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BROCHURE

This brochure provides information about the qualifications and business practices of Smith, Graham & Co. Investment Advisors, L.P. ("Smith Graham"). Throughout this Brochure, any references to "we", "our", "us", etc. are meant to refer to Smith Graham. You should review this Brochure in conjunction with our separate brochure supplement ("Supplement"). The Supplement(s) has been prepared for the purpose of providing information about the qualifications and background of the supervised person(s) working with you on our behalf or who may otherwise participate in the advisory services provided to you.

Smith Graham is a Registered Investment Adviser with the SEC. Registration of an investment adviser does not imply any level of skill or training. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship.

If you have any questions about the contents of this Brochure or our Supplement(s), please contact Jamie G. House, Chief Operating Officer, at (713) 292-2133 or via e-mail at contact_us@smithgraham.com. Additional information about Smith Graham is also available on the SEC's website at www.adviserinfo.sec.gov. The searchable IARD/CRD number for Smith Graham is 107827. Results will provide you both our form ADV Part I and Part 2A – Brochure.

Item 2 MATERIAL CHANGES

This Material Changes section will discuss only material changes since the last annual update of our Brochure. It will also include a reference to the date of our last annual updating amendment.

There were no material changes since the last annual filing date – February 28, 2013

You may obtain a copy of our Brochure by contacting Margaret Roberson, Executive Administrator, Operations at (713) 292-2125 or mroberson@smithgraham.com.

Item 3 TABLE OF CONTENTS

Item 1	COVER PAGE	1
Item 2	MATERIAL CHANGES.....	2
Item 3	TABLE OF CONTENTS	3
Item 4	ADVISORY BUSINESS.....	4
Item 5	FEES AND COMPENSATION	6
Item 6	PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT	10
Item 7	TYPES OF CLIENTS.....	11
Item 8	METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS	12
Item 9	DISCIPLINARY INFORMATION	15
Item 10	OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS	16
Item 11	CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING	17
Item 12	BROKERAGE PRACTICES.....	20
Item 13	REVIEW OF ACCOUNTS.....	26
Item 14	CLIENT REFERRALS AND OTHER COMPENSATION	27
Item 15	CUSTODY	28
Item 16	INVESTMENT DISCRETION	29
Item 17	VOTING CLIENT SECURITIES.....	30
Item 18	FINANCIAL INFORMATION.....	35
Item 19	REQUIREMENTS FOR STATE-REGISTERED ADVISORS	35

Item 4 **ADVISORY BUSINESS**

Smith Graham is an investment advisor registered with the SEC. We were established in 1990 in Houston, Texas, our headquarters. We also have a fully functional office in New York, NY. Smith Graham is a 100% employee-owned limited partnership. Gerald Smith, Co-founder, Chairman and Chief Executive Officer, owns over 70% of the firm through our limited partner, SGC Ventures, Inc. We have 30 employees, including 13 investment professionals.

OUR FINANCIAL ADVISORY SERVICES

At Smith Graham, we provide investment advice only with respect to limited types of investments, which are Fixed Income and Equity products. We offer these products to clients through our Investment Management services; and our Advisory Services without Account Management. We do not issue any publication or report on a subscription basis for a fee. Our Advisory services are limited to recommendations on investments.

Investment Management

Smith Graham provides institutional Fixed Income and Equity investment management services on a discretionary, and, from time to time, on a non-discretionary basis to pension and profit sharing plans, corporations, state or municipal government entities, trusts, endowments, charitable organizations, and other business entities. Clients may invest in any or all of our investment strategies. As of February 28, 2014, Smith Graham actively manages \$5,555,968,430 on a discretionary basis and \$21,129,871 on a non-discretionary basis. We act as a portfolio manager for the wrap fee program.

In most cases, clients will choose which strategy is best for them. If requested by the client, we may make recommendations regarding suitable investment strategies. Our investment management services are tailored to the individual needs of the client. Once an investment strategy has been selected, we invest a client's assets based on an allocation fitting the client's risk tolerance and in compliance with their investment objectives and guidelines. Clients are expected to implement guidelines which are consistent with their selected investment strategy. Clients may impose investment restrictions on certain securities or types of securities.

Fixed Income. We employ a disciplined investment process that is applicable across all of our fixed income products, each with a different investment objective. Products include *Core Fixed Income-Aggregate*, *Alpha Plus Bond Strategy*, *Intermediate Fixed Income*, *Low Duration Fixed Income*, *Enhanced Cash Fixed Income* and *Cash Management Fixed Income*. Our investment philosophy has a relative value focus with an emphasis on risk control and risk management. We believe this approach will enable superior long-term returns with low volatility.

Equity. The equity investment philosophy reflects our belief that attractive returns can be achieved over a full market cycle by combining a systematic quantitative approach with traditional fundamental analysis. This philosophy is applied within comparable capitalization universes of U.S. stocks; the Small Cap Value strategy focuses on smaller capitalization stocks and the Midcap Value strategy on mid-cap stocks.

Advisory Services without Account Management

In addition to our core business, investment management services, we provide advisory services to institutional clients without account management. We consult with the client regarding the client's investments pursuant to an advisory services agreement signed by the client. While we determine trading opportunities for the client's investments, the client is responsible for implementing our recommended strategy. We charge clients a fixed quarterly fee for this service, as described in more detail in Item 5 - Fees and Compensation.

Item 5 FEES AND COMPENSATION

INVESTMENT MANAGEMENT FEES

Asset Based Fee

The specific manner by which Smith Graham charges fees is established in a client's investment management agreement. Our fee rates may be higher or lower than those charged by others for comparable investment management services. We may negotiate our investment management services fee for separately managed accounts based upon each client's circumstances, taking into account the aggregate value of related accounts, the complexity of a client's account, or similar matters.

Generally, we are paid a fee for our investment management services based on the ending market value of the account. Smith Graham invoices clients for fees incurred. Clients are billed in arrears on a quarterly, or in some cases, monthly basis. Fees are computed by multiplying a tiered or flat rate times the ending market value of the account. We do not accept or require any prepayment of fees. We do not deduct fees from client accounts.

Quarterly. Fee invoices are divided into quarterly installments and payment is due at the beginning of each quarter for the preceding quarter. Initial fees are calculated based upon the number of days in the quarter that Smith Graham managed the account. All subsequent quarters are invoiced for the full quarter. If the agreement is terminated prior to the end of the quarter, the fee is prorated for the number of days of the quarter prior to the termination date.

Monthly. In limited cases, fee invoices are divided into monthly installments and payment is due at the beginning of each month for the preceding month. Initial fees are calculated based on the number of days in the month that Smith Graham managed the account. All subsequent months are invoiced for the full month. If the agreement is terminated prior to the end of the month, the fee is prorated for the number of days of the month prior to the termination date.

Generally, our asset based fee schedules for separately managed accounts are as follows:

Core Fixed Income – Aggregate

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$100,000,000	.30%
Next \$100,000,000	.20%
Over \$200,000,000	Negotiable

Intermediate Fixed Income

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$100,000,000	.30%
Next \$100,000,000	.20%
Over \$200,000,000	Negotiable

Low Duration Fixed Income

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$100,000,000	.20%
Next \$100,000,000	.15%
Over \$200,000,000	Negotiable

Enhanced Cash Fixed Income

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$100,000,000	.15%
Next \$100,000,000	.10%
Over \$200,000,000	Negotiable

Cash Management Fixed Income

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$100,000,000	.12%
Next \$100,000,000	.08%
Over \$200,000,000	Negotiable

Small Cap Value Equity

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$50,000,000	.75%
Over \$50,000,000	.60%

Midcap Value Equity

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$100,000,000	.75%
Over \$100,000,000	.60%

SMID Cap Equity

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$100,000,000	.75%
Over \$100,000,000	.60%

Balanced-Fixed Income and Midcap Value

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
All Assets under Management	.50%

Performance Based Fee

Smith Graham has entered into an investment management agreement with a client that is invoiced pursuant to a performance based fee. Fees are determined by a two-part system consisting of a base fee plus a performance based incentive fee. The base fee is computed quarterly at the end of each billing quarter using our Asset Based Fee structure (see Asset Based Fees above). The incentive fee calculation will be made on a cumulative annualized rolling twelve quarter basis; if the rolling portfolio return is equal to or greater than 10 basis points above the rolling benchmark return, the incentive fee will be computed.

See Item 6 - Performance-Based Fees and Side-By-Side Management for more detail.

Advisory Services Without Account Management

Fixed Fee

For advisory services offered by Smith Graham without account management, a fixed fee is negotiated pursuant to an advisory services agreement.

Smith Graham invoices clients for fees incurred. Fixed fees are annualized and billed in arrears on a quarterly basis and are due at the beginning of each quarter for the preceding quarter. Initial fees are calculated based on the number of days in the quarter that Smith Graham provided advisory services. All subsequent quarters are invoiced for the full quarter.

If the advisory services agreement is terminated prior to the end of the quarter, the fee is prorated for number of days prior to the termination date. We do not accept or require any prepayment of fees. We do not deduct fees from client accounts.

ADDITIONAL FEES

Brokerage and custodial fees are separate and distinct fees that are the responsibility of the client and are in addition to investment management fees charged by Smith Graham. Our investment management fees do not include transaction fees, commissions, mark-ups, custodial fees, or other charges by the executing broker or account custodian. For a further discussion regarding broker commissions and related fees, please see the section titled *Commission Rates or Equivalents Policy* under Item 12 – Brokerage Practices.

Neither Smith Graham nor any of Smith Graham's supervised persons accepts compensation for the purchase or sale of securities or other investment products.

Item 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

PERFORMANCE-BASED INCENTIVE FEE

Generally, fees are based on an annual percentage of the account's assets under management and its investment objective. However, we have negotiated a performance-based incentive fee with one of our clients. As we have clients who do not pay performance-based fees, we recognize that there may be an incentive to favor the account that pays such fees because compensation we receive from this client is directly tied to the performance of their account. However, this performance-based incentive fee is earned in addition to a base fee which is an asset based fee incurred by the client (see Item 5 – Fees and Compensation). In addition, neither Smith Graham nor its supervised persons manage accounts differently based upon different fee arrangements. The performance-based incentive fee account is in a composite with similar accounts and is reviewed alongside those accounts (see Item 13 – Review of Accounts). Any variation in performance or holdings would clearly indicate whether this account was receiving preferential treatment.

Item 7 TYPES OF CLIENTS

INVESTMENT MANAGEMENT SERVICES

Smith Graham generally provides institutional Fixed Income and Equity investment management services on a discretionary, and, from time to time, on a non-discretionary basis to pension and profit sharing plans, corporations, state or municipal government entities, trusts, endowments, charitable organizations, and other business entities.

We impose certain conditions for initiating or maintaining an account. Each client will be required to enter into a service agreement with Smith Graham prior to receiving our services. We do not generally accept client accounts for investment management services with original principal of less than \$25 million for fixed income accounts and \$5 million for equity accounts. We may waive this requirement if, for example, a client has additional or related accounts that together exceed the minimum requirements. We reserve the right to waive minimums without prior notice.

ADVISORY SERVICES WITHOUT ACCOUNT MANAGEMENT

We provide advisory services without account management on a non-discretionary basis to corporate and public entities.

We advise these clients regarding their investments pursuant to an advisory services agreement, which is required to be signed by the clients prior to receiving our services. While we determine investment opportunities for the clients, the clients are responsible for implementing our recommended strategies.

Item 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Smith Graham acknowledges that we are a fiduciary to our clients and shall, at all times, act in a fiduciary capacity to them. We do not guarantee the future performance of client accounts or any specific level of performance, the success of any investment decision or strategy that we may use, or the success of our overall management of client accounts. We make our clients aware that investment decisions made for client accounts are subject to various market, currency, economic and business risks and that those investment decisions will not always be profitable.

FIXED INCOME PORTFOLIOS

We focus on five key factors to add value to the fixed income portfolios that we manage. We believe that these five factors represent opportunities to enhance portfolio value while diversifying portfolio risk and reducing total return volatility. The five factors are 1) Security Selection, 2) Sector Rotation, 3) Yield Curve Positioning, 4) Volatility Management, and 5) Duration Management. To this end, we invest client funds in government, government agency, corporate, mortgage-backed, commercial mortgage-backed, and asset-backed securities.

An investment in Fixed Income portfolios could lose value over short or even long periods. The performance of these portfolios could be hurt by:

Interest Rate Risk: If interest rates rise, bond prices usually fall. If interest rates fall, bond prices usually rise. The longer a bond's maturity, the greater the impact a change in interest rates can have on its price.

Credit Risk: Bonds carry the risk of default, which means that the issuer is unable to make further income and principal payments. Many individual bonds are rated by a third party source such as Moody's or Standard & Poor's to help describe the creditworthiness of the issuer. Lower-rated bonds usually carry a higher yield and also a higher risk of default. U.S. Treasury bonds have backing from the U.S. Government and thus have no default risk. Although they are not directly backed by the full faith and credit of the U.S. Government, government agency bonds, such as those issued by Fannie Mae and Freddie Mac, are considered to have a high credit quality.

Inflation Risk: High inflation rates can erode the real value of the future income stream to be received.

Call Risk: A callable bond has a provision that allows the issuer to call, or repay, the bond early. If interest rates drop low enough, the bond's issuer can save money by repaying its callable bonds and issuing new bonds at lower coupon rates. If this happens, the bond holder's interest payments cease and the bond's principal is paid early.

Prepayment Risk: Similar to call risk, prepayment risk is the risk that the issuer of a security will repay principal prior to the bond's maturity date, thereby changing the expected payment schedule of the bonds. This is especially prevalent in the mortgage-backed bond market, where a drop in mortgage rates can initiate a refinancing wave. When homeowners refinance their mortgages, the investor in the underlying pool of mortgage-backed bonds receives his or her principal back sooner than expected, and must reinvest at lower, prevailing rates. Other types of securities that could be affected by prepayment risk are commercial mortgage-backed securities and asset-backed securities.

Reinvestment Risk: During periods of declining interest rates, new bonds are purchased at lower, prevailing interest rates.

Non-dollar Fixed Income Investing Risk: Certain of Smith Graham's fixed income investment strategies may involve investment in global and international fixed income assets, including, but not limited to, direct obligations of a sovereign government and securities of sovereign government agencies or quasi-government agencies; domestic and foreign corporate debt and structured/asset-backed debt.

Manager Risk: Poor security selection will cause these portfolios to underperform relevant benchmarks or other funds with a similar investment objective.

EQUITY PORTFOLIOS

Smith Graham believes incremental returns can be achieved within the small-capitalization and mid-capitalization universe by combining a disciplined, systematic approach with traditional fundamental analysis. We use a series of quantitative models based on earnings, book value and cash flow to determine the relative attractiveness of each stock in our universe. We then use fundamental analysis to construct a portfolio from the most attractive companies. Our approach is highly disciplined and is intended to minimize many of the common risks found in small and mid-capitalization investing.

An investment in these portfolios could lose value over short or even long periods. Total returns for the Small Cap Value and Midcap Value portfolio strategies may fluctuate within a wide range, similar to the fluctuations of the overall stock market. The performance of these portfolio strategies could be hurt by:

Stock Market Risk: The risk that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.

Investment Style Risk: The risk that returns from small and mid-capitalization stocks will trail returns from the overall stock market. Historically, small and mid-capitalization stocks have been more volatile in price than the large capitalization stocks that dominate the overall market, and they often perform quite differently.

Manager Risk: The risk that poor security selection will cause these portfolios to underperform relevant benchmarks or other funds with a similar investment objective.

Small Cap Equity Investing. The value of securities of smaller, less well-known issuers can be less liquid and more volatile than that of larger issuers and can react differently to issuer, political, market, and economic developments than the market as a whole and other types of stocks. Smaller issuers may have more limited product lines, markets and financial resources.

Midcap Equity Investing. The value of securities of medium size, less well-known issuers can be less liquid and more volatile than that of larger issuers and can react differently to issuer, political, market, and economic developments than the market as a whole and other types of stocks. Mid cap issuers may have more limited product lines, markets and financial resources.

We do not primarily recommend a particular type of security. We do recommend that client portfolios be diversified and constructed with similar characteristics to their asset class.

The Small Cap Value and Midcap Value portfolio strategies invest exclusively in U.S. equity securities.

Equity securities (common stock, preferred stocks, convertible securities, and warrants) represent an ownership interest, or the right to acquire an ownership interest, in an issuer. Different types of equity securities provide different voting and dividend rights and priority in the event of the bankruptcy of the issuer. The value of equity securities may fluctuate in response to issuer, political, market, and economic developments.

Item 9 DISCIPLINARY INFORMATION

As a registered investment advisor, we are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of our firm or the integrity of our management. Smith Graham has no criminal, regulatory, civil or other actions to report applicable to this Item.

Item 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

OPTION AGREEMENT

In December 2009, Smith Graham entered into an agreement which granted an option ("Option") to two senior members of its staff (the "Optionees") that was subsequently exercised and purchased by the Optionees, which would enable the Optionees to acquire, through a new registered investment advisor entity to be established by the Optionees, certain investment management contracts with clients invested in our Small Cap Value and Midcap Value equity products. In October 2011, Smith Graham and the Optionees entered into an amendment to this option agreement in which the transfer of contracts is now subject to a call option granted to the Optionees by Smith Graham and a put option granted to Smith Graham by the Optionees exercisable annually. Smith Graham does not believe that the untimely death of one of the Optionees in December 2013 has impacted the rights and or obligations specified under the Option or the subsequent amendment.

GERALD B. SMITH'S BOARD AFFILIATIONS

Gerald B. Smith, Chairman & CEO, dedicates time to corporate service. He currently is a member of the Board of Trustees and Chair of the Investment Oversight Committee for The Charles Schwab Family of Funds; a Board Member for Eaton Corporation PLC; as well as a Board Member for New York Life Insurance Company. He is also a member of the Federal Reserve Bank of Dallas – Houston Branch Board of Directors. He previously sat on the boards of Pennzoil-Quaker State, Rorento Fund, N.V., Rotterdam, Netherlands, and First Interstate Bank of Texas.

Mr. Smith also serves on many civic and philanthropic boards including the Board of Directors, Chairman of the Texas Southern University Foundation; a Board Member for First Tee Houston and a Board Member for the National Association of Securities Professionals as well as a member of its Executive Committee.

Item 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS
AND PERSONAL TRADING

Smith Graham maintains and adheres to a Code of Ethics ("Code") describing its high standard of business conduct and fiduciary duty to its clients. The Code is reviewed at least annually and may be amended from time to time by Smith Graham. A copy of the Code is available upon request by any client or prospective client.

All Access Persons of Smith Graham must adhere to the Code. Access Persons means (a) Investment Persons; (b) all partners, directors and officers; and (c) all employees who have access to nonpublic information regarding clients' purchase or sale of securities or are involved in making securities recommendations to clients or who have access to such recommendations that are non-public. Investment Persons includes portfolios managers, analysts, and traders.

Smith Graham and its related persons do not buy or sell securities directly to/from our clients. Access Persons owe a fiduciary duty to Smith Graham and its clients' portfolios ("Accounts"). Accordingly, these persons shall place the interests of Smith Graham and its Accounts first. An Access Person shall handle his or her personal securities transactions in such a manner as to avoid any actual or potential conflict of interest or any abuse of his or her position of trust and responsibility. Access Persons must also certify annually that they have read and understand the Code and recognize that they are subject to it and have complied with its requirements.

Each Access Person shall submit quarterly reports of all personal securities transactions and an annual holdings report to the Chief Compliance Officer or his designated representative. All new Access Persons must submit a current list of all personal securities holdings within 10 days of becoming an Access Person.

When requested by a compliance officer, each Access Person shall direct his or her brokers to supply a designated compliance official of Smith Graham, on a timely basis, with duplicate copies of confirmations of all personal securities transactions and duplicate copies of periodic statements for all securities accounts.

The Chief Compliance Officer or his designated representative shall promptly review the quarterly and annual reports for compliance with this Code and for any apparent trading irregularities. Within 30 days after the end of each period, the Chief Compliance Officer or his designated representative shall prepare a report summarizing the reports submitted and his analysis of those reports (the "Advisor Report"). The Advisor Report shall include the following information: (1) the names of the persons submitting statements that quarter; (2) the number of personal securities transactions by each person during that quarter; (3) detailed information about all pre-clearance requests submitted to the compliance department during the previous quarter and the actions taken on those requests; (4) detailed information about any personal securities transactions on the same day of transaction by an Account managed by Smith Graham in that same (or related) security; (5) a description of any authority given or

investment decisions made regarding initial public offerings and private placements, (6) a description of any authorization given to serve on the board of a publicly traded company; (7) a description of any exemptions made; and (8) either a certification that the Chief Compliance Officer or his designated representative has not detected any potential violation of this Code or other trading irregularity or an explanation of any potential violation or trading irregularity.

There are various securities that are exempt from the Code's reporting requirements. These securities are securities issued or guaranteed by the government of the United States, bankers' acceptances, bank certificates of deposit, commercial paper, money market funds, shares of unaffiliated open and closed-end funds, high quality short-term debt instruments (maturing in less than 366 days and rated in one of the two highest ratings categories by a nationally recognized rating organization), repurchase agreements, commodities (e.g. oil, gold, etc.), currencies of developed countries (e.g. EUR, GBP, JPY, CAD, AUD, etc.), and transactions in Exchange Traded Fund ("ETF"s) securities that include more than 25 issues in their portfolios.

All personal transactions (buys and sells) of non-exempt securities by Access Persons are subject to pre-clearance by the Chief Compliance Officer or his designee. A transaction in a security in an Access Person account will be prohibited if the Firm is considering, has entered an order for or has executed a Firm trade in that security on the same trading day as the request. Each Access Person must submit to the Compliance Department a pre-clearance request for each proposed security to be traded on each proposed trade date. If the transaction is not effected on the date originally proposed by the Access Person, the Access Person must again seek approval for the transaction.

An Access Person shall not execute a personal securities transaction in a security on any day during which an Account managed by Smith Graham has initiated a "buy" or "sell" order on that security. This is the one-day blackout period. The Access Person may execute a personal securities transaction in such security the day after an Account has executed or withdrawn that order.

Certain transactions are exempt from the one-day black out period. These exemptions include: (a) purchases affected upon exercise of rights (e.g., automatic reinvestment of dividends) provided by an issuer pro rata to all holders of a class of its securities to the extent such rights were acquired from such issuer, and sales of such rights so acquired; (b) purchases, through a payroll deduction plan, of securities issued by the Access Person's employer or an affiliate; (c) sales to raise cash in an emergency, provided that prior to the sale a designated representative of Smith Graham finds (1) that the Access Person has a bona fide emergency need for the proceeds from the proposed sale, and (2) considering the size and nature of the market for the security at issue, the size of the Access Person's proposed trade, and whether the security is being considered for purchase or sale by an Account, that there is no danger that an Account will be harmed; and (d) purchases and sales of equity securities of companies with market capitalization of \$20 billion or more. Access Persons need the prior written approval of

Smith Graham before any securities in an initial public offering or private placement are acquired.

An Investment Person shall not serve on the board of directors of any publicly traded company without prior written authorization from Smith Graham. In addition, an Investment Person shall not receive any gift or other thing of more than *de minimis* value from any person or entity that does business with Smith Graham, or on behalf of an Account managed by Smith Graham. *Smith Graham defines de minimis value to be \$100 or less.*

Also, Access Persons are not to give, offer or promise directly or indirectly anything of more than *de minimis* value to any representative of a client, a potential client, a vendor or potential vendor, or financial institution with whom the firm has or may have a business relationship. If an Executive believes that it would be appropriate to give a gift with a value up to \$250, he or she must submit to any obtain approval from the Chief Compliance Officer before the gift is given.

Clients may obtain a copy of the latest Code of Ethics by contacting Mark Dube, Senior Vice President & Chief Compliance Officer, at (713) 292-2136 or mdube@smithgraham.com.

Item 12 **BROKERAGE PRACTICES**

RESEARCH AND SOFT DOLLAR BENEFITS

When appropriate under its discretionary authority and consistent with its duty to obtain best execution, Smith Graham may direct brokerage transactions for client accounts to broker-dealers who provide us with research and brokerage services. The brokerage commissions used to acquire these services are known as “soft dollars.” Safe harbor provisions of the Securities and Exchange Act of 1934 allow Smith Graham to pay for research and brokerage services with soft dollars generated by client account transactions. Smith Graham is permitted, under certain circumstances, to cause client accounts to pay brokers and dealers a commission for effecting portfolio transactions in excess of the commission another broker or dealer would have charged to effect such transactions.

Broker-dealers typically provide a bundle of services, including research and execution. The services provided can be either proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analysts and traders) or third party (created by a third party, but provided by the broker-dealer). Smith Graham may use soft dollars to acquire either type.

The use of brokerage transactions directed to broker-dealers who provide Smith Graham with research and brokerage services through “soft dollar” commissions may create a conflict of interest, which Smith Graham recognizes. Smith Graham limits its use of soft dollars to only those services, which are within the safe harbor provisions. Moreover, any services received by Smith Graham are in addition to, and not in lieu of, services required to be performed by Smith Graham under its investment management agreements. Smith Graham currently has soft dollar arrangements with Westminster Research.

The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based primarily on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed based on, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type. Smith Graham may select broker-dealers based on its assessment of their ability to provide quality executions and its belief that the research, information and other services provided by such broker-dealers may benefit client accounts. It is not generally possible to place a dollar value on the special executions or on the research services Smith Graham receives from broker-dealers effecting transactions in portfolio securities. Accordingly, Smith Graham may pay broker-dealers commissions for effecting clients’ portfolio transactions in excess of amounts other broker-dealers would have charged for effecting similar transactions if Smith Graham determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research

services provided by those broker-dealers, viewed either in terms of a particular transaction or Smith Graham's overall duty to its discretionary accounts.

As a general matter, some brokerage and research services may be used to service some of Smith Graham's client accounts. Research obtained with soft dollars will be allocated over several accounts and may not be designated to the specific account that generated the soft dollars. Smith Graham does not usually attempt to allocate the relative costs or benefits of research among client accounts because it believes that, in the aggregate, the research it receives benefits clients and assists Smith Graham in fulfilling its overall duty to its clients. Moreover, clients whose accounts contain mandates that prohibit soft dollar transactions or that do not permit investments that generate soft dollars may still benefit from the research and other services obtained by Smith Graham in soft dollar arrangements. However, each and every brokerage or research service may not be used for the benefit of each and every account managed by Smith Graham, and brokerage commissions paid by one account may be used to pay for services that may not be used to service that account.

In determining whether a service or product qualifies as research or brokerage, Smith Graham must evaluate whether the service or product provides lawful and appropriate assistance to it in carrying out its investment decision-making responsibilities. Brokerage and research services that may be provided include: (1) furnishing advice as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; (2) furnishing analyses and reports and sponsoring seminars or conferences concerning industries, issuers, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (3) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement, and custody). The SEC has also interpreted the term "commission" to include a markup, markdown, commission equivalent or other fee paid by a managed account to a dealer for executing a transaction where the fee and transaction price are fully and separately disclosed on the confirmation and the transaction is reported under conditions that provide independent and objective verification of the transaction price by a self-regulatory organization. As a result, fees charged in relation to certain riskless principal transactions may generate soft dollars.

Soft dollar transactions are effected by Smith Graham only in connection with agency transactions for the purchase or sale of government, government agency, mortgage dollar roll transactions, corporate fixed income securities, and equity securities for client accounts. The commissions of all clients whose accounts contain mandates that include such securities (excluding those clients whose mandates prohibit soft dollar transactions) may be used to pay for soft dollar arrangements. When a soft dollar firm is included in the bidding process, it is awarded the transaction if it offers best execution.

Smith Graham may receive market data research, real time market prices, and other miscellaneous research and services involved in the investment decision making process. If Smith Graham should choose to obtain a particular third party product, it may use its available soft dollar credits and pay cash to make up any difference. The receipt of research in exchange for soft dollars benefits Smith Graham by allowing Smith Graham, at no cost to itself, to supplement its own research and analysis activities, to

receive the views and information of individuals and research staffs of other securities firms, and to gain access to persons having special expertise on certain companies, industries, areas of economy and market factors. Research and brokerage services acquired with soft dollars may include reports on the economy, industries, sectors and individual companies or issuers; statistical information; accounting and tax law interpretations; political analyses; reports on legal developments affecting portfolio securities; information on technical market actions; credit analyses; on-line quotation and trading systems; risk measurement; analyses of corporate responsibility issues; on-line news services; and financial and market database services.

Smith Graham may also receive “mixed use” services, or those that can be used for both research and non-research purposes, such as for firm administration or marketing. In such cases, there may be conflicts of interest in a) allocating the costs of such services between those that primarily benefit Smith Graham and those that primarily benefit its clients and b) determining which portion may be paid with soft dollars and what portion should be paid in cash. Although the allocation between soft dollars and cash cannot always be precisely calculated, Smith Graham will make a good faith effort to allocate such items reasonably. Records of any such allocations and payments will be prepared and maintained.

Smith Graham will not enter into any agreement or understanding with any broker-dealer which would obligate Smith Graham to direct a specific amount of brokerage transactions or commissions in return for such services. However, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain services and the applicable cash equivalent.

SELECTION OF BROKERS/DEALERS

Smith Graham will consider client requests or recommendations in selecting brokers to be used in connection with trades in the client’s account if the recommended broker charges fees at a rate acceptable to Smith Graham and provides services that are satisfactory to Smith Graham. Clients who request that Smith Graham utilize particular brokers for the execution of trades in their accounts may pay more for brokerage execution if such brokers are used. In executing trades through such broker, Smith Graham may, for example, be unable to achieve best execution due to its inability to negotiate transaction costs, obtain volume discounts, bunch trades, or otherwise obtain best execution. Some brokers may agree to a client’s request that brokers provide products, services, or rebates to the client in exchange for the direction by the client to brokers of commission business relating to the client’s account.

The direction by a client to use a particular broker or dealer to execute transactions may result in higher commissions, greater spreads, or less favorable net prices than might be the case if Smith Graham could negotiate commission rates or spreads freely, or select brokers or dealers based on best execution.

Smith Graham suggests that clients request statements and confirmations from the broker/dealers and/or custodians monthly or quarterly. Clients should compare them to the statements provided by Smith Graham for accuracy.

COMMISSION RATES OR EQUIVALENTS POLICY

In placing orders for execution of portfolio transactions on behalf of client accounts, unless limited by client direction, Smith Graham allocates transactions to brokers for execution on such markets, at such prices, and at such commission rates as determined by the good faith judgment and discretion of Smith Graham. Orders for execution will be in the best interest of client accounts after taking into consideration not only prices and rates of brokerage commissions, but also other relevant factors, including, but not limited to, execution capabilities, research and other services provided by such brokers that may enhance the general portfolio management capabilities of Smith Graham, and the value of an ongoing relationship Smith Graham has with such brokers. Smith Graham is not required to demonstrate that such factors are of direct benefit to any particular client account.

Smith Graham endeavors to be aware of current charges of eligible broker-dealers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of its accounts. However, Smith Graham will not select broker-dealers solely on the basis of “posted” commission rates nor always seek in advance competitive bidding for the most favorable commission rate applicable to any particular portfolio transaction. Although Smith Graham generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker-dealer involved, resulting in higher commissions or their equivalents than would be the case with transactions requiring more routine services.

The reasonableness of commissions is based on the broker’s ability to provide professional services, competitive commission rates, research, and other services which will help Smith Graham in providing investment management services to clients. Smith Graham may therefore use a broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance.

BLOCK TRADING POLICIES

Fixed Income Portfolios

Block Trading: Trades are typically executed for multiple portfolios, which result in a practice known as “Bunching” or “Block” trading. Block trading is used to facilitate best execution, including negotiating more favorable prices, obtaining more timely or equitable execution or reducing overall commission charges. All trades for all accounts within the same strategy are considered for possible bunching unless a client has

specifically directed otherwise. Such transactions will generally be allocated *pro rata* (unless otherwise specified in this Block Trading Policy). No accounts in which the adviser or its employees have an interest participate in block trades for clients.

Pro rata allocation may be used when a block order cannot be fully executed in a single day. The partial fill is generally allocated among the participating client accounts based on the size of each account's original order, subject to rounding in order to achieve "round lots" (unless otherwise specified in this Block Trading Policy). Unexecuted orders will continue until the block order is completed or until all component orders have been cancelled. New orders for the same security will be aggregated with any remaining unexecuted orders and will continue in the same manner. Smith Graham will generally apply a minimum order allocation amount of 100 shares or units, which may be adjusted based on market convention associated with the particular security. If remaining positions are too small to satisfy the minimum order amount, Smith Graham may decide to allocate the remaining shares to those accounts seeking large positions, which were unfilled. Smith Graham may also decide to allocate remaining shares to those accounts whose orders would be completed as a result of the allocation.

However, in certain limited availability or thinly traded securities where Smith Graham is unable to acquire substantial positions, to avoid allocating tiny blocks which may increase settlement and transaction costs, Smith Graham may use random allocation to select which accounts will participate. Random allocation is especially appropriate when the transaction size is too limited to be effectively allocated *pro rata* among all eligible managed accounts. On its own, the random allocation method would usually result in a partial fill for the last account selected. To avoid a partial fill, Smith Graham will manually seek to identify an account with a pre-allocation request that matches the remaining shares. If such an account is identified, Smith Graham will fill that account and place the account which would have received only a partial fill back in the group of accounts eligible for a fill on the next trading day. Once a randomly selected account has participated in a limited opportunity offering, it will not be eligible to participate again until all eligible accounts have had an opportunity to receive shares either in that offering or a similar offering. Random allocation should ensure that all eligible accounts have an opportunity to participate in such transactions over time.

Smith Graham may also consider the following when deciding on allocations: 1) cash flow changes (including available cash, redemptions, exchanges, capital additions and capital withdrawals) may provide a basis to deviate from a pre-established allocation as long as it does not result in an unfair advantage to specific accounts or types of accounts over time; 2) accounts with specialized investment objectives or restrictions emphasizing investment in a specific category of securities may be given priority over other accounts in allocating such securities; and 3) for bond trades, street convention and good delivery often dictate the minimum size and par amounts and may result in small deviations from *pro rata* distribution. Any deviation from such allocations will be approved by one of Smith Graham's compliance officers.

Small Cap Value and Midcap Value Portfolios

Smith Graham's equity portfolio managers manage the Small Cap Value and Midcap Value client accounts in accordance with guidelines established for these investment products, subject to client investment guidelines and restrictions.

Purchases and sales of securities for client accounts are generally made by product, for all accounts participating in the product. Generally, trades are executed in blocks, on behalf of a product, and the securities in the block are allocated to participating clients in a fair and equitable manner based on the relative value of the accounts in the product.

Pre-allocation statements for each product will be generated by Smith Graham's order management system. Smith Graham will generally apply a minimum order allocation amount of 10 shares or units. In the case of partial fills of orders, allocation will be determined pro rata based on pre-trade allocations and any deviation from such allocations will be approved by one of Smith Graham's compliance officers.

It is possible that the same security may be eligible for purchase or sale on behalf of more than one equity product. The order will be allocated to the products on a pro rata basis according to the predetermined product target weights. The order will then be allocated to the accounts invested in each product on a pro rata basis in accordance with their market value, unless investment in the security has been restricted by one or more clients, and subject to exception to avoid the allocation of *de minimis* amounts.

Item 13 REVIEW OF ACCOUNTS

Smith Graham reviews investments for clients weekly, without regard to the amount of assets in any client's respective account. At least two reviewers review each client account. One reviewer must be a senior portfolio manager, while the other may hold the title of Portfolio Manager or Analyst. The reviewers may make recommendations on a daily basis concerning the general investment advice that may be given to clients. The Chair or Vice Chair of the Investment Policy Committee and Portfolio Managers will be responsible for reviewing all of Smith Graham's accounts periodically.

The Chair or Vice Chair of the Investment Policy Committee or designee will advise Smith Graham's management, on at least a monthly basis, of (1) the results of a comparative analysis of the investments held in each client's account vis-à-vis other investments currently available in the market, (2) any changes in investment strategy, and (3) any material or technical changes in market conditions.

In addition, we will review a client account whenever there is a client request to do so. Also, we will review all client accounts whenever there is a significant market movement in terms of interest rates and also significant movements to specific securities.

Written investment reports regarding client accounts will be prepared and delivered to clients on a monthly or quarterly basis as agreed upon with the client. Written reports to clients may include the following: (1) a brief description of each of the assets in which the client's account is invested; (2) the fair market value of the assets in the client's account; (3) the date and brief description of each transaction occurring within the client's account; and (4) a statement of Portfolio returns versus Comparative Benchmark returns. Additional written or oral reports will be provided to clients as needed.

Item 14 CLIENT REFERRALS AND OTHER COMPENSATION

Smith Graham compensates certain of its employees for introducing, referring, or servicing advisory clients. Such compensation is generally based on a percentage of the annual advisory fees earned by Smith Graham on the assets under management of such clients.

Item 15 CUSTODY

Smith Graham does not maintain custody over its clients' accounts. Client assets are held in custody at various custodians chosen by clients. Clients should have access to statements from custodians. We urge our clients to carefully compare such statements to the statements that we provide to clients (as described in Item 13 – Review of Accounts). Our statements may vary from custodial statements due to variances in accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 INVESTMENT DISCRETION

Smith Graham accepts discretionary authority to manage securities accounts on behalf of its clients. Clients may place limitations on this authority. Examples include restrictions to own certain stocks and limitations on the percentage of cash held at any one time. In order for us to assume discretionary authority both the client and Smith Graham must sign an investment management services agreement that includes a statement of investment or guidelines that explains the discretionary authority and details the restrictions or limitations, if any.

Generally, Smith Graham is retained with respect to separate accounts on a discretionary basis and is authorized to make the following determinations in accordance with the client's specified investment objectives without client consultation or consent before a transaction is effected:

- which securities to buy or sell;
- the total amount of securities to buy or sell;
- the broker or dealer through whom securities are bought or sold;
- the commission rates at which securities transactions for client accounts are effected; and
- the prices at which securities are to be bought or sold, which may include dealer spreads or mark-ups and transaction costs.

Smith Graham may, from time to time, accept investment management accounts with limited discretion or where investments are client-directed pursuant to the investment management services agreement.

Item 17 VOTING CLIENT SECURITIES

PROXY VOTING POLICY

Smith Graham exercises proxy voting authority on behalf of clients. It is our policy generally to vote against any management proposals that we believe could prevent companies from realizing their maximum market value, or would insulate companies and/or management, from accountability to shareholders or prudent regulatory compliance.

Business Operations

We generally will vote in favor of proposals that are a standard and necessary aspect of business operations and that we believe will not typically have a significant effect on the value of the investment. Factors considered in reviewing these proposals include the financial performance of the company, attendance and independence of board members and committees, and enforcement of strict accounting practices. Such proposals include:

- name changes
- election of directors
- ratification of auditors
- maintaining current levels of directors' indemnification and liability
- increase in authorized shares (common stock only) if there is no intention to significantly dilute shareholders' proportionate interest
- employee stock purchase or ownership plans

Change in Status

Proposals that change the status of the corporation, its individual securities, or the ownership status of the securities will be reviewed on a case-by-case basis. Changes in status include proposals regarding:

- mergers, acquisitions, restructurings
- re-incorporations
- changes in capitalization

Shareholder Democracy

We generally will vote against any proposal that attempts to limit shareholder democracy in a way that could restrict the ability of the shareholders to realize the value of their investment. This would include proposals endorsing or facilitating:

- increased indemnification protections for directors or officers
- certain supermajority requirements
- unequal voting rights
- classified boards
- cumulative voting
- authorization of new securities (if the intention appears to be to unduly dilute the shareholders' proportionate interest)
- changing the state of incorporation (if the intention appears to disfavor the economic interest of the shareholders)

We generally support proposals that maintain or expand shareholder democracy such as:

- annual elections
- independent directors
- confidential voting
- proposals that require shareholder approval
- adoption or retention of "poison pills" or golden parachutes
- elimination of cumulative voting or preemptive rights
- reclassification of company boards

Smith Graham believes reasonable compensation is appropriate for directors, executives and employees. Compensation should be used as an incentive to align interests of the involved parties with the long-term financial success of the company. It should not be excessive or utilized in a way that compromises independence or creates a conflict of interest. Among the factors we consider when reviewing a compensation proposal is whether it potentially dilutes the value of outstanding shares, whether a plan has broad-based participation and whether a plan allows for the re-pricing of options. Each proposal is reviewed individually.

Conflicts of Interest: Smith Graham must act as a fiduciary when voting proxies on behalf of its clients. In that regard, we will seek to avoid possible conflicts of interest in connection with proxy voting.

ERISA Considerations: ERISA prohibits fiduciaries from acting on behalf of a plan in situations in which the fiduciary is subject to a conflict of interest. Thus, if we determine that we have a conflict of interest with respect to the voting of proxies, we must either seek the client's informed direction or retain an independent person to direct us on how to vote the proxy in the best interests of the ERISA account.

PROXY VOTING PROCEDURES

Receipt of Proxy Materials

We receive proxy materials primarily from client custodians who transmit proxy ballots for investments held in client accounts to Broadridge, a leading provider of investor communications, including proxy mailing and vote processing. Broadridge maintains the automated proxy voting system, ProxyEdge. ProxyEdge automatically screens to ensure that client proxy voting authority has been assigned. Smith Graham's Proxy Administrator then checks Smith Graham's records to determine that proxies have been received for all accounts holding the security and to determine if we still have a position in the security. If we have sold our position between the record date and the meeting date for a particular security, we refrain from voting the securities. If the proxies are to be voted, the Proxy Administrator establishes a file and obtains a proxy analysis report from Institutional Shareholder Services, Inc. ("ISS"), a proxy advisory service.

Voting Decisions

For each vote, the Proxy Administrator discusses the issues or initiatives with the portfolio manager(s) responsible for the security. Smith Graham generally votes in accordance with the recommendations of ISS, unless such recommendations violate our policy. Once a determination has been made regarding how we will vote, the Proxy Administrator casts our vote electronically via ProxyEdge. In the event that SGC votes contrary to the recommendations of ISS, an explanation of the ballot measure(s) and reasoning for the vote are recorded and forwarded to the Chief Compliance Officer.

Recusal from Voting

Any employee who has responsibility for voting a proxy and has a direct or indirect pecuniary interest in any issue presented for voting, or any relationship with the issuer, must so inform the Chief Compliance Officer or his designated representative and recuse him or herself from decisions on how proxies with respect to that issuer are voted.

Conflicts of Interest

The Chief Compliance Officer or his designated representative will review all potential conflicts of interests and determine whether such potential conflict is material. Where he determines there is a potential for a material conflict of interest regarding a proxy, he will consult with the portfolio manager and a determination will be made as to whether one or more of the following steps will be taken: (i) inform clients of the material conflict and Smith Graham's voting decision; (ii) fully disclose the material facts regarding the conflict and seek the clients' consent to vote the proxy as intended; and/or (iii) seek the recommendations of an independent third party. The Chief Compliance Officer or his designated representative will document the steps taken to evidence that the proxy vote was in the best interest of clients and not the product of

any material conflict. Such documentation will be maintained in accordance with required recordkeeping procedures.

Disclosure of Policies and Procedures

A copy of these policies and procedures will be provided to any client upon request and clients may be informed of how they can obtain further information about the voting of their own proxies.

Record of Votes Cast

The Proxy Administrator maintains documents showing each security with respect to which votes were cast, the number of shares voted and how they were voted on each issue.

Client Requests to Reserve Right to Vote

At the client's request and based on the terms of the investment management services agreement, the client may reserve the right to vote their proxies. In this instance, Smith Graham will forward all proxies or proxy information to the client.

Client Requests for Votes

If a client requests that their proxies be voted in a specific way on a specific issue, the portfolio manager or a member of the portfolio management team will advise the client that it cannot accommodate the request.

Client Requests for Voting Record

A record of all proxy decisions and the rationale for voting will be retained and available for inspection by clients at any time. Our Chief Compliance Officer or his designated representative will provide such documents upon request.

Records to be Maintained

The Proxy Administrator will maintain the following records with respect to proxies: (i) proxy statements received regarding client securities; (ii) records of votes cast on behalf of a client, including each security to which votes were cast, the number of shares voted and how they were voted on each issue; (iii) written records of requests by clients for proxy voting information; (iv) written responses to any written or oral requests, and (v) any documents prepared or used by Smith Graham, including any ISS reports, that were material to how a proxy was voted or that memorialized the basis for the voting decision. In maintaining item (ii) above, we may rely on the records of any third party, such as a proxy voting service; provided, however, that we will not rely on such a third party without the express agreement of such party to provide a copy of the documents upon request.

Proxy Voting Policies & Procedures and Proxy Voting Record

Clients may obtain a complete Proxy Voting Policies and Procedures report as well as a full record of proxy votes by contacting Mark Dube, Senior Vice President & Chief Compliance Officer, at (713) 292-2136 or mdube@smithgraham.com.

Item 18 FINANCIAL INFORMATION

Smith Graham is a registered investment adviser with discretionary authority over client securities and funds. We have not been the subject of a bankruptcy proceeding within the past 10 years and do not have any financial commitments that would impair our ability to meet any contractual and fiduciary commitments to our clients.

We do not accept custody of client assets. In addition, we do not solicit or require prepayment of any fees in advance of services rendered.

Item 19 REQUIREMENTS FOR STATE-REGISTERED ADVISORS

As a federally-registered investment adviser, this Item of our Brochure is not applicable to Smith Graham.