# Firm Brochure

**South Texas Money Management, Ltd.**

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This brochure provides information about the qualifications and business practices of South Texas Money Management, Ltd. If you have any questions about the contents of this brochure, please contact our chief compliance officer at (210) 824-8916. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about South Texas Money Management, Ltd. also is available on the SEC's website at www.adviserinfo.sec.gov. The searchable IARD/CRD number for South Texas Money Management, Ltd. is 112188.

South Texas Money Management, Ltd. is a registered with the SEC as an investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Summary of Material Changes

The material changes to this form of brochure since the last brochure dated October 7, 2015, are as follows:

1. The brochure has been updated to reflect approximate assets under management as of December 31, 2015.
2. The brochure has been updated to reflect certain modifications to the Equity, Balanced (stock and bond), Bond Portfolios fee schedule, Wealth Management Platform fee schedule, and the Annuities fee schedule.
3. The brochure has been updated to reflect the delivery of financial planning services to non-advisory clients on a fee per hour basis and the inclusion of a per hour fee schedule.

This is a summary of only the material changes since the last update of the brochure, does not include every change, and is not a complete summary of the contents of this brochure.

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## Advisory Business

Jeanie Wyatt, CFA, founded South Texas Money Management, Ltd. ("STMM," "we," "our," or "us") in December 2000, and is the principal owner of the firm. We are a limited partnership formed under the laws of the state of Texas. A limited partnership is typically controlled by its general partner. Our general partner is a Texas limited liability company named Baruch Management, LLC. Jeanie Wyatt owns and controls Baruch Management and, as a result, controls STMM.

We provide investment advisory services for the types of clients (referred to herein as "clients" or "you") listed in "Types of Clients." Our goal is to provide proper asset allocation and diversification in order to meet the investment objectives of our clients.

Our primary service is providing individualized investment management for our clients. As part of our investment management services, we offer the following services to advisory clients:

*Asset allocation management
*Portfolio management and construction
*Annual investment presentation (upon request)
*Quarterly performance and strategy summary reports
*Annual written analysis of account holdings and performance
*Open communication
*Limited scope financial planning (upon request)

*Investment Management*

We offer discretionary management of client assets. We work with each client to select an asset allocation that is aligned with the client's unique investment objectives and risk tolerance. Two investment advisor representatives are assigned to each client relationship as central points of contact and coordinators for both investment and administrative issues, though clients have access to the appropriate members of our equity and fixed income investment teams to discuss strategy and portfolio implementation and other employees as needed.

Our investment strategies generally include the following:

1) <u>Core Equity Strategy</u>: This strategy features disciplined diversification across value and growth styles and across sectors and market capitalization. By owning both value and growth stocks, our goal is for client accounts to participate in market trends set by both styles. Stocks are generally owned in all sectors with a target limit of 15% in any one sector. Portfolios consist of small-, mid- and large-cap stocks, and are comprised of individual stocks, including international equities (typically through ADRs), and may include mutual funds and exchange traded funds. The goal of this overall

discipline is to reduce volatility over a long-term period and to provide returns that are competitive with the relevant benchmark. For additional information, see "Methods of Analysis, Investment Strategies and Risk of Loss."

2) <u>Fixed Income Strategies</u>: We construct proprietary fixed income strategies for taxable and tax-exempt accounts. We may manage fixed income portfolios on a stand alone basis or as part of the fixed income allocation of a balanced portfolio that combines our core equity strategy with fixed income investments. We invest in high quality, high-rated bonds and seek to maximize total returns while focusing on principal preservation. For additional information, see "Methods of Analysis, Investment Strategies and Risk of Loss."

3) <u>Concentrated Holdings</u>: We may design custom diversification strategies to reduce investment risk for clients with concentrated and low-basis stock.

4) <u>Balanced and Conservative Accounts</u>: The core equity and fixed income strategies are combined in varying allocations to meet the needs and risks of clients.

5) <u>ETF Solution</u>: For smaller accounts or accounts with smaller allocations of equity or fixed income (generally, $125,000 and $150,000 or less, respectively), STMM offers an ETF and bond fund solution designed to match, as closely as practical, the attributes of the equity and fixed income strategies.

6) <u>Small Cap Strategy</u>: For certain qualified investors for whom such investment is suitable and who meet the requirements set forth herein, we manage a small capitalization investment strategy. This strategy focuses on equity positions with capitalization of $200 million to $2.5 billion. For additional information, see "Methods of Analysis, Investment Strategies, and Risk of Loss."

*Wealth Management*

For ultra high-net-worth individuals meeting a minimum relationship size of $20 million, we offer expanded investment management services that include complementary investment strategies of independent outside investment managers ("non-proprietary investment strategies"). In constructing portfolios for wealth management clients, we may select from a wide range of available investment options including our own proprietary investment strategies described above and non-proprietary investment strategies and services to meet the unique needs of each client. In our discretion, we may select external account managers that we believe have expertise in managing a particular asset class that fits within the client's asset allocation strategy. In addition to the fees payable to us, clients are responsible for the fees charged by any external managers that we select (see "Fees and Compensation").

We may recommend our proprietary strategies over other non-proprietary products in the same asset class or vice versa. We may waive the minimum account size in our discretion.

*Financial Planning*

Upon request and at no additional cost, a client may request to have a financial plan prepared by one of our Certified Financial Planning® professionals. If an individual who is not an STMM client wishes to have a financial plan prepared by one of our Certified Financial Planning® professionals, we may, at our discretion, prepare financial plans based on the hourly fee structure provided in the Fees and Compensation section below. Based upon a financial questionnaire and other documentation an individual provides about his or her current financial situation, we prepare a written plan designed to help that individual achieve his or her stated financial goals and objectives. In general, the financial plan may address the following areas of concern: personal cash flow and budgeting, retirement, risk management, investments, educational planning, and insurance. Should an individual choose to implement the recommendations contained in the plan, we suggest that he or she work closely with their attorney, accountant and/or insurance agent. Implementation of financial plan recommendations is entirely at the individual's discretion.

*Non-Investment Advisory Services*

We are the principal owner of STMM Family Office LLC. We may provide directly through STMM or through the family office entity certain non-investment advisory services including the following: client reporting, partnership accounting, bill pay and budgeting, document management and storage, family consulting, business advisory services, family education and governance, philanthropy planning, cash flow planning, wealth transfer planning, consulting, and outsourced solutions.

*Client Tailored Service and Client Imposed Restrictions*

As a discretionary manager, we have the authority to make determinations regarding the purchase and sale of securities for clients. Clients grant us this discretionary authority in our advisory agreement. Based on an assessment of each client's risk tolerance, investment time horizon, investment experience, and other personal financial factors, we establish a mutually accepted asset allocation generally falling into one of the following investment objectives: (i) Core Equities, (ii) Balanced Long-Term Growth, (iii) Conservative, (iv) Fixed Income Oriented, or (v) Small Cap. Clients may impose reasonable restrictions on investing in certain securities or types of securities. Within the selected investment objective and subject to client instructions, we make decisions as to the nature and quantity of securities to be bought and sold.

We provide our investment advisory services to a variety of different types of clients. We make no assurance that all of our clients will participate in investment opportunities identified by us or that they will do so on any particular basis. We will not necessarily acquire for any particular client a position in any investment that any other account may acquire. The nature of transactions, portfolio holdings, timing, and strategy employed for a given client account may differ from those actions taken, or strategies employed, for other of our clients, portfolios or accounts. We may manage each client account independently from all other accounts.

With respect to portfolio transactions, we will allocate, within our reasonable discretion, investment opportunities over a period of time on a fair and equitable basis among our client accounts. In our sole discretion, we may allocate investment opportunities to one or more client accounts, and not to others. Portfolio transactions may or may not be executed simultaneously for all client accounts.

*Wrap Fee & Subadvisory Programs*

We do not participate in any wrap fee programs. Certain of our clients participate in wrap fee programs with another advisor/sponsor, and we may manage all or part of their investments. As such, those managed investments may have trading costs included in the wrap fee. However, we charge our investment management fee directly to those clients and do not fee pursuant to wrap arrangements.

We also manage accounts as a sub-adviser to certain bank trust departments located in Texas. These arrangements are not wrap fee programs in that the fees clients pay to the banks do not include trading fees or commissions. However, like wrap program sponsors, the bank trust departments are responsible for custody of client assets, advising on client goals and investment objectives, and the monitoring of investment performance on client assets. We manage our sub-advised accounts in the same manner as our other accounts. Due to the efficiencies of acting as a sub-adviser to a bank, the fees paid to us in such arrangements may be lower than those assessed to our other advisory clients.

*Assets Under Management*

As of December 31, 2015, we managed total client assets of approximately $2,759,067,034 with approximately $2,742,844,138 managed on a discretionary basis and $16,222,895 managed on a non-discretionary basis.

## Fees and Compensation

The fee schedules for our investment advisory services are as follows:

<u>Account Market Value</u> <u>Annual Fee as a % of Market Value</u>

EQUITY, BALANCED (stock and bond),
BOND PORTFOLIOS
$1,000,000 minimum initial relationship value)
($10,000 minimum annual fee)

First $2 million ………………………………… 1.00%
Next $8 million ………………………………… 0.50%
Over $10 million ………………………………. 0.35%

BOND ONLY PORTFOLIOS
($2,000,000 minimum initial account value)
($8,000 minimum annual fee)

First $2 million …………………………………. 0.40%
$2-10 million …………………………………. 0.25%
Over $10 million ………………………….…….. negotiable

SMALL CAP PORTFOLIOS
($1 million minimum initial account value)
First $10 million ………………………………… 1.00%
Over $10 million ………………………………… 0.50%
Over $20 million ……………………….…….. negotiable

WEALTH MANAGEMENT
($20 million minimum initial relationship value)

First $50 million...…………………………0.35%
Next $50 million…………………………. 0.25%
Over $100 million………………………… 0.15%

ANNUITIES
(STMM does not offer annuities, but in limited instances may provide advice for or manage the investment assets underlying certain annuities)
Total Account Value……………………...0.30%

HOURLY FINANCIAL PLANNING SERVICES
(STMM offers financial planning at no additional charge for clients. STMM may provide financial planning services to non- clients on an hourly charge basis)
Hourly Fee……………………...$250.00

Reductions in fee percentages occur only on the market value above the relevant breakpoint. Depending on a variety of circumstances (e.g. connection to an existing client or prospective client relationship, potential to expand relationship, etc.), alternative fee arrangements may be negotiated from time-to-time, including flat fee arrangements. Upon request and with our written approval, accounts that have a family or business relationship and are subject to our standard equity, balanced and bond fee schedule may be aggregated with each other for purposes of calculating the applicable fee and meeting the annual relationship minimum. Accounts below $50,000 or accounts subject to our discounted bond only or small cap fee schedules are generally not eligible for aggregation with other related accounts for billing purposes. Accounts referred to us through the Schwab referral program generally will need to have the same address in order to be eligible for aggregation.

Since the inception of our business, we have had other fee schedules in effect, which may provide for fees lower or higher than those shown above. Therefore, some of our clients may pay higher or lower fees than our current standard fee schedules.

In order to support our non-profit clients (501(c)(3) qualified entities), we have historically made annual donations to such organizations up to 25% of the management fees collect from the client annually up to a maximum amount of $5,000. We may, at our discretion, continue to make annual donations to some or any non-profit clients in the future under these or other terms.

Fees charged to clients whose assets are in accounts of banks for which we act as a sub-advisor are described in client agreement with the bank or sponsor. Generally, from this fee, the bank pays us for our advisory services to the client. The fee that we receive varies and may be affected by a number of factors including account size.

We offer family office services to select ultra high-net-worth families through an arrangement with our 80% owned subsidiary, STMM Family Office LLC ("STMMFO"). STMMFO offers a variety of family office services tailored to the specific needs of each family. STMMFO does not provide any investment advisory services; however, family office clients may or may not receive investment advisory services, including wealth management platform services, from STMM by entering into a contract directly with STMM. Fees for STMMFO are determined on a client by client basis, depending on the services needed. Fees paid to STMMFO are in addition to those fees paid to STMM.

We may negotiate fee schedules, minimum fees, and account minimums that vary from those discussed above.

*Payment of Fees*

Generally, our fees are payable and assessed monthly in arrears. Some accounts are billed quarterly in arrears. If an account or account relationship does not meet its applicable minimum annual fee, the short-fall may be charged annually. In the event of termination of an advisory agreement, the pro-rated portion of the minimum annual fees may be charged for the period of time the agreement was in place. Our monthly fees are calculated by multiplying the total month-end market value of the account inclusive of stocks, bonds, cash equivalents, mutual funds and all other assets, by the relevant percentage and dividing the product by twelve (12). (If fees are charged quarterly, they are calculated by multiplying the total quarter-end market value of the account inclusive of all assets by the relevant percentage and dividing the product by four (4)). The reduction in percentage fee occurs only on the market value above the breakpoint. Generally, our fees are automatically deducted from client accounts, but clients who request may be billed for our fees.

*Clients Are Responsible for Third Party Fees*

Please note that in addition to the advisory fees discussed in this section, clients are also responsible for the costs of custody, and commissions, mark-ups and other sales charges resulting from transactions in their managed accounts. (See "Brokerage Practices" for a discussion of how we make brokerage decisions that affect client accounts). Fees and expenses charged by mutual funds, exchange traded funds and other funds, and investment managers in which or with whom a client account may invest are in addition to our fees. Such fees are generally disclosed in the prospectus, for a fund; other disclosure document, for another investment manager; and in account set up documents, for a custodian.

There are occasions when we pay a percentage of the fee we receive from accounts that have been referred to us to the person making the referral (a "solicitor"). In such cases, the client will receive a separate written disclosure statement from the solicitor before opening an account with us that will explain, among other things, the nature of our affiliation with the solicitor (if any) and a description of the compensation the solicitor will receive from us. Our policy is that if we pay such referral fees to a solicitor for any account, the fee schedule available to that client's account will be the same as the schedule available to accounts of similar size receiving similar services where no referral fees are paid.

We have agreements with various independent and unaffiliated investment advisers and financial institutions such as banks and broker-dealers. These advisers and financial institutions refer clients to us and/or engage us as a sub-adviser. The total fees and charges (and the timing of payments for such fees and charges) that clients pay with respect to such arrangements may vary depending upon the arrangement between the client and their adviser/consultant and/or the arrangement between such advisers/financial institutions and us and such fees may be higher or lower than those paid by our clients who are not in such arrangements.

If we engage an external manager to manage any assets in a client's account, the client will be responsible for paying all fees charged by the external manager on those assets in addition to any advisory fees charged by us.

A client may terminate our services at any time and for any reason by written notice to us. We may terminate our services at any time upon thirty (30) days' written notice to the client. In the event of termination of our services, a pro-rated portion of the fees will be charged for the period of time the agreement was in place.

## Performance-Based Fees and Side-By-Side Management

This item does not pertain to our business because we do not charge performance-based fees from our clients.

## Types of Clients

We provide investment advisory services for a variety of clients including the following:

*Individuals
*High-Net-Worth Individuals
*Trusts, Estates, Foundations, Endowments and Charitable Organizations
*Bank Trust Departments
*Public and Private Retirement Plans
*Corporations and Partnerships
*Investment Advisory Firms

Our minimum client relationship size is $1,000,000 for most separately managed accounts. Please see “Fees and Compensation” for account and relationship minimums applicable to our various fee schedules and investment options. We may waive the minimum relationship size and/or minimum annual fees under certain circumstances.

## Methods of Analysis, Investment Strategies and Risk of Loss

In building our equity portfolios, we utilize a disciplined investment process supported by quantitative tools for stock selection, portfolio construction and portfolio risk control, as well as fundamental research. For our fixed income portfolios, we employ a disciplined bond selection process utilizing credit ratings reports and other fundamental credit research prepared by third-party independent research providers. We also utilize macroeconomic research performed both internally and by third parties.

*Equity Management*

In building our equity portfolios, we offer what is called a “core” equity strategy. Our core strategy includes two distinct styles: value and growth. The purpose of this style diversification is to participate in all market trends, whether driven by value or growth. Our goal is to ensure that client portfolios have four levels of diversification: value and growth, sector and industry, size of companies (capitalization), and individual stocks.

In order to identify which stocks are good candidates for our portfolio, we have developed two distinct screens that filter through a database of over 11,000 publicly-traded companies. The stocks generated from our value and growth screens are then carefully analyzed to determine whether they would be candidates for our core equity portfolios. Through in-depth research of these candidates, we select the portfolio's holdings. Based on a variety of factors, we may also purchase stocks for client portfolios that are not identified through our screening process.

*Value Screen*: Our value screen is designed to identify stocks that are trading at a low price to cash flow multiple, but have stabilized the business weakness that led to the low valuation. We also consider these stocks' (1) relative P/E to the S&P 500, (2) balance sheet quality, and (3) margins and cash flow, which must not be deteriorating.

*Growth Screen*: The purpose of our growth screen is to identify stocks with accelerating earnings and revenue growth rates.

Equity investments generally may include stocks, real estate investment trusts, publicly-traded limited partnerships/trusts, exchange traded funds, initial public offerings, mutual or common funds and ADRs. Unless otherwise directed by the client, we typically utilize only exchange traded funds and/or mutual funds for smaller accounts having an equity allocation of less than $125,000 (these accounts are usually part of a larger client relationship).

*Fixed Income Management*

If fixed income investments are appropriate, we will use issuers, rated A or better, with an emphasis on diversification. Maturity management will be based on the current shape of the yield curve and the past 12-month trends in the yield curve. High-grade intermediate benchmarks are most appropriate for performance comparisons.

*Tax-Exempt Fixed-Income.* Our tax-exempt fixed income portfolios will be diversified across various issuer types, for example, general obligation, revenue, city, county, school district, etc. Fixed income portfolios will generally have an average credit quality of AA or better. Insured municipal bonds will also have an underlying issuer rating of A or better. Maturities will be limited to a maximum maturity of 15 years. Fixed income portfolio duration will typically be within +/- 25% of the duration of the Barclays 1- to 10-year Municipal Blend Index. Tax-Exempt portfolios will typically be "buy and hold," with the total return strategies employed only when market conditions warrant substantial strategy shifts.

*Taxable Bonds.* For those accounts not sensitive to taxes, we offer a taxable bond portfolio. This portfolio typically consists of a combination of U.S. Treasuries, Government Sponsored Enterprises (a.k.a., "Agency Debt"), corporate bonds, taxable municipal bonds, Certificates of Deposit and Mortgage Backed Securities. The corporate bonds are typically high quality with ratings between A and AAA. Taxable Fixed Income portfolios will generally have an average credit quality of AA or better. Duration of the portfolio will typically be within +/- 25% of the duration of the Barclays Intermediate Government/Credit Index. Because the taxable bond market is more dynamic than the tax-free bond market, a more active management and trading strategy will be employed when market conditions warrant, but "buy and hold" is also generally favored for taxable bond portfolios, when appropriate.

Unless otherwise directed by the client, we typically utilize bond mutual funds or exchange traded funds instead of individual bonds for smaller accounts having a fixed income allocation of less than $150,000.

*Cash Management and ETFs*

Each client custodian generally "sweeps" non-invested cash balances in client accounts into a money market or some other cash account selected by the client and offered as a service by the custodian. Unless the client requests otherwise, we will generally recommend the government money market fund offered by the custodian. Money market funds are neither insured nor guaranteed by the FDIC or any other government agency.

*Small Cap Strategy*

In managing our Small Cap Strategy, we look for small capitalization equity securities that are either trading at a steep discount to their private-market values or exhibiting accelerating revenue growth rates. We look for stocks with substantial market share, or unique market niches, in industries with high barriers to entry. For stocks that are trading at discounts to their private-market values, we look for companies that generate substantial cash flows and have a catalyst present to unlock value. We anticipate that more than 60% of the portfolio holdings will be purchased under the private-market value criteria. For stocks that are experiencing accelerating revenues, we look for management teams are extremely innovative and very nimble. We seek to identify companies with sound balance sheets whose revenues are expected to accelerate over the next year.

*Wealth Management Platform*

For clients on our wealth management platform, we begin by evaluating the client's existing assets. We work with underlying managers to gain investment transparency down to the security level whenever possible. We then identify security, sector, market capitalization, and geographical concentration in the portfolio. We review an initial report with our client comparing their assets with their objectives, return requirements, and risk tolerance. We conduct due diligence on any existing investment managers utilized by a given client and confirm that they are appropriate for the wealth management platform. We conduct ongoing reviews of performance and due diligence for prospective managers to be added or omitted from the platform. While we have discretion to make asset allocation and manager changes, any recommendations for such changes to asset allocations or manager selections are discussed with the client. In addition, we perform ongoing portfolio monitoring, periodic rebalancing, and quarterly client reporting.

*Material Risks Involved*

The biggest risk is that by investing in securities, investors could lose money. Our investment process is designed for long-term investors generally seeking an equity portfolio, a bond portfolio or a balanced portfolio combining equities and bonds. Common stocks tend to be more volatile than many other investment choices.

Market Risk. The value of the client's portfolio may decrease if the value of an individual company or multiple companies in the portfolio decreases or if our belief about a company's intrinsic worth is incorrect. Further, regardless of how well individual companies perform, the value of the client's portfolio could also decrease if there are deteriorating economic or market conditions. It is important to understand that the value of the client's investment may fall, sometimes sharply, in response to changes in the market or because of specific investment selections made by us, and the client could lose money. Investment risks include price risk as may be observed by a drop in a security's price due to company specific events (e.g. earnings disappointment or downgrade in the rating of a bond) or general market risk (e.g. such as a "bear" market when stock values fall in general). For fixed-income securities, a period of rising interest rates could erode the value of a bond since bond values generally fall as bond yields go up. Furthermore, past performance is not necessarily indicative of and cannot be a guarantee of future returns.

*Risks of Specific Securities Utilized*

Value Investing Risk. Because different types of stocks tend to shift in and out of favor depending on market and economic conditions, "value" stocks may perform differently than other types of stocks and from the market as a whole, and can continue to be undervalued by the market for extended periods of time. It is also possible that a value stock will never appreciate to the extent expected.

Growth Securities Risk. Securities of companies perceived to be "growth" companies may be more volatile than other stocks and may involve special risks. The price of a "growth" security may be impacted if the company does not realize its anticipated potential or if there is a shift in the market to favor other types of securities.

Mid-Sized Companies Risk. Investments in securities issued by mid-sized companies may involve greater risks than are customarily associated with larger, more established companies. Securities issued by mid-sized companies tend to be more volatile than securities issued by larger or more established companies and may underperform as compared to the securities of larger companies.

Small-Sized Companies Risk. Investments in securities issued by small-sized companies, which tend to be smaller, start-up companies offering emerging products or services, may involve greater risks than are customarily associated with larger, more established companies. Securities issued by small-sized companies tend to be more volatile and somewhat more speculative than securities issued by larger or more established companies and may underperform as compared to the securities of larger companies. Small cap companies may also have less liquidity than larger companies, which may present challenges in purchasing or disposing of such securities as rapidly as we, or the client, would like.

Foreign Exposure Risk. We may have exposure to foreign markets, including emerging markets, which can be more volatile than the U.S. markets. As a result, returns and net asset value may be affected to a large degree by fluctuations in currency exchange rates or political or economic conditions in a particular country. Any investments in emerging market countries may involve risks greater than, or in addition to, the risks of investing in more developed countries.

Fixed Income Securities Risk. Typically, the values of fixed-income securities change inversely with prevailing interest rates. Therefore, a fundamental risk of fixed-income securities is interest rate risk, which is the risk that their value will generally decline as prevailing interest rates rise, which may cause a client's account value to likewise decrease, and vice versa. How specific fixed income securities may react to changes in interest rates will depend on the specific characteristics of each security. Fixed-income securities are also subject to credit risk, reinvestment risk, valuation risk, and liquidity risk. Credit risk is the chance that a bond issuer will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of a bond to decline. Reinvestment risk is the risk that an investor has either all or a portion of their principal returned prior to maturity through optional redemptions, such as calls or prepayments. Typically, issuers call or prepay bonds when interest rates are lower and the investor is forced to reinvest the proceeds at prevailing lower interest rates. Liquidity risk is the risk that if a bond is sold prior to maturity, the market conditions may not be favorable at that time and the bond may sell at less than the expected market value.

Money Market Risk. An investment in a money market fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of the investment at $1.00 per share, it is possible to lose money by investing in a money market fund.

Manager Risk. There is always the possibility that poor security selection will cause a client's investments to underperform relative to benchmarks or other investment options with a similar investment objective. The investments comprising the client's portfolio are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. There is a risk of loss.

*Internal Risks*

Internal Controls and Employee Misconduct. STMM has adopted supervisory guidelines and other controls with the intention of detecting and preventing unauthorized trading and other misconduct and violations of law by employees of STMM. There can be no assurance, however, that such procedures and controls will be effective. Any violation of such procedures and controls, including acts of fraud and dishonesty by employees or agents of STMM, could result in material losses to our clients.

Systems and Facilities Risks. STMM relies on computer programs, systems and other resources to evaluate securities, other investments, and, when applicable, other managers. Although we have attempted to develop appropriate contingency plans, there can be no assurance that such plans will be effective. For example, a natural catastrophe or terrorist incident could temporarily or permanently interfere with the availability or efficient functioning of such resources. Any defect or failure in our computer programs or systems or any interruption in our access to our facilities, however brief, could have a material adverse effect on a client's investments.

Reliance on STMM and Certain Principals. The success and profitability of any client account will be dependent upon the ability of STMM and its principals and employees. Jeanie Wyatt, as CEO and CIO, leads the investment team responsible for investment management and other services provided to client accounts. Leah Bennett, Co-CIO, leads the team responsible for investment management of the small cap strategy. If Jeanie Wyatt, Leah Bennett, or other key members of the team cease to be actively involved, directly or indirectly, in the management of client accounts, the performance of client accounts may be materially adversely affected. There is no prohibition preventing members of STMM's team from terminating their relationship with STMM. STMM's success on behalf of client accounts also will depend on its ability to attract and retain key employees. Any deterioration in STMM's net income or prospects, which could be expected to follow from investment losses and a reduction in assets under management, will make it more difficult for it to retain key personnel (including partners and employees) and could have a material adverse effect on client accounts.

Conflicts of Interest. Various actual and potential conflicts of interest exist between STMM and its clients, including actual and potential conflicts of interest related to fees, portfolio composition and valuation, selection of various service providers, treatment of other clients, limitation of liability, indemnification, allocation of opportunities and transactions between clients of STMM, and outside business activities. STMM and its affiliates may face other actual or potential conflicts of interest in addition to those set forth herein.

STMM generally attempts to handle these and other conflicts of interest in a manner that it deems to be fair and equitable under the circumstances, but there can be no assurance that it will be successful in this attempt, and the result in any particular case may be materially disadvantageous to a particular client. STMM has adopted and implemented a Code of Ethics, which sets forth standards of business conduct expected from its employees. The Code of Ethics reflects the principle that all employees of STMM owe an overarching fiduciary duty of care, loyalty, honesty and good faith to clients. A copy of the Code of Ethics is available to clients upon request.

*Wealth Management Platform Risks. (The following risks are only applicable to clients investing through the wealth management platform as described herein.)*

Lack of Management Control by STMM and Wealth Management Platform Clients. STMM does not expect that clients on the wealth management platform will typically have the right to participate in the management, control, or operation of any underlying investments in funds or to remove the manager thereof. STMM also may not have the opportunity to evaluate the relevant economic, financial, and other information that will be utilized by the underlying managers in their selection, structuring, monitoring, and disposition of any investments such managers make. Such lack of management control may cause the overall return on investments realized by a wealth management client to be less than if the client or STMM had greater management control over the underlying fund investments or their managers.

Potential for Fraud. In spite of STMM's efforts to invest wealth management platform clients in reputable and trustworthy underlying investments, there is a risk that those underlying investment managers may engage in fraud. As recent ponzi schemes have shown, instances of fraud can be particularly difficult to detect and prevent. To the extent that a wealth management client invests in an underlying investment that engages in fraud, the wealth management platform client could lose all or a substantial portion of its investment in such underlying investment and it could have a material adverse effect on the client's investment performance.

Illiquidity of Underlying Investments. Investments by wealth management platform clients in underlying investments may be illiquid or have restricted withdrawal rights and may not provide current income. Investments in underlying private investment funds are likely to be restricted, at any given time, as to their transferability under U.S. securities laws.

Lack of Transparency. The level of transparency of the investments made by any underlying manager is often determined by that manager. While STMM works with underlying managers to gain as much transparency as possible, limitations on information or the timelines of such information may affect the recommendations made by STMM to its wealth management platform clients.

## Disciplinary Information

This item does not pertain to our business as there are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

## Other Financial Industry Activities and Affiliations

Neither we nor our management is engaged in any securities-related business other than providing investment advice.

If we select a third-party manager to manage client assets, we do not receive any compensation from the third party manager. However, we will bill the client pursuant to the applicable fee schedule (see "Fees and Compensation") for the service of selecting and monitoring the third party manager. The client will be responsible for the payment of our fees as well as the fees of any third party manager.

## Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Our Code of Ethics is structured to comply with Rule 204A-1 under the Investment Advisers Act of 1940, and describes certain standards of conduct required of our supervised persons. This includes standards applicable to personal trading, to ensure that such trading is consistent with our fiduciary duty to clients and standards of business conduct as well as with applicable laws and regulations. Among other things, our Code of Ethics states: 1) supervised persons must obtain prior approval for certain personal securities transactions including initial public offerings and private placements; and 2) supervised persons must submit quarterly and annual reports of certain personal securities transactions and holdings. A copy of our Code of Ethics is available upon written request.

Our officers and employees (called "supervised persons") may buy or sell securities for themselves that we also recommend to clients and may do so at or around the same time. This situation creates a potential conflict of interest between our supervised persons' interests and the interests of our clients. In order to address this potential conflict, our Code of Ethics and related procedures are designed to help ensure that the investment decisions we make for clients are in the best interest of our clients and are independent of the securities holdings of our employees. In order to help ensure that transactions for client accounts are executed before our own when similar securities are being bought or sold, our Code of Ethics requires that certain personal transactions of employees be pre-approved. We further require supervised persons to provide us information regarding their personal securities trading.

## Brokerage Practices

*Factors Used to Select Broker Dealers*

We seek to obtain "best execution" in selecting broker-dealers to effect client trades. "Best execution" may be defined as the execution of transactions in such a manner that the client's total cost or proceeds in each transaction are the most favorable under the circumstances. Our trading oversight committee identifies and approves equity brokers and establishes annual trading targets for each approved broker. Among the factors the committee considers in selecting broker-dealers and setting annual trading targets are:

- Value of research offered in relation to our investment process;
- Applicable commission rates and other transaction costs (which may not be the lowest available but which ordinarily will not be higher than a generally prevailing competitive range);
- Timeliness of trade executions;
- Efficiency and accuracy of clearance and settlement process;
- Ability to provide data on securities executions; and

- The overall responsiveness of broker-dealers, i.e., how well the broker-dealer serves us and our clients.

We may execute transactions through broker-dealers that refer clients to us, to the extent consistent with the above policies. Additionally, we have policies and procedures in place to review and/or evaluate the qualities described above.

The purchase and sale of bonds is completely different from the process of buying and selling stocks. Common stocks are traded on national exchanges or generally large, liquid over-the-counter ("OTC") markets. Brokers and virtually all others have full access to these markets to efficiently execute common stock transactions. The vast majority of bonds are not traded on exchanges, but rather are purchased from or sold to dealers. We work with a number of broker/dealers to meet the needs of our clients' fixed income portfolios.

Dealers identified and approved by our trading oversight committee for fixed income trading are listed on an approved fixed income dealer list that is maintained by the fixed income trading department. In selecting fixed income dealers, we consider the following factors: (i) overall responsiveness of the broker-dealer, (ii) dealer's ability to have available on a consistent basis fixed income securities that meet client portfolio needs, and (iii) financial stability. In addition, we take the following steps to help ensure best execution for fixed income investments: (i) identify particular bond structure needs for a portfolio, (ii) review offerings from a number of broker/dealers for bond(s) that best fits the desired structure, and (iii) compare the potential offerings to similar offerings being shown on the same day and compare pricing to the general market conditions and yield curve at that time. With respect to bond sales, we identify a particular bond to sell and generally show, directly or indirectly, such bond to the market via a bid list to at least three brokers; the position is then sold to the highest of the bidders. Fewer than three bidders may be appropriate depending on the size or type of bonds being sold or the specific needs of a client.

In circumstances where a client directs us to use a particular broker-dealer, either on a transaction-by-transaction basis or on an account-wide basis, we will use such broker-dealer to execute the client's transactions and will not seek better execution services or prices from other brokers or dealers. In circumstances where a client's account is custodied at a broker-dealer, such broker-dealer/custodian may impose charges on transactions executed away from the broker-dealer/custodian that make it economically infeasible for us to execute transactions through another broker-dealer. As a result of these situations, the client's transactions may not be able to participate in aggregated or block transactions and may be subject to higher commissions, greater spreads and/or less favorable net prices than our other clients. Not all clients pay the same per share or per transaction commission rates for equity trades. In order to ensure that no client is routinely disadvantaged, for each trade, we randomly assign the order of execution of trades with broker-dealer/custodians. We encourage the client to visit with their STMM investment advisor regarding differences in commission rates and options they may have.

*Trade Allocation for Fixed Income Securities*

We allocate the bonds we purchase for client accounts according to our fixed income trading allocation policy. We designed this policy on the basis of fairness and objectivity. Generally, our policy gives priority to client accounts furthest away from their target fixed income allocation. Reasons for exceptions to the policy may include specific account restrictions and/or directives from the client or its STMM advisor; or circumstances in which an account is in the account review process.

*Research and Other Soft Dollar Benefits*

Section 28(e) of the Securities Exchange Act of 1934, provides a safe harbor for persons who exercise investment and brokerage discretion over advisory accounts to pay for research and brokerage services with commission dollars generated by account transactions. These arrangements are sometimes referred to as "soft dollar arrangements." The client should understand that obtaining research and brokerage services by means of soft dollar benefits represents a potential conflict of interest since it enables us to receive research and services that we might otherwise have to purchase with our own money or produce ourselves.

We receive brokerage and research services under the Section 28(e) safe harbor from broker-dealers who execute trades for our clients' accounts. In doing so, we may cause our clients to pay commissions higher than those obtainable from other broker-dealers in order to obtain valuable research to use in the investment-decision making process. These products and services are used to service all of our accounts, not just the accounts that pay for the services. These services include, but are not limited to, proprietary research (research created or developed by the relevant broker-dealer) as well as research created by a third party such as the following: trade order and portfolio management systems, Bloomberg, Factset Data Systems, and Crandall Pierce. We review soft dollar arrangements on at least an annual basis. Our trading oversight committee considers the best execution for our clients, weighing the benefits from such research services with the costs of execution, considering the best interests of our clients. The client should understand that STMM may have an incentive to select or recommend certain broker-dealers based on STMM's interest in receiving research or other products or services rather than on STMM's client's interest in receiving the most favorable execution. We maintain a detailed description of all purchased research and brokerage services and will provide a copy upon request.

On occasion, we obtain third party products and services from broker-dealers which are "mixed-use," that is, which are useful both in making investment decisions for client accounts and in performing administrative or other non-research functions. In these instances, our trading oversight committee makes a good faith allocation so that the portion or specific component of a product or service which assists us in the investment-decision making process is obtained through client commissions and the portion or specific component which provides non-research assistance is paid for by us with our own funds.

In cases where we act as a sub-adviser, brokerage commissions and costs and soft-dollar arrangements may not be negotiated by us. The company for which we act as a sub-adviser may negotiate brokerage commissions and costs and soft-dollar arrangements for those sub-advisory accounts. Such broker commissions and costs may be higher or lower than those negotiated directly by us.

In addition to the soft dollar arrangements described above, we participate in institutional programs sponsored by custodians and brokers. These programs allow us to access, on behalf of our client accounts, institutional trading desks and institutional-only fund offerings, make certain load mutual funds available at net asset value and provide other accommodations typically not available to retail investors. Other benefits we may receive through our participation in institutional programs include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk; access to block trading; the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided by third party vendors. Institutional program sponsors may also pay for business consulting and professional services received by us or our employees and may also waive admission fees for our personnel to attend conferences or meetings relating to the programs or to the sponsors' custody and brokerage services generally. These products or services may assist us in managing and administering client accounts, including accounts that the institutional program sponsors do not custody. We also may receive through these programs products and services that assist with the management and administration of client accounts, including software that facilitates with back-office support, recordkeeping, and client reporting.

Sponsors of these institutional programs also provide us with other services intended to help us manage and further develop our business, including consulting, publications and conferences on practice management, information technology, business succession services, regulatory compliance materials, and marketing materials. In addition, the sponsors may make available, arrange and/or pay for these types of services rendered to us by independent third parties. The sponsors may discount or waive fees that would otherwise be charged for some of these services or pay all or part of the fees of a third-party providing these services to us. The benefits we receive do not depend on the amount of brokerage transactions directed to such brokers or the number of our managed accounts custodied at such custodians. The sponsors generally do not disclose the cost of these benefits to us. Accordingly, no mixed-use allocation is performed with respect to these services. Although the commissions charged to our clients with respect to such programs may be higher than the lowest commissions available, we have determined that these commissions are reasonable, in view of the execution abilities of the sponsors, the level of services provided to our clients, and the ancillary services provided to us.

*Brokerage for Client Referrals*

We participate in institutional programs sponsored by Charles Schwab & Co. Inc., TD AMERITRADE Institutional, and Fidelity Brokerage Services LLC/National Financial Services LLC. TD AMERITRADE Institutional is a division of TD AMERITRADE, Inc. ("TD AMERITRADE"). We receive some benefits from TD AMERITRADE, Charles Schwab & Co. Inc., and Fidelity Brokerage Services through our participation in these programs (see the disclosure above in this section "Brokerage Practices" and the disclosure in "Client Referrals and Other Compensation"). We may have an incentive to recommend one of these broker-dealers based on our interest in receiving client referrals from these programs, which may conflict with our clients' interests of receiving the most favorable execution rates. When referring clients to a particular custodian, the STMM investment adviser representative on the account discusses the custodians approved by STMM and the costs, benefits, and services provided by each custodian to assist the client in making their decision. Fidelity Brokerage Services LLC/National Financial Services LLC, TD AMERITRADE and Charles Schwab & Co, Inc. are SEC registered broker-dealers and members of FINRA/SIPC/NFA and are not affiliated with us.

*Directed Brokerage*

We generally have discretion of where to direct brokerage for client trades and follow our best execution review and guidelines in doing so. Clients may, however, direct the use of a particular broker-dealer. Any directions to use a particular broker-dealer may result in the client receiving a less favorable brokerage commission rate than that negotiated by STMM for its other clients. In addition, because of the inability to aggregate trades for clients who direct brokerage, those clients may receive less favorable prices on trades as more fully described below in "Aggregating (Block) Trading for Multiple Client Accounts."

*Aggregating (Block) Trading for Multiple Client Accounts*

We may purchase or sell securities across client accounts in an aggregated transaction, also known as a block trade or bunched trade. Each client that participates in the order must do so at the average price for all transactions, must share transaction costs on a pro rata basis based on participation in the transaction, and will be charged the applicable negotiated commission rate, if any. If an order cannot be executed in full in a single day, the securities actually purchased or sold by the close of each business day are allocated pro rata (or according to some other objective method) to each participating account. If the order will be allocated in a manner other than that stated in the initial statement of allocation, a written explanation of the change must be provided to and approved by our Chief Executive Officer/ Chief Investment Officer, Co-Chief Investment Officer, and/or the Chief Compliance Officer no later than the morning following the execution of the trade.

Transactions for a client's account will not be aggregated for execution if the practice is prohibited by, or inconsistent with, a client's investment advisory agreement or other instructions to us. In addition, transactions for a client that has directed the use of a particular broker or dealer, transactions for accounts custodied at a broker-dealer or transactions for accounts over which we do not have discretionary trading authority may not be aggregated or "bunched" for execution, except to the extent that the executing broker or dealer is willing to "step out" such transactions to the client's designated broker or dealer and the terms of such "step out" are determined by STMM to be consistent with best execution for that client, or to the extent STMM has multiple clients utilizing the same broker-dealer (in which case, those clients' trades may be aggregated).

Accounts with a limitation on aggregating orders may be placed at the end of bunched trading activity and may experience different transaction results than accounts that participate in aggregated transactions. For example, non-aggregated transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less (or more) favorable than the price obtained for a "bunched" order. In addition, we may not be able to negotiate a commission rate or spread equal or similar to the level it obtained for the aggregated order. The price may not be the same as the average price achieved with the aggregated order. As a result, it is possible for an account that is restricted or limited from participating in aggregated orders to experience higher commissions, greater spreads, and/or less favorable net prices than would be the case if we were not so restricted or limited from including transactions in that client's account in aggregate orders.

We place block trades and trades for accounts which do not participate in the block trades as described above (e.g. because the client has selected to custody assets at a broker-dealer or has directed the use of a specific broker-dealer) according to a random rotation policy.

## Review of Accounts

*Frequency and Nature of Periodic Reviews and Who Makes Those Reviews*

The client will be assigned a primary and a back-up investment advisor. The client's primary investment advisor is responsible for reviewing the account periodically to help ensure that the portfolio remains aligned with the client's investment objectives. In addition, our Portfolio Management Administrators dedicate all of their time to reviewing accounts across the firm to ensure adherence to each account's investment guidelines.

Securities are reviewed daily and accounts are generally reviewed quarterly, or in some cases more often. In addition to the assigned investment advisor and our Portfolio Management Administrators, account reviewers include our Chief Executive Officer and Chief Investment Officer; the Co-Chief Investment Officer; the Director of Equity Research; the Director of Fixed Income; the Quantitative Performance Analyst; and other members of our investment team. Accounts are reviewed for accuracy, completeness, suitability/investment objective and restrictions. The level of such review is determined by client need and our discretion.

*Factors That Will Trigger a Non-Periodic Review of Client Accounts*

Various factors trigger an account review, including, but not limited to, preparation of quarterly performance, client communication, financial conditions, significant cash balances, material price change of a security, material news on companies, and specific securities holdings. The weekly meetings of our investment team include a review of holdings, sector weightings, performance attribution, economic conditions and other factors that might be expected to affect portfolio performance.

We require that those involved in determining or giving investment advice to clients hold appropriate securities licenses and/or professional credentials that we deem substantive. Additionally, we require a minimum of three years investment-related experience and/or a college degree.

*Content and Frequency of Regular Reports Provided to Clients*

We will provide the client with a quarterly statement that details the account balances at the end of the quarter, the assets and asset allocation, transactions, gain/loss information and performance results, which may also include a reference to a relevant market index or benchmark. Clients should compare the STMM statement with statements received from their custodian for accuracy.

We also communicate with clients through telephone calls, e-mail, letters, an annual book, client meetings, and webcasts. The frequency and type of communication varies from client to client, depending on each client's needs and preferences.

## Client Referrals and Other Compensation

We have agreements with various independent and unaffiliated investment advisers and consultants that refer clients to us or engage us as a sub-adviser. We may pay a referral fee to these advisers and consultants or we may discount our fees to clients referred by such advisers and consultants. Unless we disclose otherwise, we will not charge clients introduced by third-party advisers and consultants management fees or costs greater than those charged to clients not referred by third-party advisers and consultants for similarly sized portfolios. The fees and charges that clients pay to third-party advisers and consultants are negotiated between those clients and their advisers/consultants. Additionally, clients with third party advisers and consultants may negotiate brokerage commissions and other trading costs with the third-party advisers that are higher than the broker commissions and costs that our other clients pay.

As we explained above in "Brokerage Practices," we receive certain products, services and other benefits, including referrals, from brokers and custodians through institutional programs in which we participate, including the programs sponsored by TD AMERITRADE, Charles Schwab & Co, Inc., and Strategic Advisers, Inc./Fidelity Wealth Advisor Solutions. There is no direct link between our participation in these programs and the investment advice we give clients.

We may recommend certain custodians, including sponsors of institutional programs in which we participate, to advisory clients. We endeavor at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by us or our employees in and of itself may create a conflict of interest.

*Charles Schwab & Co. Inc*

In addition to the benefits described above, we receive client referrals from Charles Schwab & Co. Inc ("Schwab") through our participation in the Schwab Advisor Network (the "SAN Program"). The SAN Program is designed to help investors find an independent investment advisor. Schwab is a broker-dealer that is independent and unaffiliated with us. Schwab does not supervise us and has no responsibility for our management of client portfolios or our other advice or services. We pay fees to Schwab to receive client referrals through the SAN Program. Our participation in the SAN Program may raise potential conflicts of interest described below. Except when fiduciary duties to clients would prohibit doing so, we will recommend and otherwise use our best efforts to custody assets at Schwab for clients referred to us though the SAN Program.

We pay Schwab a Participation Fee on all referred client accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all referred accounts that are maintained at, or transferred to, another custodian. The Participation Fee is a percentage of the fees the client owes to us or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee in certain circumstances. We pay Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to us quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by us and not by the client.

We generally pay Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees we generally would pay in a single year. Thus, we will have an incentive to recommend that client accounts referred to us by Schwab be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees are based on assets in accounts of our clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, we will have incentives to encourage household members of clients referred through the SAN Program to maintain custody of their accounts and execute transactions at Schwab.

For accounts of our clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from our clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker–dealer's fees and are charged to the client's account. In addition, STMM may be eligible to receive "soft dollars" on certain trades placed through Schwab (as described in item 12). Thus, we may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer for client accounts custodied at Schwab. We nevertheless, acknowledge and will fully comply with our duty to seek best execution of trades for client accounts as more fully described in this brochure.

*TD AMERITRADE*

We may receive client referrals from TD AMERITRADE through our participation in the TD AMERITRADE AdvisorDirect program. In addition to meeting the minimum eligibility criteria for participation in the AdvisorDirect program, we may have been selected to participate in the AdvisorDirect program based on the amount and profitability to TD AMERITRADE of the assets in, and trades placed for, client accounts maintained with TD AMERITRADE. TD AMERITRADE is a broker-dealer independent of and unaffiliated with us and there is no employee or agency relationship between our firms. TD AMERITRADE established the referral program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD AMERITRADE does not supervise us and has no responsibility for our management of client portfolios or our other advice or services. We pay TD AMERITRADE an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays us ("Solicitation Fee"). We will also pay TD AMERITRADE the Solicitation Fee on any advisory fees received by us from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired us on the recommendation of such referred client. In addition, we have agreed not to solicit clients referred to us through the AdvisorDirect program to transfer their accounts from TD AMERITRADE or to establish brokerage or custody accounts at other custodians, except when our fiduciary duties require doing so. We will not charge clients referred through the AdvisorDirect program any fees or costs higher than our standard fee schedule offered to our clients or otherwise pass Solicitation Fees paid to TD AMERITRADE to our clients. In addition, STMM may receive "soft dollars" for trades placed through TD AMERITRADE (as described in item 12). Thus, we may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer for client accounts custodied at Schwab. We nevertheless, acknowledge and will fully comply with our duty to seek best execution of trades for client accounts as more fully described in this brochure.

*Fidelity Investments*

STMM participates in the Fidelity Wealth Advisor Solutions Program (the "WAS Program"), through which STMM receives referrals from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. STMM is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control STMM, and SAI has no responsibility or oversight for STMM's provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for STMM, and STMM pays referral fees to SAI for each referral received based on STMM's assets under management attributable to each client referred by SAI or members of each client's household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to STMM does not constitute a recommendation or endorsement by SAI of STMM's particular investment management services or strategies. More specifically, STMM pays 20 bps annually on assets under management referred by SAI. These referral fees are paid by STMM and not the client.

To receive referrals from the WAS Program, STMM must meet certain minimum participation criteria, but STMM may have been selected for participation in the WAS Program as a result of its other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC ("FBS"). As a result of its participation in the WAS Program, STMM may have a potential conflict of interest with respect to its decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and STMM may have a potential incentive to suggest the use of FBS and its affiliates to its advisory clients, whether or not those clients were referred to STMM as part of the WAS Program. Under an agreement with SAI, STMM has agreed that STMM will not charge clients more than the standard range of advisory fees disclosed in this Form ADV 2A Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, STMM has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when STMM's fiduciary duties would so require; therefore, STMM may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. However, participation in the WAS Program does not limit STMM's duty to select brokers on the basis of best execution.

Our participation in the SAN Program, AdvisorDirect, Fidelity Wealth Advisor Solutions and referral programs offered by other broker-dealer sponsors ("Referral Programs") raises potential conflicts of interest. Sponsors of Referral Programs (collectively, "Program Sponsors") will most likely refer clients through their respective referral programs to investment advisors that encourage their clients to custody their assets at the referring Program Sponsor and whose client accounts are profitable to the referring Program Sponsor. Consequently, in order to obtain client referrals from a Program

Sponsor, we may have an incentive to recommend to clients that the assets under management by us be held in custody with such Program Sponsor and to place transactions for client accounts with such Program Sponsor. Except as may otherwise be provided in this firm brochure, our participation in Referral Programs does not diminish our duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Program Sponsors may be executed through a different broker-dealer than trades for our other clients. Thus, trades for accounts custodied at Program Sponsors may be executed at different times and at different prices than trades for other accounts that are executed at other broker-dealers.

## Custody

Client assets are held at a qualified custodian selected by the client and approved by STMM. Under the current custody rule, STMM is deemed to have custody of client assets if a client authorizes STMM to instruct the custodian to deduct Advisor's advisory fees directly from the client's account. The qualified custodian maintains actual custody of client assets. Clients will receive account statements directly from their custodians. Clients should carefully review those statements and compare them to the quarterly statements they receive from STMM to ensure that the assets and transactions shown in the custodian's statement match those shown in our reports. Clients should rely solely on the reports provided by their custodians for purposes of preparing tax filings.

## Investment Discretion

As described generally in "Advisory Business" and more specifically in the paragraphs therein labeled "Client Tailored Service and Client Imposed Restrictions" above, we generally exercise investment discretion over client accounts.

## Voting Client Securities

*Proxy Voting Policies*

Unless otherwise specifically directed by a client in writing, we are responsible for voting proxies related to securities held in accounts that we manage on behalf of our clients. We rely on advice offered by a third party proxy voting service, Glass Lewis. We have reviewed Glass Lewis' ability to provide voting guidance, and we have found they have the capacity and competency to analyze proxy issues and provide voting recommendations. We have determined that it is in our clients' best interest to utilize a proxy advisory service because they have staff dedicated to assessing business, political, and financial risks related to corporate governance on a worldwide basis. We typically vote proxies in accordance with the Standard Glass Lewis Governance Services – U.S. Proxy Paper Guidelines. From time-to-time, Glass Lewis may not have a recommendation or may defer to us with respect to a particular matter to be voted upon. In these cases, we will generally vote a proxy as the Board of Directors of a company recommends, unless we believe that voting as the Board of Directors recommends would not be in our clients' best interests. We may authorize external investment managers to vote any proxies relating to sub-advised assets in accordance with the external investment manager's proxy voting policy. Clients may direct the vote of a proxy by timely submitting written instructions to our Chief Compliance Officer.

Conflicts can arise when we, our affiliates, or any of our employees has a financial, business or personal relationship with the issuer of a proxy proposal for a security held in a client's account. To avoid potential conflicts of interest, we generally vote proxies in accordance with Glass Lewis' predetermined guidelines. However, all vote recommendations are reviewed by our Senior Equity Analyst prior to being cast to ensure such votes are in our clients' best interests. In limited situations, we may vote for a particular issue contrary to the recommendation of Glass Lewis if we believe the vote is in the best interest of the client. All such recommendations to cast a vote are given to our CCO prior to casting votes to review the rationale for the vote. We have reviewed the conflict procedures of Glass Lewis and the effectiveness of their implementation.

If a client would like to know how we voted any proxy in their account, they may contact their investment adviser representative. They may also obtain a complete copy of our written proxy voting procedures, as well as the Standard Glass Lewis Proxy Voting Manuals, which detail the policies and procedures for casting proxy votes upon request to our Chief Compliance Officer.

*Class Action Settlements*

Although the client may authorize us to vote proxies in their account as described above, we are not responsible for handling or otherwise processing any potential "class action" claims or similar settlements to which the client may be entitled for securities held in their account. The client will receive the paperwork for such claims directly from their account custodian. The client should verify with their custodian or other account administrator whether such claims are being made on their behalf by the custodian or if they are expected to file such claims directly. We are always glad to provide any transaction data available to us that may assist the client in completing any class action claim forms.

## Financial Information

This item does not pertain to our business.

## Other Information

*Privacy Policy Summary*

We do not disclose nonpublic personal information about our clients or former clients, except as permitted by law. We limit access to our clients' personal information to those employees who need access to provide service for your account, provide products and services to you, or to alert you to new, enhanced, or improved products or services provided by STMM. We maintain physical, electronic, and procedural safeguards that comply with federal standards to safeguard clients' nonpublic personal information.

*Business Continuity Disaster Recovery Plan*

STMM has developed a Business Continuity and Disaster Recovery Plan (the "Plan") to address how we will respond to events that may disrupt STMM business operations. As the occurrence, duration, and impact of disasters is unpredictable, STMM's Plan is intended to provide flexibility in responding to events as they may occur.

The Plan is designed to permit STMM to resume business operations as quickly as possible dependent upon the scope and severity of the business disruption. The Plan covers data-backup and recovery, mission critical systems financial and operational assessments, alternative communications, alternate business locations, bank and counter-party impact, regulatory reporting, and the assurance of prompt access to funds and securities for our clients.

*Business Continuity Disaster Recovery Plan – Contact Information*

In the event of a business disruption, if you are unable to contact STMM as you usually do at 210-824-8916, you should contact the STMM Austin office at 215-342-2272. If you are unable to contact us through either of those offices, please contact the STMM Dallas office at 214-969-7088 or Houston office at 713-683-3818. If you are unable to contact any STMM office, you should contact your custodian firm for information regarding your account.

*Business Continuity Disaster Recovery Plan – Varying Disruptions*

Business disruptions, if they occur, can vary in their scope, such as emergencies affecting only the STMM office, the business district where the office is located, the city, or the entire region where the office is located. Within each of these areas, the severity of the disruption can also vary from minimal to severe. In the event of a disruption to only the STMM office or the building housing our office, we will transfer operations to one of our remote offices and anticipate resuming business operations within 3 hours. In a disruption affecting the business district, city, or region, STMM will move select staff to a site outside the affected area in order to resume business operations as quickly as possible.

**FORM ADV PART 2B**
**BROCHURE SUPPLEMENT**

**South Texas Money Management, Ltd.**

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This brochure supplement provides information about the following SEC-defined supervised persons and supplements South Texas Money Management's firm brochure. You should have received a copy of that brochure. Please contact our chief compliance officer at (210) 824-8916 if you did not receive South Texas Money Management's firm brochure or if you have any questions about the contents of this supplement.

Additional information about the following supervised persons is available on the SEC's website at www.adviserinfo.sec.gov. Clients may routinely interact with a supervised person or group of supervised persons at STMM (for instance, their investment advisor) for which STMM is not required to deliver a supplement.

Jeanie Wyatt, CFA, CEO and Chief Investment Officer

Jim Kee, Ph.D., President and Chief Economist

Christian Ledoux, CFA, Director of Equity Research

Hutch Bryan, CFA, Director of Fixed Income

Barbara Dickson, Senior Investment Advisor and member of the Investment Team

**Supervised Person: Jeanie Wyatt, CFA**

### Item 2 – Educational Background and Business Experience

Jeanie Wyatt, CFA, was born in 1953, and holds an honors BA degree in actuarial science from the University of Texas at Austin and an MBA from the University of Texas at San Antonio. As the founder of South Texas Money Management, Mrs. Wyatt has been with the firm since its inception in 2000. Mrs. Wyatt is the chief executive officer and chief investment officer. Her primary non-supervisory responsibilities include portfolio management, research, and analysis of companies for investment by firm clients. Prior to founding South Texas Money Management, Ltd., Mrs. Wyatt was executive vice president and head of Frost Investment Services (Cullen/Frost Bankers, Inc.), where she was primarily responsible for the investment areas of nine trust departments around the state. She also managed the Trust Department's largest commingled equity fund for 15 years. Her total trust-banking career spanned over 27 years with three bank holding companies based in Texas.

Mrs. Wyatt received her CFA designation in 1984. The CFA areas of study include accounting, economics, ethics, equity analysis, fixed income analysis, portfolio management, and statistics. To obtain the CFA designation, a candidate must:

- have four years of qualified investment work experience;
- pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct annually; and
- complete the three levels of the CFA program, each culminating in a six-hour exam.

### Item 3 – Disciplinary Information

Mrs. Wyatt has not been the subject of any legal or disciplinary events that are material to a client's, or prospective client's, evaluation of Mrs. Wyatt.

### Item 4 – Other Business Activities

Mrs. Wyatt is not actively engaged in any other investment-related business or occupation, nor is she actively engaged in any other business that provides a substantial source of her income or consumes a substantial portion of her time.

### Item 5 – Additional Compensation

Mrs. Wyatt does not receive any additional compensation beyond her salary and regular annual bonus for providing advisory services. As a limited partner of South Texas Money Management and the sole owner of the firm's general partner, Mrs. Wyatt may receive distributions from South Texas Money Management with respect to her ownership interest.

### Item 6 – Supervision

Mrs. Wyatt is responsible for the overall supervision of investment management activity at South Texas Money Management. Pursuant to the firm's code of ethics and policies and procedures, Mrs. Wyatt's personal trading records and correspondence are reviewed periodically by the firm's chief compliance officer. A client who wishes to communicate concerns or questions about their account may contact Jeanie Wyatt at 210-824-8916 or at jwyatt@stmmltd.com.

## Supervised Person: Jim Kee, Ph.D.

### Item 2 – Educational Background and Business Experience

Jim Kee, Ph.D., was born in 1962 and received a BA in economics from St. Edwards University, an MA in economics from St. Mary's University of San Antonio, and a Ph.D. in economics from Auburn University. Dr. Kee joined South Texas Money Management in January 2009, as chief economist. In 2011, Dr. Kee was named president of the firm. His primary non-supervisory responsibilities include research and analysis of companies for investment by firm clients and macroeconomic overview. Prior to joining South Texas Money Management, Dr. Kee was the HOLT global strategist for Credit Suisse in Chicago, where he served from May 2003 to December 2008.

### Item 3 – Disciplinary Information

Dr. Kee has not been the subject of any legal or disciplinary events that are material to a client's, or prospective client's, evaluation of Dr. Kee.

### Item 4 – Other Business Activities

Dr. Kee is not actively engaged in any other investment-related business or occupation, nor is he actively engaged in any other business that provides a substantial source of his income or consumes a substantial portion of his time.

### Item 5 – Additional Compensation

Dr. Kee does not receive any additional compensation beyond his salary and regular annual bonus for providing advisory services. As a limited partner of South Texas Money Management, Dr. Kee may receive distributions from South Texas Money Management with respect to his ownership interest.

### Item 6 – Supervision

The individual who is responsible for overall supervision of investment management activity at South Texas Money Management is Jeanie Wyatt, CEO and CIO. In addition, pursuant to the firm's code of ethics and policies and procedures, Dr. Kee's personal trading records and correspondence are reviewed periodically by the firm's chief compliance officer. A client who wishes to communicate concerns or questions about their account may contact Jeanie Wyatt at 210-824-8916 or at jwyatt@stmmltd.com.

## Supervised Person: Christian Ledoux, CFA

### Item 2 – Educational Background and Business Experience

Christian Ledoux, CFA, was born in 1972 and received a BA in Business Economics from the University of California at Santa Barbara. Mr. Ledoux joined South Texas Money Management in 2013 as the director of equity research and was subsequently named senior portfolio manager. Mr. Ledoux is an equity portfolio manager and his primary responsibilities include portfolio management, research, analysis of equity securities for investment by firm clients, and supervision of the analyst team. Prior to joining South Texas Money Management, Mr. Ledoux was a Principal at Hoover Investment Management in San Francisco from June 2003 through February 2010 where he was a Senior Analyst. From March 2010 through November 2012 he was a consultant for Spinner Asset Management in New York

Mr. Ledoux received his CFA designation in 1999. The CFA areas of study include accounting, economics, ethics, equity analysis, fixed income analysis, portfolio management, and statistics. To obtain the CFA designation, a candidate must:

- have four years of qualified investment work experience;
- pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct annually; and
- complete the three levels of the CFA program, each culminating in a six-hour exam

### Item 3 – Disciplinary Information

Mr. Ledoux has not been the subject of any legal or disciplinary events that are material to a client's, or prospective client's, evaluation of Mr. Ledoux.

### Item 4 – Other Business Activities

Mr. Ledoux is not actively engaged in any other investment-related business or occupation, nor is he actively engaged in any other business that provides a substantial source of his income or consumes a substantial portion of his time.

### Item 5 – Additional Compensation

Mr. Ledoux does not receive any additional compensation beyond his salary and regular annual bonus for providing advisory services.

### Item 6 – Supervision

The individual who is responsible for overall supervision of investment management activity at South Texas Money Management is Jeanie Wyatt, CEO and CIO. In addition, pursuant to the firm's code of ethics and policies and procedures, Mr. Ledoux's personal trading records and correspondence are reviewed periodically by the firm's chief compliance officer. A client who wishes to communicate concerns or questions about their account may contact Jeanie Wyatt at 210-824-8916 or at jwyatt@stmmltd.com.

## Supervised Person: Hutch Bryan, CFA

### Item 2 – Educational Background and Business Experience

Hutch Bryan, CFA, was born in 1963, and received a BBA and a BA in Ibero-American studies from Southern Methodist University and an MBA from Texas A&M University. Mr. Bryan joined South Texas Money Management in August 2009. Mr. Bryan is the director of fixed income and his primary responsibilities include portfolio management, research, and analysis of fixed income securities for investment by firm clients. Prior to joining South Texas Money Management, Mr. Bryan served as vice president in the municipal bond group of AIG Investments from March 2000 to August 2009.

Mr. Bryan received his CFA designation in 1995. The CFA areas of study include accounting, economics, ethics, equity analysis, fixed income analysis, portfolio management, and statistics. To obtain the CFA designation, a candidate must:

- have four years of qualified investment work experience;
- pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct annually; and
- complete the three levels of the CFA program, each culminating in a six-hour exam

### Item 3 – Disciplinary Information

Mr. Bryan has not been the subject of any legal or disciplinary events that are material to a client's, or prospective client's, evaluation of Mr. Bryan.

### Item 4 – Other Business Activities

Mr. Bryan is not actively engaged in any other investment-related business or occupation, nor is he actively engaged in any other business that provides a substantial source of his income or consumes a substantial portion of his time.

### Item 5 – Additional Compensation

Mr. Bryan does not receive any additional compensation beyond his salary and regular annual bonus for providing advisory services. As a limited partner of South Texas Money Management, Mr. Bryan may receive distributions from South Texas Money Management with respect to his ownership interest.

### Item 6 – Supervision

The individual who is responsible for overall supervision of investment management activity at South Texas Money Management is Jeanie Wyatt, CEO and CIO. In addition, pursuant to the firm's code of ethics and policies and procedures, Mr. Bryan's personal trading records and correspondence are reviewed periodically by the firm's chief compliance officer. A client who wishes to communicate concerns or questions about their account may contact Jeanie Wyatt at 210-824-8916 or at jwyatt@stmmltd.com.

## Supervised Person: Barbara Dickson

### Item 2 – Educational Background and Business Experience

Barbara Dickson was born in 1951 and received an MA in administrative science with a major in finance from the University of Texas at Dallas and an undergraduate degree from Newcomb College of Tulane University. Mrs. Dickson joined South Texas Money Management in October 2008 as part of the addition of the firm's Dallas office. Mrs. Dickson is a Senior Investment Advisor and member of the investment team and her primary responsibilities include portfolio management, attribution, research, and analysis of equity securities for investment by firm clients. Prior to joining South Texas Money Management, Mrs. Dickson co-founded Rutland Dickson Asset Management in 1996 where she served as the firm's president and chief equity strategist.

### Item 3 – Disciplinary Information

Mrs. Dickson has not been the subject of any legal or disciplinary events that are material to a client's, or prospective client's, evaluation of Mrs. Dickson.

## Item 4 – Other Business Activities

Mrs. Dickson is not actively engaged in any other investment-related business or occupation, nor is she actively engaged in any other business that provides a substantial source of her income or consumes a substantial portion of her time.

## Item 5 – Additional Compensation

Mrs. Dickson does not receive any additional compensation beyond her salary and regular annual bonus for providing advisory services. As a limited partner of South Texas Money Management, Mrs. Dickson may receive distributions from South Texas Money Management with respect to her ownership interest.

## Item 6 – Supervision

The individual who is responsible for overall supervision of investment management activity at South Texas Money Management is Jeanie Wyatt, CEO and CIO. In addition, pursuant to the firm's code of ethics and policies and procedures, Mrs. Dickson's personal trading records and correspondence are reviewed periodically by the firm's chief compliance officer. A client who wishes to communicate concerns or questions about their account may contact Jeanie Wyatt at 210-824-8916 or at jwyatt@stmmltd.com.