arranging the settlement.
- **Administrative and service fees** paid by Member Firms for particular services provided by M Financial Group such as software applications or other services.

Compensation of Member Firms and Producers

The primary source of compensation for Member Firms and their producers is the traditional system of commissions and fees applicable to insurance agents and securities representatives. In addition to the indirect compensation arrangements (described above) which Member Firms and their producers derive from membership in M Financial Group, Member Firms and producers typically receive from unaffiliated financial service providers some or all of the following compensation, as applicable:

- Commissions and other cash and non-cash compensation (sales incentives) paid by the unaffiliated insurance carriers with respect to products offered by the carrier.
- Renewal commissions from unaffiliated carriers for servicing and keeping in force policies previously purchased by clients.
- Commissions and fees for execution of securities transactions.
- Fees for providing investment advisory services.
- Percentage fees for facilitating settlements of existing life insurance contracts.

Compensation to Member Firms and their producers varies, depending upon, among other factors, the product type, the issuer, and the features and/or riders which are attached to the particular product.

Some Member Firms have entered into arrangements under which they receive compensation directly from managers of funds available as investment options under certain private placement variable insurance contracts. Please discuss with your Member Firm representative whether your Member Firm has such an arrangement in place.

Certain Potential Conflicts of Interest

The culture of M Financial Group and its Member Firms is to serve the client. However, clients of Member Firms should be aware that the direct and indirect compensation arrangements described in this summary create economic incentives which could influence recommendations for particular financial products or services (including proprietary products referenced above). These incentives include, but are not limited to, the following:

- Commissions or other compensation in respect of one particular financial service provider, product, investment, or service may exceed commissions or compensation payable in respect of a comparable provider, product, or service.
- Certain policy features or riders may involve commissions or compensation that differ from compensation payable in respect of "base" or standard contractual features.
- Products or services which provide revenue, including override commissions or potential reinsurance profits, to M Financial Group could indirectly provide incentives to producers to recommend such products over similar products or services which do not provide revenue to M Financial Group.

M Financial Group, its Member Firms, and its Member Firms' clients benefit from open discussions concerning all aspects of products, services and the compensation of producers. If you wish, your Member Firm will discuss with you the types of direct and indirect compensation applicable to particular products or services.

For a list of M Financial Group subsidiaries, and the names of financial services providers from which M Financial Group receives payments or fees or with which M Financial Re maintains reinsurance agreements, please go to www.mfin.com/DisclosureStatement.htm.