

**Texas First Investment Management Company, LP**

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**July 18, 2011**

This Brochure provides information about the qualifications and business practices of Texas First Investment Management Company, LP. If Clients have any questions about the contents of this Brochure, please contact the Firm at (713) 877-9800. 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. Texas First Investment Management Company, LP is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training.

## **Item 2 – Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated July, 18, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous Brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our Brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by calling us at 713/877-9800 or [info@texasfirstinv.com](mailto:info@texasfirstinv.com). Additional information about Texas First Investment Management Company, LP is also available via the SEC’s Web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s Web site also provides information about any persons affiliated with Texas First Investment Management Company, LP who are registered, or are required to be registered, as investment adviser representatives of Texas First Investment Management Company, LP.

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## **Item 4 – Advisory Business**

Texas First Investment Management Company, LP (“Texas First” or “Firm”) is a Houston-based Registered Investment Adviser. It was founded in 2004 and became registered with the Texas State Securities Board in 2005. The entity is structured as a limited partnership, with 12 limited partners. Douglas R. Cannon, the founder, owns 54%. No other limited partner owns as much as 25%.

Texas First manages equity portfolios for its clients on a discretionary basis according to an agreement to provide investment advisory services. A very small part of its business may involve providing non-discretionary advice on equity portfolios. Texas First offers five different portfolio products. All have the same investment strategy and analytical approach, differing primarily in market cap range and geographic scope. Within each product, all clients hold the same positions in their portfolios. On a limited basis, Texas First will consider client restrictions on owning certain securities or types of securities.

Texas First does not participate in any wrap programs. In three cases, it provides or manages model portfolios for financial entities which may use these for their own clients. These relationships are addressed under Item 10.

As of July 15, 2011, the Firm was managing approximately \$25.4 million in assets with approximately \$23.6 million managed on a discretionary basis. The remainder is managed on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

The Firm charges its clients an annual fee of 1% to 2% based upon the size and complexity of the account. Fees are calculated based on the portfolio valuation as determined by the account custodian ("Custodian") at the close of market on the last business day of each quarter. Fees are billed quarterly in advance at the rate of one-fourth of the annual fee and may be deducted from client accounts. Clients are billed for the balance of the quarter in which the account is opened and prorated based upon the date the account was opened. Management fees shall be prorated for each capital contribution and withdrawal made in excess of 50% of the account assets during the applicable calendar quarter. Clients may request a different payment schedule, but fees will not be billed more than three months in advance. The fee is determined at the time the Client signs the Client Agreement and is based on the market value and complexity of each client's individual situation. The Firm may charge an account initiation fee of less than 1%, payable on the date that the account is funded. Fees for very large accounts are negotiable. In the event a client terminates prior to the end of a quarter, the unearned fee for the balance of the quarter is refunded.

The fee schedule is:

Under \$500,000	2.0%
\$500,000 to \$2 million	1.5%
\$2-10 million	1.0%
Over \$10 million	Negotiable

The annual fee generally is separate from transaction, exchange, wire transfer, margin interest or account fees charged by the custodian. To the extent that client assets are invested in money market funds or mutual funds, the fees for monitoring those assets are in addition to the fees included in the internal expenses of those funds paid to their own investment managers, which are fully disclosed in each fund's prospectus. Some custodians may charge transaction fees on some mutual funds, so that clients may be paying more to purchase or sell these funds than if the Firm went directly to these fund families on behalf of clients.

Each client agreement allows for either party to terminate the agreement upon receipt of written notice to such effect. The client may terminate the agreement without penalty within thirty (30) business days after entering the

Agreement. Otherwise, at the date of termination and the closing of the account, any prepaid and unearned fees will be refunded to the client on a pro rata basis.

Item 12 further describes the factors that Texas First considers in selecting or recommending broker/dealer for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

Texas First does not charge any performance-based fees or fees based on a share of capital gains on or capital appreciation of the assets of a client.

### **Item 7 – Types of Clients**

Texas First provides portfolio management services to individuals and institutions.

### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Before accepting a client, Texas First will discuss each client's risk and return profile, in addition to their income situation, liquidity needs, and market knowledge and understanding. Texas First will discuss with the client how its products may fit in with the client's overall investment strategy.

Texas First is a value equity manager, implementing this style through fundamental research and bottom-up stock selection. Products include small cap, mid cap, and large cap equity portfolios. The portfolios have had the same portfolio manager since inception. The focus of Texas First is on "value" stocks. In the investment industry, "value" stocks are typically differentiated from "growth" stocks by measures such as price/earnings ratios, price/book value, and earnings growth rates. The objective of the portfolios is capital appreciation over the long term. Portfolios are diversified among industries, although there are no minimum holdings targets for any specific sector or industry. Portfolios typically have 18-22 stocks, which are believed to have a high reward/risk outlook, consistent with diversification. At some times, portfolios might have less than 18 stocks or more than 22 stocks. All holdings are equities of U.S.-based companies. Derivatives or leverage are not used. Technical analysis – known as charting – and momentum investing are not used.

Investment analysis emphasizes such factors as low price-to-earnings (PE), low price to book value, and low PE to earnings growth rate. Other considerations include stocks which have declined due to short term or cyclical reasons, but which appear to have a good chance of recovery. The potential for M&A activity may also be considered. Buying and selling of stock by company management is an important factor. Other factors may be considered. No single factor is determinate when buying decisions are made.

The average holding period for a stock is currently about 18 months, though stocks could be held for as short as one month or for several years. Quantitative triggers – *e.g.*, selling the stock when it is up or down a certain amount – are not used. Stocks may be sold when the estimated reward/risk outlook changes due to increases in the stock price, or if the company fundamentals change, or when more attractive alternatives are found.

Historically, the Beta of the portfolios, which is a commonly used factor to estimate risk, has been close to the Betas of the comparable index benchmarks. However, this factor will vary with changes in portfolio holdings, and may deviate from the underlying index benchmark.

Investing in securities involves a significant risk of loss that clients should be prepared to bear. All investments carry some amount of risk. Texas First investment strategies may be subject to the following principal investment risks:

Equity Risks – The risk that the value of equity securities, such as common stocks and preferred stocks, may decline due to general market conditions which are not specifically related to a particular company or to factors affecting a particular industry or industries. Equity securities generally have greater price volatility than fixed income securities.

Issuer Non-diversification Risk – The risks of focusing investments in a small number of issuers or industries, including being more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be.

Market Risk – The market price of securities held by a portfolio may rapidly or unpredictably decline due to factors affecting securities markets generally or particular industries.

Credit Risks – The risk that the portfolio could lose money if the issuer or guarantor of a fixed-income security, or the counter-party to a derivative contract, is unable or unwilling to meet its financial obligations.

Counter-party Risks – A portfolio may incur a loss if the other party to an investment contract, such as a derivative, fails to fulfill its contractual obligation.

Currency Risks – The risk that foreign currencies will decline in value relative to the US dollar and affect a portfolio's investments in foreign (non-US) currencies or in securities that trade in, and receive revenues in, or in derivatives that provide exposure to, foreign (non-US) currencies.

ETF Risks – A portfolio will be exposed indirectly to all of the risks of securities held by an ETF.

High-yield Securities Risk – High-yield securities have a much greater risk of default or of not returning principal and tend to be more volatile than higher-rated securities of similar maturity.

Issuer Risk – The value of a security may decline because of adverse events or circumstances that directly relate to conditions at the issuer or any entity providing it credit or liquidity support.

Issuer Non-diversification Risk – The risks of focusing investments in a small number of issuers or industries, including being more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be.

Leverage Risk – The risk that certain portfolio transactions may give rise to leverage, causing the portfolio to be more volatile than if it had not been leveraged.

Liquidity Risk – A security may not be able to be sold at the time desired or without adversely affecting the price.

Regulatory Risk – The risk that changes in government regulations may adversely affect the value of a security. An insufficiently regulated industry or market might also permit inappropriate practices that adversely affect an investment.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be used by a Client in the evaluation of Texas First or the integrity of Texas First's management. Neither the Firm nor any of its supervised persons has any disciplinary history that is applicable to this item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

The Firm has entered into agreements with various investment advisory firms including Private Wealth Management, Inc., RiverRock Capital Management, LLC, ISC Group, Inc., First Southwest Corp., Equis Capital Management, Inc. and Wealthfront Inc.

The Firm manages two institutional accounts for Equis Capital Management, Inc. These accounts are made available to Equis Capital Management, Inc. clients who are aware that Texas First manages these accounts. Equis Capital Management, Inc. provides the account numbers, but not the names, of their clients. The Firm also provides two model portfolios for First Southwest Corp. clients through Concord Wealth Management, Inc.

The Firm is one of several managers providing an actively-managed model portfolio for a “package of managers” product of RiverRock Capital Management, LLC. This program began in mid-2010. RiverRock Capital Management, LLC’s parent company, Renegade Capital GP, LLC (“Renegade”), is a minority owner of Texas First. Renegade also owns RiverRock Securities, LLC, a FINRA member broker/dealer. The Firm does not effect trades or securities transactions through or with RiverRock Securities, LLC.

In March 2011 the Firm became a manager with the Wealthfront program. Texas First provides an actively-managed model portfolio to Wealthfront, which in turn has clients who invest in this portfolio.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

The Firm has adopted a Code of Ethics that emphasizes the highest standards of conduct that the Firm has always sought to observe. The Code of Ethics consists of general principles that are understood to govern the personal investment activities of the Firm's personnel, the Firm's fiduciary duty to clients, and the obligations of the Firm's personnel to uphold the fundamental duty. Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on, and the reporting of gifts and gratuities and personal securities trading procedures, among other things. All Supervised Persons at Texas First must sign an acknowledgement, acceptance, and understanding of the terms of the Code of Ethics, annually.

Individuals associated with the Firm may buy, sell, or hold in their personal accounts the same securities that the Firm buys, sells, or holds for its clients, but only in accordance with the Firm’s internal compliance procedures. Such trades must be preapproved by the Firm’s Chief Compliance Officer and may occur only after trades are placed on behalf of clients. Individuals associated with the Firm may purchase open-end mutual funds for their accounts without restriction. In addition to this measure, all of the principals of Texas First will act in accordance with applicable securities laws and conduct their business to ensure overall compliance with *Insider Trading Rules and The Securities Fraud Enforcement Act of 1988*. Any trading by Texas First personnel is controlled by Texas First's Code of Ethics.

The Code of Ethics also includes the following statement: “An officer, director, or employee of the Firm shall not buy or sell securities when the decision to purchase or sell is substantially derived, in whole or in part, by reason of employment with the Firm, unless the information is also available to the investing public upon reasonable inquiry. No person associated with the Firm shall prefer his or her interest to that of any client.”

The Firm’s Code of Ethics is available to any client upon request.

## **Item 12 – Brokerage Practices**

Texas First is responsible for broker/dealer selection unless otherwise directed by the Client in writing. This selection and the fees that are paid to such broker/dealers are determined based on the Client's best interests. This determination is based on a number of factors, which may include, but is not limited to the following: brokerage commission rates, execution capability, quality of research and/or product quality, reputation, financial strength and stability, efficiency of execution and error resolution, block trading and block position capabilities, willingness to execute related or unrelated difficult transactions in the future, on-line access to computerized data regarding Client accounts, custody, record keeping or other similar services, as well as other matters involved in the receipt of general brokerage services. Clients may pay commission rates that are higher than may be obtained from other broker/dealers for the products selected. Research that may be provided by a particular broker/dealer may be utilized in a general knowledge/data gathering way for other Client accounts that do not pay for such research as they may not be a participant in the actual product purchased from such broker/dealer. Each broker/dealer is evaluated on a continuous basis based on the criteria set forth above. Investment decisions on any particular broker/dealer are never based solely on the research services provided by such broker/dealer. Texas First may also suggest brokers to Clients and if authorized by Client, Texas First may select a broker without obtaining the Client's specific authorization. While commission rates are an important factor in broker selection, Texas First may direct trades to brokers that charge commissions higher than those obtainable from other brokers. In selecting a broker for any transaction or series of transactions, Texas First may consider a number of factors in addition to commission rates, including, for example net price, reputation, financial strength and stability, efficiency of execution and error resolution, block trading and block position capabilities, willingness to execute related or unrelated difficult transactions in the future, on-line access to computerized data regarding Client accounts, custody, record keeping or other similar services, as well as other matters involved in the receipt of general brokerage services. Research that may be provided by a particular broker/dealer may be utilized in a general knowledge/data gathering way for other Client accounts that do not pay for such research as they may not be a participant in the actual product purchased from such broker/dealer. Each broker/dealer is evaluated on a continuous basis based on the criteria set forth above. Investment decisions on any particular broker/dealer are never based solely on the research services provided by such broker/dealer.

Texas First may recommend that Clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker/dealer, Member SIPC, to maintain custody of Clients' assets and to effect trades for their accounts. Texas First is independently owned and operated and not affiliated with Schwab. Schwab provides Texas First with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Institutional, and are not otherwise contingent upon Texas First committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that might not be available to all clients of Schwab.

## **Item 13 – Review of Accounts**

All client portfolios of Texas First are managed and reviewed on a continuous basis. Formal account reviews are conducted annually. Clients may request more frequent reviews for any reason. Triggering factors for more frequent reviews can include, but are not limited to, any material change in a client's situation or account, company earnings, industry and/or company outlook as well as general economic factors or other relevant situations that may alter a client's account. All account reviews are conducted by Douglas Cannon, President and CCO, who is primarily responsible for each account.

Clients may request reports that are customized as the client desires, in terms of nature, frequency, and detail. Clients are encouraged to call Texas First, or the custodian, with any questions they may have on the monthly reports provided by the custodian of the account. Texas First will provide reports summarizing the investment performance of their account(s) and the investment outlook after the end of each calendar year, or quarterly if requested by the client.

#### **Item 14 – Client Referrals and Other Compensation**

The Firm has a referral arrangement with Private Wealth Management, Inc., (“PWM”) a Registered Investment Adviser. PWM refers clients to the Firm and receives a share of Texas First’s management fee. Clients are fully informed of the agreement between Texas First and PWM as required in Section 206(4)-3 of the Investment Advisers Act of 1940, as amended. Additionally, the Firm paid PWM an administration fee for assistance with Texas First accounts through June 30, 2010. The Firm paid PWM a minimal fee for marketing assistance in 2008. The owner of PWM owns less than 5% of Texas First.

In 2010, the Firm established a referral arrangement with ISC Group, Inc. (“ISC”), a Registered Investment Adviser and Broker/Dealer. ISC refers clients to the Firm and receives a share of Texas First’s management fee. Clients are fully informed of the agreement between Texas First and ISC as required in Section 206(4)-3 of the Investment Advisers Act of 1940, as amended.

The Firm has a currently inactive referral arrangement with RiverRock Capital Management (“RRCM”), a Registered Investment Adviser. RRCM may refer clients to the Firm and receive a share of Texas First’s management fee. Clients are fully informed of the agreement between Texas First and RRCM as required in Section 206(4)-3 of the Investment Advisers Act of 1940, as amended. This agreement is in addition to the previously mentioned "package of manager’s product" offered by RRCM. The parent company of RRCM is a minority owner of Texas First.

#### **Item 15 – Custody**

All clients account accounts are held in the custody of third-party financial entities. Clients may stipulate where their account is custodied. Charles Schwab and Company is the custodian that Texas First typically recommends. Clients should receive at least quarterly statements from the broker/dealer, bank or other qualified custodian that holds and maintains clients’ investment assets. Texas First urges clients to carefully review such statements and discuss any questions with Texas First and/or the custodian.

#### **Item 16 – Investment Discretion**

Texas First usually receives written discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. Investment guidelines and restrictions must be provided to Texas First in writing. When selecting securities and determining amounts, Texas First observes the investment policies, limitations and restrictions of the clients for which it advises.

#### **Item 17 – Voting Client Securities**

Texas First shall not take any action or render any advice with respect to the voting of proxies solicited by, or with respect to, the issuers of any securities held in the Accounts.

## **Item 18 – Financial Information**

Texas First has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.