

Item 1 COVER PAGE



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March 30, 2020

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 otherwise participate in the advisory services provided to you.

Smith Graham is a registered investment adviser with the United States Securities and Exchange Commission ("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 SEC or by any state securities authority.

If you have any questions about the contents of this Brochure or our Supplement(s), please contact: Chief Compliance Officer, Smith, Graham & Co. Investment Advisors, L.P., 600 Travis Street, Suite 6900, Houston, Texas 77002, (713) 292-2136. 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 Parts I and 2A (Brochure).

Item 2 MATERIAL CHANGES

Our last annual filing was March 29, 2019. We have had no material changes to report since that filing.

You can obtain a copy of our full Brochure by contacting: Chief Compliance Officer, Smith, Graham & Co. Investment Advisors, L.P., 600 Travis Street, Suite 6900, Houston, Texas 77002, (713) 292-2136.

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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, New York. Smith Graham is an employee-owned limited partnership. Gerald Smith, Co-founder, Chairman and Chief Executive Officer, owns approximately 72% of the firm. We have 38 employees, including 14 investment professionals.

Smith Graham provides investment advisory services (i) to Managed Accounts and Non-Managed Accounts investing in fixed income and equity products, and (ii) private pooled investment vehicles ("Private Funds") investing in residential real estate debt instruments. Private Funds together with Managed Accounts and Non-Managed Accounts are generally referred to as "Clients". As of February 29, 2020, Smith Graham actively managed approximately \$5,275 million on a discretionary basis for our fixed income and equity Clients and \$80 thousand on a non-discretionary basis for our fixed income and equity Clients. Smith Graham actively manages Private Funds invested in residential real estate debt products, which are valued quarterly. As of December 31, 2019, the firm has approximately \$704 million in actively managed assets and uncalled capital commitments in Private Funds.

FIXED INCOME AND EQUITY PRODUCTS

Smith Graham provides institutional fixed income and equity investment management services on a discretionary basis to Managed Accounts for investors which may include pension and profit sharing plans, corporations, state or municipal government entities, trusts, endowments, charitable organizations, and other business entities. These Managed Accounts have the ability to invest in any or all our fixed income and equity investment strategies. Smith Graham also offers institutional fixed income services on a non-discretionary basis.

In addition to our core Managed Account business, we provide advisory services with respect to fixed income products to institutional investors in Non-Managed Accounts. We consult with the Non-Managed Account investor regarding the investor's investments pursuant to an advisory services agreement signed by the investor. While we determine trading opportunities for the Non-Managed Account's investments, the investor is responsible for implementing our recommended strategy.

Fixed Income

We employ a disciplined investment process that is applicable across all our fixed income products, each with a different investment objective. Products include *Core Fixed Income-Aggregate*, *Alpha Plus Fixed Income*, *Intermediate Aggregate Fixed Income*, *Intermediate Government/Credit 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 us to provide 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 to three strategies: Small Cap Value, Midcap Value and SMID (Small/Mid) Cap Value within the universe of U.S. stocks and each strategy's applicable capitalization range.

PRIVATE FUNDS

Smith Graham provides discretionary and non-discretionary investment advisory services to Private Funds that invest in residential real estate debt instruments. The investors in the Private Funds may include among others, foundations and endowments, public and private pensions, insurance companies, sovereign wealth funds, other pooled investment vehicles, banks, and individual investors. A complete description of each Private Fund, including its operations and activities, management fees, incentive fees, minimum investment amounts and structure can be obtained from such Private Fund's offering documentation.

The Private Funds are not registered as investment companies under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act") and are, therefore, not subject to various provisions of the Investment Company Act. Interests in the Private Funds are not registered for sale under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and are instead sold to qualified investors on a private placement basis. All investors in the Private Funds must qualify as accredited investors under the Securities Act and, for some Private Funds, "qualified purchasers" under Section 2(a)(51)(A) of the Investment Company Act.

CLIENT TAILORED SERVICES AND RESTRICTIONS

Fixed Income & Equity

We invest a Managed Account's assets based on an allocation fitting the account's risk tolerance and in compliance with its investment objectives and guidelines. Managed Account investors are expected to provide guidelines for their selected investment strategy and have the option to impose investment restrictions on certain securities or types of securities.

Private Funds

We manage each Private Fund based on the investment objectives and investment restrictions set forth in the limited partnership agreement or other governing documents of such Private Funds (the "Fund Agreement") and investment management agreement between us and the general partner (the "Management Agreement," and together with the Fund Agreement of such Private Fund and the confidential private placement memorandum of such Private Fund (if any), the "Governing Documents"). Such investment restrictions and/or guidelines are typically described in the Governing Documents for each Private Fund. Investors in a Private Fund cannot directly impose any investment restrictions or guidelines to the Private Fund. Smith Graham may enter into side letters with certain investors in a Private Fund which impose further restrictions on our discretionary authority.

Item 5 FEES AND COMPENSATION

FIXED INCOME AND EQUITY PRODUCTS

Managed Accounts

Asset Based Fee

The specific manner by which Smith Graham charges fees for a Managed Account is established in an investment management agreement between the investor and Smith Graham. We negotiate our investment management services fee for Fixed Income Managed Accounts based upon each investor's circumstances, taking into account the aggregate value of related accounts, the complexity of an investor's Managed Account, or similar matters. Clients within the same product offering can be charged different fees. The fees Smith Graham charges for Equity Managed Accounts are non-negotiable.

Generally, we are paid a fee for our investment management services based on the market value of the Managed Account at the end of a quarter. Smith Graham invoices Managed Account investors for fees incurred. Managed Account investors are billed in arrears on a quarterly, or in some cases, monthly basis. Fees are computed by multiplying a tiered or flat rate against the market value of the account. We do not accept or require any prepayment of fees. We do not deduct fees from Managed Accounts.

Quarterly. Using the methodology described above, the annual fee is computed based on the market value of the accounts at the end of the quarter and one fourth of the fee is invoiced at the beginning of each quarter for the preceding quarter. For new accounts, the 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. In most cases, 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 that we managed the account.

Monthly. In limited cases, the annual fee is divided into monthly installments and payment is due at the beginning of each month for the preceding month. For new accounts, 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. In most cases, 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 that we managed the account.

Our standard asset-based fee schedules by product offering for Actively Marketed Products 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

Alpha Plus Bond Strategy

<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 Aggregate Fixed Income

<u>Principal Amount of Assets Invested</u>	<u>Annual Percentage Fee</u>
First \$100,000,000	.25%
Next \$100,000,000	.20%
Over \$200,000,000	Negotiable

Intermediate Government/Credit 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	.25%
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	.10%
Next \$100,000,000	.08%

Over \$200,000,000	Negotiable
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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	.10%
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 (Small/Mid) 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%

These fee schedules are Smith Graham's standard fee schedules for our actively marketed products. Fees charged for Fixed Income Managed Accounts are negotiable. Some clients may pay lower fees. Some considerations affecting fees charged are aggregate value of related accounts, complexity of an investor's Managed Account, or similar matters. Clients within a product offering can be charged different fees, both to the standard fee schedules above and to each other within a product offering. Fees charged for Smith Graham's Equity Managed Accounts are non-negotiable.

Performance Based Fee

Smith Graham has a Fixed Income Managed Account that is charged 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 is 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 is charged.

Non-Managed Accounts

For Non-Managed Accounts, a fixed fee is negotiated pursuant to an advisory services agreement. Fixed fees are charged in arrears and pro-rated when accounts are advised for a portion of a quarter.

PRIVATE FUNDS

As investment adviser to each Private Fund, Smith Graham typically receives an annual management fee equal to a percentage of the net assets or invested capital, as the case may be, and a performance fee or incentive allocation equal to a percentage of the Private Fund's net profits, which may be subject to a loss carry forward provision or claw back provision, as the case may be. All fees for the Private Funds are disclosed in the Governing Documents, which are provided to prospective investors. We, in our discretion, may waive or reduce the management fee applicable to all or any of the investors in each Private Fund or agree with an investor to waive or alter the management fee as to that investor. Investors in a Private Fund may have different fee arrangements. We may from time to time enter into a side letter agreement with one or more investors in a Private Fund which may, among other terms, provide for reduced management fees or greater or more frequent transparency with respect to the Private Fund.

Management fees are payable either on a monthly basis in arrears or prepaid on a quarterly basis, depending on the strategy, and performance fees may be payable when earned. We may elect to defer payment of all or part of the management fee and/or performance fee. Management fees and performance fees are generally deducted from the applicable Private Fund assets.

Each Private Fund was organized with the intent that it be advised by us, and a related person serves as the general partner or manager (as applicable) of each Private Fund. No general partner or manager of any Private Fund intends to cause the Private Fund to terminate its advisory relationship with Smith Graham absent our liquidation or bankruptcy. In addition, Private Fund investors generally are not permitted to withdraw from a Private Fund prior to its dissolution but may sell or transfer their interests subject to approval by the general partner or manager (as applicable). Private Fund investors individually have no right to terminate the Private Fund's advisory relationship with us.

We may be entitled to receive fees from actual or prospective portfolio investments of the Private Funds, including origination, directors', transaction, breakup, commitment, closing, and monitoring fees. Although these fees are in addition to management fees paid by the Private Funds, we will in certain circumstances reduce management fees in connection with the receipt of such fees. Smith Graham also receives a fee from the Private Funds as compensation for our service as administrator to the funds.

Investors should refer to the applicable Governing Documents for more details related to calculation and payment of fees for the Private Funds.

ADDITIONAL FEES

FIXED INCOME AND EQUITY PRODUCTS

Smith Graham's investment management fees do not include any transaction fees, commissions, mark-ups, custodial fees, or other charges by the executing brokers or account custodian. 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. For a further discussion regarding broker commissions and related fees, please see Item 12 below.

PRIVATE FUNDS

The Governing Documents of each Private Fund provide a description of any additional fees and expenses for which such Private Fund may be responsible. Generally, each Private Fund will be responsible for all costs and expenses relating to the organization of such Private Fund and of maintaining the operations of such Private Fund and the investments paid by or on behalf of such Private Fund, including without limitation, (i) legal, filing, auditing, consulting, administration, accounting and other professional fees and expenses; (ii) expenses associated with periodic reporting to the Private Funds; (iii) financial statements and tax returns; (iv) insurance, interest and other expenses incurred in respect of borrowings, if any; (v) other expenses associated with the acquisition, holding, monitoring, settlement and disposition of such Private Fund's investments (including, without limitation, any brokerage, custody or hedging costs); (vi) the costs and expenses of any custodians, lenders, investment banks and other financing sources; (vii) any indemnity expenses; and (viii) the costs and expenses of any litigation involving such Private Fund.

SALES COMPENSATION

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

PRIVATE FUNDS

Smith Graham may engage, or cause the Private Funds to engage, unaffiliated placement agents to market and sell interests in the Private Funds to prospective investors. We require placement agents to have all appropriate licenses and registrations to conduct their business, including, when applicable, to be registered as broker-dealers with the SEC and to be members of FINRA. Smith Graham may reduce the management fee to the extent of any placement fees borne by a Private Fund to the extent set forth in such Private Fund's Governing Documents.

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

PERFORMANCE-BASED INCENTIVE FEE

“Performance-Based Fees” are fees that are based on a share of the capital gains or capital appreciation of the assets of an account. We may receive performance fees from the Clients that we manage. See Item 5 above. Fees based on performance will only be charged in accordance with the provisions of Rule 205-3 under the Advisers Act.

Performance-based compensation may create an incentive for us to cause a Client to make investments that are riskier than it would otherwise make. Performance-based fee arrangements may also create an incentive to favor those Clients with a higher performance fee over other Clients in the devotion of time, resources and allocation of investment opportunities.

To manage these potential conflicts, we have adopted: (i) policies that require a review of proposed investments and sales and other business engagements for potential conflicts of interest prior to the transaction or activity; and (ii) allocation policies which seek to ensure that investment opportunities are allocated fairly among Clients and that all Clients are managed in accordance with their investment mandate. See Item 12.

We do not consider fee structures in allocating investment opportunities. In addition, generally, and except as may be otherwise set forth in the Governing Documents of a Private Fund, conflict is mitigated by provisions that restrict Smith Graham principals from forming a new investment fund (other than special purpose vehicles) having similar investment objectives until a certain percentage of a Private Fund’s commitments have been called, reserved or allocated for investment in portfolio companies or payment of Private Fund expenses.

Item 7 TYPES OF CLIENTS

FIXED INCOME AND EQUITY PRODUCTS

Managed Accounts

Smith Graham generally provides institutional fixed income and equity investment management services on a discretionary, and, occasionally, on a non-discretionary basis to Managed Accounts for 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 a Managed Account. Each investor is required to enter into a service agreement with Smith Graham prior to receiving our services. We do not generally accept Managed Accounts for investors with original principal of less than \$25 million for fixed income accounts and \$10 million for equity accounts. We reserve the right to waive minimums without prior notice.

Non-Managed Accounts

We provide advisory services to Non-Managed Accounts for corporate and public entities.

We advise these Non-Managed Account Clients regarding their investments pursuant to an advisory services agreement, which is 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.

PRIVATE FUNDS

We provide discretionary advisory services to the Private Funds with respect to investments in residential real estate debt instruments. Investment advice is provided directly to the Private Funds and not individually to the investors in the Private Funds.

We generally require investors in a Private Fund to make a minimum capital commitment to that Private Fund, although the amount of the minimum varies from fund to fund. Smith Graham reserves the right to waive the minimum investment requirements at our sole discretion. Investors that are U.S. persons must be “accredited investors” under Regulation D under the Securities Act of 1933, as amended, “qualified clients” under the Advisers Act who are eligible to enter into a performance fee arrangement, and, for some Private Funds, “qualified purchasers” under the Investment Company Act.

SUITABILITY

All potential investors must go through certain suitability and compliance procedures (including anti-money laundering procedures), prior to acceptance of any subscription from such investor for Private Funds or entering into an investment management agreement with an investor for a Managed Account.

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 future performance or any specific level of performance, the success of any investment decision or strategy that we use, or the success of our overall management of Client assets. We make our Clients aware that investment decisions made for Clients are subject to various market, currency, economic and business risks and that those investment decisions will not always be profitable. Clients are reminded that investing in securities may incur loss.

FIXED INCOME AND EQUITY PRODUCTS

Fixed Income Portfolios

Investment Strategy

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. Following are factors that could impact the portfolio performance:

Risks

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 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 the 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: The risk that, 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 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. These investments are then subject to currency and political risk.

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

Equity Portfolios

Investment Strategy

Smith Graham believes incremental returns can be achieved within the small-capitalization and mid-capitalization stock universes by combining a disciplined, systematic approach with traditional fundamental analysis. We use a quantitative model based on earnings, book value and cash flow to determine the relative attractiveness of each stock in our universe. We then apply 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 investing in small and mid-capitalization stocks. The Small Cap Value, Midcap Value and SMID (Small/Mid) Cap 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 fluctuates in response to issuer, political, market, and economic developments.

Total returns for the Small Cap Value, Midcap Value and SMID (Small/Mid) Cap Value portfolio strategies fluctuate within a wide range, similar to the fluctuations of the overall stock market. Following are factors that could impact the portfolio performance:

Risks

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 vary from returns achieved by other asset classes. 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 security selection by the manager will cause these portfolios to perform differently than their 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 than larger issuers.

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 than larger issuers.

SMID (Small/Mid) Cap Equity Investing: The value of securities of smaller and 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. SMID (Small/Mid) Cap issuers may have more limited product lines, markets and financial resources than larger issuers.

PRIVATE FUNDS

Investment Strategy

Our investment strategy for our Clients investing in the Private Funds is to invest in residential real estate debt instruments based on an asset level investment approach in the following areas: (i) asset level credit underwriting; (ii) securitization and structuring of asset pools; (iii) servicing/risk management; and (iv) operating models for real estate companies. By constantly surveying opportunities across asset categories as well as throughout the capital structure in an opportunistic fashion, Smith Graham endeavors to optimize each Client's risk/return profile.

Target Complex Transactions: Assessing real estate related debt and achieving appropriate risk-adjusted returns requires careful asset level analysis. We model and

analyze the characteristics of the proposed investments, generate cash flow projections and conduct scenario and sensitivity analyses on these projections. Our team has developed a thorough due diligence, underwriting and investment review process, which enables us to analyze, underwrite and quickly close time-sensitive transactions.

Focus on Undervalued or Out-of-Favor Asset-Based Cash Flows: We target primarily debt and debt-like investment opportunities demonstrating strong current cash flow and/or the potential for value generation and capital appreciation.

Create Value through Structuring Techniques: We endeavor to enhance investment returns using structured finance techniques, including securitization, asset repositioning and the transfer of risks to third parties, either directly or through the use of derivative instruments.

Actively Identify and Mitigate Risks: We attempt to mitigate the risks inherent in the investment strategy through: (i) complete and thorough due diligence, including not only credit and market driven factors but legal and sponsor due diligence; (ii) ongoing performance monitoring with a focus on the intended exit of an investment; and (iii) ongoing portfolio analysis of interest rates, leverage and other market driven risks.

Continually Evaluate Exit Options: Some investments contain intrinsic exit strategies through expected amortization of principal and contractual maturities. Stress analyses are performed on such assets to gauge potential refinancing risk at maturity. Additionally, return expectations are analyzed under various exit strategies, such as asset sales, foreclosures, work-outs and securitizations.

Risks

Investment risks specific to the investment strategy of each Private Fund are described in the Governing Documents of such Private Fund. Such risks may include (but are not limited to):

Investment Risk: Acquiring interests in a Private Fund is intended for sophisticated investors who can accept a high degree of risk in their portfolio, do not need regular current income from their investment with us and can accept a potential loss of their entire investment. A Client's portfolio may lack diversification and liquidity, and its performance may be volatile, thereby increasing the risk of loss. In addition, the fees and expenses associated with the Private Fund may offset its profits.

General Market and Economic Conditions: The success of a Private Fund's investments will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations).

High Risk Investments: The Client may pursue an opportunistic credit driven investment strategy targeting real estate investments. This is done through (i) investing in, or

originating, real estate oriented debt instruments; (ii) purchasing pools of such assets; (iii) purchasing securities backed by such instruments; (iv) investing in platforms/companies that focus on originating, servicing or financing such assets; and (v) investing in direct real estate equity. Such assets generally carry below-investment grade credit ratings or lack credit ratings altogether. These assets and/or the loans underlying these types of assets may be in default or may have a greater than normal risk of future defaults, delinquencies, bankruptcies or fraud losses. There can be no assurance that the assets will perform, the borrowers will pay as expected, or, if defaulted, that the underlying assets will be able to be foreclosed upon and liquidated in a cost-effective manner. In addition to the risks of borrower default, the Client will be subject to a variety of risks in connection with such debt instruments, including risks arising from mismanagement or a decline in the value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on the Client's exercise of contractual remedies for defaults on such investments.

Future Investments Unspecified: The investors may not have an opportunity to evaluate for themselves the investments in which the Client's capital will be invested or the terms of these investments. The investors must depend upon the ability of Smith Graham with respect to the selection, pricing and management of the investments made. Investments will be made over a substantial period of time and, accordingly, the real estate and debt markets, including interest rates, may change over time.

Non-Performing Loans: Loans acquired by the Client may thereafter become non-performing for a wide variety of reasons. Such non-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such loan, replacement financing will not be available or that the borrower will not otherwise be able to repay the loan. It is possible that Smith Graham may find it necessary or desirable to foreclose on collateral securing one or more loans purchased by the Client. The foreclosure process will vary from jurisdiction to jurisdiction and can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against holders of a residential mortgage loan in an effort to prolong the foreclosure action, including lender liability claims and defenses, even when such assertions may have no basis in fact. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy or its equivalent, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation also tends to create a negative public image of the collateral property and may potentially negatively affect the public image of the Client.

Refinancing Market: The Client may utilize the refinancing of loans as an exit strategy. The ability of the Client to successfully utilize loan refinancings as an exit strategy will depend on several factors beyond the control of the Client such as market interest rates, mortgage spreads, underwriting standards, and investor appetite for residential mortgage securitizations. Should it become more difficult to facilitate mortgage

refinancing as a result of such factors, such an event could have an adverse effect on the ability of the Client to realize their return and liquidity objectives.

Competition for Investment Opportunities: The current marketplace contains several investors that focus on the investments targeted by the Clients, creating a competitive environment for such investments. Furthermore, it is possible that new investors – which could include investment funds or other financial institutions – could compete for the Client’s target investments. Competition for these investments, beyond that which is currently foreseen, could reduce or extinguish anticipated margins and expected returns.

Risks of Leverage: To the extent that a Client may employ leverage through asset specific financings such as repo and other collateralized borrowings in seeking returns, the amount of borrowings that the Client may have outstanding and/or to which their investments may be subject, at any time, may be large in relation to their capital and available capital commitments. Although the use of leverage may enhance returns, it will also substantially increase the risk of loss. For example, under certain declining market conditions, the Client’s lenders could make margin calls that require the Client to post additional cash or collateral as security for a loan, thereby resulting in significant impairment of value. Because many borrowings are cross-collateralized, it is likely that the Client could experience concurrent foreclosures of multiple financed assets, accompanied by attendant losses upon lender liquidations. The failure to maintain a debt-to-equity ratio at specified levels may result in additional borrowings being unavailable, cash being diverted to amortize principal of outstanding borrowings, additional equity contributions being required or the liquidation of the Client’s investments in order to satisfy such limitations.

In connection with any financing obtained by the Client, the Client may be required to make certain representations and warranties to one or more lenders. The Client may also be required to indemnify the lenders pursuant to the terms of any financing in case any such representations and warranties are inaccurate. These arrangements may create contingent liabilities of the Client, for which the general partner or the investment manager may establish reserves or escrow accounts. The Client may also be unable to obtain financing, which would decrease the likelihood that the Client will obtain their targeted returns.

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 2009, Smith Graham granted an option agreement (“the Option”) to two senior members of our staff (the “Optionees”) that was subsequently exercised and purchased by the Optionees. The agreement would enable the Optionees to acquire the investment management contracts of clients invested in our Small Cap Value, Midcap Value and SMID (Small/Mid) Cap Value equity products through a newly registered investment advisor entity established by the Optionees. By amendment in 2011, the transfer of contracts is 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. The untimely death of one of the Optionees in 2013 does not impact the rights and or obligations specified under the Option or the subsequent amendments.

GERALD B. SMITH’S BOARD AFFILIATIONS

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

Mr. Smith also serves on many civic and philanthropic boards. He currently serves as Chairman of the Board of Trustees for the Texas Southern University Foundation and as a member of the Board of Directors of the Federal Reserve Bank of Dallas.

CALLAN ASSOCIATES

Smith Graham has an agreement with Callan Associates’ Institutional Consulting Group. Through this agreement, Callan provides Smith Graham with a wide range of services, including peer group performance analysis, database services, software, research and education. Callan’s Institutional Consulting Group also provides these consulting services to other investment management organizations.

DAY4WARD

Smith Graham holds a non-controlling ownership interest (less than 25%) in Day4Ward Capital, L.L.C., a small start-up private equity firm that is focused in the energy sector. Smith Graham has not referred prospective or existing clients to Day4Ward. Day4Ward shares office space with Smith Graham in our Houston office. Smith Graham and Day4Ward do not share operations, systems or personnel.

PRIVATE FUNDS

Employees of Smith Graham serve as general partner or manager for Private Funds which are organized by Smith Graham. For a description of the conflicts of interest created by the relationship among Smith Graham and these general partners/managers, see Item 11 below.

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

Smith Graham maintains and adheres to a Code of Ethics (“the Code”) which describes the high standards of business conduct expected of our Access Persons and the fiduciary duty owed to our Clients. The Code is reviewed at least annually and will be amended by Smith Graham when necessary. A copy of the Code is available to any Client or prospective Client upon request.

All Access Persons of Smith Graham must adhere to the Code. Access Persons means (i) Investment Persons; (ii) all partners, directors and officers; and (iii) 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.

In the normal course of business, officers and employees of Smith Graham may come into possession of material, non-public information. Access Persons shall not seek to profit from this information by buying or selling securities or by passing on the information to others to enable them to profit from it.

Smith Graham and our related persons do not buy or sell securities directly to/from our Clients. Access Persons owe a fiduciary duty to Smith Graham and our Clients. Accordingly, these persons shall place the interests of Smith Graham and our Clients 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 direct his or her brokers to supply a designated compliance official of Smith Graham, on a timely basis, with duplicate copies of confirmations and periodic statements for all accounts containing non-exempt securities.

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. At 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.

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 (the “blackout period”).

Portfolio Managers and Research Analysts are prohibited from executing personal securities transactions in any securities held by their assigned Product, in securities they are considering purchasing for their Product or in related derivative securities, unless they receive prior written approval from the Chief Compliance Officer or his designee.

Certain transactions are exempt from the blackout period. Access Persons need the prior written approval of Smith Graham before any securities in an initial public offering or private placement are acquired.

We, our officers and employees, and related persons may invest in the Private Funds or be granted interest in or phantom interests related to the Private Funds. We do not believe that these investments cause a conflict of interest between us and the Private Funds but rather function to better align the interests of the investors with our own interests since our own capital or an affiliate's is being invested alongside the investors' capital. By virtue of our capital investment in the Private Funds, we may be considered to participate, indirectly, in transactions affected for the Private Funds. The foregoing relationships, fees and any other actual or potential conflicts of interest arising therefrom are disclosed in the Private Fund's Governing Documents. Any such investments are made in conformity with the Code.

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 \$250 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 could potentially have a business relationship. If an executive believes that it would be appropriate to give a gift with a value up to \$250, the executive must obtain approval from the Chief Compliance Officer before the gift is given.

To obtain a copy of the latest Code of Ethics, contact: Chief Compliance Officer, Smith, Graham & Co. Investment Advisors, L.P., 600 Travis Street, Suite 6900, Houston, Texas 77002, (713) 292-2136.

Item 12 **BROKERAGE PRACTICES**

BEST EXECUTION

As a registered investment advisor, Smith Graham has a fiduciary duty to seek best execution of a client's transactions through the responsible selection of broker/dealers to execute client trades. The SEC defines "best execution" as the execution of securities transactions for clients in such a manner that the maximum value for the client is sought under the particular circumstances occurring at the time of the transaction. Maximum value encompasses more than just minimizing cost. An adviser must consider the full range and quality of a broker/dealer's services, including execution capability, commission rates, the value of any research provided, financial responsibility, and responsiveness, among other considerations. In other words, the "determinative factor" is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution. Smith Graham has adopted procedures to implement the firm's Best Execution policy, including block trading, allocation, selection criteria, and counterparty credit quality analysis. The Smith Graham objective in selecting brokers and dealers and in effecting portfolio transactions is to seek to obtain the best combination of price and execution with respect to its client portfolios. Many other judgmental factors are considered as they are deemed relevant, including commission rates, the nature of the security being traded, the size and type of transaction, the nature and character of the markets for the security to be traded, the desired timing of the trade, research quality, execution, clearance and settlement capabilities, reputation and perceived soundness of the broker/dealer selected. Smith Graham has implemented procedures for the selection and authorization of new broker/dealer relationships and maintains an "Approved Broker List" for all authorized broker/dealers. The firm has also implemented a program to test our Best Execution policy through subsequent reviews of authorized broker/dealers, both from a financial perspective and from a qualitative perspective, as part of our ongoing commitment to best execution of our clients' transactions.

RESEARCH AND SOFT DOLLAR BENEFITS

When appropriate under our discretionary authority and consistent with our duty to obtain best execution, Smith Graham directs 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 affect 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 uses soft dollars to acquire either type. Smith Graham will also use soft dollars to acquire third party research products and services independent of broker-dealers.

The use of brokerage transactions directed to broker-dealers who provide Smith Graham with research and brokerage services through “soft dollar” commissions creates a potential conflict of interest; which Smith Graham recognizes. Smith Graham limits our 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 our investment management agreements. Smith Graham currently has soft dollar arrangements with various broker/dealers and uses the services of Westminster Research and Capital Institutional Services, Inc. (“CAPIS”) as our soft dollar aggregators.

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 selects broker-dealers based on our assessment of their ability to provide quality executions and our belief that the research, information and other services provided by such broker-dealers 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 pays 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 our discretionary accounts.

As a general matter, and within their respective asset class (Fixed Income and Equity) products, some brokerage and research services will be used to service some of Smith Graham’s Client accounts. Research obtained with soft dollars will be allocated over several accounts and will 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 we believe that, in the aggregate, the research we receive benefits Clients and assists Smith Graham in fulfilling our overall duty to our Clients. Moreover, Clients whose accounts contain mandates that prohibit soft dollar transactions or that do not permit investments that generate soft dollars still benefit from the research and other services obtained by Smith Graham in soft dollar arrangements. However, each individual brokerage or research service will not be used for the benefit of each individual Client account managed by Smith Graham, and brokerage commissions paid by one account will be used to pay for services that benefit multiple accounts.

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 us in carrying out our investment decision-making responsibilities. Brokerage and research services that are provided include: (1) furnishing advice as to the value of securities, the advisability of purchasing or selling securities, and the availability of 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 and settlement). 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 could generate soft dollars.

Soft dollar transactions are affected by Smith Graham only through 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 Clients whose accounts contain mandates that include such securities (excluding those Clients whose mandates prohibit soft dollar transactions) are 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 receives 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, we will use available soft dollar credits pertaining to that asset class 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 us, to supplement our 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 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 also receives “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 exist potential conflicts of interest in a) allocating the costs of such services between those that primarily benefit Smith Graham and those that primarily benefit our Clients and b) determining which portion should 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 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 potentially pay more for brokerage execution if such brokers are used. In executing trades through such broker, Smith Graham could, for example, be unable to achieve best execution due to our inability to negotiate transaction costs, obtain volume discounts, bunch trades, or otherwise obtain best execution. Some brokers will 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 could potentially result in higher commissions, greater spreads, or less favorable net prices than would be the case if Smith Graham could negotiate commission rates or spreads freely, or select brokers or dealers based on best execution.

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 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 our Clients' accounts. However, Smith Graham will not select broker-dealers solely based on "posted" commission rates nor

always seek in advance competitive bidding for the most favorable commission rate applicable to any portfolio transaction. Although Smith Graham generally seeks competitive commission rates, we will not necessarily pay the lowest commission or commission equivalent. Transactions will sometimes 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 can therefore use a broker who provides useful research and securities transaction services even though a lower commission is charged by a broker who offers no research services and minimal securities transaction assistance.

ALLOCATION OF INVESTMENT OPPORTUNITIES

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 Smith Graham or our employees have an interest participate in block trades for Clients.

For block orders *Pro rata allocation* will be used. A partial fill is generally allocated among the participating Client accounts based on the size of each account's original order based on market value, subject to rounding in order to achieve "round lots" (unless otherwise specified in this 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 is adjusted based on market convention associated with the particular security. If remaining positions are too small to satisfy the minimum order amount, Smith Graham can choose to allocate the remaining shares to those accounts seeking large positions, which were unfilled. Smith Graham can also choose to allocate remaining shares to those accounts whose orders would be completed as a result of the allocation.

Smith Graham will also consider the following when deciding on allocations: 1) cash flow changes (including available cash, redemptions, exchanges, capital additions and capital withdrawals) can 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 can 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 can result in small deviations from *pro rata* distribution. Any deviation from such allocations will be approved by one of Smith Graham's compliance officers.

Equity Portfolios

Smith Graham's equity portfolio managers manage the Small Cap Value, Midcap Value and SMID (Small/Mid) Cap 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 market 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 must be approved by one of Smith Graham's compliance officers.

It is possible that the same security will 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 for that security. 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.

Private Funds

Smith Graham provides investment management services for several Private Funds primarily investing in residential real estate debt instruments. Smith Graham does not invest on behalf of these Clients on a frequent basis and generally does not open new Private Funds to investors until predecessor Private Funds have been closed for investments. Each of these Clients generally has a separate and distinct investment focus and, as a result, typically the different Clients will not invest in the same investment opportunities, except perhaps for liquid securities when applicable. From time to time, it may be possible for limited investment opportunities to be appropriate for more than one Private Fund. Conflicts of interest may arise in connection with the allocation of limited investment opportunity in two separate contexts: allocation of limited investment opportunities among the different Clients and allocation of limited investment opportunities among Clients and Smith Graham, our employees or control persons or their

respective affiliates. As a fiduciary, Smith Graham must allocate investment opportunities among Clients in a fair and equitable manner.

In general, if a limited investment opportunity is sought by more than one Private Fund, the portfolio manager will allocate such opportunity among the Private Funds subject to the allocation procedures, investment guidelines and terms of the Private Fund Governing Documents as agreed upon with all Clients who are eligible to receive such investment opportunity.

CROSS TRADING

Smith Graham's equity and fixed income portfolios do not engage in cross trade practices. Smith Graham will occasionally execute a cross trade between two or more Private Funds that we manage. Due to the illiquid nature of the investments within the Private Funds, a cross trade of one or more investments will be executed using the carrying value of the investment at the time of the trade. Smith Graham does not receive brokerage commissions when conducting cross trades for client accounts.

Cross trades may be difficult to execute in certain circumstances and Smith Graham is under no obligation to effect a cross trade for any client.

Item 13 REVIEW OF ACCOUNTS

FIXED INCOME PRODUCTS

Smith Graham's Fixed Income Investment Team reviews investments for Managed Accounts and Non-Managed Account Clients weekly, without regard to the amount in any Client account. At least two reviewers review each Client account. One reviewer must be a Senior Portfolio Manager, while the other will hold the title of Portfolio Manager or Analyst. The reviewers make recommendations concerning the general investment advice to 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 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.

EQUITY PRODUCTS

Smith Graham's Equity Investment Team reviews each Managed Account's portfolio holdings on a daily basis. Individual security positions are monitored to confirm that all investment decisions related to the equity strategy comply with the strategy's internal guidelines and to specific client restrictions. The team also performs a comprehensive review at the end of each month and quarter, including but not limited to asset mix, position sizes, sector weightings and any other client specific restrictions to ensure that each client account is in compliance with the strategy's guidelines as well as each client's own guidelines.

PRIVATE FUNDS

Smith Graham monitors Private Funds and their investments on an ongoing basis and is responsible for approving the acquisition by a Private Fund of investments meeting investment guidelines contained in such Private Fund's Governing Documents.

CLIENT REPORTS

Written investment reports regarding Managed Accounts are prepared and delivered to Clients on a monthly and/or quarterly basis as agreed upon with the Client. Written reports could 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 are provided to clients as needed. Clients should compare statements from their account custodians to the statements we provide them.

Private Fund investors receive such reports as are provided for in the Private Fund's Governing Documents. Private Fund financial statements will be prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and will be distributed to investors after the end of each Private Fund's fiscal year.

Item 14 CLIENT REFERRALS AND OTHER COMPENSATION

Smith Graham compensates certain of our 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.

Smith Graham does not utilize outside solicitors. If Smith Graham chooses to employ an outside solicitor in the future, Smith Graham will implement policies and procedures accordingly at such time that one is required.

PRIVATE FUNDS

To the extent we or any affiliate receive any origination, disposition or exit fees in connection with the operation of a Private Fund or its investments ("Transaction Fees"), such Transaction Fees will either be paid to the Private Fund or will be credited against the management fee payable to us. In either case, such Transaction Fees will be netted against any related unreimbursed expenses incurred by us or any affiliate.

While not a client solicitation arrangement, we note that we may from time to time engage, or cause the Private Funds to engage, one or more persons to act as a placement agent for a Private Fund in connection with the offer and sale of interests to certain prospective investors. We require placement agents to have all appropriate licenses and registrations to conduct their business, including when applicable, to be registered as broker-dealers with the SEC and to be members of FINRA.

Smith Graham receives an administration fee from the Private Funds as compensation for our services as administrator to the funds.

Item 15 CUSTODY

FIXED INCOME AND EQUITY PRODUCTS

Smith Graham does not maintain custody over client accounts in fixed income and equity portfolios. Client assets in those portfolios are held in custody at various custodians chosen by clients. Smith Graham does not have the authority to withdraw fees from client accounts. Smith Graham bills clients or clients' designees directly for management fees. Clients are billed in arrears. Clients should ensure that they have access to statements from custodians. We urge our clients to carefully compare such statements to the statements that we provide, as described in Item 13 – Review of Accounts. Our statements can differ from custodial statements due to variances in accounting procedures, reporting dates, or valuation methodologies of certain securities.

PRIVATE FUNDS

Smith Graham will maintain each Private Fund's assets with a qualified custodian (generally a bank as defined in Rule 206(4)-2) in a separate account for each Private Fund in each Private Fund's name or in accounts that contain only Private Fund assets under Smith Graham's name as agent or trustee for the Private Fund. The custodian will be selected by us in our exclusive discretion, which selection may change from time to time generally without the consent of investors in the Private Fund.

In order to comply with the Custody Rule, the Private Funds undergo an annual audit performed by an independent accounting firm registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB). The audited financial statements, prepared in accordance with GAAP, are distributed to all investors in each Private Fund within 120 days of the end of such fund's fiscal year.

Item 16 INVESTMENT DISCRETION

Smith Graham accepts discretionary authority to manage securities investment accounts on behalf of our Managed Account Clients. These Clients have the option to place limitations on this authority. Examples include restrictions to own certain securities and limitations on the percentage of cash held at any one time. 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 guidelines that explains the discretionary authority and details any restrictions or limitations thereto.

Generally, Smith Graham is retained with respect to Managed 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 affected :

- 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 affected ; and
- the prices at which securities are to be bought or sold, which can include dealer spreads or mark-ups and transaction costs.

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

PRIVATE FUNDS

Subject to any investment restrictions set forth in the Governing Documents for a Private Fund, we have discretionary authority, without any investor's consent, to buy and sell an investment and to make determinations including the total amount; the brokers, investment banks or placement agents chosen, if any; and the acquisition or sale price and associated fees at which investment transactions for a Private Fund are affected.

Our discretionary authority is derived from our authority as the investment manager of each Private Fund and our authority pursuant to the Governing Documents of each Private Fund.

Item 17 VOTING CLIENT SECURITIES

PROXY VOTING POLICY

Smith Graham exercises proxy voting authority on behalf of certain Clients. It is our policy generally to support any proposals that we believe will allow companies to realize their maximum market value. We will not support proposals that would insulate companies and/or management, from accountability to shareholders or prudent regulatory compliance. While each proxy is reviewed on a case by case basis, following are examples of the types of proposals and our normal voting stance:

-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.

-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.

-Shareholder Democracy

We generally support proposals that maintain or expand 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.

-Compensation

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.

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 shares in all accounts holding those investments. We refrain from voting the proxies of securities after the security position has been eliminated from the portfolio. 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 is made regarding how we will vote, the Proxy Administrator records and casts our vote electronically via ProxyEdge. In the event that we vote 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

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

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.

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.

Record of Votes Cast

The Proxy Administrator maintains documents showing which votes were cast for each security, the number of shares voted and how each issue was voted.

Client Requests to Reserve Right to Vote

At the client's request or in accordance with the terms of the investment management services agreement, the client has the option to reserve the right to vote their proxies or designate this responsibility to a third party. In this instance Smith Graham will forward all proxies or proxy information received to the client or the client's designee.

Client Requests for Votes

Smith Graham's obligation is to vote in what we believe is the best interest of our clients. Therefore, Smith Graham will not be able to accommodate specific client requests. Clients will be reminded of this policy should such a request arise.

Records to be Maintained

The Proxy Administrator will maintain the following records with respect to proxies: (i) proxy statements received for each client security (ii) records of votes cast on behalf of a client, including each security for which votes were cast, the number of shares voted and how each issue was voted; (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 will 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 can obtain a complete Proxy Voting Policies and Procedures report as well as a full record of proxy votes by contacting: Chief Compliance Officer, Smith, Graham & Co. Investment Advisors, L.P., 600 Travis Street, Suite 6900, Houston, Texas 77002, (713) 292-2136.

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.

Smith Graham does not disclose its balance sheet since the firm does not require or solicit prepayments of more than \$1,200 in fees per client six months or more in advance.

OTHER INFORMATION

Class Actions and other Legal Proceedings

Smith Graham does not advise or act for clients in legal proceedings, including class actions or bankruptcies, involving securities purchased, held, or formerly held, in the client's account.