

SOUTH TEXAS MONEY MANAGEMENT, LTD.

“Helping Individuals, Individually.”[®]

Investor Safeguards

In light of the losses suffered by investors in the recently publicized Madoff Ponzi scheme, many investors are concerned about the safety of their own investment accounts. In a typical Ponzi scheme, the "returns" of early investors are paid with money from later investors who are continually lured in by the purported success of the earlier investors. Once the obligations exceed the new investments, the scam will collapse. In order to assure our clients and prospective clients that the assets they invest with us are protected from such scams, we have set forth below various key safeguards in place at South Texas Money Management, Ltd. (STMM) that protect our clients.

- Client assets are held separately at institutions the client has the opportunity to select that are not affiliated with STMM. The institutions holding client assets are either broker-dealers regulated by the Financial Industry Regulatory Authority and members of the Securities Investor Protection Corporation* or bank trust departments.** STMM is not affiliated with any broker-dealer or other institution. Trades for client accounts are executed through outside, regulated broker-dealers.
- Clients can contact their custodian firm directly to check on their funds or to obtain statements. In addition, clients receive their account statements directly from these independent firms as well as quarterly account statements directly from STMM. By receiving account statements from two sources, clients have the ability to compare the statements to detect any discrepancies.
- STMM's operations team reconciles on a regular basis the custodian account information with the client account information maintained on STMM's portfolio management system. This reconciliation process would alert STMM if any unusual account activities were to take place at the custodian or at STMM.
- When making contributions to accounts, clients are asked to always make checks payable to their independent custodian and not to STMM.
- As a CFA (Chartered Financial Analyst), our CEO is required to abide by the CFA Institute Code of Ethics and Standards of Professional Conduct, which provides in part that CFA members place the integrity of the investment profession and the interests of clients above their own personal interests and requires a signed annual disclosure regarding pending legal actions or charges against a charter holder.
- We do not invest client funds in hedge funds of any kind. Many hedge funds are unregulated and may offer clients limited transparency with respect to the types of investments held.
- As part of our goal to foster a culture of compliance, we have retained outside industry experts to conduct mock compliance examinations and we conduct periodic compliance training meetings. Additionally, our firm is reviewed annually by an independent third party verifier to maintain our CEFEX (Centre for Fiduciary Excellence) designation, which was first obtained by STMM in 2007.
- Our financial statements are audited each year by Sol Schwartz & Associates, P.C., one of the largest independent certified public accounting firms in San Antonio. We have used an independent accounting firm to audit our financial statements since inception and have a policy of rotating firms periodically.

- With regard to our investment performance information, we claim compliance with GIPS (Global Investment Performance Standards) and voluntarily have this claim independently verified on a quarterly basis. Additionally, we voluntarily submit the performance results of our equity only composite to periodic examinations by an independent consultant.
- STMM makes available its ADV Part II on its website at <http://stmmld.com/pdf/agreement.pdf>. This is an important document in which registered investment advisers are required to disclose conflicts of interest.
- The primary job function of STMM's chief compliance officer is to administer STMM's written policies and procedures that we believe have been reasonably designed to prevent violations of the Investment Advisers Act of 1940 and the rules that have been adopted under the Act.

In sum, our firm philosophy is to provide our clients with transparency, accessibility and candid communication at all times. We hope you find the above information helpful and reassuring, and, as always, please feel free to contact us with any questions.

**Protection for securities and cash by the Securities Investor Protection Corporation (SIPC): Accounts of broker-dealers are insured by SIPC for securities and cash in the event of broker-dealer failure. SIPC provides up to \$500,000 of protection for accounts held in each separate capacity (e.g., joint tenant or sole owner), with a limit of \$100,000 for claims of uninvested cash balances. For more information, visit SIPC's website at www.sipc.org.*

*** Unlike bank deposits, which become assets of the bank on its balance sheets, the assets of trust accounts are held completely separate from a bank's own assets. The creditors of the bank have no access to its trust assets. The bank cannot borrow against the value of trust assets, nor can it lend the assets themselves for any purpose.*

Rev. 022009