

Kempner Capital Management, Inc.

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This brochure provides information about the qualifications and business practices of Kempner Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (409) 765-6671. 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 Kempner Capital Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

The last annual update of this brochure was in March 2011. There have been no material changes to our business since that update.

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ADVISORY BUSINESS

Advisory Firm Description

Kempner Capital Management, Inc. ("KCM" or the "Firm") has been in business since January 1982. The principal owner is Harris ("Shrub") Leon Kempner, Jr.

Types of Advisory Services

KCM provides investment advice to clients in accordance with established investment guidelines and objectives. KCM requires a written investment advisory contract with every client and asks all clients to submit written investment objectives. When provided, those objectives are attached as an exhibit to the advisory agreement. In the absence of client/provided objectives, KCM attaches its own standard objectives. KCM manages discretionary client portfolios with minimal regard for such factors as the amount of a client's other investments and the tax impact of an investment on the client.

KCM has discretionary and non-discretionary clients. Services to discretionary clients include:

- Supervision of the client's portfolio assets committed to KCM
- Investment advice
- Execution of purchase and sale orders
- Regular reports on the administered portfolio

KCM gives investment advice to non-discretionary clients, recommending stocks for purchase or sale at suggested limit prices. KCM does not place trades for non-discretionary clients or monitor the portfolios of non-discretionary clients on a regular basis.

KCM primarily manages equity portfolios using a value management style, but also gives fixed income advice to some clients. The fixed income portfolios generally consist of full faith and credit U. S. government bonds.

In addition, KCM serves as sub-advisor for two mutual funds supervised by Frost Investment Advisors, LLC of San Antonio. Those funds are the Frost Kempner Multi Cap Deep Value Equity Fund and the Frost Kempner Treasury and Income Fund.

Tailored Advisory Services

Nondiscretionary accounts are managed for clients not willing or unable to provide KCM with trading authority. Discretionary clients may restrict KCM from purchasing or selling particular securities. Each client may change these restrictions at any time by notifying KCM staff. Accounts that do not meet KCM's minimum account size can be managed as non-discretionary accounts through the Trust Department at Frost Bank in Galveston or Legacy Trust Company in Houston.

Client Assets Under Management

At December 31, 2011, the Firm had \$319,428,772 of discretionary assets under management and \$97,136,044 of nondiscretionary assets under management.

FEES AND COMPENSATION

KCM's standard fee schedule for new discretionary clients is based on the market value of the portfolio managed and is negotiable. The current quarterly fee schedule is:

- 0.1875% of the first \$5,000,000
- 0.1250% of the next \$20,000,000
- 0.10% of the market value of assets in excess of \$25,000,000

KCM also manages assets for two registered investment companies. The fee schedule for managing those assets is as follows:

- 0.34% computed daily at an annual rate based on the average daily net assets of the respective fund and
- 0.25% computed daily at an annual rate based on the average daily net assets of the respective fund.

Some clients have negotiated fees at lower rates, so clients may pay different fees for the same service from KCM. A statement of fees due is prepared at the end of each quarter based on the value of the portfolio assets at market close on the last day the New York Stock Exchange is open for business during each quarter. The fee is payable within 15 days after the date of the statement and is charged in arrears. Fees for non-discretionary clients are lower, based on the scope of services provided and the size of the portfolio assets. These fees are negotiated on a case-by-case basis.

Uninvested cash is generally swept regularly by the custodian and is invested in short-term mutual funds or money market type instruments for which the client may be charged an internal management fee which is included in the internal expenses of the fund. These expenses are disclosed in each fund prospectus which is provided to the clients by the account custodian. Clients are also responsible for additional fees and expenses associated with their account, such as custodial fees, brokerage commissions, wire fees, etc. Please see the section below titled "Brokerage Practices" for more details on such matters.

H. Kempner Trust Association, a family trust, in which Harris L. Kempner, Jr. has an interest, pays a quarterly fee of \$27,660 to KCM. Kempner Securities, LP, which is a current KCM discretionary client, pays KCM a quarterly fee of \$10,000 in addition to the fee paid to KCM under an Investment Advisory Agreement. These fees are for administrative, accounting and specialized record-keeping services provided by KCM.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

KCM does not charge any performance-based fees or engage in side-by-side management.

TYPES OF CLIENTS

KCM provides investment advice to the following types of clients:

- Individuals
- Banks
- Investment companies
- Trusts, estates or charitable organizations
- Limited Partnerships

KCM presently requires a minimum portfolio size of \$5 million but may accept smaller accounts if those accounts are related to larger accounts or are expected to add funds within a reasonable period of time.

Clients who do not meet KCM's asset minimum can obtain the Firm's portfolio management services through accounts with the trust department of Frost National Bank in Galveston or Legacy Trust Company in Houston.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

The investment strategies used by KCM to implement investment advice include the following:

- Long-term purchases (securities held at least a year)
- Short-term purchases (securities sold within a year)

Value Management Multi-Cap Investment Strategy

KCM utilizes a disciplined, deep-value approach to investing in equity portfolios with an emphasis on long-term total return. It can best be described as a bottom-up process looking for companies that have been overlooked by other investors but have earnings or other factors such that they will likely become better regarded within a market cycle. KCM's primary objective is to generate a total pre-tax return, including capital growth and dividends, greater than the rate of inflation over a minimum of three to five years.

Stocks selected:

- Must pay dividends at the time of purchase (*KCM retains stocks that have suspended dividend payments if there is investment merit and a turnaround is anticipated.*)
- Have frequently been sold out or ignored for some time by other investors
- Have earnings or other factors such that KCM believes they will become better regarded by other investors
- Usually have low price/earnings multiples (≤ 15) and high cash flow multiples per share
- Are generally within 20% of their 52-week low
- Public debt, if any, which must be investment grade (BBB-, BAA3 or better) at time of purchase

KCM does purchase foreign securities if they are ADRs and are traded on U.S. exchanges.

The Investment Process

KCM screens a universe of approximately 7,500 stocks to establish a research universe of 100 stocks to be examined on a stock-by-stock basis using a bottom-up approach.

Cash is a direct result of the investment process and builds when purchase opportunities are not available. Cash reserves tend to accumulate as the Market is moving up and usually diminish as markets come down and more bargains appear.

KCM does not believe in being 100% invested at all times. Cash is always considered a buying reserve and is committed as the market comes down and more stocks become cheap, according to KCM's criteria. This is one of the more significant differences between KCM and other managers.

Risks to a value strategy include the subjective nature of the assumptions of a company's intrinsic value, whether based on present or future valuation. Value strategies must be particularly strategic in declining markets. KCM places most of its equity trades as GTC orders, which instruct the broker to execute the trade once a particular price is reached. GTC orders do not guarantee an execution.

Fixed Income Investment Strategy

KCM's primary objective is to provide a reasonable level of current income and preservation of capital through investment in full faith and credit U.S. Government Obligations.

KCM uses a top-down approach using economic analysis to anticipate the general direction of interest rates.

Under normal circumstances, KCM will invest at least 80% of its net assets in full faith and credit U.S. Treasury obligations.

The Investment Process

In selecting investments for fixed incomes, KCM tries to increase total return without adding undue risk by analyzing yields and economic factors, such as expected inflation.

The investments include:

- Treasury bonds
- Treasury notes
- Treasury inflation-protected securities
- Short-term U.S. Government money market funds

KCM considers, among other things, the security's interest rate, yield, maturity and inflation-protection.

KCM actively manages the maturity of the security to increase the total return based on current market interest rates and KCM's outlook on the market.

Although U.S. Treasury securities are considered to be among the safest investments, they are not guaranteed against price movements due to changing interest rates.

Risks to KCM's fixed income strategy include the current low yields of U.S. Treasuries and the perception that foreign entities may be decreasing their level of investment in U.S. issues.

KCM does not guarantee the future performance of an account or any specific level of performance, the success of any investment decision or strategy that the Firm may use, or the success of the Firm's overall management of an account. The client understands that investment decisions made for the client's account by the Firm are subject to various market, economic, political and business risks, and that those investment decisions will not always be profitable. The client is reminded that investing in any security entails risk of loss.

DISCIPLINARY INFORMATION

There have been no disciplinary actions against KCM or Mr. Kempner.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

In addition to its regular investment advisory clients, KCM provides administrative, accounting and specialized record-keeping services for H. Kempner Trust Association, a family trust, in which Harris L. Kempner, Jr. has an interest. KCM also provides these services for Kempner Securities, LP ("KSLP"), which is a current KCM discretionary client, and for Galveston Finale LP ("GFLP"). Mr. Kempner is a limited partner/unit holder of KSLP and GFLP.

Mr. Kempner is Chairman Emeritus and an Advisory Director to the Board of Frost National Bank of Galveston. His position is honorary. KCM is the investment advisor to the Trust department of Frost Bank in Galveston pursuant to an investment advisory contract.

KCM serves as the investment advisor for Kempner Securities LP. This partnership is not open to outside investors. Harris L. Kempner, Jr. is one of three members of Kempner Securities GP LLC, the General Partner of Kempner Securities LP.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

KCM has adopted a Code of Ethics which describes the general standards of conduct that the Firm expects of all Firm personnel (collectively referred to as "employees") and focuses on three specific areas where employee conduct has the potential to adversely affect the client:

- Misuse of non-public information
- Personal securities trading
- Outside business activities

Failure to uphold the Code of Ethics may result in disciplinary sanctions, including termination with the Firm. Any client or prospective client may request a copy of the Firm's Code of Ethics which will be provided at no cost.

The following basic principles guide all aspects of the Firm's business and represent the minimum requirements to which the Firm expects employees to adhere:

- Clients' interests come before employees' personal interests and before the Firm's interests.
- The Firm must fully disclose all material facts about conflicts of interest of which it is aware between itself and clients as well as between Firm employees and clients.
- Employees must operate on the Firm's behalf and on their own behalf consistently with the Firm's disclosures and to manage the impacts of those conflicts.
- The Firm and its employees must not take inappropriate advantage of their positions of trust with or responsibility to clients.
- The Firm and its employees must always comply with all applicable securities laws.

Misuse of Non-Public Information

The Code of Ethics contains a policy against the use of non-public information in conducting business for the Firm. Employees may not convey non-public information nor depend upon it in placing personal or client securities trades.

Personal Securities Trading

Neither KCM nor its employees may take any action with respect to personal holdings that is believed to be unfair to their clients. KCM's Chief Compliance Officer must receive monthly brokerage statements directly from the broker detailing all trading activity and security positions owned by any employee or member of the employee's household. These statements are reviewed monthly to ensure compliance with KCM's policies.

As defined in its Code of Ethics, KCM and its employees are not prohibited from buying or selling, for their own portfolios, the same securities recommended to clients but have strict restrictions as to when an order may be placed and at what price. Employees are prohibited from participating in initial public offerings in Personal Accounts. Investing in private placements of any kind in Personal Accounts must be pre-approved by the Chief Compliance Officer.

Outside Business Activities

Employees are required to report any outside business activities generating revenue. If any are deemed to be in conflict with clients, such conflicts will be fully disclosed or the employee will be directed to cease this activity.

BROKERAGE PRACTICES

KCM recognizes its fiduciary responsibility to maintain best execution for trades executed on behalf of clients, managing commission costs as well as monitoring execution quality. Clients may be paying higher commission rates than current market on a trade-by-trade basis due to KCM's practice of placing "Good-Til-Cancelled" ("GTC") orders. These orders may remain "open" for lengthy periods of time, which means KCM requires periodic reports to verify all open orders from each broker. Maintaining GTC open orders and verification of open orders are factors considered in their commission rate. However, portfolio turnover is particularly low, so overall commission costs are held to a minimum in the portfolios KCM manages.

The Investment Committee periodically reviews all brokers executing trades using a number of factors, including:

- The ability to effect prompt and reliable executions at favorable prices.
- The operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution.
- Responsiveness to KCM
- Quality of recordkeeping, ability to maintain and review open orders regularly with KCM.

Research and Other Soft-Dollar Benefits

KCM currently receives daily economic forecasts from ISI Group ("ISI"). ISI does not have an established soft-dollar requirement and KCM does not pay a hard-dollar fee for their services nor does KCM have a contract with ISI. KCM currently directs approximately 20% in brokerage commissions in exchange for the economic forecast services of ISI. All clients benefit from the research received, regardless of whether their commission dollars were used. Trades for clients who do not have directed brokerage agreements are executed with ISI when possible.

Brokerage for Client Referrals

If a broker conducting a manager search for a client submits KCM for consideration and KCM is chosen to manage the client's portfolio, some of the brokerage for the account is often directed to that broker, provided the broker meets the criteria stated previously. At no time will the best interest of the client be compromised in order to direct brokerage to the broker who established the contact between KCM and the client.

Directed Brokerage

Client Directed Brokerage Arrangements

When new accounts are opened, KCM gives clients the opportunity to direct brokerage arrangements. Some clients direct brokerage and participate in commission recapture programs with brokerage firms. The disadvantages to the client in directing brokerage are:

- The client may not be able to negotiate a commission rate comparable to what KCM has in place.

- The client's trades may not be entered as quickly as those of KCM's non-directed brokerage clients. Although KCM's policy is to rotate the order of trade input, it takes less time to place one order than it does to place several. Non-directed client trades are sometimes aggregated to allow faster trade input and execution.
- Directed brokerage clients could be in an unfavorable position for purchasing IPOs (or other limited supply investments) that KCM may have the opportunity to purchase through its broker relationships.

Order Aggregation

KCM sometimes aggregates trades for non-directed brokerage portfolios. Allocations are determined before the orders are placed, and any partial executions are allocated pro rata per broker. KCM makes every effort to assign average prices to each share participating in the aggregated trades if they are executed at different prices. KCM's trade tickets identify the aggregated trades and detail the client allocations.

REVIEW OF ACCOUNTS

Discretionary client portfolios are managed using a team approach by KCM's portfolio managers, Harris L. Kempner, Jr., R. Patrick Rowles and M. Shawn Gault. All portfolios are reviewed a minimum of two times weekly. In addition, any news on current portfolio holdings, earnings announcements, debt rating changes, etc. are discussed in weekly Investment Committee meetings attended by the Portfolio Management Team as well as the Chief Compliance Officer and the Compliance Officer/Head Trader.

KCM prepares and delivers to each discretionary client written quarterly reports showing the client's portfolio holdings, cost, market value and expected yield as of the last business day of the quarter. A quarterly letter discussing KCM's view of economic conditions and new security positions in the portfolio, as well as positions sold out, is sent to all clients along with their portfolio's performance for the quarter compared to other market indices.

CLIENT REFERRALS AND OTHER COMPENSATION

KCM does not provide compensation for client referrals and does not market through third-party arrangements.

CUSTODY

Custody is defined as having any access to client funds or securities. Frost National Bank is the custodian for Kempner Securities LP investment assets, but KCM President, Harris L. Kempner, Jr., is authorized, as a member of the General Partner, to sign checks on the partnership's checking account and to transfer funds as needed to the partnership's checking account. Therefore, KCM considers itself to have custody of the Kempner Securities LP account. This account is audited by an unaffiliated public accounting firm annually, with the audited statements then sent to each Limited Partner.

Upon receipt of custodial statements, clients should carefully review those statements and take the time to compare them with those they receive from KCM. If the client finds significant discrepancies, the custodian and KCM should be notified. Clients are also encouraged to depend upon the custodian's statements for tax reporting purposes.

INVESTMENT DISCRETION

For discretionary accounts, the Firm has full trading authority as provided under a signed agreement with KCM. As a result, KCM will determine both the investments, and how much of each, should be purchased or sold on each client's behalf. Clients may place restrictions on the Firm's discretion in writing.

Nondiscretionary accounts are managed for clients not willing or unable to provide trading authority to KCM.

VOTING CLIENT SECURITIES

KCM has the right to vote proxies for securities held in client accounts, so KCM has adopted proxy voting policies and procedures. KCM will determine whether it is in the clients' best interest to exercise the clients' voting rights with respect to specific securities. If it is deemed appropriate to exercise the right, the matters on which a vote is solicited will be evaluated in light of the clients' investment objectives. KCM may vote against management's recommendation on issues where necessary, depending upon each proposal and its merits. Clients may request copies of KCM's historical proxy voting record on their behalf, as well as a copy of KCM's proxy voting policy.

FINANCIAL INFORMATION

There is no existing financial condition that is likely to impair KCM's ability to continue to provide services to its clients.

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