

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.

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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.

We provide investment advisory services for the types of clients 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.

Our investment strategies generally include the following:

- 1) Core Equity Strategy: 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 will be owned in all sectors with a target limit of 15% in any sector. Portfolios will consist of small-, mid- and large-cap stocks, and will be comprised of individual stocks, including international equities (ADRs), as well as mutual funds and exchange traded funds. The goal of this overall discipline is to reduce

volatility over a long-term period. For additional information, see “Methods of Analysis, Investment Strategies and Risk of Loss.”

- 2) Fixed Income Strategies: 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) Concentrated Holdings: We may design custom diversification strategies to reduce investment risk for clients with concentrated and low-basis stock.
- 4) Large Cap Growth Strategy: Our Large-Cap Growth strategy uses a disciplined process to invest in a diversified portfolio of companies that show accelerating growth. This strategy is marketed primarily to institutional clients and is generally not available to individuals.
- 5) Large Cap Value Strategy: Our Large Cap Value strategy uses a disciplined process to invest in a highly diversified portfolio of companies that are undervalued on an absolute basis. This strategy is marketed primarily to institutional clients and is generally not available to individuals.

Wealth Management

For ultra high-net-worth individuals meeting a minimum relationship size of \$25 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. 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*.

Financial Planning

Upon request and at no additional cost, a client may request to have a financial plan prepared by one of our financial planning professionals. Based upon a financial questionnaire and other documentation you provide about your current financial situation, we prepare a written plan designed to help you achieve your 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; estate planning; investments; and taxes. Should you choose to implement the recommendations contained in the plan, we suggest that you work closely with your attorney, accountant and/or insurance agent. Implementation of financial plan recommendations is entirely at your discretion.

Non-Investment Advisory Services

We are the principal owner of STMM Family Office LLC. We may provide directly 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 four investment objectives: (i) Equities Only, (ii) Balanced Long-Term Growth, (iii) Conservative, or (iv) Fixed Income Oriented. 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 Programs

We may manage client accounts through wrap fee programs sponsored by brokers or *consulting* firms. These sponsor firms generally enter into contracts with their clients to provide a variety of services for a predetermined fee. These services typically include all or some of the following: custody of client assets, execution of client trades at no additional fee or commission, advising on client goals and investment objectives, payment of advisers' management fees and the monitoring of investment performance on client assets. The sponsoring organization is responsible for notifying the client of the services provided by us and the portion of the attributable fee paid. We will manage any wrap fee account assets in the same manner as our other accounts.

We also manage accounts as a sub-adviser to several 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 participating in a wrap program and/or 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, 2010, we managed total client assets of approximately \$1,927,300,000 with approximately \$1,864,700,000 managed on a 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>
<p>EQUITY, BALANCED (stock and bond), BOND PORTFOLIOS (\$500,000 minimum initial relationship value) (\$5,000 minimum annual fee)</p>	
First \$2 million	1.00%
Next \$8 million	0.50%
Over \$10 million	0.35%
<p>BOND ONLY PORTFOLIOS (\$5,000,000 minimum initial account value) (\$17,500 minimum annual fee)</p>	
First \$2 million	0.50%
Next \$3 million	0.25%
Next \$5 million	0.20%
Next \$15 million	0.15%
Over \$25 million	0.15% Flat Rate
<p>BOND ONLY PORTFOLIOS (For Referrals from Schwab, TD Ameritrade and Fidelity) (\$1,000,000 minimum initial account value)</p>	
First \$10 million	0.50%
Over \$10 million	0.25%
<p>INSTITUTIONAL EQUITY, BALANCED, BOND PORTFOLIOS (\$5,000,000 minimum initial account value)</p>	
First \$5 million	0.70%
Next \$5 million	0.50%
Over \$10 million	0.35%
<p>WEALTH MANAGEMENT (\$25 million minimum initial relationship value)</p>	
First \$25 million	0.45%
Over \$25 million	0.35%
<p>INVESTMENT MANAGEMENT FOR FAMILY OFFICE CLIENTS (\$500,000 minimum annual fee for investment management and/or family office services)</p>	
<p>Annual flat fee rate equal to 0.35% of relationship market value</p>	

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 \$100,000 or accounts subject to our discounted bond only 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 standard fee schedules.

Fees charged to clients whose assets are held in wrap accounts or in accounts of banks for which we act as a sub-advisor are described in the sponsor's wrap fee brochure and/or client agreement with the bank or sponsor. Generally, from this fee, the sponsor 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 investment management 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 receive investment advisory services from us at a discounted annual flat fee rate of 0.35% of the value of assets under our management. Our clients that participate in the family office service offering may also receive upon request certain wealth management services as part of our advisory services. These wealth management services may include strategic long-term asset allocation and the review, selection and ongoing monitoring of outside third party investment managers. Advisory fees payable to us are in addition to any fees charged by STMMFO and any outside managers. Generally, family office clients are subject to a minimum annual fee of \$500,000. The minimum annual fee can be satisfied by any combination of fees payable to us for investment advisory services or to STMMFO for family office services. Upon request and per our standard fee schedule, we also make available wealth management services to other ultra high-net-worth clients meeting a minimum relationship size of \$25 million.

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 on the account anniversary date. 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). The reduction in percentage fee occurs only on the market value above the breakpoint. If an account relationship does not meet the minimum annual account relationship fee of \$5,000, the short-fall may be charged on the account anniversary date. Generally, our fees are automatically deducted from client accounts.

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, or other disclosure document, for another investment manager.

There may be 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, you will receive a separate written disclosure statement from the solicitor before you open 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, including wrap arrangements with wrap program sponsors. 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.

Unless you otherwise agree, you 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 you. In the event of termination of our services, a pro-rated portion of the fees may be charged for the period of time the agreement was in place and any unearned portion of fees previously paid is pro-rated and fully refundable.

Performance-Based Fees and Side-By-Side Management

This item does not pertain to our business because we do not accept 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

Our preferred minimum client relationship size is \$500,000. Please see "Fees and Compensation" for account and relationship minimums applicable to our various fee schedules. 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 the Standard & Poor's Compustat database of nearly 10,000 publicly-traded companies. The stocks generated from our value and growth screens are then carefully analyzed to determine whether they should be included in our core equity portfolios. Based on a variety of factors, we may 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 an absolute low price to cash flow multiple, but are showing improvements in gross profit margin and cash flow. We also consider the stock's relative P/E to the S&P 500 and other valuation characteristics.

Growth Screen: The purpose of our growth screen is to identify stocks with historical accelerating earnings and revenue growth rates. We also look at future expectations for earnings growth. In order for a stock to meet our growth criteria, it must have improving earnings and revenue growth over a three- to five-year period or one- to three-year period.

Equity investments generally may include stocks, bonds, convertibles, short-term income *investments*, money market funds, 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 exchange traded funds and/or mutual funds for smaller accounts having an equity allocation of less than \$50,000 (these accounts are usually part of a larger client relationship).

Fixed Income Management

If fixed income investments are appropriate, we will use a variety of investment grade or insured *issuers* 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. Issues will typically be rated "AA" or better. Insured municipals will also have an underlying issuer rating of "A-" or better. Maturities will be limited to a maximum maturity of 16 years. Fixed income portfolio duration will typically be within +/- 25% of the duration of the Barclays one- to 10-year municipal blend index. Due to wider bid/ask spreads on municipals, 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”. The taxable municipal bonds are typically rated “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 always favored, 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 \$200,000.

Cash Management and ETFs

Each *client* custodian “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.

Material Risks Involved

The biggest risk is that the returns of your account will vary, and you 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 your 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 your portfolio could also decrease if there are deteriorating economic or market conditions. It is important to understand that the value of your investment may fall, sometimes sharply, in response to changes in the market, and you 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. Past performance is not 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 long 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.

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 your 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, prepayment 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.

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 your 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 your investments to underperform relative to benchmarks or other funds with a similar investment objective.

The investments comprising your portfolio are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

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. Please be advised, however, that the spouse of our Chief Executive Officer is a registered representative of an unaffiliated broker-dealer. Although we may execute client trades through this unaffiliated broker-dealer, the spouse of our CEO does not receive any compensation from these trades. We and our CEO's spouse may recommend transactions in the same securities to the accounts of our respective clients, and our clients may hold positions in the same securities in which our CEO's spouse and/or brokerage clients of our CEO's spouse hold positions. All recommendations we make to clients are independent of the recommendations made to, and securities positions held by, clients of our CEO's spouse.

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) that supervised persons must obtain prior approval for personal securities transactions in initial public offerings and private placements; and 2) that supervised persons must submit quarterly and annual reports of certain personal securities transactions. 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;
- 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 a 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 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.

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 commission rates for equity trades. We encourage you to visit with your assigned investment advisor regarding differences in commission rates.

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 his or her STMM adviser; or circumstances in which an account is in the new account review process.

Initial Public Offerings

If we should choose to participate in an initial public offering for our client accounts, we must always place clients' interests first and foremost, and treat all clients fairly and equally.

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.” You 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.

We receive brokerage and research services under the Section 28(e) safe harbor from broker-dealers who execute trades for our client 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 may be used to service all of our accounts, not just the accounts that pay for the services. Although we believe that all client accounts benefit from the products and services received by us from brokers, we do not seek to allocate soft dollar benefits to accounts in proportion to credits the accounts generate. These services include, but are not limited to, the following: Financial Information Network (Portfolio Management System), Bloomberg, Factset Data Systems, Creditsights, Crandall Pierce, themarkets.com, Omgeo and S&P Research Insight. We review soft dollar arrangements on at least an annual basis. We maintain a detailed description of all purchased research and brokerage services and will provide you 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; nominations for awards sponsored by national publications; 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' advisor 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 trade execution, clearance, settlement and custody; research, pricing information and other market data as well as software that assists 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, regulatory compliance and marketing. 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"). 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.

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 Operating 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.

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 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 is obtaining for the aggregated order. Also, 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 orders 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) after the block trades according to a random rotation policy.

Review of Accounts

Frequency and Nature of Periodic Reviews and Whom Makes Those Reviews

You will be assigned a primary and a back-up investment advisor. Your primary investment advisor is responsible for reviewing your account periodically to help ensure that your *portfolio* remains aligned with your investment objectives.

Securities are reviewed daily and accounts are generally reviewed quarterly, or in some cases more often. In *addition* to your assigned investment advisor, account reviewers include Jeanie Wyatt, Chief Executive Officer and Chief Investment Officer; the Chief Operating Officer; the Director of Equity Research; the Co-Directors of Fixed Income; 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 you with a quarterly statement that details your account balances at the end of the quarter, your assets and asset allocation, transactions, gain/loss information and performance results, which may also include a reference to a relevant market index or benchmark.

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.

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 Fidelity Brokerage Services/National Financial Services LLC. 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 potential conflict of interest.

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.

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 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 and to instruct Schwab to debit our fees directly from the accounts.

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. Thus, we may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. We nevertheless, acknowledge and will fully comply with our duty to seek best execution of trades for client accounts, except as may otherwise be provided in this Form ADV. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for our other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and at different prices than trades for other accounts that are executed at other broker-dealers.

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 discount 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. For information regarding additional or other fees paid

directly or indirectly to TD AMERITRADE, please refer to the TD AMERITRADE AdvisorDirect Disclosure and Acknowledgement Form.

We also may receive client referrals through our participation in Fidelity Wealth Advisor Solutions, sponsored by Fidelity Brokerage Services LLC and National Financial Services LLC.

Our participation in 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. You will receive account statements directly from your custodian. You should carefully review those statements and compare them to the quarterly statements you receive from us to ensure that the assets and transactions shown in the custodian’s statement match those shown in our reports. You should rely solely on the reports provided by your custodian for purposes of preparing tax filings.

Investment Discretion

As described in “Advisory Business” 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, Institutional Shareholder Services or “ISS.” We typically vote proxies in accordance with the Standard ISS Governance Services – U.S. Proxy Voting Policy Guidelines. From time-to-time, ISS

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 vote proxies in accordance with ISS' predetermined guidelines. In limited situations, we may vote for a particular issue contrary to the recommendation of ISS if we believe the vote is in the best interest of the client. We have reviewed the conflict procedures of ISS and the effectiveness of their implementation.

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

Class Action Settlements

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

Financial Information

This item does not pertain to our business.