

Bridgeway Capital Management, Inc.
Form ADV Part 2A
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July 28, 2011

This brochure ("Brochure") provides information about the qualifications and business practices of Bridgeway Capital Management, Inc. ("Bridgeway"). If you have any questions about the contents of this Brochure, please contact us at 713-661-3500 or info@bridgeway.com. 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.

Additional information about Bridgeway also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

The following is a summary of material changes made to our brochure since the last annual update on March 30, 2011.

Proprietary Account

Below is a summary of material changes made to Items 7, 8, 11, and 12 related to Bridgeway's proprietary account. Bridgeway recently began managing a proprietary account in the Social Large-Cap Growth strategy. Bridgeway considers this to be a material change due to the potential conflicts of interest associated with trading alongside client accounts. Bridgeway has policies and procedures in place to address these conflicts of interest, including a Code of Ethics and Personal Trading Policy and investment and trade allocation policies.

Item 7 – Types of Clients

The discussion of Bridgeway's types of clients was updated to disclose that Bridgeway recently began managing a proprietary account in the Social Large-Cap Growth strategy. Bridgeway's previous brochure did not include a discussion of proprietary accounts.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

The discussion of Bridgeway's Investment Strategies was updated to include the Social Large-Cap Growth strategy. This strategy was not included in Bridgeway's previous brochure as it had not been actively offered to prospective clients; however, Bridgeway recently began managing a proprietary account in the strategy and will offer it to clients in the future.

Item 11 – Code of Ethics

The discussion of Bridgeway's Code of Ethics was updated to disclose Bridgeway's pre-clearance requirements and personal trading restrictions for a proprietary account which falls under the definition of beneficial ownership due to a staff member's ownership stake in the firm. As provided for in Bridgeway's investment and trade allocation policies, this account may participate in trade orders along with client accounts. Trading along with client accounts may create an incentive for Bridgeway to put the interests of the firm ahead of other clients; however, the Code requires staff to put clients' interests ahead of their own and to report personal transactions and holdings to the CCO. Bridgeway's previous brochure did not include a discussion of proprietary accounts.

Item 12 – Brokerage Practices

This item was updated to disclose Bridgeway's investment and trade allocation process for Bridgeway's proprietary account. If it is in the best interest of all clients involved in a trade, orders in Bridgeway's proprietary account may be included with client trades. However, should Bridgeway determine including proprietary account orders with client trades is not in the best interest of client accounts or Bridgeway will be unfairly advantaged by trading along with client accounts, proprietary account orders must go last in the trading rotation. Bridgeway's previous brochure did not include a discussion of proprietary accounts.

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Item 4 Advisory Business

Bridgeway is an investment management firm founded by Mr. John Montgomery in 1993 and is based in Houston, Texas. Mr. John Montgomery and Ms. Leonora Montgomery are the principal owners of the firm.

Bridgeway offers discretionary portfolio management services to institutions, regulated investment companies (“mutual funds” or “funds”), high net worth individuals, pension and profit sharing plans, corporations, trusts, estates, charitable/non-profit organizations, and government entities. Bridgeway applies a highly disciplined, quantitative approach to money management across a wide range of equity categories. A small team of dedicated and talented staff oversee the development and maintenance of Bridgeway’s proprietary models which drive stock selection within each portfolio and support a lean cost structure. All portfolios are constructed with the goal of providing superior risk-adjusted returns over a complete market cycle.

While Bridgeway makes all investment decisions on clients’ behalf, Bridgeway does permit clients to impose restrictions on investing in certain securities or other limitations as mutually agreed upon. All accounts are subject to a written investment advisory agreement which describes our discretionary authority, any investment limitations, investment objectives, fees and other matters.

Assets Under Management as of December 31, 2010

Discretionary: \$2,725,000,000

Non-Discretionary: \$0

Item 5 Fees and Compensation

General Fee Information

Bridgeway charges clients an advisory fee based either on a percentage of the account’s market value (“asset-based fee”) or a combination of asset-based and performance-based fees (fees based on a share of capital gains or capital appreciation of the assets of a client). Asset-based fees are billed quarterly in advance, while performance-based fees are billed quarterly in arrears. Fees are pro-rated for partial periods. Performance-based fees are based on the performance of the account relative to a stock market index. Fees are deducted directly from client accounts or paid directly based on client written direction. In either situation, clients receive an invoice based on the frequency described above as part of the standard reporting package.

Fees may be negotiable under certain circumstances such as size and complexity of the account. Clients separately incur custody fees and brokerage and transaction costs. (Please see Item 12 for additional information on brokerage practices.) If a mutual fund is held in a client account, the client will incur mutual fund expenses and fees.

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In certain instances, Bridgeway may recommend clients purchase and sell mutual funds for which Bridgeway serves as investment adviser or sub-adviser. Client assets invested in these funds within an account that Bridgeway manages are not subject to the advisory fee otherwise applicable to the account. Those assets are subject only to the mutual fund's expenses and fees applicable to all shareholders in the fund, as set forth in the fund's prospectus. However, the fund pays Bridgeway an advisory fee which is a fund expense. Depending on which fund the account is invested in, the fees may be more or less than the separate account advisory fee otherwise applicable to the account.

Because clients pay different fees based on differing fee schedules and/or the size of the account, Bridgeway maintains investment, trade allocation and account valuation (including fair valuation) policies and procedures designed to address potential conflicts of interest related to such differences. Further, investment performance return dispersion is reviewed regularly by Bridgeway's President, several functional areas including Compliance and the Investment and Trading Committee to reasonably ensure certain clients are not favored over other clients.

A client who wishes to terminate the investment advisory agreement must give 30 days' written notice. Upon termination of the investment advisory agreement, net fees earned through the final day will be due and payable as follows:

- Partial Quarterly Performance-Based Fee: Calculated based on a performance period including the last three full quarters and the current partial quarter, adjusted for the number of days assets were under management during the current quarter.
- Prepaid Quarterly Asset-Based Fee: Refund determined on a daily prorated basis.
- Partial Quarterly Performance-Based Fee: The prorated Quarterly Asset-Based Fee and account credits, as applicable, will be netted to determine net fees payable or refundable.

Fee Schedules

For the strategies identified in the table below Bridgeway charges clients a fee based solely on the assets under management. Please see Item 7 for a discussion of account minimums.

Strategy	<\$50M	\$50-\$100M	>\$100M
Ultra-Small Company Market	0.70%	0.65%	0.60%
Small-Cap Momentum	0.65%	0.60%	0.55%
Small-Cap Growth	0.75%	0.65%	0.60%
Small-Cap Value	0.75%	0.65%	0.60%
Large-Cap Growth	0.50%	0.45%	0.40%
Large-Cap Value	0.50%	0.45%	0.40%
Blue Chip 35	0.20%	0.15%	0.15%
Blue Chip 35 Ex Financials	0.20%	0.15%	0.15%
Social Large-Cap Growth	0.55%	0.50%	0.45%

For clients invested in Aggressive Investors 1, Aggressive Investors 2 and Micro-Cap Limited strategies, Bridgeway charges clients an asset-based fee of 0.50% per year and performance-based fees. Performance-based fees are based on the performance of the account (including the impact of cash flows) relative to a stock market index as agreed upon with the client within the

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investment advisory agreement. Specifically, performance-based fees are calculated as 18% of the amount by which the account value exceeds or underperforms the return achieved by the agreed upon stock market index. Total fees will never drop below zero; however, if the performance-based fee is a negative number, it will be netted against the quarterly asset-based fees such that total fees charged could be zero. There is no “high water mark” for the account (i.e. during periods when an account is performing positively relative to the stock market index and recovering from previous underperformance, the asset-based and performance fee will continue to be calculated and payable by the client as described above). More specific information regarding the calculation of performance-based fees is included in each client’s investment advisory agreement. Performance-based fees are payable at the end of each quarter; however, during the first year the performance-based fee will be calculated and payable at the end of the first year.

Although the intent of the performance-based fees is to align Bridgeway’s interests with clients, there are conflicts of interest present when charging performance-based fees as Bridgeway may have an incentive to make riskier, more speculative investments than would be the case in the absence of these fees. At the same time, Bridgeway may have an incentive to avoid making riskier, more speculative investments that could decline in value resulting in lower fees. Please see Item 6 for additional information regarding performance-based fee arrangements.

Bridgeway also manages 13 mutual funds under Bridgeway Funds, Inc. (“Bridgeway Funds”) with different management fees than those described above. Please reference the Bridgeway Funds’ Prospectuses and Statements of Additional Information for further information regarding management fees and other Bridgeway Fund fees and expenses.

Account Valuation Practices

Bridgeway uses account market values to calculate investment performance and client fees where applicable. Interactive Data Corporation (“IDC”), a third-party security pricing vendor, provides security prices for account valuation purposes. If security prices are not readily available, or Bridgeway does not consider the price provided by IDC accurate, Bridgeway will fair value the security in accordance with the methodology outlined in Bridgeway’s pricing and valuation procedures. Bridgeway’s fair valuation of a security is relatively limited and infrequent, with generally less than 1% of assets in clients’ accounts fair valued at any point in time.

There may be conflicts of interest present when valuing securities for client accounts since Bridgeway has an incentive for security prices to be high to increase market values thereby increasing performance and fees. Bridgeway maintains investment, trade allocation and account valuation (including fair valuation) policies and procedures designed to address such conflicts of interest. Bridgeway’s Pricing Committee is responsible for providing oversight of valuation matters.

Item 6 Performance-Based Fees and Side-by-Side Management

As discussed in Item 5 above, Bridgeway charges clients both asset-based and performance-based fees (fees based on a share of capital gains or capital appreciation of the assets of a client). Because Bridgeway utilizes both fee structures, portfolio managers may be responsible for accounts and/or strategies with either or both fee structures. Such arrangements create an implied incentive to favor the performance-based fee accounts over asset-based fee accounts in order to earn the highest possible compensation; however, based on the structure of Bridgeway's performance-based fee arrangements, the opposite may also be true. Bridgeway maintains investment, trade allocation and account valuation (including fair valuation) policies and procedures designed to address potential conflicts of interest associated with side-by-side management to reasonably ensure certain clients are not favored over other clients. Further, investment decisions are triggered by statistical models, thus removing some of the subjectivity to Bridgeway's investment process.

Item 7 Types of Clients

Bridgeway provides investment management services to institutions, mutual funds, high net worth individuals, trusts, pension and profit sharing plans, corporations, trusts, estates, charitable/non-profit organizations, and government entities. All clients are required to enter into an investment advisory agreement prior to Bridgeway providing any services. Bridgeway generally prefers to manage accounts with a minimum of \$10,000,000 in assets; however, the minimum for the Small-Cap Momentum strategy is \$20,000,000 and the minimum for the Blue Chip 35, Blue Chip 35 Ex-Financials and Ultra-Small Company Market strategies is \$50,000,000. Account minimums are subject to negotiation.

Bridgeway also manages separate accounts for family members including Ms. Leonora Montgomery, one of the owners, and Mr. Frank Montgomery, a member of the Board of Directors. These clients receive standard client reporting and are not involved in day-to-day operations. However, they participate in Bridgeway's quarterly Board meetings; therefore, in some cases they may receive information about the firm that other clients do not receive, or may receive it sooner than other clients would receive it. Bridgeway maintains investment, trade allocation and account valuation (including fair valuation) policies and procedures designed to address such conflicts of interest. Further, investment performance return dispersion is reviewed regularly by the Investment and Trading Committee, the President and several functional areas including Compliance to reasonably ensure that certain clients are not favored over other clients.

Although Bridgeway does not manage any separate accounts for individual staff members, the firm does have investments in the mutual funds that Bridgeway manages and staff members are permitted to do the same. In addition, Bridgeway recently began managing a proprietary account in the Social Large-Cap Growth strategy. Bridgeway maintains investment and trade allocation policies and procedures designed to address conflicts of interest related to this account. Please see Item 11 for a discussion of Bridgeway's Code of Ethics and Personal Trading Policy, which requires staff to report investments in the mutual funds that Bridgeway manages and Bridgeway proprietary accounts.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Bridgeway uses statistical models to make investment decisions for client accounts. These models seek to identify both fundamentally and technically undervalued securities. Bridgeway also uses asset allocation modeling to control risk and seek superior returns. Generally, client accounts are managed in accordance with a specific investment strategy, as described below. Clients should understand that investing in securities involves risk of loss that clients should be prepared to bear.

Aggressive Investors 1 – Bridgeway's Aggressive Investors 1 investment strategy seeks to exceed the return of the S&P 500 Index over trailing periods of three years or longer. Under this approach, Bridgeway invests in U.S. companies of all sizes and holdings span various styles including growth and value stocks. Investments in small companies generally carry greater risk than is customarily associated with larger companies. This additional risk is attributable to a number of factors, including the relatively limited financial resources that are typically available to small companies, and the fact that small companies often have comparatively limited product lines. In addition, the stock of small companies tends to be more volatile than the stock of large companies, particularly in the short term and particularly in the early stages of an economic or market downturn. The strategy may engage in active and frequent trading, which could result in higher trading costs and lower investment performance. The strategy's use of options and leverage can magnify the risk of loss in an unfavorable market. However, Bridgeway considers the use of these strategies as conservative. Nevertheless, clients may be taking on more risk than they would if they invested in the stock market as a whole.

Aggressive Investors 2 – Bridgeway's Aggressive Investors 2 investment strategy seeks to exceed the return of the S&P 500 Index over trailing periods of three years or longer. Under this approach, Bridgeway invests in U.S. companies of all sizes and holdings span various styles including growth and value stocks. Although the strategy can invest in stocks of any size, it is not expected to invest in stocks for which there is relatively low market liquidity, which we determine based on the stock's trading volume. Investments in small companies generally carry greater risk than is customarily associated with larger companies. This additional risk is attributable to a number of factors, including the relatively limited financial resources that are typically available to small companies, and the fact that small companies often have comparatively limited product lines. In addition, the stock of small companies tends to be more volatile than the stock of large companies, particularly in the short term and particularly in the early stages of an economic or market downturn. The strategy may engage in active and frequent trading, which could result in higher trading costs and lower investment performance. The strategy's use of options and leverage can magnify the risk of loss in an unfavorable market. However, Bridgeway considers the use of these strategies as conservative. Nevertheless, clients may be taking on more risk than they would if they invested in the stock market as a whole.

Ultra-Small Company – Bridgeway's Ultra-Small Company strategy seeks to provide long-term capital appreciation. Security selection is designed to produce a portfolio that roughly matches the sector and industry makeup of the CRSP Cap-Based Portfolio 10 Index. This strategy is only available as a mutual fund. Please reference the Ultra-Small Company Fund's

Prospectus or Statement of Additional Information for further information regarding investment strategies, restrictions and risks.

Ultra-Small Company Market – Bridgeway’s Ultra-Small Company Market strategy seeks to provide long-term capital appreciation through a broadly diversified, low turnover approach to investing in the smallest publicly traded stocks. Security selection is designed to produce a portfolio that roughly matches the sector and industry makeup of the CRSP Cap-Based Portfolio 10 Index. Bridgeway defines ultra-small companies as those with market capitalizations in the smallest 10% of companies listed on the New York Stock Exchange. Investments in ultra-small companies generally carry greater risk than is customarily associated with large, small and even micro-cap company shares. This additional risk is attributable to a number of factors, including the relatively limited financial resources that are typically available to ultra-small companies, and the fact that ultra-small companies often have comparatively limited product lines. In addition, the stock of ultra-small companies tends to be more volatile than the stock of large companies, particularly in the short term and particularly in the early stages of an economic or market downturn.

Micro-Cap Limited – Bridgeway’s Micro-Cap Limited strategy seeks to provide long-term total return primarily through capital appreciation. The benchmark for this strategy is the CRSP Cap-Based Portfolio 9 Index with dividends reinvested. The investment universe for this strategy is companies with market capitalization in the second- and third-smallest 10% of the New York Stock Exchange. Bridgeway selects stocks in the micro-cap category using a proprietary quantitative approach driven by statistical evaluation of company fundamentals. Investments in micro-cap companies generally carry greater risk than is customarily associated with large or small company shares. This additional risk is attributable to a number of factors, including the relatively limited financial resources that are typically available to micro-cap companies, and the fact that micro-cap companies often have comparatively limited product lines. In addition, the stock of micro-cap companies tends to be more volatile than the stock of large companies, particularly in the short term and particularly in the early stages of an economic or market downturn. The strategy may engage in active and frequent trading, which could result in higher trading costs and lower investment performance.

Small-Cap Momentum – Bridgeway’s Small-Cap Momentum strategy seeks to provide long-term total return by investing in small stocks that have positive risk-adjusted momentum. The benchmark for this strategy is the Russell 2000 Index. The investment universe is comprised of approximately 2,000 small stocks, with market capitalizations smaller than the 1000th largest company, listed on U.S. exchanges. Investments in securities with positive risk-adjusted momentum may be more volatile than a broad cross-section of market securities. Investments in small companies generally carry greater risk than is customarily associated with larger companies. This additional risk is attributable to a number of factors, including the relatively limited financial resources that are typically available to small companies, and the fact that small companies often have comparatively limited product lines. In addition, the stock of small companies tends to be more volatile than the stock of large companies, particularly in the short term and particularly in the early stages of an economic or market downturn. The strategy may engage in active and frequent trading, which could result in higher trading costs and lower investment performance.

Small-Cap Growth – Bridgeway’s Small-Cap Growth strategy seeks to exceed the return of the Russell 2000 Growth Index over trailing periods of three years or longer. For purposes of this strategy, Bridgeway defines small-cap as those stocks that fall within the market capitalization range of the Russell 2000 Index. Growth stocks are those that Bridgeway believes have above average prospects for economic growth. Bridgeway selects stocks in the small-cap growth category using a proprietary quantitative approach driven by statistical evaluation of company fundamentals. Growth stocks may be more volatile than other stocks because they are generally more sensitive to investor perceptions and market movements. Investments in small companies generally carry greater risk than is customarily associated with larger companies. This additional risk is attributable to a number of factors, including the relatively limited financial resources that are typically available to small companies, and the fact that small companies often have comparatively limited product lines. In addition, the stock of small companies tends to be more volatile than the stock of large companies, particularly in the short term and particularly in the early stages of an economic or market downturn.

Small-Cap Value – Bridgeway’s Small-Cap Value strategy seeks to exceed the return of the Russell 2000 Value Index over trailing periods of three years or longer. For purposes of this strategy, Bridgeway defines small-cap as those companies that fall within the market capitalization range of the Russell 2000 Index. Value stocks are those that Bridgeway believes are priced cheaply relative to some financial measures of worth, such as price to earnings, price to sales, or price to cash flow. Bridgeway selects stocks in the small cap value category using a proprietary quantitative approach driven by statistical evaluation of company fundamentals. Investing in value stocks carries the risk that the market will not recognize a security’s book value or that a stock thought to be under-valued is appropriately priced. Investments in small companies generally carry greater risk than is customarily associated with larger companies. This additional risk is attributable to a number of factors, including the relatively limited financial resources that are typically available to small companies, and the fact that small companies often have comparatively limited product lines. In addition, the stock of small companies tends to be more volatile than the stock of large companies, particularly in the short term and particularly in the early stages of an economic or market downturn.

Omni Tax-Managed Small-Cap Value – Bridgeway’s Omni Tax-Managed Small-Cap Value strategy seeks to provide long-term total return on capital, primarily through capital appreciation. The strategy uses a market capitalization weighted approach to investing. This strategy is only available as a mutual fund. Please reference the Omni Tax-Managed Small-Cap Value Fund’s Prospectus or Statement of Additional Information for further information regarding investment strategies, restrictions and risks.

Large-Cap Growth – Bridgeway’s Large-Cap Growth strategy seeks to exceed the return of the Russell 1000 Growth Index over trailing periods of three years or longer. For purposes of this strategy, Bridgeway defines large-cap as those stocks that fall within the market capitalization range of the Russell 1000 Index. Growth stocks are those that Bridgeway believes have above average prospects for economic growth. Bridgeway selects stocks in the large cap growth category using a proprietary quantitative approach driven by statistical evaluation of company fundamentals. Growth stocks may be more volatile than other stocks because they are generally

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more sensitive to investor perceptions and market movements. Large companies tend to exhibit less price volatility than small companies; however, historically they have not recovered as fast from a market decline. Therefore, this strategy may expose clients to higher inflation risk.

Large-Cap Value – Bridgeway’s Large-Cap Value strategy seeks to exceed the return of the Russell 1000 Value Index over trailing periods of three years or longer. For purposes of this strategy, Bridgeway defines large-cap as those companies that fall within the market capitalization range of the Russell 1000 Index. Value stocks are those that Bridgeway believes are priced cheaply relative to some financial measures of worth, such as price to earnings, price to sales, or price to cash flow. Bridgeway selects stocks in the large cap value category using a proprietary quantitative approach driven by statistical evaluation of company fundamentals. Investing in value stocks carries the risk that the market will not recognize a security’s book value or that a stock thought to be under-valued is appropriately priced. Large companies tend to exhibit less price volatility than small companies; however, historically they have not recovered as fast from a market decline. Therefore, this strategy may expose clients to higher inflation risk.

Blue Chip 35 – Bridgeway’s Blue Chip 35 investment strategy seeks to provide long-term, total return of capital through price appreciation and some dividend income. The income objective of this style is achieved almost exclusively from dividends paid by some invested stocks. The benchmark for this style is the Russell Top 50 Index. The portfolio remains fully invested in approximately 35 of the largest U.S. domiciled companies measured by stock market capitalization. The distinctive attributes of the strategy are its low cost structure and roughly equal weighting of stocks held. Large companies tend to exhibit less price volatility than small companies; however, historically they have not recovered as fast from a market decline. Therefore, this strategy may expose clients to higher inflation risk.

Blue Chip 35 Ex-Financials – Bridgeway’s Blue Chip 35 Ex-Financials investment strategy seeks to provide long-term, total return of capital through price appreciation and some dividend income. The income objective of this style is achieved almost exclusively from dividends paid by some invested stocks. The benchmark for this style is the Russell Top 50 Index. The portfolio remains fully invested in approximately 35 of the largest U.S.-domiciled companies measured by stock market capitalization with the exception of financial stocks as defined by the Global Industry Classification Standard. The distinctive attributes of the strategy are its low cost structure and roughly equal weighting of stocks held. Large companies tend to exhibit less price volatility than small companies; however, historically they have not recovered as fast from a market decline. Therefore, this strategy may expose clients to higher inflation risk.

Managed Volatility – Bridgeway’s Managed Volatility strategy seeks to provide high current return with short-term risk less than or equal to 40% of that of the stock market. Assets are invested in both equity and debt securities, including companies on which exchange-traded options are available. This strategy is only available as a mutual fund. Please reference the Managed Volatility Fund’s Prospectus or Statement of Additional Information for further information regarding investment strategies, restrictions and risks.

Social Large-Cap Growth - Bridgeway’s Social Large-Cap Growth strategy seeks to exceed the return of the Russell 1000 Growth Index, over trailing periods of three years or longer.

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Bridgeway selects stocks in the large-cap growth category using a proprietary quantitative approach driven by statistical evaluation of company fundamentals. Investments must be consistent with sustainability and social responsibility factors, as determined by Bridgeway. For purposes of this strategy, Bridgeway defines large-cap as those stocks that fall within the market capitalization range of the Russell 1000 Growth Index. Growth stocks are those that Bridgeway believes have above average prospects for economic growth. Growth stocks may be more volatile than other stocks because they are generally more sensitive to investor perceptions and market movements. Large companies tend to exhibit less price volatility than small companies; however, historically they have not recovered as fast from a market decline. Therefore, this strategy may expose clients to higher inflation risk.

Other Risks

In addition to the strategy specific risks identified above, client accounts are subject to general market risk. Securities purchased and held in client accounts may decline in value because of a general decline in the market. Securities markets move in cycles, with periods of rising prices followed by periods of falling prices. The value of the securities held in client accounts will tend to increase or decrease in response to these movements. Client accounts are also subject to investment style risk. A client account invested in one of Bridgeway's investment strategies, as described above, involves the risk that the investment strategy may underperform other investment styles or the overall market.

Bridgeway does not offer any products or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices or investment products.

Other Information

Bridgeway manages various types of accounts within each strategy. The investment return and tax efficiency of an account may be higher, lower or similar to the total returns and tax efficiency of other accounts within the strategy.

Bridgeway maintains investment and trade allocation policies and procedures designed to address potential conflicts of interest such as securities being held in client accounts overlapping across strategies or favoring certain strategies based on whether the strategy is open or closed to client investments.

Mutual fund clients should reference each fund's Prospectus or Statement of Additional Information for further information regarding investment strategies, restrictions and risks, including the use of futures and total return swaps within those products.

Item 9 Disciplinary Information

On September 15, 2004, the SEC, Bridgeway and John N.R. Montgomery ("John Montgomery") entered into a settlement by consent (the "Order") related to an administrative proceeding

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initiated by the SEC against Bridgeway and John Montgomery. See *In re Bridgeway Capital Management, Inc. and John Noland Ryan Montgomery*, Admin. Proc. File No. 3-11659. The proceeding related to the manner in which Bridgeway calculated and charged performance fees to three of the Bridgeway Funds, each a series of the Bridgeway Funds, Inc. The Order found that Bridgeway and John Montgomery aided and abetted and caused violation of Section 205(a) of the Advisers Act, which prohibits an investment adviser from entering into an advisory contract with a registered investment company that provides for performance-based compensation unless, pursuant to Section 205(b) of the Advisers Act, the contract provides for performance-based compensation based on the asset value of the fund averaged over a specified period and increasing and decreasing proportionately with the investment performance of the fund over a specified period in relation to the investment record of an appropriate index of securities prices. Specifically, the performance fee rate was applied against current period assets rather than assets averaged over the five year performance period. As part of the settlement, Bridgeway and John Montgomery agreed to a censure and a cease and desist order and agreed to comply with various undertakings. In addition, Bridgeway paid a penalty of \$200,000 and disgorgement of “overcharged” fees of \$4,407,700 plus prejudgment interest of \$485,714. John Montgomery paid a penalty of \$50,000. Payments to impacted Bridgeway Fund shareholders were made by an independent distribution consultant. For additional information see John Montgomery’s letter related to the SEC proceeding located in the News and Commentary section of the mutual funds portion of Bridgeway’s website (http://www.bridgeway.com/assets/pdf/letter/Letter%20from%20JohnM_904.pdf).

Item 10 Other Financial Industry Activities and Affiliations

Bridgeway provides investment management services to a proprietary mutual fund family, Bridgeway Funds, Inc. Bridgeway also provides certain administrative services to the Bridgeway Funds for which the firm is paid an annual fee. Some officers also have roles with Bridgeway Funds, which could create conflicts of interest due to competing priorities. Bridgeway maintains investment and trade allocation policies and procedures and a Code of Ethics and Personal Trading Policy, which outlines standards of conduct, to address such conflicts of interest. The following is a list of the Bridgeway Funds:

- Aggressive Investors 1 Fund
- Aggressive Investors 2 Fund
- Ultra-Small Company Fund
- Ultra-Small Company Market Fund
- Micro-Cap Limited Fund
- Small-Cap Momentum Fund
- Small-Cap Growth Fund
- Small-Cap Value Fund
- Omni Tax-Managed Small-Cap Value Fund
- Large-Cap Growth Fund
- Large-Cap Value Fund
- Blue Chip 35 Index Fund
- Managed Volatility Fund

In addition, Bridgeway provides investment management services to the following mutual funds on a sub-advised basis:

- State Farm Large Cap Equity Fund (Mutual Fund Trust)
- State Farm Large Cap Equity Fund (Variable Product Trust)
- State Farm Small/Mid Cap Equity Fund (Mutual Fund Trust)
- State Farm Small/Mid Cap Equity Fund (Variable Product Trust)
- VALIC 1 - Small Cap Fund
- VALIC 2 - Capital Appreciation Fund

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

Standards of Conduct

Bridgeway maintains a Code of Ethics and Personal Trading Policy (“Code”) which applies to all staff, officers and directors of Bridgeway. As a fiduciary, Bridgeway has a duty to act with the utmost integrity in all dealings. Bridgeway believes the firm’s commitment to integrity will contribute to better investment performance, service quality and efficiency and all staff look for ways to challenge each other positively to meet this ideal.

The Code outlines the standards of conduct expected of staff and includes limitations on personal trading, the giving and acceptance of gifts, political and charitable contributions, serving as a director or trustee for an external organization, and engaging in outside business activities. In addition, staff is prohibited from using nonpublic information to trade in personal accounts or on behalf of clients including trading on nonpublic information related to any mutual fund managed by Bridgeway. Bridgeway also maintains physical and electronic safeguards to protect nonpublic client information while in the firm’s possession and upon destruction.

Staff is required to report promptly any violation of the Code (including the discovery of any violation or suspected violation committed by another staff member) to the Chief Compliance Officer (“CCO”). A copy of the Code is available upon request.

Personal Trading

Bridgeway requires staff to pre-clear personal securities transactions. In addition, the Code requires staff to report certain security holdings initially upon being hired and annually thereafter. Finally, staff are required to report personal transactions to the CCO on a quarterly basis.

Staff may not purchase or sell any covered security, except for shares of a mutual fund. Bridgeway advises or sub-advises, that Bridgeway: (1) is purchasing or selling in client accounts; (2) has recommended for purchase or sale in client accounts; (3) has decided to purchase or sell in client accounts, but has not yet made the recommendation; or (4) is seriously considering purchasing or selling in client accounts, but has not yet made a final decision. Further, Investment Management Team members, including portfolio managers and other investment management staff, may not purchase any covered security (except for shares of a mutual fund

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advised or sub-advised by Bridgeway) that is held in any client account or is under serious consideration for purchase or sale in a client account. Under limited circumstances, such as ownership prior to joining Bridgeway, and subject to pre-clearance requirements, members of the Investment Management Team may sell securities which are, or could be held in client accounts.

Bridgeway has a proprietary account which falls under the definition of beneficial ownership due to a staff member's ownership stake in the firm. As provided for in Bridgeway's investment and trade allocation policies, this account may participate in trade orders along with client accounts. This may create an incentive for Bridgeway to put the interests of the firm ahead of clients; however, the Code requires staff to put clients' interests ahead of their own and to report personal transactions and holdings to the CCO in accordance with the reporting requirements described above. This account is exempt from the pre-clearance requirements and personal trading restrictions described above provided the transactions are done in accordance with Bridgeway's investment and trade allocation policies and procedures.

Staff is permitted to invest in mutual funds where Bridgeway serves as adviser or sub-adviser. This may create an incentive for Bridgeway to put the interests of the mutual funds ahead of other clients. However, the Code requires staff to put clients' interests ahead of their own and to report personal transactions and holdings in mutual funds managed by Bridgeway to the CCO in accordance with the reporting requirements described above.

Item 12 Brokerage Practices

Bridgeway's Investment Management and Trading Committee provides oversight of investment, trading and brokerage policies and practices. In addition, Bridgeway maintains investment, trading, and brokerage policies and procedures. The following is an overview of trading and brokerage practices, policies and procedures.

Selection of Brokers

Bridgeway utilizes traditional brokers, electronic communication networks and dark pools to execute trades on clients' behalf. Bridgeway has established an Investment Management and Trading Committee to monitor and evaluate the quality of execution received from broker-dealers executing transactions on behalf of clients and to oversee trading practices and procedures. In selecting broker-dealers, Bridgeway attempts to obtain the best execution available for each transaction, which may not result in the client paying the lowest fees and expenses. However, Bridgeway is aggressive in seeking low fees and expenses. In seeking best execution, Bridgeway considers the quality of overall execution services provided by the broker, promptness of execution, promptness and accuracy of oral, hard copy or electronic reports of execution, the market where the security trades, any expertise the broker has in executing trades for the particular type of security, commission charged by the broker, reliability of the broker, size of the order, whether the broker can maintain and commit adequate capital when necessary to complete trades, and whether the broker can respond during volatile market periods.

Research and Soft Dollars

Bridgeway does not have any formal or informal soft dollar arrangements. On occasion, Bridgeway receives unsolicited research from outside sources. This information is not used in the investment decision-making process.

Brokerage for Client Referrals

Bridgeway does not consider a broker-dealer's sale of mutual fund shares when determining whether to select such broker-dealer to execute transactions for clients. Neither Bridgeway nor the Bridgeway Funds receive any compensation from brokers.

Directed Brokerage

While none of Bridgeway's clients have formal directed brokerage arrangements, certain clients have elected to establish brokerage accounts with Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, to maintain custody of their assets and to effect trades for their accounts. Bridgeway is not affiliated with Schwab. For clients' accounts maintained in Schwab's custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related fees generated through securities trades that are executed through Schwab or that settle into Schwab accounts. Schwab provides services that assist Bridgeway in managing and administering client accounts. These services include providing access to client account data, facilitating trade execution (and allocation of aggregated trade orders for multiple client accounts) and facilitating payment of fees from client accounts. Schwab may assess such clients a "trade away" fee for trades not executed through Schwab, which may happen in instances where Bridgeway believes that best execution for that particular trade can be achieved at another broker-dealer.

Allocation of Investment Opportunities

Bridgeway has adopted investment and trading policies designed to reasonably ensure investment opportunities and trades are allocated fairly and equitably among clients over time. Bridgeway manages client accounts along a spectrum of active to passive investment strategies with each client account included within a specific style offering.

Bridgeway's Investment Management Team is responsible for managing client accounts according to the investment objectives outlined in the client's contract. In general, investment opportunities are made available to all clients that are eligible to participate and where such investment opportunities are deemed appropriate for the specific client. To the extent an investment opportunity is considered for multiple investment styles, Bridgeway will examine each style's particular needs, in conjunction with the firm's overall investment process, to determine which styles and accounts within a style will receive an allocation. The following factors are considered when allocating investment opportunities:

- Each client's investment objectives;
- Proprietary investment model(s) results;
- The degree to which the account is actively or passively managed;

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- Current account holdings;
- Each client's available cash and/or cash needs;
- The client's borrowing ability; and
- The client's tax situation.

Should the circumstance arise where the same security may be bought and sold for separate client accounts, the portfolio managers for the clients involved will take action that is fair and equitable to the clients participating in the transactions, including engaging in an inter-portfolio trade, where permitted. Should Bridgeway engage in an inter-portfolio trade, this will be done in accordance with the Inter-Portfolio Trades Policy. (Please see *Inter-Portfolio Trades* section below.)

Trade Aggregation

When practical, trades, including trades across multiple styles, will be combined in a single order in an effort to obtain best execution at the best security price available. Occasionally, if determined by the portfolio managers for the accounts that it is in the best interest of all clients involved in the trade, the Investment Management Team will submit an order which may be combined with an order actively being traded.

If it is in the best interest of all clients involved in a trade, orders in Bridgeway's proprietary account may be included with client trades. However, should Bridgeway determine including proprietary account orders with client trades is not in the best interest of client accounts or Bridgeway will be unfairly advantaged by trading along with client accounts, proprietary account orders must go last in the trading rotation.

When a trade involves both accounts custodied at Schwab ("Schwab Accounts") and accounts custodied elsewhere, the trades are not typically aggregated due to trade-away fees assessed by Schwab for the Schwab accounts (please see *Directed Brokerage* section above). In order to determine which category of accounts will be executed first, the trader will consult Chart Order, an internally maintained account rotation document. As these types of trades occur, Chart Order is updated by rotating client accounts from first to last on the list. The category in which the account resides dictates which category of accounts will be executed first for the specific trade.

Trade Allocation

Trades for accounts can be executed by multiple brokers, platforms and/or networks at different prices. Trades for Schwab accounts are generally placed through Schwab for a specific account unless Bridgeway determines it is in the Schwab account's best interest to trade elsewhere in the pursuit of best execution. In either case, Bridgeway may receive full or partial fills resulting in a variation of prices received for execution of a given security. In order to minimize the number of trade tickets generated and maintain the efficiency of the trading process, Bridgeway will not average all trades executed by multiple brokers on a given trading day. Bridgeway utilizes the random trade allocation function within its trade order management system to allocate executed trades to client accounts. The random allocation of trades applies to partial and completed execution situations. Fills received from Schwab are allocated to Schwab accounts. Under

certain circumstances, Bridgeway's policies permit deviation from the practices described above. Exceptions to trade allocation procedures are documented and reviewed by several functional areas including Investment Management, Trading and Compliance.

Inter-Portfolio Trades

Bridgeway may cross trades between two client accounts ("inter-portfolio trades") when it is in the best interest of each client participating in the transaction. Bridgeway will not engage in inter-portfolio trades with ERISA clients. All inter-portfolio trades will be done in accordance with the Inter-Portfolio Trades Policy and are reviewed by the Investment Management and Trading Committee quarterly.

Trade Errors

If Bridgeway causes a trade error to occur in a client account and the error results in a loss to the client, the firm will make the client whole. An error detected and corrected before the settlement date that was run through Bridgeway's proprietary error account will be handled as follows: (i) any gain accrues to Bridgeway's benefit; and (ii) any loss will be absorbed by Bridgeway. An error detected and corrected after the settlement date will be handled as follows: (i) any gain after correction accrues to the client; and (ii) any loss after correction will be reimbursed to the client by Bridgeway, including any commission expenses. Bridgeway maintains policies and procedures to address trade errors and all trade errors are reviewed by the Investment Management and Trading Committee.

Item 13 Review of Accounts

All client accounts are reviewed by a member of the Investment Management Team at least quarterly. In addition, trade activity and cash balances are reviewed more frequently as necessary by a portfolio manager. Clients are provided with a written, quarterly reporting package which includes a statement of account status, management fees and investment performance. Additional reports may be provided to clients upon request.

Item 14 Client Referrals and Other Compensation

There are no client referrals or other compensation relationships to disclose.

Item 15 Custody

Bridgeway does not maintain custody of client assets, except as a consequence of the ability to withdraw advisory fees directly from the accounts of certain clients who have provided written authority for Bridgeway to deduct fees directly from their accounts. Bridgeway sends each client an advisory fee invoice. Policies and procedures are designed to provide reasonable assurance that the client's qualified custodian is sending quarterly statements to the client and that Bridgeway does not inadvertently obtain further custody over client assets. Bridgeway encourages clients to carefully review those statements. Further, Bridgeway encourages clients

to compare information in Bridgeway reports to reports provided by the client's qualified custodian. Bridgeway has no affiliated qualified custodians.

Item 16 Investment Discretion

Bridgeway provides portfolio management services on a discretionary basis. All accounts are subject to a written investment advisory agreement which describes discretionary authority, any investment limitations, investment objectives, fees and other matters.

Item 17 Voting Client Securities

When a client grants Bridgeway proxy-voting authority, Bridgeway strives to vote such proxies in the client's best economic interest. Bridgeway has adopted and maintains a written Proxy Voting Policy that describes the approach to voting proxy proposals. In summary, Bridgeway has engaged Institutional Shareholder Services, Inc. ("ISS"), a third party proxy voting agent, to provide proxy voting research and execution services on behalf of clients. Subject to certain exceptions, Bridgeway has instructed ISS to vote proxies in accordance with ISS' proxy voting guidelines, which Bridgeway has adopted. If Bridgeway determines that the ISS vote recommendation is not in the best interests of clients, Bridgeway will direct ISS to vote the proxy contrary to its recommendation. Additionally, in cases where ISS does not provide a vote recommendation, Bridgeway will review the proxy proposal and direct ISS to vote the proxy in the best interests of clients.

Bridgeway considers any material conflicts of interest that could arise as a result of voting client proxies are adequately mitigated by relying upon ISS to vote proxies on behalf of clients. In addition, ISS monitors its conflicts of interest in voting proxies and has provided an executive summary of its annual compliance review report and Bridgeway conducts regular reviews of ISS. However, conflicts of interest may arise in cases where Bridgeway provides a vote recommendation. In such cases, Bridgeway will select one of the following procedures for voting the proxy: (i) vote the proxy if the conflict of interest can be mitigated; (ii) refer the proxy to the client or client representative for voting purposes; (iii) engage an independent party to vote the proxy; or (iv) disclose the conflict to the affected clients and seek their consent to vote the proxy prior to casting the vote. A copy of Bridgeway's proxy voting policy and procedures, as well as a record of how proxies were voted, will be furnished free to a client upon request.

Item 18 Financial Information

There are no financial conditions to disclose which would impair Bridgeway's ability to meet contractual commitments to clients.

Other Information

Class Actions and other Legal Proceedings

Bridgeway does not file legal proceedings, including class actions, on behalf of clients.