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Variable Annuity- Tactical Asset Allocation Program: Security Benefit

Investment Goal and Fees: HCM seeks to obtain good returns, over a full market cycle of about 4 years, while controlling risk and volatility. Our management fees are 2.96% and lower, per year-billed quarterly in advance. Fees decrease with asset size and for our incentive-fee program.

HCM's Story: HCM has conducted proprietary market research since 1970 and we have a unique understanding of the equity markets. We try to quantify the character of the markets and manage portfolios of sector and indexes, domestic and international funds, in any type of market. Dr. Harloff is a trained Ph.D. Aerospace Engineer/Scientist and he has developed several new computer programs to implement our strategies. We continuously assess the market character, and seek to invest long, short, or in money market as investment choices permit. We don't use the off-the shelf approaches, that most other money managers use, because they are: in widespread use, empirical and will ultimately fail, and have long time lags that provide late signals. Today we estimate that about 90-95 % of money managers employ the buy-and-hold non-strategy. The remaining 5-10% are active managers, but a large percent of these active managers stay in money markets for long periods of time. HCM is both active and is usually fully invested unless the markets are stressed. Thus HCM's investment style is quite different from most other money managers and no other managers have HCM's new unique investment technology.

Investment Strategy: HCM employs a combination of three to four levels of technology to manage client portfolios in many different programs in our Tactical Portfolio Management Program. The list of funds or indexes in each program is the different feature- the technology employed is similar. This is in contrast to many other money managers with strategies focused on trading one or a few indexes that make up client portfolios. HCM's original technology includes: 1) HCM's proprietary short-term absolute momentum index, HVI, to rank fund and index return and risk, 2) HCM's intermediate term relative momentum index to rank funds and indexes with several different components of the return and risk ranking process, 3) HCM's 2004 newly operational cyclical/trending indicator with overbought resistance and oversold support price levels and risk parameters, and occasionally we employ 4) HCM's proprietary dynamic frontier calculations and HCM's computed statistics to determine optimal return/risk portfolios for both dynamic frontier and market neutral assumptions. These three to four analyses are synthesized to select the best 1-7 funds that make up client portfolios. We believe HCM's depth and original analyses are beyond those of most other investment companies.

Investment Risk: Investment risk is driven by market and sector volatility that makes data analysis and interpretation challenging. We implemented new technology ((3) above in 2004) to help negotiate extended down periods, volatile markets, and choppy flat markets.

Manager Biography: Harloff Inc. was founded in 1981 to do market related research. It registered as an investment advisor in 1994. The founder, Dr. Gary J. Harloff, earned a Ph.D. in Aerospace Engineering and worked in the Aerospace and Energy fields for about 27 years including at NASA for 10 years in aeronautics and propulsion research. He has two patents in turbomachinery. He has managed money since 1990.