

Sentinel Management Group, Inc.

Statement of Financial Condition

December 31, 2005



Altschuler, Melvoin and Glasser LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

Board of Directors of
Sentinel Management Group, Inc.

We have audited the accompanying statement of financial condition of Sentinel Management Group, Inc. as of December 31, 2005. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Sentinel Management Group, Inc. as of December 31, 2005 in conformity with U.S. generally accepted accounting principles.

Altschuler, Melvoin & Glasser LLP

Chicago, Illinois
March 23, 2006

Sentinel Management Group, Inc.
Statement of Financial Condition
December 31, 2005

Assets

Cash	\$ 282,198
Cash in segregation	1,186,017
Securities pledged	282,479,845
Other assets	<u>156,281</u>
Total assets	<u>\$ 284,104,341</u>

Liabilities and Stockholder's Equity

Liabilities	
Short-term bank loan payable	\$ 279,895,000
Loan interest payable	1,343,991
Payable to Parent	58,749
Accounts payable and accrued expenses	<u>749,067</u>
Total liabilities	282,046,807
Stockholder's equity	<u>2,057,534</u>
Total liabilities and stockholder's equity	<u>\$ 284,104,341</u>

Sentinel Management Group, Inc.
Notes to the Statement of Financial Condition
December 31, 2005

Note 1 Nature of Operations and Significant Accounting Policies

Nature of Operations—Sentinel Management Group, Inc. (the "Company"), an Illinois corporation, is a special purpose registered futures commission merchant and registered investment advisor that earns fees for providing investment services. The Company specializes in providing custom cash management services primarily to participants in the futures industry, including futures commission merchants, and public and private trading funds. The Company is a wholly owned subsidiary of Sentinel Investment Group, Inc. (the "Parent"), an Illinois corporation.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Securities—Securities transactions are recorded on trade date. The Company purchases securities for customers and for its own account that are generally held in trust until maturity. As described in the Company's ADV, net investment gains from customers' securities sold before maturity are held in trust for the benefit of customers. Net investment gains from proprietary securities are included in revenue. Securities held in trust and proprietary securities are carried at cost plus accrued interest, net of related unamortized discounts or premiums.

Revenue Recognition—Service fees are recognized when earned and are based upon a percentage of assets under management. Interest income includes interest from investments in securities and amounts charged to customer accounts.

Income Taxes—The Company's taxable income is included in the consolidated tax return of the Parent. The Company computes a provision or benefit for current income taxes, and the resulting payable to or receivable from the Parent, as though the Company files a separate return. Deferred income taxes are recorded to reflect the effects of differences in the recognition of income and expenses for financial reporting and tax reporting purposes, primarily investment gains from customers' securities sold before maturity.

Translation of Foreign Currencies—Assets and liabilities denominated in foreign currencies are translated at year end exchange rates.

Reclassifications—Certain amounts previously reported have been reclassified to conform to the current year's presentation.

Sentinel Management Group, Inc.
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Note 2 Customers' Cash and Securities Segregated and Held in Trust

At December 31, 2005, customers' cash and securities segregated and held in trust at a bank are as follows:

	<u>Stated Value</u>	<u>Market Value</u>
Cash	\$ 85,018,000	\$ 85,018,000
Corporate notes	831,147,691	830,410,747
U.S. Government obligations	15,001,186	14,962,500
Government sponsored enterprises	<u>210,777,504</u>	<u>211,590,944</u>
Total assets	<u>\$ 1,141,944,381</u>	<u>\$ 1,141,982,191</u>

Total assets above include customers' cash and securities that are not reflected in the statement of financial condition, and securities pledged of \$156,765,000 for the short-term bank loan. Also, total assets above are net of \$1,313,785,754 of securities sold under agreements to repurchase.

At December 31, 2005, the aggregate fair value of collateral pledged under repurchase agreements is substantially equal to the aggregate carrying value.

The Company does not guarantee the rate of return to its customers. Additions and redemptions are based on amortized cost rather than market value.

Note 3 Short-Term Bank Loan

The Company has a loan agreement with a bank to meet short-term liquidity needs that bears a floating daily interest rate based upon the bank's stated short-term lending rate plus 3/4 percent (4.875 percent at December 31, 2005). At December 31, 2005, the bank loan of \$279,895,000 was secured by securities pledged.

Note 4 Pension Plan

In 2004, the Company adopted a defined benefit pension plan (the "Plan") covering all eligible employees. The benefits are based on 8.25 percent of a participant's average monthly compensation and the total number of years of service prior to 2004 (up to a maximum of five years) and 1 percent of such participant's average monthly compensation and total number of years of service subsequent to 2003. Contributions from participants are not required under the Plan.

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Note 4 Pension Plan, Continued

Fair value of plan assets at December 31	\$ 208,453
Benefit obligation at December 31	<u>834,713</u>
Funded status	<u>\$ (626,260)</u>
(Accrued) benefit cost recognized in the statement of financial condition	<u>\$ (216,356)</u>
Benefit cost	<u>\$ 81,014</u>
Employer contributions	<u>\$ 208,131</u>

The accumulated benefit obligation for all defined benefit pension plans was \$100,262 at December 31, 2005.

Weighted-average assumptions used to determine benefit obligation at December 31, 2005	
Discount rate	6.0 %
Rate of compensation increase	0.0
Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31, 2005	
Discount rate	6.0 %
Expected return on plan assets	6.0
Rate of compensation increase	0.0

The Company's pension plan weighted-average asset allocations at December 31, 2005 by asset category are as follows:

<u>Asset Category</u>	
Equity securities	46 %
Cash	<u>54</u>
Total	<u>100 %</u>

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2006	\$ -
2007	
2008	
2009	748,370
2010	
Years 2011 - 2015	<u>748,370</u>
	<u>\$ 748,370</u>

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Note 4 Pension Plan, *Continued*

The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by projections of inflation over the long-term period during which benefits are payable to plan participants.

Funding of contributions is based on amounts allowed under the Employee Retirement Income Security Act of 1974 (ERISA) as actuarially determined.

Note 5 Commitments

The Company has entered into an operating lease agreement for office space expiring on December 31, 2008. The minimum rental commitments for office space at December 31, 2005, exclusive of additional payments that may be required for certain increases in taxes and operating costs, are as follows:

2006	\$	48,861
2007		49,918
2008		<u>50,974</u>
Total	\$	<u>149,753</u>

Note 6 Concentration of Credit Risk

The Company enters into various transactions with financial institutions. In the event these counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of these counterparties. It is the Company's policy to monitor the creditworthiness of each counterparty with which it conducts business.

Note 7 Net Capital Requirements

The Company is required to maintain "adjusted net capital" of \$250,000 pursuant to "no-action" letters received from the Commodity Futures Trading Commission and the National Futures Association. Adjusted net capital changes from day to day, but at December 31, 2005, the Company had adjusted net capital of approximately \$1,715,000. The net capital requirements may effectively restrict, among other things, the payment of cash dividends, the making of unsecured loans and the purchase by the Company of its own stock.