

## **LKCM FUNDS**

**LKCM Balanced Fund  
LKCM Equity Fund  
LKCM Fixed Income Fund  
LKCM International Fund  
LKCM Small Cap Equity Fund  
LKCM Small-Mid Cap Equity Fund  
(each a “Fund” and collectively, the “Funds”)**

**Supplement dated October 5, 2011  
to the Prospectuses and Statement of Additional Information dated May 1, 2011**

### **IMPORTANT INFORMATION REGARDING CHANGE TO MINIMUM INVESTMENT AMOUNT AND LIQUIDATION OF LKCM INTERNATIONAL FUND**

#### **Prospectus - Change to Minimum Investment Amount**

Effective October 1, 2011, the minimum initial amount to invest in each Fund decreased from \$10,000 to \$2,000. In accordance with this change, the prospectus for the Institutional Class shares of the Funds is modified as follows:

- The discussion of each Fund’s minimum initial amount of investment under “Purchase and Sale of Fund Shares” on pages 3, 5, 8, 11, 14 and 17 will be changed to read: *“The minimum initial amount of investment in the Fund and exchanges into the Fund from another fund in the LKCM Funds is \$2,000. Subsequent investments in the Fund for all types of accounts may be made with a minimum investment of \$1,000.”*
- The first sentence under “By Mail” on page 26 will be changed to read: *“You may open an account by completing and signing an Account Registration Form, and mailing it, together with a check (\$2,000 minimum initial investment) payable to LKCM Funds.”*
- The first sentence under “By Wire” on page 26 will be changed to read: *“You may purchase shares of a Fund by wiring federal funds (\$2,000 minimum).”*
- The first sentence under “Automatic Investment Program” on page 27 will be changed to read: *“The Automatic Investment Program (the “Program”) permits investors that own shares of a Fund with a value of \$2,000 or more to purchase shares (minimum of \$100 per transaction) at regular intervals selected by the investor.”*

In addition, the prospectus for the Adviser Class shares of the LKCM Equity Fund, LKCM Small Cap Equity Fund and LKCM Small-Mid Cap Equity Fund is modified as follows:

- The discussion of each Fund’s minimum initial amount of investment under “Purchase and Sale of Fund Shares” on pages 3, 5 and 8 will be changed to read: *“The minimum initial amount of investment in the Fund and exchanges into the Fund from another fund in the LKCM Funds is \$2,000. Subsequent investments in the Fund for all types of accounts may be made with a minimum investment of \$1,000.”*
- The first sentence under “By Mail” on page 12 will be changed to read: *“You may open an account by completing and signing an Account Registration Form, and mailing it, together with a check (\$2,000 minimum initial investment) payable to LKCM Funds.”*
- The first sentence under “By Wire” on page 13 will be changed to read: *“You may purchase shares of a Fund by wiring federal funds (\$2,000 minimum).”*
- The first sentence under “Automatic Investment Program” on page 14 will be changed to read: *“The Automatic Investment Program (the “Program”) permits investors that own shares of a Fund with a value of \$2,000 or more to purchase shares (minimum of \$100 per transaction) at regular intervals selected by the investor.”*

#### **Statement of Additional Information - Change to Minimum Investment Amount**

Effective October 1, 2011, the minimum initial amount to invest in each Fund decreased from \$10,000 to \$2,000. In accordance with this change, the statement of additional information of the Funds is modified as follows:

- The first sentence under “Automatic Investment Program” on page 40 will be changed to read: *“The Automatic Investment Program permits investors that own shares of a Fund with a value of \$2,000 or more to purchase shares (minimum of \$100 per transaction) at regular intervals selected by the investor.”*

#### **Liquidation of LKCM International Fund**

On September 30, 2011, the Board of Trustees (the “Board”) of the Funds approved a plan to liquidate and terminate the LKCM International Fund (the “International Fund”) upon recommendation by Luther King Capital Management Corporation (“LKCM”), the investment adviser of the International Fund. Due to the International Fund’s low level of assets, LKCM does not believe that it can continue to conduct the International Fund’s business and operations in an economically efficient manner. As such, the Board concluded that it would be in the best interests of the International Fund and its shareholders to liquidate and terminate the International Fund.

In anticipation of the liquidation, the International Fund will stop accepting purchases and exchanges into the International Fund on October 14, 2011. After such date, the International Fund will begin an orderly transition of its portfolio to cash and cash equivalents and will no longer be pursuing its investment objective. On or about December 2, 2011 (the “Liquidation

Date”), the International Fund will liquidate its remaining assets and distribute cash pro rata to all remaining shareholders who have not previously redeemed or exchanged all of their shares. These distributions are taxable events. Once the distribution is complete, the International Fund will terminate.

The International Fund intends to pay required distributions, if any, of its investment company taxable income prior to the Liquidation Date. Additional information regarding the amount and timing of any such distributions can be found on the International Fund’s website at [www.lkcmfunds.com](http://www.lkcmfunds.com).

Please note that you may exchange your shares of the International Fund at net asset value at any time prior to the Liquidation Date for shares of another LKCM Fund. You also may redeem your shares of the International Fund at any time prior to the Liquidation Date. No sales charges, redemption or termination fees will be imposed in connection with such exchanges and redemptions. In general, exchanges and redemptions are taxable events.

If you own International Fund shares in a tax deferred account, such as an individual retirement account, 401(k) or 403(b) account, you should consult your tax adviser to discuss the International Fund’s liquidation and determine its tax consequences.

For more information, please contact a customer service representative at 1-800-688-LKCM.

\* \* \*

INVESTORS SHOULD RETAIN THIS SUPPLEMENT WITH  
THE PROSPECTUSES FOR FUTURE REFERENCE

**LKCM FUNDS**

**LKCM SMALL CAP EQUITY FUND**

**Adviser Class (LKSAX)**

**Institutional Class (LKSCX)**

**LKCM SMALL-MID CAP EQUITY FUND**

**Adviser Class (LKSDX)**

**Institutional Class (LKSMX)**

**LKCM EQUITY FUND**

**Adviser Class (LKEAX)**

**Institutional Class (LKEQX)**

**LKCM BALANCED FUND (LKBAX)**

**LKCM FIXED INCOME FUND (LKFIX)**

**LKCM INTERNATIONAL FUND (LKINX)**

**301 COMMERCE STREET, SUITE 1600**

**FORT WORTH, TEXAS 76102**

**STATEMENT OF ADDITIONAL INFORMATION**

May 1, 2011

This Statement of Additional Information is not a prospectus and should be read in conjunction with the Prospectuses of each of the series of LKCM Funds (each a "Fund" and collectively the "Funds") dated May 1, 2011, as such Prospectuses may be supplemented or revised from time to time. A copy of the Prospectuses may be obtained without charge by calling the Funds at (800) 688-LKCM or by visiting [www.lkcmfunds.com](http://www.lkcmfunds.com).

The Funds' audited financial statements for the year ended December 31, 2010 are incorporated herein by reference to the Funds' 2010 Annual Report. A copy of the Annual Report may be obtained without charge by calling the Funds at (800) 688-LKCM or by visiting [www.lkcmfunds.com](http://www.lkcmfunds.com).

**TABLE OF CONTENTS**

	<u>Page</u>
<b>FUND ORGANIZATION.....</b>	<b>1</b>
<b>INVESTMENT LIMITATIONS.....</b>	<b>2</b>
<b>INVESTMENT OBJECTIVES AND POLICIES .....</b>	<b>4</b>
<b>TRUSTEES AND OFFICERS OF THE LKCM FUNDS.....</b>	<b>18</b>
<b>CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS.....</b>	<b>24</b>
<b>PROXY VOTING PROCEDURES .....</b>	<b>27</b>
<b>INVESTMENT ADVISER .....</b>	<b>28</b>
<b>PORTFOLIO MANAGERS OF THE SMALL CAP EQUITY, SMALL-MID CAP EQUITY, EQUITY, BALANCED AND FIXED INCOME FUNDS .....</b>	<b>30</b>
<b>SUB-ADVISER.....</b>	<b>32</b>
<b>PORTFOLIO MANAGERS OF THE INTERNATIONAL FUND.....</b>	<b>33</b>
<b>PORTFOLIO TRANSACTIONS AND BROKERAGE.....</b>	<b>35</b>
<b>PORTFOLIO TURNOVER .....</b>	<b>37</b>
<b>CUSTODIAN.....</b>	<b>38</b>
<b>ADMINISTRATOR .....</b>	<b>38</b>
<b>DISTRIBUTOR.....</b>	<b>38</b>
<b>DISTRIBUTION PLANS .....</b>	<b>39</b>
<b>INTERESTS OF CERTAIN PERSONS .....</b>	<b>39</b>
<b>CODE OF ETHICS.....</b>	<b>39</b>
<b>PURCHASE AND PRICING OF SHARES.....</b>	<b>40</b>
<b>PORTFOLIO HOLDINGS INFORMATION.....</b>	<b>41</b>
<b>EXCHANGES.....</b>	<b>42</b>
<b>REDEMPTIONS IN KIND .....</b>	<b>42</b>
<b>TAXATION .....</b>	<b>42</b>
<b>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.....</b>	<b>45</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>45</b>
<b>APPENDIX A .....</b>	<b>A-1</b>
<b>APPENDIX B.....</b>	<b>B-1</b>

In deciding whether to invest in the Funds, you should rely on information in this Statement of Additional Information and the Prospectuses. The Funds have not authorized others to provide additional information in any state or jurisdiction in which such offering may not legally be made.

Luther King Capital Management Corporation (“the Adviser”) serves as the investment adviser for the Small Cap Equity, Small-Mid Cap Equity, Equity, Balanced, Fixed Income, and International Funds. TT International serves as the subadviser for the International Fund.

## **FUND ORGANIZATION**

### **DESCRIPTION OF SHARES AND VOTING RIGHTS**

The LKCM Funds (the “Trust”) is an open-end, diversified, management investment company. Each Fund is a separate series of the Trust, a Delaware statutory trust that was established by a Declaration of Trust dated February 10, 1994. The Declaration of Trust permits the Trustees of the Trust to issue an unlimited number of shares of beneficial interest, without par value, from an unlimited number of series. Currently, the Trust offers nine series, six of which are the Small Cap Equity Fund, Small-Mid Cap Equity Fund, Equity Fund, Balanced Fund, Fixed Income Fund and International Fund (each a “Fund” and collectively the “Funds”) and described more fully herein. The Small Cap Equity, Small-Mid Cap Equity and Equity Funds offer two classes of shares—the Institutional Class and the Adviser Class.

Pursuant to the Declaration of Trust, the Trustees may also authorize the creation of additional series (the proceeds of which would be invested in separate, independently managed funds with distinct investment objectives and policies and share purchase, redemption and net asset valuation procedures) with such preferences, privileges, limitations and voting and dividend rights as the Trustees may determine. All consideration received by the Trust for shares of any additional series, and all assets in which such consideration is invested, would belong to that series and would be subject to the liabilities related thereto.

The Trustees have authorized the division of shares of the Funds into different classes permitting shares of different classes to be distributed by different methods. Although shareholders of different classes will have an interest in the same Fund’s assets, shareholders of different classes may bear different expenses in connection with different methods of distribution.

When issued, the shares of the Funds are fully paid and non-assessable, have no preemptive or subscription rights and are fully transferable. There are no conversion rights. Each share of a Fund is entitled to participate equally in dividends and capital gains distributions and in the assets of the Fund in the event of liquidation. The shares of the Funds have non-cumulative voting rights, which means that the holders of more than 50% of the shares voting for the election of Trustees can elect 100% of the Trustees if they choose to do so. A shareholder is entitled to one vote for each full share held (and a fractional vote for each fractional share held), then standing in the shareholder’s name on the books of a Fund.

The Funds are not required, and do not intend, to hold regular annual shareholder meetings. The Funds may hold special meetings for consideration of proposals requiring shareholder approval, such as changing fundamental policies. The Trust will assist in shareholder communication in such matters to the extent required by law.

The Trust has adopted a Multiple Class Plan pursuant to Rule 18f-3 under the Investment Company Act of 1940, as amended (the “1940 Act”), which details the attributes of the Institutional and Adviser Classes of the Small Cap Equity, Small-Mid Cap Equity and Equity Funds. Generally, Adviser Class shares are subject to a Rule 12b-1 fee as described in the Adviser Class prospectus. Shares of the Institutional Class are not subject to a Rule 12b-1 fee at this time. More information regarding the Rule 12b-1 Plans can be found under the sub-heading “Distribution Plans.”

### **SHAREHOLDER AND TRUSTEE LIABILITY**

The Declaration of Trust contains an express disclaimer of shareholder liability for acts or obligations of the Trust and requires that notice of such disclaimer be given in each agreement, obligation, or instrument entered into or executed by the Trust or the Trustees, but this disclaimer may not be effective in some jurisdictions or as to certain types of claims. The Declaration of Trust further provides for indemnification out of the Trust’s property of any shareholder held personally liable for the obligations of the Trust. The Declaration of Trust also provides that the Trust shall, upon request, assume the defense of any claim made against any shareholder for any act or obligation of the Trust and satisfy any judgment thereon. Thus, the risk of a shareholder incurring financial loss on

account of shareholder liability is limited to circumstances in which the Trust itself would be unable to meet its obligations.

The Declaration of Trust further provides that the Trustees will not be liable for errors of judgment or mistakes of fact or law, but nothing in the Declaration of Trust protects a Trustee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the office.

## **INVESTMENT LIMITATIONS**

### **ALL FUNDS**

In addition to the Funds' investment objectives as set forth in the Prospectuses, the Funds are subject to the following restrictions, which are fundamental policies and may not be changed without the approval of a majority of a Fund's outstanding voting securities. As used herein, a "majority of a Fund's outstanding voting securities" means the lesser of: (1) at least 67% of the voting securities of a Fund present at a meeting if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy, or (2) more than 50% of the outstanding voting securities of a Fund.

As a matter of fundamental policy, each Fund will not:

- (1) invest in physical commodities or contracts on physical commodities;
- (2) purchase or sell real estate, although it may purchase and sell securities of companies that deal in real estate, other than real estate limited partnerships, and may purchase and sell marketable securities that are secured by interests in real estate;
- (3) make loans except: (i) by purchasing debt securities in accordance with its investment objective and policies or entering into repurchase agreements; or (ii) with respect to the Small Cap Equity, Small-Mid Cap Equity, Balanced, Fixed Income and International Funds, by lending their portfolio securities to banks, brokers, dealers and other financial institutions, so long as such loans are not inconsistent with the 1940 Act, or the rules and regulations or interpretations of the SEC thereunder;
- (4) with respect to 75% of its assets, purchase more than 10% of any class of the outstanding voting securities of any issuer; provided, however, that the International Fund may invest all or any portion of its assets in one or more investment companies to the extent not prohibited by the 1940 Act, the rules and regulations thereunder, and exemption orders granted under such Act;
- (5) with respect to 75% of its assets, invest more than 5% of its total assets in the securities of any single issuer (other than obligations issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities); provided, however, that the International Fund may invest all or any portion of its assets in one or more investment companies to the extent not prohibited by the 1940 Act, the rules and regulations thereunder, and exemption orders granted under such Act;
- (6) borrow money, except (i) from banks and as a temporary measure for extraordinary or emergency purposes (not for leveraging or investment) or (ii) with respect to the Small Cap Equity, Small-Mid Cap Equity, Balanced, Fixed Income and International Funds in connection with reverse repurchase agreements provided that (i) and (ii) in combination do not exceed 33 1/3% of the Fund's total assets (including the amount borrowed) less liabilities (exclusive of borrowings); and the Small Cap Equity, Small-Mid Cap Equity, and Equity Funds cannot buy additional securities if they borrow more than 5% of their total assets;
- (7) underwrite the securities of other issuers (except to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended (the "Securities Act") in the disposition of restricted securities); provided, however, that the International Fund may invest all or

any portion of its assets in one or more investment companies to the extent not prohibited by the 1940 Act, the rules and regulations thereunder, and exemption orders granted under such Act;

- (8) acquire any securities of companies within one industry if, as a result of such acquisition, more than 25% of the Fund's total assets would be invested in securities of companies within such industry; provided, however, that there shall be no limitation on the purchase of obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities; and provided, however, that the International Fund may invest all or any portion of its assets in one or more investment companies to the extent not prohibited by the 1940 Act, the rules and regulations thereunder, and exemption orders granted under such Act; and
- (9) issue senior securities, except that this limitation shall not apply to: (i) evidence of indebtedness which the Fund is permitted to incur; (ii) shares of the separate classes or series of the Trust; or (iii) collateral arrangements with respect to currency-related contracts, futures contracts, options or other permitted investments, including deposits of initial and variation margin.

With the exception of fundamental investment limitation (6) above if a percentage limitation on the investment or utilization of assets as set forth above is adhered to at the time an investment is made, a later change in percentage resulting from changes in the value or total cost of a Fund's assets will not require the sale of securities.

The Funds are also subject to the following restrictions, which are non-fundamental policies and may be changed by the Board of Trustees of the Trust (the "Board of Trustees") without shareholder approval. As a matter of non-fundamental policy, each Fund will not:

- (1) purchase securities on margin, except for use of short-term credit as may be necessary for the clearance of purchases and sales of securities, but it may make margin deposits in connection with transactions in options, futures, and options on futures; or sell securities short unless, by virtue of its ownership of other securities, it has the right to obtain securities equivalent in kind and amount to the securities sold and, if the right is conditional, the sale is made upon the same conditions. Transactions in futures contracts, options and options on futures are not deemed to constitute selling securities short;
- (2) pledge, mortgage, or hypothecate any of its assets to an extent greater than 33 1/3% of its total assets at fair market value;
- (3) invest more than an aggregate of 15% of the net assets of a Fund in securities deemed to be illiquid, including securities which are not readily marketable, the disposition of which is restricted (excluding securities that are not registered under the Securities Act but which can be sold to qualified institutional investors in accordance with Rule 144A under the Securities Act and commercial paper sold in reliance on Section 4(2) of the Securities Act), repurchase agreements having maturities of more than seven days and certain over-the-counter options ("OTC Options");
- (4) invest its assets in securities of any investment company, except by purchase in the open market involving only customary brokers' commissions or in connection with mergers, acquisitions of assets or consolidations and except as may otherwise be permitted by the 1940 Act;
- (5) write or acquire options or interests in oil, gas or other mineral exploration or development programs or leases;
- (6) with respect to each of the Small Cap Equity Fund, Small-Mid Cap Equity Fund, Equity Fund and Fixed Income Fund, make any change in its investment policy of investing at least 80% of its net assets in the investments suggested by the Fund's name without first providing the Fund's shareholders with at least 60 days' prior notice; and

- (7) with respect to the International Fund, invest less than 80% of its net assets (including borrowing, if any, for investment purposes) in securities that are tied economically to Europe, Australasia or the Far East without first providing the Fund's shareholders with at least 60 days' prior notice.

## **THE INTERNATIONAL FUND**

Under normal circumstances, the International Fund will invest at least 80% of its net assets (including borrowings, if any, for investment purposes) in securities that are tied economically to Europe, Australasia or the Far East. This region includes those countries included in the Morgan Stanley Capital International Europe, Australasia and Far East Index. These securities may include, but are not limited to, those of issuers that are organized, are domiciled or principally operate in those countries, derive at least 50% of their revenue or income from their operations within those countries, or have at least 50% of their assets in those countries or whose securities are principally traded on those countries' securities markets. Shareholders of the International Fund will be provided with at least 60 days notice of any change in the policy regarding investing at least 80% of its assets in securities that are tied economically to Europe, Australasia or the Far East.

## **INVESTMENT OBJECTIVES AND POLICIES**

The investment objectives and policies of the Funds are described in detail in the summary prospectuses under the caption "Principal Investment Strategies" and in the statutory prospectuses under the caption "Additional Information Regarding the Investment Objectives and Principal Investment Strategies of the Funds." These sections provide a description of the securities in which a Fund may invest to achieve its investment objective, the strategies it may employ and the corresponding risks of such securities and strategies. The greatest risk of investing in a mutual fund is that its returns will fluctuate and you could lose money. Recent events in the financial sector have resulted, and may continue to result, in an unusually high degree of volatility in the financial markets. Both domestic and foreign equity markets could experience increased volatility and turmoil, with issuers that have exposure to the real estate, mortgage and credit markets particularly affected, and it is uncertain whether or for how long these conditions could continue. The U.S. Government has already taken a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity.

Reduced liquidity in equity, credit and fixed-income markets may adversely affect many issuers worldwide. This reduced liquidity may result in less money being available to purchase raw materials, goods and services from emerging markets, which may, in turn, bring down the prices of these economic staples. It may also result in emerging market issuers having more difficulty obtaining financing, which may, in turn, cause a decline in their stock prices. These events and possible continued market turbulence may have an adverse effect on the Funds.

**Recent Regulatory Events.** The U.S. Government, the Federal Reserve, the Treasury, the SEC, the Federal Deposit Insurance Corporation and other governmental and regulatory bodies have recently taken, or are considering taking, actions in response to economic events. These actions include, but are not limited to, the enactment by the United States Congress of the "Dodd-Frank Wall Street Reform and Consumer Protection Act," which was signed into law on July 21, 2010, and imposes a new regulatory framework over the U.S. financial services industry and the consumer credit markets in general, as well as proposed regulations by the SEC. Given the broad scope, sweeping nature, and relatively recent enactment of some of these statutes and regulatory measures, the potential impact they could have on securities held by the Fund currently is unknown. There can be no assurance that these measures will not have an adverse effect on the value or marketability of securities held by the Funds. Furthermore, no assurance can be made that the U.S. Government or any U.S. regulatory body (or other authority or regulatory body) will refrain from taking further legislative or regulatory action. The effect of any such actions, if taken, cannot be known.

## **EQUITY RELATED SECURITIES**

The equity securities in which the Funds may invest include common stocks, preferred stocks, warrants and rights, and debt securities convertible into or exchangeable for common stock or other equity securities.

**Common Stocks.** Common stocks represent the residual ownership interest in the issuer. They are entitled to the income and increase in the value of the assets and business of the entity after all of its obligations, including preferred stock, are satisfied. Common stocks generally have voting rights. Common stocks fluctuate in price in response to many factors including historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

**Preferred Stock.** Preferred stock offers a stated dividend rate payable from the corporation's earnings. These preferred stock dividends may be cumulative or non-cumulative, participating, or auction rate. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing the price of preferred stocks to decline. Preferred stock may have mandatory sinking fund provisions, as well as call/redemption provisions prior to maturity, a negative feature when interest rates decline. The rights of preferred stocks are generally subordinate to rights associated with a corporation's debt securities. Dividends on some preferred stock may be "cumulative" if stated dividends from prior periods have not been paid. Preferred stock also generally has a preference over common stock on the distribution of a corporation's assets in the event of liquidation of the corporation, and may be "participating," which means that it may be entitled to a dividend exceeding the stated dividend in certain cases.

**Warrants and Rights.** Warrants are options to purchase equity securities at specific prices valid for a specific period of time. Their prices do not necessarily move parallel to the prices of the underlying securities. Rights are similar to warrants but normally have a short duration and are distributed by the issuer to its shareholders. Warrants and rights have no voting rights, receive no dividends and have no rights with respect to the assets of the issuer.

**Convertible Securities.** A convertible security is a bond, debenture, note or other security that entitles the holder to acquire common stock or other equity securities of the same or a different issuer. A convertible security generally entitles the holder to receive interest paid or accrued until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to nonconvertible debt securities. Convertible securities rank senior to common stock in a corporation's capital structure and, therefore, generally entail less risk than the corporation's common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a fixed income security. A convertible security may be subject to redemption at the option of the issuer at a predetermined price. If a convertible security held by a Fund is called for redemption, the Fund would be required to permit the issuer to redeem the security and convert it to underlying common stock, or would sell the convertible security to a third party.

**Securities Subject To Reorganization.** The Funds may invest in equity securities for which a tender or exchange offer has been made or announced and in securities of companies for which a merger, consolidation, liquidation or reorganization proposal has been announced if, in the judgment of the Adviser, there is a reasonable prospect of capital appreciation significantly greater than the brokerage and other transaction expenses involved. Generally, securities which are the subject of such an offer or proposal sell at a premium to their historic market price immediately prior to the announcement of the offer or may also discount what the stated or appraised value of the security would be if the contemplated transaction were approved or consummated. Such investments may be advantageous when the discount significantly overstates the risk of the contingencies involved, significantly undervalues the securities, assets or cash to be received by shareholders of the target company as a result of the contemplated transaction, or fails adequately to recognize the possibility that the offer or proposal may be replaced or superseded by an offer or proposal of greater value. The evaluation of such contingencies requires broad knowledge and experience on the part of the Adviser which must appraise not only the value of the issuer and its component businesses as well as the assets or securities to be received as a result of the contemplated transaction but also the financial resources and business motivation of the offeror and the dynamics and business climate when the offer or proposal is in process. Since such investments are ordinarily short-term in nature, they will tend to increase the turnover ratio of a Fund thereby increasing its brokerage and other transaction expenses. The Adviser intends to select investments of the type described which, in its view, have a reasonable prospect of capital appreciation which is significant in relation to both the risk involved and the potential of available alternate investments.

## **FOREIGN SECURITIES**

The Funds may invest in securities of foreign issuers. The Balanced Fund may invest up to 10% of its total assets in foreign securities. As noted above, the International Fund, under normal circumstances, invests at least 80% of its net assets in securities that are tied economically to Europe, Australasia or the Far East. Investing in foreign issuers involves certain special considerations that are not typically associated with investing in U.S. issuers. Since the securities of foreign issuers are frequently denominated in foreign currencies, and since the Funds may temporarily hold invested reserves in bank deposits in foreign currencies, the Funds will be affected favorably or unfavorably by changes in currency rates and in exchange control regulations, and may incur costs in connection with conversions between various currencies. The investment policies of the Funds (other than the Equity Fund) permit them to enter into forward foreign currency exchange contracts in order to hedge the Funds' holdings and commitments against changes in the level of future currency rates. Such contracts involve an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract.

Investing in emerging markets can have more risk than investing in developed foreign markets. The risks of investing in these markets may be exacerbated relative to investments in foreign markets. In addition, emerging markets may impose restrictions on a Fund's ability to repatriate investment income or capital and thus, may adversely effect the operations of the Fund and certain emerging markets impose constraints on currency exchange and some currencies in emerging markets may have been devalued significantly against the U.S. dollar. For these and other reasons, the prices of securities in emerging markets can fluctuate more significantly than the prices of securities of companies in developed countries. The less developed the country, the greater effect these risks may have on your investment in a Fund.

As foreign companies are not generally subject to uniform accounting, auditing and financial reporting standards and practices comparable to those applicable to domestic companies, there may be less publicly available information about certain foreign companies than about domestic companies. Securities of some foreign companies are generally less liquid and more volatile than securities of comparable domestic companies. There is generally less government supervision and regulation of stock exchanges, brokers and listed companies than in the U.S. In addition, with respect to certain foreign countries, there is the possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments that could affect U.S. investments in those countries. Although the Funds will endeavor to achieve most favorable execution costs in their portfolio transactions, fixed commissions on many foreign stock exchanges are generally higher than negotiated commissions on U.S. exchanges. In addition, it is expected that the expenses for custodian arrangements of the Funds' foreign securities will be somewhat greater than the expenses for the custodian arrangements for handling U.S. securities of equal value.

Certain foreign governments levy withholding taxes against dividend and interest income paid by citizens or corporations operating therein to investors in other countries. Although in some countries a portion of these taxes are recoverable, the non-recovered portion of foreign withholding taxes will reduce the income received from the companies comprising the holdings of the Funds. However, these foreign withholding taxes are not expected to have a significant impact on the Funds.

## **AMERICAN DEPOSITORY RECEIPTS ("ADRs")**

The Adviser does not consider ADRs to be part of foreign securities when calculating the Fund's foreign securities limitations. The Funds may invest in ADRs, which are receipts issued by an American bank or trust company evidencing ownership of underlying securities issued by a foreign issuer. ADRs may be listed on a national securities exchange or may trade in the over-the-counter market. ADR prices are denominated in U.S. dollars; the underlying security is denominated in a foreign currency.

## **FIXED INCOME SECURITIES**

The fixed income securities in which the Balanced and Fixed Income Funds may invest include securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, securities, corporate debt securities, mortgage-backed securities and asset-backed securities. The Fixed Income Fund invests under normal

circumstances at least 80% of its net assets in a portfolio of investment grade corporate and fixed income securities and securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, The fixed income securities in which the Small Cap Equity, Small-Mid Cap Equity, Equity and International Funds may invest include securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, and corporate debt securities.

**Ratings.** As noted above, all of the Funds may invest in various fixed income securities, including fixed income securities that are rated at the time of purchase as investment grade by a nationally recognized statistical rating organization (“NRSRO”), such as Standard & Poor’s (“S&P”) or Moody’s Investor Services Inc. (“Moody’s”), or, if unrated, are determined to be of equivalent quality by the Adviser. Investment grade fixed income securities include:

- Securities issued or guaranteed by the U.S. government, its agencies or instrumentalities;
- Bonds or bank obligations rated in one of the four highest categories (such as BBB or higher by S&P);
- Short-term notes rated in one of the two highest categories (such as SP-2 or higher by S&P);
- Commercial paper or short-term bank obligations rated in one of the three highest categories (such as A-3 or higher by S&P); and
- Repurchase agreements involving investment grade fixed income securities.

Investment grade fixed income securities are generally believed to have a lower degree of credit risk. However, certain investment grade securities with lower ratings are considered medium quality and may be subject to greater credit risk than the highest rated securities. If a security’s rating falls below that required at the time of purchase, the Adviser or TT International, as applicable, will consider what action, if any, should be taken consistent with the Fund’s investment objective. Additional information concerning securities ratings is contained in Appendix B to the SAI.

**U.S. Government Securities.** U.S. Government agencies or instrumentalities that issue or guarantee securities include, but are not limited to, Fannie Mae (“FNMA”), Government National Mortgage Association (“GNMA”), Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (“FHLMC”), Federal Intermediate Credit Banks, Federal Land Banks, Tennessee Valley Authority, Inter-American Development Bank, Asian Development Bank, Sallie Mae and the International Bank for Reconstruction and Development. These securities generally are supported only by the credit of the corporation.

Except for U.S. Treasury securities, obligations of U.S. Government agencies and instrumentalities may or may not be supported by the full faith and credit of the United States. Some are backed by the right of the issuer to borrow from the Treasury; others by discretionary authority of the U.S. Government to purchase the agencies’ obligations; while still others, such as Sallie Mae, are supported only by the credit of the instrumentality. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency or instrumentality issuing or guaranteeing the obligation for ultimate repayment and may not be able to assert a claim against the United States itself in the event the agency or instrumentality does not meet its commitment. Each Fund will invest in securities of such agencies or instrumentalities only when the Adviser is satisfied that the credit risk is acceptable.

The Funds may invest in component parts of U.S. Treasury notes or bonds, namely either the principal of such Treasury obligations or one of the interest payments scheduled to be paid on such obligations. These obligations may take the form of: (1) Treasury obligations from which the interest coupons have been stripped; (2) the interest coupons that are stripped; (3) book-entries at a Federal Reserve member bank representing ownership of Treasury obligation components; or (4) receipts evidencing the component parts (principal or coupons) of Treasury obligations that have not actually been stripped. Such receipts evidence ownership of component parts of Treasury obligations (principal or coupons) purchased by a third party (typically an investment banking firm) and held on

behalf of the third party in physical or book-entry form by a major commercial bank or trust company pursuant to a custody agreement with the third party. These custodial receipts are known by various names, including “Treasury Receipts,” “Treasury Investment Growth Receipts” (“TIGRs”) and “Certificates of Accrual on Treasury Securities” (“CATs”), and are not issued by the U.S. Treasury; therefore they are not U.S. Government securities, although the underlying bonds represented by these receipts are debt obligations of the U.S. Treasury.

**Corporate Debt Securities.** The Funds may invest in U.S. dollar or foreign currency-denominated corporate debt securities of domestic or foreign issuers (corporate bonds, debentures, notes and other similar corporate debt instruments) as rated by a NRSRO. However, the Small Cap Equity, Small-Mid Cap Equity, Equity, Balanced and International Funds may only invest up to 5% of the respective Fund’s total assets in non-investment grade securities. Such securities tend to be more sensitive to economic conditions than are higher-quality securities. Accordingly, these securities are considered predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal in accordance with the terms of the obligation and will generally involve more credit risk than securities in the higher-quality categories.

Even securities rated Baa or BBB by Moody’s and S&P, respectively, or equivalent ratings from another NRSRO which ratings are considered investment grade, possess some speculative characteristics. There are risks involved in applying credit ratings as a method for evaluating high yield obligations in that credit ratings evaluate the safety of principal and interest payments, not market value risk. In addition, credit rating agencies may not change credit ratings on a timely basis to reflect changes in economic or company conditions that affect a security’s market value. Changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than is the case for higher grade bonds.

The Funds will rely on the judgment, analysis and experience of the Adviser or TT International, as applicable, in evaluating the creditworthiness of an issuer. In this evaluation, the Adviser or TT International, as applicable, will take into consideration, among other things, the issuer’s financial resources and ability to cover its interest and fixed charges, factors relating to the issuer’s industry and its sensitivity to economic conditions and trends, its operating history, the quality of the issuer’s management and regulatory matters. The rate of return or return of principal on some debt obligations may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

The risk of loss due to default by the issuer is significantly greater for the holders of lower quality securities because such securities are generally unsecured and are often subordinated to other obligations of the issuer. During an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of lower quality securities may experience financial stress and may not have sufficient revenues to meet their interest payment obligations. An issuer’s ability to service its debt obligations may also be adversely affected by specific corporate developments, its inability to meet specific projected business forecasts, or the unavailability of additional financing.

Factors adversely affecting the market value of securities will adversely affect a Fund’s net asset value. In addition, a Fund may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings.

The secondary trading market for lower-quality fixed income securities is generally not as liquid as the secondary market for higher-quality securities and is very thin for some securities. The relative lack of an active secondary market may have an adverse impact on market price and a Fund’s ability to dispose of particular issues when necessary to meet the Fund’s liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer. The relative lack of an active secondary market for certain securities may also make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing the Fund’s portfolio. Market quotations are generally available on many high yield issues only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales. During such times, the responsibility of the Board of Trustees or the Adviser to value the securities becomes more difficult and judgment plays a greater role in valuation because there is less reliable, objective data available.

**Lower Rated Fixed Income Securities.** The Funds may invest in lower rated fixed income securities (commonly known as “junk bonds”). The lower ratings reflect a greater possibility that adverse changes in the financial condition of the issuer or in general economic conditions, or both, or an unanticipated rise in interest rates, may impair the ability of the issuer to make payments of interest and principal. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of such securities held by the Fund more volatile and could limit the Fund’s ability to sell its securities at prices approximating the values the Fund had placed on such securities. In the absence of a liquid trading market for securities held by it, a Fund at times may be unable to establish the fair value of such securities. If the issuer defaults on its obligation, the value of the security would fall and the Fund’s income also would decline.

Securities ratings are based largely on the issuer’s historical financial condition and the rating agencies’ analysis at the time of rating. Consequently, the rating assigned to any particular security is not necessarily a reflection of the issuer’s current financial condition, which may be better or worse than the rating would indicate. In addition, the rating assigned to a security by Moody’s or S&P (or by any other ratings organization) does not reflect an assessment of the volatility of the security’s market value or the liquidity of an investment in the security.

Like those of other fixed income securities, the values of lower rated securities go up and down in response to changes in interest rates. A decrease in interest rates generally will result in an increase in the value of fixed income securities. Conversely, during periods of rising interest rates, the value of the Fund’s fixed income securities generally will decline. The values of lower rated securities often may be affected to a greater extent by changes in general economic conditions and business conditions affecting the issuers of such securities and their industries. Negative publicity or investor perceptions also may adversely affect the values of lower rated securities. Changes by recognized rating services in their ratings of any fixed income security and changes in the ability of an issuer to make payments of interest and principal also may affect the value of these investments. Changes in the value of portfolio securities generally will not affect income derived from these securities, but will affect the Fund’s net asset value.

Issuers of lower rated securities often are highly leveraged, so that their ability to service their debt obligations during an economic downturn or during sustained periods of rising interest rates may be impaired. Such issuers may not have more traditional methods of financing available to them and may be unable to repay outstanding obligations at maturity by refinancing. The risk of loss due to default in payment of interest or repayment of principal by such issuers is significantly greater because such securities frequently are unsecured and subordinated to the prior payment of senior indebtedness.

**Mortgage-Related Securities.** The Balanced and Fixed Income Funds may invest in residential or commercial mortgage-related securities, including mortgage pass-through securities, collateralized mortgage obligations (“CMO”), adjustable rate mortgage securities, CMO residuals, stripped mortgage-related securities, floating and inverse floating rate securities and tiered index bonds.

**Mortgage Pass-Through Securities.** Mortgage pass-through securities represent interests in pools of mortgages in which payments of both principal and interest on the securities are generally made monthly, in effect “passing through” monthly payments made by borrowers in the residential or commercial mortgage loans which underlie the securities (net of any fees paid to the issuer or guarantor of the securities). Mortgage pass-through securities differ from other forms of debt securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Early repayment of principal on mortgage pass-through securities (arising from prepayments of principal due to the sale of underlying property, refinancing, or foreclosure, net of fees and costs which may be incurred) may expose a Fund to a lower rate of return upon reinvestment of principal. Also, if a security subject to repayment has been purchased at a premium, in the event of prepayment, the value of the premium would be lost.

There are currently three types of mortgage pass-through securities: (1) those issued by the U.S. Government or one of its agencies or instrumentalities, such as GNMA, FNMA, and FHLMC; (2) those issued by private issuers that represent an interest in or are collateralized by pass-through securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities; and (3) those issued by private issuers that

represent an interest in or are collateralized by whole mortgage loans or pass-through securities without a government guarantee but usually having some form of private credit enhancement.

GNMA is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA (such as savings and loan institutions, commercial banks and mortgage banks), and backed by pools of FHA-insured or VA-guaranteed mortgages.

Obligations of FNMA and FHLMC are not backed by the full faith and credit of the U.S. Government. In the case of obligations not backed by the full faith and credit of the U.S. Government, the Fund must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment. FNMA and FHLMC may borrow from the U.S. Treasury to meet their obligations, but the U.S. Treasury is under no obligation to lend to FNMA or FHLMC.

Private mortgage pass-through securities are structured similarly to GNMA, FNMA, and FHLMC mortgage pass-through securities and are issued by originators of and investors in mortgage loans, including depository institutions, mortgage banks, investment banks and special purpose subsidiaries of the foregoing.

Pools created by private mortgage pass-through issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or agency guarantees of payments in the private pools. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or insured by governmental entities, private insurers and the mortgage poolers.

Collateralized Mortgage Obligations. CMOs are debt obligations collateralized by residential or commercial mortgage loans or residential or commercial mortgage pass-through securities. Interest and prepaid principal are generally paid monthly. CMOs may be collateralized by portfolios of mortgage pass-through securities guaranteed by GNMA, FHLMC, or FNMA. The issuer of a series of CMOs may elect to be treated as a Real Estate Mortgage Investment Conduit (“REMIC”). All future references to CMOs also include REMICs.

CMOs are structured into multiple classes, each bearing a different stated maturity. Actual maturity and average life will depend upon the prepayment experience of the collateral, which is ordinarily unrelated to the stated maturity date. CMOs often provide for a modified form of call protection through a de facto breakdown of the underlying pool of mortgages according to how quickly the loans are repaid. Monthly payment of principal received from the pool of underlying mortgages, including prepayments, is first returned to investors holding the shortest maturity class. Investors holding the longer maturity classes usually receive principal only after the first class has been retired. An investor may be partially protected against a sooner than desired return of principal because of the sequential payments.

The Balanced and Fixed Income Funds may also invest in, among other things, parallel pay CMOs, Planned Amortization Class CMOs (“PAC bonds”), sequential pay CMOs and floating rate CMOs. Parallel pay CMOs are structured to provide payments of principal on each payment date to more than one class. PAC bonds generally require payments of a specified amount of principal on each payment date. Sequential pay CMOs generally pay principal to only one class while paying interest to several classes. Floating rate CMOs are securities whose coupon rate fluctuates according to some formula related to an existing marketing index or rate. Typical indices would include the eleventh district cost-of-funds index (“COFI”), the London Interbank Offered Rate (“LIBOR”), one-year U.S. Treasury yields, and ten-year U.S. Treasury yields.

Adjustable Rate Mortgage Securities. Adjustable rate mortgage securities (“ARMs”) are pass-through securities collateralized by mortgages with adjustable rather than fixed rates. ARMs eligible for inclusion in a mortgage pool generally provide for a fixed initial mortgage interest rate for either the first three, six, twelve, thirteen, thirty-six, or sixty scheduled monthly payments. Thereafter, the interest rates are subject to periodic adjustment based on changes to a designated benchmark index.

The ARMs contain maximum and minimum rates beyond which the mortgage interest rate may not vary over the lifetime of the security. In addition, certain ARMs provide for additional limitations on the maximum amount by which the mortgage interest rate may adjust for any single adjustment period. In the event that market rates of interest rise to levels above that of the ARMs maximum rate, the ARM's coupon may represent a below market rate of interest. In these circumstances, the market value of the ARM security will likely fall.

Certain ARMs contain limitations on changes in the required monthly payment. In the event that a monthly payment is not sufficient to pay the interest accruing on an ARM, any such excess interest is added to the principal balance of the mortgage loan, which is repaid through future monthly payments. If the monthly payment for such an instrument exceeds the sum of the interest accrued at the applicable mortgage interest rate and the principal payment required at such point to amortize the outstanding principal balance over the remaining term of the loan, the excess is then utilized to reduce the outstanding principal balance of the ARM.

CMO Residuals. CMO residuals are derivative mortgage securities issued by agencies or instrumentalities of the U.S. Government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, and special purpose entities of the foregoing.

The cash flow generated by the mortgage assets underlying a series of CMOs is applied first to make required payments of principal and interest on the CMOs and second to pay the related administrative expenses of the issuer. The residual in a CMO structure generally represents the interest in any excess cash flow remaining after making the foregoing payments. Each payment of such excess cash flow to a holder of the related CMO residual represents income and/or a return of capital. The amount of residual cash flow resulting from a CMO will depend on, among other things, the characteristics of the mortgage assets, the coupon rate of each class of CMO, prevailing interest rates, the amount of administrative expenses and the prepayments experience on the mortgage assets. In part, the yield to maturity on the CMO residuals is extremely sensitive to prepayments on the related underlying mortgage assets, in the same manner as an interest-only ("IO") class of stripped mortgage-related securities. See "Stripped Mortgage-Related Securities" below. In addition, if a series of a CMO included a class that bears interest at an adjustable rate, the yield to maturity on the related CMO residual will also be extremely sensitive to changes in the level of the index upon which interest rate adjustments are based. As described below with respect to stripped mortgage-related securities, in certain circumstances a Fund may fail to recoup fully its initial investment in a CMO residual.

CMO residuals are generally purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers. The CMO residual market has recently developed and CMO residuals currently may not have the liquidity of other more established securities trading in other markets. Transactions in CMO residuals are generally completed only after careful review of the characteristics of the securities in question. In addition, CMO residuals may or, pursuant to an exemption therefrom, may not have been registered under the Securities Act. CMO residuals, whether or not registered under the Securities Act, may be subject to certain restrictions on transferability, and may therefore be deemed "illiquid" and subject to Funds' limitations on investment in illiquid securities as discussed herein.

Stripped Mortgage-Related Securities. Stripped mortgage-related securities ("SMRS") are derivative multi-class mortgage securities. SMRS may be issued by agencies or instrumentalities of the U.S. Government, or by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks, and special purpose entities of the foregoing.

SMRS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of SMRS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the IO class), while the other class will receive all of the principal (the PO class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on a Fund's yield to maturity from these securities. If the underlying mortgage assets experience greater than anticipated prepayments of principal, a

Fund may fail to fully recoup its initial investment in these securities even if the security is in one of the highest rated categories of investment-grade securities.

Although SMRS are purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers, these securities were only recently introduced. As a result, established trading markets have not yet been fully developed and accordingly, these securities may be deemed “illiquid” and subject to the Funds’ limitations on investment in illiquid securities as discussed herein.

Inverse Floaters. An inverse floater is a debt instrument with a floating or variable interest rate that moves in the opposite direction to the interest rate on another security or index level. Changes in the interest rate on the other security or index inversely affect the residual interest rate paid on the inverse floater, with the result that the inverse floater’s price will be considerably more volatile than that of a fixed rate bond. Inverse floaters may experience gains when interest rates fall and may suffer losses in periods of rising interest rates. The market for inverse floaters is relatively new.

Tiered Index Bonds. Tiered index bonds are relatively new forms of mortgage-related securities. The interest rate on a tiered index bond is tied to a specified index or market rate. So long as this index or market rate is below a predetermined “strike” rate, the interest rate on the tiered index bond remains fixed. If, however, the specified index or market rate rises above the “strike” rate, the interest rate of the tiered index bond will decrease. Thus, under these circumstances, the interest rate on a tiered index bond, like an inverse floater, will move in the opposite direction of prevailing interest rates, with the result that the price of the tiered index bond may be considerably more volatile than that of a fixed-rate bond.

**Asset-Backed Securities.** The Balanced and Fixed Income Funds may invest in various types of asset-backed securities. Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables and home equity loans, are being securitized in pass-through structures similar to the mortgage pass-through CMO structure. Investments in these and other types of asset-backed securities must be consistent with the investment objectives and policies of the Funds.

**Risk Factors Relating To Investing In Mortgage-Related And Asset-Backed Securities.** The yield characteristics of mortgage-related and asset-backed securities differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. As a result, if a Fund purchases such a security at a premium, a prepayment rate that is faster than expected will reduce yield to maturity, while a prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity. Alternatively, if the Fund purchases these securities at a discount, faster than expected prepayments will increase, while slower than expected prepayments will reduce, yield to maturity. The Adviser will seek to manage these risks (and potential benefits) by diversifying its investments in such securities and through hedging techniques.

During periods of declining interest rates, prepayment of mortgage-related securities can be expected to accelerate. Accordingly, a Fund’s ability to maintain positions in higher-yielding mortgage-related securities will be affected by reductions in the principal amount of such securities resulting from such prepayments, and its ability to reinvest the returns of principal at comparable yields is subject to generally prevailing interest rates at that time. Conversely, slower than expected prepayments may effectively change a security that was considered short or intermediate-term at the time of purchase into a long-term security. Long-term securities tend to fluctuate more in response to interest rate changes, leading to increased net asset value volatility. Prepayments may also result in the realization of capital losses with respect to higher yielding securities that had been bought at a premium or the loss of opportunity to realize capital gains in the future from possible future appreciation.

Asset-backed securities involve certain risks that are not posed by mortgage-related securities, resulting mainly from the fact that asset-backed securities do not usually contain the benefit of a security interest in the related collateral. For example, credit card receivables generally are unsecured and the debtors are entitled to the protection of a number of state and federal consumer credit laws, some of which may reduce the ability to obtain

full payment. In the case of automobile receivables, due to various legal and economic factors, proceeds from repossessed collateral may not always be sufficient to support payment on these securities.

### **ZERO-COUPON SECURITIES**

The Balanced and Fixed Income Funds may invest in zero-coupon securities. These securities are debt securities that do not make regular cash interest payments. Zero-coupon securities are sold at a deep discount to their face value. Because these securities do not pay current cash income, their price can be volatile when interest rates fluctuate. While these securities do not pay current cash income, federal income tax law requires the holders of them to include in income each year the portion of the original issue discount (or deemed discount) on the securities accruing that year. To qualify as a “regulated investment company” under the Internal Revenue Code of 1986, as amended, (the “Code”), and avoid a certain excise tax, each Fund may be required to distribute a portion of that discount and may be required to dispose of other portfolio securities, which may occur in periods of adverse market prices, to generate cash to meet these distribution requirements.

### **REPURCHASE AGREEMENTS**

The Funds may enter into repurchase agreements with brokers, dealers or banks that meet the credit guidelines established by the Board of Trustees. In a repurchase agreement, a Fund buys a security from a seller that has agreed to repurchase it at a mutually agreed upon date and price, reflecting the interest rate effective for the term of the agreement. The term of these agreements is usually from overnight to one week and never exceeds one year. A repurchase agreement may be viewed as a fully collateralized loan of money by a Fund to the seller. The Funds always receive securities as collateral with a market value at least equal to the purchase price, including accrued interest, and this value is maintained during the term of the agreement. If the seller defaults and the collateral value declines, the Funds might incur a loss. If bankruptcy proceedings are commenced with respect to the seller, the Funds’ realization upon the collateral may be delayed or limited.

### **REVERSE REPURCHASE AGREEMENTS**

The Small Cap Equity, Small-Mid Cap Equity, Balanced, Fixed Income and International Funds may enter into reverse repurchase agreements with brokers, dealers, domestic and foreign banks or other financial institutions. In a reverse repurchase agreement, a Fund sells a security and agrees to repurchase it at a mutually agreed upon date and price, reflecting the interest rate effective for the term of the agreement. It may also be viewed as the borrowing of money by the Fund. The Funds’ investment of the proceeds of a reverse repurchase agreement is the speculative factor known as leverage. The Funds may enter into a reverse repurchase agreement only if the interest income from investment of the proceeds is greater than the interest expense of the transaction and the proceeds are invested for a period no longer than the term of the agreement.

### **WHEN-ISSUED SECURITIES**

The Small Cap Equity, Small-Mid Cap Equity, Balanced, Fixed Income and International Funds may purchase securities on a “when-issued” basis. In buying “when-issued” securities, a Fund commits to buy securities at a certain price even though the securities may not be delivered for up to 120 days. No payment or delivery is made by the Fund in a “when-issued” transaction until the Fund receives payment or delivery from the other party to the transaction. Although the Fund receives no income from the above-described securities prior to delivery, the market value of such securities is still subject to change. As a consequence, it is possible that the market price of the securities at the time of delivery may be higher or lower than the purchase price. When a Fund purchases securities on a when-issued basis, it will maintain with its custodian cash or liquid securities having an aggregate value equal to the amount of its purchase commitment until payment is made. The purpose and effect of such maintenance is to prevent the Fund from gaining investment leverage from when-issued transactions. When-issued securities may decline or increase in value during the period from the Fund’s investment commitment to the settlement of the purchase.

## INITIAL PUBLIC OFFERINGS

The Small Cap Equity, Small-Mid Cap Equity, Equity and International Funds may invest in initial public offerings (“IPOs”) if the market capitalization of the issuer falls within or exceeds certain thresholds determined by the Adviser or TT International, as applicable, from time to time, and the Adviser or TT International, as applicable, otherwise determines participation to be appropriate. By definition, IPOs have not traded publicly until the time of their offerings. Special risks associated with IPOs may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the company, and limited operating history, all of which may contribute to price volatility. Many IPOs are issued by undercapitalized companies of small or microcap size. Investments in IPOs may have a magnified performance impact relative to other investments.

Pursuant to the Adviser’s Allocation and Aggregation Policy, the Small Cap Equity, Small-Mid Cap Equity, and Equity Funds will be eligible to participate on a rotating basis in any applicable IPOs that may come available to eligible clients of the Adviser.

## DERIVATIVE INSTRUMENTS

In pursuing their respective investment objectives, the Small Cap Equity, Small-Mid Cap Equity, Balanced, Fixed Income and International Funds may purchase and sell (write) options on securities, securities indices, and foreign currencies and enter into interest rate, foreign currency and index futures contracts and purchase and sell options on such futures contracts and enter into forward foreign currency exchange contracts for hedging purposes.

**Options.** An option is a legal contract that gives the holder the right to buy or sell a specified amount of the underlying instrument at a fixed or determinable price upon the exercise of the option. A call option conveys the right to buy, in return for a premium paid, and a put option conveys the right, in return for a premium, to sell a specified quantity of the underlying instrument. Options on indices are settled in cash and gain or loss depends on changes in the index in question rather than on price movement in individual securities.

There are certain risks associated with transactions in options on securities and on indices. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when, and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

There can be no assurance that a liquid market will exist when a Fund seeks to close out an option position. If the Fund were unable to close out an option that it had purchased on a security, it would have to exercise the option in order to realize any profit or the option may expire worthless. If the Fund were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security unless the option expired without exercise. As the writer of a covered call option, the Fund foregoes, during the life of the option, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the exercise price of the call.

If trading were suspended in an option purchased by a Fund, the Fund would not be able to close out the option. If restrictions on exercise were imposed, the Fund might be unable to exercise an option it had purchased. Except to the extent that a call option on an index written by the Fund is covered by an option on the same index purchased by the Fund, movements in the index may result in a loss to the Fund; however, such losses may be mitigated by changes in the value of the Fund’s securities during the period the option was outstanding.

Each Fund is authorized to purchase and sell over-the-counter options (“OTC Options”) in addition to exchange listed options. OTC Options are purchased from or sold to securities dealers, financial institutions or other parties (“Counterparties”) through direct bilateral agreement with the Counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC Option, including such terms as method of settlement, term, exercise price, premium, guarantees and security, are set by negotiation between the parties. A Fund will only sell OTC Options that are subject to a buy-back provision permitting the Fund to require the Counterparty to sell the option back to the Fund at a formula price within seven

days. The Funds expect generally to enter into OTC Options that have cash settlement provisions, although they are not required to do so.

There is no central clearing or guaranty function in an OTC Option. As a result, if the Counterparty fails to make or take delivery of the security, currency or other instrument underlying an OTC Option it has entered into with a Fund or fails to make a cash settlement payment due in accordance with the terms of the option, the Fund will lose any premium it paid for the option as well as any anticipated benefit of the transaction. Accordingly, the Adviser must assess the creditworthiness of each such Counterparty or any guarantor of credit enhancement of the Counterparty's credit to determine the likelihood that the terms of the OTC Option will be satisfied. The Funds will engage in OTC Option transactions only with U.S. government securities dealers recognized by the Federal Reserve Bank of New York as "primary dealers," or broker dealers, domestic or foreign banks or other financial institutions which have received (or the guarantors of the obligation of which have received) a short-term credit rating of "A-1" from S&P's or "P-1" from Moody's or an equivalent rating from any other NRSRO.

**Options On Foreign Currencies.** The Funds may purchase and write options on foreign currencies for hedging purposes. For example, a decline in the dollar value of a foreign currency in which portfolio securities are denominated will reduce the dollar value of such securities, even if their value in the foreign currency remains constant. In order to protect against such diminutions in the value of portfolio securities, a Fund may purchase put options on the foreign currency. If the value of the currency does decline, the Fund will have the right to sell such currency for a fixed amount in dollars and will thereby offset, in whole or in part, the adverse effect on its portfolio which otherwise would have resulted.

Conversely, where the Adviser perceives a risk of a rise in the dollar value of a foreign currency in which securities to be acquired are denominated which would increase the dollar cost of these securities to the Fund, the Fund may purchase call options on the currency involved. The purchase of such options could offset, at least partially, the effects of the adverse movements in exchange rates. As in the case of other types of options, however, the benefit to the Fund deriving from purchases of foreign currency options will be reduced by the amount of the premium and related transaction costs. In addition, where currency exchange rates do not move in the direction or to the extent anticipated, the Fund could sustain losses on transactions in foreign currency options which would require it to forego a portion or all of the benefits of advantageous changes in such rates.

Similarly, instead of purchasing a call option to hedge against an anticipated increase in the dollar cost of securities to be acquired, a Fund could write a put option on the relevant currency which, if rates move in the manner projected, will expire unexercised and allow the Fund to hedge such increased cost up to the amount of the premium. As in the case of other types of options, however, the writing of a foreign currency option will constitute only a partial hedge up to the amount of the premium, and only if exchange rates move in the expected direction. If this does not occur, the option may be exercised and the Fund would be required to purchase or sell the underlying currency at a loss, which may not be offset by the amount of the premium. Through the writing of options on foreign currencies, a Fund also may be required to forego all or a portion of the benefits that might otherwise have been obtained from favorable movements in exchange rates.

The Funds may write covered call options on foreign currencies. A call option written on a foreign currency by a Fund is "covered" if the Fund owns the underlying foreign currency covered by the call or has an absolute and immediate right to acquire that foreign currency without additional cash consideration (or for additional cash consideration held in a segregated account by the Funds' custodian) upon conversion or exchange of other foreign currency held in its portfolio. A call option is also covered if the Fund has a call on the same foreign currency and in the same principal amount as the call written where the exercise price of the call held (a) is equal to or less than the exercise price of the call written or (b) is greater than the exercise price of the call written if the difference is maintained by the Fund in cash, or liquid assets in a segregated account with the custodian.

The Funds also may write call options on foreign currencies for cross-hedging purposes. A call option on a foreign currency is for cross-hedging purposes if it is designed to provide a hedge against a decline in the U.S. dollar value of a security which the Fund owns or has the right to acquire and which is denominated in the currency underlying the option due to an adverse change in the exchange rate. In such circumstances, the Fund will

collateralize the option by maintaining in a segregated account with the custodian, cash or liquid assets in an amount not less than the value of the underlying foreign currency in U.S. dollars marked-to-market daily.

**Futures Contracts.** The Funds (other than the Equity Fund) may enter into futures contracts. Futures contracts provide for the future sale by one party and purchase by another party of a specified amount of a specific security, currency or index at a specified future time and at a specified price. Futures contracts, which are standardized as to maturity date and underlying financial instrument, are traded on national futures exchanges. U.S. futures exchanges and trading are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission (“CFTC”). The Funds have claimed an exclusion from the definition of “commodity pool operator” under the Commodity Exchange Act (“Commodity Act”) and, therefore, the Funds are not subject to registration or regulation as a pool operator under the Commodity Act.

Although futures contracts by their terms call for actual delivery or acceptance of the underlying securities or currency, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. Closing out an open futures position is done by taking an opposite position (“buying” a contract which has previously been “sold” or “selling” a contract previously “purchased”) in an identical contract to terminate the position. Brokerage commissions are incurred when a futures contract is bought or sold. Futures contracts on indices are settled in cash.

Futures traders are required to make a good faith margin deposit in cash or acceptable securities with a broker or custodian to initiate and maintain open positions in futures contracts. A margin deposit is intended to assure completion of the contract (delivery or acceptance of the underlying securities) if it is not terminated prior to the specified delivery date. Initial margin requirements are established by the futures exchange and may be changed. Brokers may establish deposit requirements that are higher than the exchange minimums.

After a futures contract position is opened, the value of the contract is marked-to-market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional “variation” margin will be required. Conversely, a change in the contract value may reduce the required variation margin, resulting in a repayment of excess variation margin to the contract holder. Variation margin payments are made to and from the futures broker for as long as the contract remains open.

A Fund will only sell futures contracts to protect securities owned by it against price declines or purchase contracts to protect against an increase in the price of securities it intends to purchase. As evidence of this hedging intent, the Funds expect that approximately 75% of the futures contracts purchased will be “completed;” that is, equivalent amounts of related securities will have been purchased or in the process of being purchased by a Fund upon sale of open futures contracts. Futures contracts are not typically completed when the Adviser and/or TT International, as applicable, decides that the hedge is no longer necessary or appropriate and closes out the position before completion. Therefore, a futures contract that is not completed does not necessarily provide additional risk to the Fund. Although techniques other than the sale and purchase of futures contracts could be used to control a Fund’s exposure to market fluctuations, the use of futures contracts may be a more effective means of hedging this exposure. While the Funds will incur commission expenses in both opening and closing out futures positions, these costs may be lower than transaction costs incurred in the purchase and sale of the underlying securities.

**Forward Foreign Currency Exchange Contracts.** A forward foreign currency exchange contract (“Forward Contract”) is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are traded in the interbank market conducted directly between currency traders, usually large commercial banks, and their customers. The Funds may use Forward Contracts to manage currency risks or to facilitate transactions in foreign securities. The following discussion summarizes the principal currency management strategies involving Forward Contracts that the Funds may use.

In connection with purchases and sales of securities denominated in foreign currencies, the Funds may enter into Forward Contracts to fix a definite price for the purchase or sale in advance of the trade’s settlement date (“transaction hedge” or “settlement hedge”).

The Funds may also use Forward Contracts to hedge against a decline in the value of existing investments denominated in foreign currency and to protect the value of investments denominated in a foreign currency if the portfolio managers anticipate a period of relative strength of the U.S. dollar against such foreign currency. For example, if a Fund owned securities denominated in pounds sterling, it could enter into a forward contract to sell pounds sterling in return for U.S. dollars to hedge against possible declines in the pound's value ("position hedge"). A position hedge would tend to offset both positive and negative currency fluctuations, but would not offset changes in security values caused by other factors. The Fund could also hedge the position by selling another currency expected to perform similarly to the pound sterling ("proxy hedge"). A proxy hedge could offer advantages in terms of cost, yield or efficiency, but generally would not hedge currency exposure as effectively as a simple hedge into U. S. dollars. Proxy hedges may result in losses if the currency used to hedge does not perform similarly to the currency in which the hedged securities are denominated.

If required by SEC guidelines, the Funds will segregate or designate liquid assets having a value equal to the aggregate amount of the Funds' commitments under Forward Contracts entered into with respect to position hedges and proxy hedges. If the value of the segregated or designated assets declines, additional cash or liquid assets will be segregated or designated so that the value of the account will equal the amount of the Funds' commitments with respect to such contracts. With respect to Forward Contracts entered into by the Funds on a cash-settled or net basis, applicable SEC guidelines provide that the amount of such segregated or designated liquid assets may be limited to the amount by which such Forward Contract is out-of-the-money, marked-to-market daily. Alternatively, a Fund may purchase a call option permitting the Fund to purchase the amount of foreign currency being hedged by a forward sale contract at a price no higher than the Forward Contract price or a Fund may purchase a put option permitting the Fund to sell the amount of foreign currency subject to a forward purchase contract at a price as high or higher than the Forward Contract price. Unanticipated changes in currency prices may result in poorer overall performance for the Funds than if they had not entered into such contracts.

**Risk Factors In Futures Transactions.** Positions in futures contracts may be closed out only on an exchange that provides a secondary market for such futures. However, there can be no assurance that a liquid secondary market will exist for any particular futures contract at any specific time. Thus, it may not be possible to close a futures position. In the event of adverse price movements, a Fund would continue to be required to make daily cash payments to maintain its required margin. In such situations, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily margin requirements at a time when it may be disadvantageous to do so. In addition, a Fund may be required to make delivery of the instruments underlying futures contracts it holds. The inability to close options and futures positions also could have an adverse impact on a Fund's ability to effectively hedge. The Funds will minimize the risk that they will be unable to close out a futures contract by only entering into futures which are traded on national futures exchanges and for which there appears to be a liquid secondary market.

The risk of loss in trading futures contracts in some strategies can be substantial, due both to the low margin deposits required, and the extremely high degree of leverage involved in futures trading. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss (as well as gain) to a Fund. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a subsequent 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out. A 15% decrease would result in a loss equal to 150% of the original margin deposit if the contract were closed out. Thus, a purchase or sale of a futures contract may result in losses in excess of the amount invested in the contract.

Use of futures transactions by the Funds involves the risk of imperfect or no correlation where the securities underlying futures contracts are different than the portfolio securities being hedged. It is also possible that a Fund could both lose money on futures contracts and also experience a decline in value of its portfolio securities. There is also the risk of loss by a Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in a futures contract or option on a futures contract.

Most futures exchanges limit the amount of fluctuation permitted in futures contract and options prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract or option on a future contract may vary either up or down from the previous day's settlement price at the end of a

trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract and options prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

**Risks Of Options On Futures, Forward Contracts, And Options On Foreign Currencies.** Options on currencies may be traded over-the-counter and forward currency contracts are always traded in the over-the-counter market. In an over-the-counter trading environment, many of the protections afforded to exchange participants will not be available. For example, there are no daily price fluctuation limits, and adverse market movements could therefore continue to an unlimited extent over a period of time. Although the purchaser of an option cannot lose more than the amount of the premium plus related transaction costs, this entire amount could be lost. When a Fund enters into a forward currency contract or purchases an over-the-counter option, it relies on its counterparty to perform. Failure by the counterparty to do so would result in the loss of any expected benefit of the transaction.

Futures contracts, options on futures contracts, Forward Contracts, and options on foreign currencies may be traded on foreign exchanges. Such transactions are subject to the risk of governmental actions affecting trading in or the prices of foreign currencies or securities. The value of such positions also could be adversely affected by (i) other complex foreign political and economic factors, (ii) lesser availability than in the United States of data on which to make trading decisions, (iii) delays in the Fund's ability to act upon economic events occurring in foreign markets during non-business hours in the United States, or where the portfolio managers are located, (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States, and (v) lesser trading volume.

Options on foreign currencies traded on national securities exchanges are within the jurisdiction of the SEC, as are other securities traded on such exchanges. As a result, many of the protections provided to traders on organized exchanges will be available with respect to such transactions. In particular, all foreign currency option positions entered into on a national securities exchange are cleared and guaranteed by the Options Clearing Corporation ("OCC"), thereby reducing the risk of counterparty default. The purchase and sale of exchange-traded foreign currency options, however, is subject to the risks of the availability of a liquid secondary market described above, as well as the risks regarding adverse market movements, margining of options written, the nature of the foreign currency market, possible intervention by governmental authorities and the effect of other political and economic events. In addition, exchange-traded options of foreign currencies involve certain risks not presented by the over-the-counter market. For example, exercise and settlement of such options must be made exclusively through the OCC, which has established banking relationships in applicable foreign countries for this purpose. As a result, the OCC may, if it determines that foreign governmental restrictions or taxes would prevent the orderly settlement of foreign currency option exercises, or would result in undue burdens on the OCC or its clearing member, impose special procedures on exercise and settlement, such as technical changes in the mechanics of delivery of currency, the fixing of dollar settlement prices or prohibitions on exercise.

**Combined Transactions.** The Funds may enter into multiple transactions, including multiple options transactions, multiple futures transactions, multiple foreign currency transactions (including Forward Contracts) and any combination of futures, options, and foreign currency transactions, instead of a single transaction, as part of a single hedging strategy when, in the opinion of the Adviser or TT International, as applicable, it is in the best interest of the Funds to do so. A combined transaction, while part of a single hedging strategy, may contain elements of risk that are present in each of its component transactions.

**Asset Coverage For Futures And Options Positions.** The Funds will comply with guidelines established by the SEC with respect to coverage of options, futures and forward contracts strategies by mutual funds, and if the guidelines so require will segregate appropriate liquid assets in the amount prescribed. Segregated securities cannot be sold while the futures, option or forward contract strategy is outstanding, unless they are replaced with other suitable assets. Consequently, there is a possibility that segregation of a large percentage of a Fund's assets could impede portfolio management or the Fund's ability to meet redemption requests or other current obligations.

## **ILLIQUID INVESTMENTS, RESTRICTED SECURITIES AND PRIVATE PLACEMENT OFFERINGS**

**Illiquid Investments.** Illiquid investments are investments that cannot be sold or disposed of within seven days in the ordinary course of business at approximately the prices at which they are valued. Under the supervision of the Board of Trustees, the Adviser determines the liquidity of a Fund's investments and, through reports from the Adviser and the Funds' administrator, the Board monitors investments in illiquid securities. In determining the liquidity of the Funds' investments, the Adviser may consider various factors, including the frequency of trades and quotations, the number of dealers and prospective purchasers in the marketplace, dealer undertakings to make a market, the nature of the security, and the nature of the marketplace for trades. Investments currently considered by the Funds to be illiquid include repurchase agreements not entitling the holder to payment of principal and interest within seven days, certain over-the-counter options, and restricted securities (other than certain foreign securities, restricted securities pursuant to Rule 144A under the Securities Act and commercial paper sold in reliance on Section 4(2) of the Securities Act). With respect to OTC options that a Fund writes, all or a portion of the value of the underlying instrument may be illiquid depending on the assets held to cover the option and the nature and terms of any agreement the Fund may have to close out the option before expiration. The Funds will treat as illiquid an amount of assets used to cover written OTC options, equal to the formula price at which the Funds would have the absolute right to purchase the option less the amount by which the option is "in-the-money." The absence of a trading market can make it difficult to ascertain a market value for illiquid investments. When no market quotations are available, illiquid investments are priced at fair value as determined in good faith by the Adviser under the supervision of the Board of Trustees. Disposing of these investments may involve time-consuming negotiation and legal expenses, and it may be difficult or impossible for the Funds to sell them promptly at an acceptable price. If through a change in values, net assets, or other circumstances, any of the Funds were in a position where more than 15% of its net assets were invested in illiquid securities, the Fund would take appropriate steps to protect liquidity.

**Restricted Securities.** Restricted securities can generally be sold in privately negotiated transactions, pursuant to an exemption from registration under the Securities Act or in a registered public offering. Where registration is required, the Fund(s) may be obligated to pay all or part of the registration expense and a considerable period may elapse between the time it or they decide to seek registration and the time the Fund(s) may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, a Fund might obtain a less favorable price than prevailed at the time it decided to seek registration of the security.

**Private Placement Offerings.** The Small Cap Equity, Small-Mid Cap Equity, Balanced and Fixed Income Funds may invest in private placement offerings. Investments in private placement offerings are made in reliance on the "private placement" exemption from registration afforded by Section 4(2) or Regulation D of the Securities Act ("Section 4(2) securities"). Section 4(2) securities are restricted as to disposition under the federal securities law and generally are sold to institutional investors such as the Funds that agree they are purchasing the securities for investment and not with an intention to distribute to the public.

## **OTHER INVESTMENT COMPANIES**

The Funds may invest in other investment companies to the extent permitted by the 1940 Act. In addition to the advisory fees and other expenses the Funds bear directly in connection with their own operations, as shareholders of another investment company, the Funds would bear their pro rata portion of the other investment company's advisory fees and other expenses. As such, the Funds' shareholders would indirectly bear the expenses of the Funds and the other investment company, some or all of which would be duplicative.

## **SECURITIES LENDING**

The Small Cap Equity, Small-Mid Cap Equity, Balanced, Fixed Income and International Funds may lend securities to qualified brokers, dealers, banks and other financial institutions. Securities lending allows a Fund to retain ownership of the securities loaned and, at the same time, to earn additional income. Since there may be delays in the recovery of loaned securities, or even a loss of rights in collateral supplied should the borrower fail financially, loans will be made only to parties deemed by the Adviser to be of good standing. In addition, they will only be made if, in the Adviser's judgment, the consideration to be earned from such loans would justify the risk.

Such loans will not be made if, as a result, the aggregate of all outstanding loans of a Fund exceed one-third of the value of its total assets.

It is the Adviser's understanding that the current view of the staff of the SEC is that a Fund may engage in loan transactions only under the following conditions: (1) the Fund must receive 100% collateral in the form of cash or cash equivalents (i.e., U.S. Treasury bills or notes) from the borrower; (2) the borrower must increase the collateral whenever the market value of the securities loaned (determined on a daily basis) rises above the value of the collateral; (3) after giving notice, the Fund must be able to terminate the loan at any time; (4) the Fund must receive reasonable interest on the loan (which may include the Fund investing any cash collateral in interest bearing short-term investments) or a flat fee from the borrower, as well as amounts equivalent to any dividends, interest, or other distributions on the securities loaned and to any increase in market value; (5) the Fund may pay only reasonable custodian fees in connection with the loan; and (6) the Board of Trustees must be able to vote proxies on the securities loaned, either by terminating the loan or by entering into an alternative arrangement with the borrower.

## **TEMPORARY INVESTMENTS**

The temporary investments that the Funds may make include:

(1) Time deposits, certificates of deposit (including marketable variable rate certificates of deposit) and bankers' acceptances issued by a commercial bank or savings and loan association. Time deposits are non-negotiable deposits maintained in a banking institution for a specified period of time at a stated interest rate. Time deposits maturing in more than seven days will not be purchased by the Funds. Certificates of deposit are negotiable short-term obligations issued by commercial banks or savings and loan associations against funds deposited in the issuing institution. Variable rate certificates of deposit are certificates of deposit on which the interest rate is periodically adjusted prior to their stated maturity based upon a specified market rate. A bankers' acceptance is a time draft drawn on a commercial bank by a borrower usually in connection with an international commercial transaction (to finance the import, export, transfer or storage of goods).

The Funds may invest in obligations of U.S. banks, foreign branches of U.S. banks (Eurodollars), and U.S. branches of foreign banks (Yankee dollars). Euro and Yankee dollar investments will involve the same risks of investing in international securities that are discussed under "Investment Objective and Policies-Foreign Securities." Although the Adviser carefully considers these factors when making investments, the Funds do not limit the amount of its assets which can be invested in any one type of instrument or in any foreign country in which a branch of a U.S. bank or the parent of a U.S. branch is located.

The Funds will not invest in any security issued by a commercial bank unless (i) the bank has total assets of at least \$1 billion, or the equivalent in other currencies, or, in the case of domestic banks which do not have total assets of at least \$1 billion, the aggregate investment made in any one such bank is limited to \$100,000 and the principal amount of such investment is insured in full by the Federal Deposit Insurance Corporation and (ii) in the case of U.S. banks, it is a member of the Federal Deposit Insurance Corporation.

(2) Commercial paper which at the time of purchase is rated in the highest rating category by a NRSRO or, if not rated, issued by a corporation having an outstanding unsecured debt issue that meets such rating requirement at time of purchase;

(3) Short-term corporate obligations rated in the highest rating category by a NRSRO at time of purchase;

(4) U.S. Government obligations, including bills, notes, bonds and other debt securities issued by the U.S. Treasury. These are direct obligations of the U.S. Government and differ mainly in interest rates, maturities and dates of issue; and

(5) U.S. Government agency securities issued or guaranteed by U.S. Government sponsored instrumentalities and Federal agencies. These include securities issued by the Federal Home Loan Banks,

Federal Land Bank, Farmers Home Administration, Farm Credit Banks, Federal Intermediate Credit Bank, Fannie Mae, Federal Financing Bank, the Tennessee Valley Authority, and others; and repurchase agreements collateralized by those securities listed above.

## **TRUSTEES AND OFFICERS OF THE LKCM FUNDS**

### **The Board of Trustees**

The Trust is governed by its Board of Trustees. The Board is responsible for and oversees the overall management and operations of the Trust and the Funds, which includes the general oversight and review of the Funds' investment activities, in accordance with federal law and the law of the State of Delaware, as well as the stated policies of the Funds. The Board oversees the Trust's officers and service providers, including the Adviser, which is responsible for the management of the day-to-day operations of the Funds based on policies and agreements reviewed and approved by the Board. In carrying out these responsibilities, the Board regularly interacts with and receives reports from senior personnel of service providers, including the Adviser's personnel and the Trust's Chief Compliance Officer. The Board also is assisted by the Trust's independent registered public accounting firm (who reports directly to the Trust's Audit and Compliance Committee), independent counsel and other experts as appropriate, all of whom are selected by the Board.

#### *Risk Oversight*

Consistent with its responsibility for oversight of the Trust and its Funds, the Board oversees the management of risks relating to the administration and operation of the Trust and the Funds. The Adviser, as part of its responsibilities for the day-to-day operations of the Funds, is responsible for day-to-day risk management for the Funds. The Board, in the exercise of its reasonable business judgment, also separately considers potential risks that may impact the Funds. The Board performs this risk management oversight directly and, as to certain matters, through its committees (described above) and through the Independent Trustees. The following provides an overview of the principal, but not all, aspects of the Board's oversight of risk management for the Trust and the Funds.

In general, a Fund's risks include, among others, investment risk, credit risk, liquidity risk, valuation risk and operational risk. The Board has adopted, and periodically reviews, policies and procedures designed to address risks to the Trust and the Funds. In addition, under the general oversight of the Board, the Adviser, TT International (the subadviser to the LKCM International Fund), and other service providers to the Funds have themselves adopted a variety of policies, procedures and controls designed to address particular risks to the Funds. Different processes, procedures and controls are employed with respect to different types of risks. Further, the Adviser, as manager of the Funds oversees and regularly monitors the investments, operations and compliance of TT International.

The Board also oversees risk management for the Trust and the Funds through review of regular reports, presentations and other information from officers of the Trust and other persons. The Funds' Chief Compliance Officer ("CCO") and senior officers of the Adviser regularly report to the Board on a range of matters, including those relating to risk management. The Board also regularly receives reports from the Adviser and TT International with respect to the Funds' investments. In addition to regular reports from the Adviser and TT International, the Board also receives reports regarding other service providers to the Trust, either directly or through the Adviser or the Funds' CCO, on a periodic or regular basis. At least annually, the Board receives a report from the Funds' CCO regarding the effectiveness of the Funds' compliance program. Also, on an annual basis, the Board receives reports, presentations and other information from the Adviser and TT International in connection with the Board's consideration of the renewal of each of the Trust's agreements with the Adviser and TT International and the Trust's distribution plans under Rule 12b-1 under the 1940 Act.

The CCO also reports regularly to the Audit and Compliance Committee on Fund valuation matters. In addition, the Audit and Compliance Committee receives regular reports from the Trust's independent registered public accounting firm on internal control and financial reporting matters. On at least a quarterly basis, the Independent Trustees meet with the Funds' CCO to discuss matters relating to the Funds' compliance program.

### *Board Structure and Related Matters*

Board members who are not “interested persons” of the Funds as defined in Section 2(a)(19) of the 1940 Act (“Independent Trustees”) constitute three-quarters of the Board. H. Kirk Downey, an Independent Trustee, serves as Chairman of the Board. Mr. Downey’s responsibilities include: setting an agenda for each meeting of the Board; presiding at all meetings of the Board and Interested Trustees; and serving as a liaison with other Trustees, the Trust’s officers and other management personnel, and counsel to the Funds. As Chairman, Mr. Downey performs such other duties as the Board may from time to time determine.

The Trustees discharge their responsibilities collectively as a Board, as well as through Board committees, each of which operates pursuant to a charter approved by the Board that delineates the specific responsibilities of that committee. The Board has established three standing committees: the Audit and Compliance Committee, the Nominating Committee and the Qualified Legal Compliance Committee. For example, the Audit and Compliance Committee is responsible for specific matters related to oversight of the Fund’s independent registered public accounting firm, subject to approval of the Audit and Compliance Committee’s recommendations by the Board. The members and responsibilities of each Board committee are summarized below.

The Board periodically evaluates its structure and composition as well as various aspects of its operations. The Board believes that its leadership structure, including its independent Chairman and Board committees, is appropriate for the Trust in light of, among other factors, the asset size and nature of the Funds, the number of Funds overseen by the Board, the arrangements for the conduct of the Funds’ operations, the number of Trustees, and the Board’s responsibilities. On an annual basis, the Board conducts a self-evaluation that considers, among other matters, whether the Board and its committees are functioning effectively and whether, given the size and composition of the Board and each of its committees, the Trustees are able to oversee effectively the number of Funds in the complex.

The Board holds four regularly scheduled in-person meetings each year. The Board may hold special meetings, as needed, either in person or by telephone, to address matters arising between regular meetings. During a portion of each in-person meeting, the Independent Trustees meet outside of management’s presence. The Independent Trustees may hold special meetings, as needed, either in person or by telephone.

The Trustees of the Trust are identified in the tables below, which provide information as to their principal business occupations held during the last five years and certain other information.

#### **Independent Trustees**

<b>Name, Address and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office and Length of Time Served<sup>(1)</sup></b>	<b>Principal Occupation During Past Five Years</b>	<b># of Portfolios in Fund Complex Overseen by Trustee</b>	<b>Other Directorships Held by Trustee During the Past 5 Years</b>
H. Kirk Downey 301 Commerce Street Suite 1600 Fort Worth, Texas 76102 Age: 68	Chairman of the Board of Trustees Trustee	Since 2005  Since 1994	President and CEO, Texas Systems, LLC and CEO, Texaslearningsystems LLC since 1999; Dean, M.J. Neeley School of Business, Texas Christian University Business School from 1987 to 1999.	9	Non-Executive Chairman of the Board of AZZ Incorporated, a manufacturing company.

<b>Name, Address and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office and Length of Time Served<sup>(1)</sup></b>	<b>Principal Occupation During Past Five Years</b>	<b># of Portfolios in Fund Complex Overseen by Trustee</b>	<b>Other Directorships Held by Trustee During the Past 5 Years</b>
Earle A. Shields, Jr. 301 Commerce Street Suite 1600 Fort Worth, Texas 76102 Age: 90	Trustee	Since 1994	Consultant; formerly Consultant for NASDAQ Corp. and Vice President, Merrill Lynch & Co., Inc.	9	Priests Pension Fund of the Catholic Diocese of Fort Worth, Lay Workers Pension Fund of the Catholic Diocese of Fort Worth, St. Joseph Health Care Trust, Catholic Schools Trust and Catholic Foundation of North Texas
Richard J. Howell 301 Commerce Street Suite 1600 Fort Worth, Texas 76102 Age: 68	Trustee  Chairman of the Audit and Compliance Committee	Since 2005  Since 2008	CPA; Adjunct Faculty at SMU Cox School of Business from 2004 to 2009; Consulting Services, since 2002; Audit Partner, Arthur Andersen LLP from 1974 to 2002.	9	Red Robin Gourmet Burgers, Inc.

<sup>(1)</sup> Each Trustee holds office during the lifetime of the Trust until that individual resigns, retires or is otherwise removed or replaced.

#### Interested Trustee

<b>Name, Address and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office and Length of Time Served<sup>(1)</sup></b>	<b>Principal Occupation During Past Five Years</b>	<b># of Portfolios in Fund Complex Overseen by Trustee</b>	<b>Other Directorships Held by Trustee During the Past 5 Years</b>
J. Luther King, Jr. <sup>(2)</sup> 301 Commerce Street Suite 1600 Fort Worth, Texas 76102 Age: 71	Trustee, President and Chief Executive Officer	Since 1994	Chairman, President and Director, Luther King Capital Management Corporation since 1979.	9	Employee Retirement Systems of Texas, 4K Land & Cattle Company (ranching), Hunt Forest Products (lumber), Southwestern Exposition Livestock (livestock), Southwest JLK Corporation (management company), Texas Christian University, Texas Southwestern Cattleraisers Foundation (livestock), and Tyler Technologies (information management company for government agencies).

<sup>(1)</sup> Each Trustee holds office during the lifetime of the Trust until that individual resigns, retires or is otherwise removed or replaced.

<sup>(2)</sup> Mr. King is an "interested person" of the Trust (as defined in the 1940 Act) because of his affiliation with the Adviser.

In addition to the information set forth in the tables above and other relevant qualifications, experience, attributes or skills applicable to a particular Trustee, the following provides further information about the qualifications and experience of each Trustee.

H. Kirk Downey: Mr. Downey has extensive organizational and business experience as president and chief executive officer of a private company, service as the dean of a business school, service as the non-executive chairman of the board of a corporation, and multiple years of service as a Trustee.

Earle A. Shields, Jr.: Mr. Shields has extensive experience in the investment management industry as a consultant for a financial services industry corporation, service as vice president for a global financial services firm, service as a member to numerous charitable boards, and multiple years of service as a Trustee.

Richard J. Howell: Mr. Howell has extensive audit and business experience as a certified public accountant, service as a partner in a global accounting firm, service as a faculty member at a private university's business school, service as a director of a corporation and multiple years of service as a Trustee.

J. Luther King, Jr.: Mr. King has extensive experience in the investment management industry as chairman, president and director of an investment management firm, service on the board of numerous corporations and foundations, and multiple years of service as a Trustee.

The table below sets forth the compensation paid by the Trust to each of the Trustees of the Trust during the fiscal year ended December 31, 2010:

#### COMPENSATION TABLE

Name of Person	Aggregate Compensation from the Funds*	Pension or Retirement Benefits Accrued As Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation from all Funds in the Trust Complex**
<u>Interested Trustee</u>				
J. Luther King, Jr.	\$0	\$0	\$0	\$0
<u>Disinterested Trustees</u>				
H. Kirk Downey	\$38,000	\$0	\$0	\$38,000
Richard J. Howell	\$32,000	\$0	\$0	\$32,000
Earle A. Shields, Jr.	\$32,000	\$0	\$0	\$32,000

\* The Small-Mid Cap Equity Fund had not commenced operations prior to the date of this SAI.

\*\* There are currently nine Funds comprising the Trust, three of which are offered in a separate Prospectus and SAI.

Trustees other than Mr. King will receive an annual retainer of \$28,000 in fiscal 2011, increased from an annual retainer of \$18,000 in fiscal 2010, with the chairman receiving an additional \$6,000 retainer, plus a meeting fee of \$3,000 for each Board meeting attended in person and \$1,000 for each telephonic meeting, and are reimbursed for their reasonable out-of-pocket expenses incurred in attending Board meetings. Trustees other than Mr. King may also receive a meeting fee for each Board committee meeting attended in person or by telephone if so determined by the chairman of the applicable Board committee.

#### Board Ownership in the Funds

As of March 31, 2011, as a group the officers and Trustees of the Trust owned (including shares held indirectly via Luther King Capital Management Corporation's profit sharing plan) approximately 1.0% of the Small Cap Equity Fund, 6.8% of the Equity Fund, 13.7% of the Balanced Fund, 2.1% of the Fixed Income Fund and 2.6% of the International Fund. The Trustees owned the following amounts in the Funds as of December 31, 2010:

#### Key

- A. None
- B. \$1 - \$10,000
- C. \$10,001 - \$50,000
- D. \$50,001 - \$100,000
- E. over \$100,000

Name of Trustee	Small Cap Equity Fund	Equity Fund	Balanced Fund	Fixed Income Fund	International Fund	Aggregate Dollar Range of Equity Securities in Trust Complex*
H. Kirk Downey, Independent Trustee	A	C	A	A	A	C
Richard J. Howell, Independent Trustee	C	A	A	A	A	C
Earle A. Shields, Jr. Independent Trustee	E	A	A	A	A	E
J. Luther King, Jr., Interested Trustee, President and Chief Executive Officer	E	E	E	E	E	E

\* There are currently nine Funds comprising the Trust, three of which are offered in a separate Prospectus and SAI.

No ownership information is provided for the Small-Mid Cap Equity Fund since the Fund had not commenced operations prior to the date of this SAI.

#### *Board Committees*

The Trust has an Audit and Compliance Committee, consisting of Messrs. Downey, Howell and Shields. The members of the Audit and Compliance Committee are not “interested” persons of the Trust (as defined in the 1940 Act). The primary responsibilities of the Audit and Compliance Committee are to make recommendations to the Board as to: the engagement or discharge of the Trust’s independent registered public accounting firm (including the audit fees charged by the accounting firm); the supervision of investigations into matters relating to audits; the review with the independent registered public accounting firm of the results of audits; oversight of the Trust’s compliance with legal and regulatory requirements, internal control over financial reporting and independent audits; and addressing any other matters regarding audits and compliance. The Audit and Compliance Committee met five times during the most recent fiscal year.

The Trust also has a Nominating Committee, consisting of Messrs. Downey, Howell and Shields. The Nominating Committee is responsible for the selection and nomination for appointment of candidates to serve as Trustees of the Trust. The Nominating Committee will review shareholders’ nominations to fill vacancies on the Board. Shareholders can submit recommendations in writing addressed to the attention of the chair of the Committee, 301 Commerce Street, Suite 1600, Fort Worth, Texas 76102. A shareholder’s recommendation must include the following information about the nominee: (1) name; (2) date of birth; (3) education; (4) business, professional or other relevant experience and areas of expertise; (5) current business, professional or other relevant experience and areas of expertise; (6) current business and home addresses and contact information; (7) other board positions or prior experience; and (8) any knowledge and experience relating to investment companies and investment company governance. The Nominating Committee met two times during the most recent fiscal year.

The Trust has a Qualified Legal Compliance Committee, consisting of Messrs. Downey, Howell and Shields. The members of the Qualified Legal Compliance Committee are not “interested” persons of the Trust (as defined in the 1940 Act). The primary responsibility of the Trust’s Qualified Legal Compliance Committee is to receive, review and take appropriate action with respect to any report (“Report”) made or referred to the Committee by an attorney of evidence of a material violation of applicable U.S. federal or state securities law, material breach of a fiduciary duty under U.S. federal or state law or a similar material violation by the Trust or by any officer, director, employee, or agent of the Trust. The Qualified Legal Compliance Committee did not meet during the most recent fiscal year.

## Principal Officers of the Trust

The officers of the Trust conduct and supervise its daily business. As of the date of this SAI, the officers of the Trust, their ages, their business address and their principal occupations during the past five years are as follows:

<b>Name, Address and Age</b>	<b>Position(s) Held with the Trust</b>	<b>Term of Office and Length of Time Served<sup>(1)</sup></b>	<b>Principal Occupation During Past Five Years</b>	<b># of Portfolios in Fund Complex Overseen by Trustee</b>	<b>Other Directorships Held by Trustee During the Past 5 Years</b>
J. Luther King, Jr. <sup>(2)</sup> 301 Commerce Street Suite 1600 Fort Worth, Texas 76102 Age: 71	Trustee, President and Chief Executive Officer	Since 1994	Chairman, President and Director, Luther King Capital Management Corporation since 1979.	9	Employee Retirement Systems of Texas, 4K Land & Cattle Company (ranching), Hunt Forest Products (lumber), Southwestern Exposition Livestock (livestock), Southwest JLK Corporation (management company), Texas Christian University, Texas Southwestern Cattleraisers Foundation (livestock), and Tyler Technologies (information management company for government agencies).
Paul W. Greenwell 301 Commerce Street Suite 1600 Fort Worth, Texas 76102 Age: 61	Vice President	Since 1996	Principal, Luther King Capital Management since 1986, Vice President and Portfolio Manager, Luther King Capital Management since 1983.	N/A	N/A
Richard Lenart 301 Commerce Street Suite 1600 Fort Worth, Texas 76102 Age: 44	Secretary and Treasurer	Since 2006	Luther King Capital Management since 2005; Vice President, Aquinas Funds from 2001 to 2005.	N/A	N/A
Steven R. Purvis 301 Commerce Street Suite 1600 Fort Worth, Texas 76102 Age: 46	Vice President	Since 2000	Principal, Luther King Capital Management since 2003, Vice President and Portfolio Manager, Luther King Capital Management since 1996.	N/A	N/A
Jacob D. Smith 301 Commerce Street Suite 1600 Fort Worth, TX 76102 Age: 37	Chief Financial Officer  Chief Compliance Officer	Since 2010  Since 2006	Chief Financial Officer since 2010, General Counsel and Chief Compliance Officer, Luther King Capital Management since 2006, Enforcement Attorney, U.S. Securities and Exchange Commission from 2005 to 2006.	N/A	N/A

<sup>(1)</sup> Each officer holds office for a one-year term, and then may be re-elected by the Board of Trustees annually.

<sup>(2)</sup> Mr. King is an "interested person" of the Trust (as defined in the 1940 Act) because of his affiliation with the Adviser.

**CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS**

A principal shareholder is any person who owns of record or beneficially 5% or more of the outstanding shares of any of the Funds. A control person is one who owns beneficially or through controlled companies more than 25% of the voting securities of a company or acknowledges the existence of control. A person who controls a Fund may be able to determine the outcome of any matter submitted to a vote of shareholders. As of March 31, 2011, the following persons owned of record or are known by the Funds to own beneficially 5% or more of the outstanding shares of the Funds.

**PRINCIPAL SHAREHOLDERS  
SMALL CAP EQUITY FUND – Institutional Class**

Name and Address	Number of Shares	Percent of Class	Percent of Total Fund	Record or Beneficial
National Financial Services LLC For the Exclusive Benefit of its Customers 200 Liberty St. #1WFC New York, NY 10281-1003	7,239,641	22.2%	21.2%	Record
C/O Frost National Bank SEI Private Trust Co Attn Mutual Fund Administrator One Freedom Valley Dr. Oaks, PA 19456-9989	2,831,640	8.7%	8.3%	Record
Charles Schwab & Co., Inc. Special Custody Account For the Exclusive Benefit of its Customers 101 Montgomery St. San Francisco, CA 94104-4151	5,666,075	17.4%	16.6%	Record
USAA Investment Management Co FBO Customers 9800 Fredericksburg Road San Antonio, TX 78288-0001	2,664,253	8.2%	7.8%	Record

**PRINCIPAL SHAREHOLDERS  
SMALL CAP EQUITY FUND – Adviser Class**

Name and Address	Number of Shares	Percent of Class	Percent of Total Fund	Record or Beneficial
National Financial Services LLC For the Exclusive Benefit of its Customers Attn Mutual Funds Dept 5 <sup>th</sup> Floor 200 Liberty St. #1WFC New York, NY 10281-1003	868,604	56.8%	2.5%	Record
Charles Schwab & Co., Inc. Special Custody Account For the Exclusive Benefit of its Customers 101 Montgomery St. San Francisco, CA 94104-4151	517,753	33.9%	1.5%	Record

Name and Address	Number of Shares	Percent of Class	Percent of Total Fund	Record or Beneficial
JP Morgan Chase Bank Custodian For the Exclusive Benefit of its Customers 9300 Ward Pkwy. Kansas City, MO 64114-3317	116,887	7.6%	0.0%	Record

**PRINCIPAL SHAREHOLDERS  
EQUITY FUND**

Name and Address	Number of Shares	Percent of Fund	Record or Beneficial
Frost National Bank SEI Private Trust Co. Attn Mutual Funds One Freedom Valley Dr. Oaks, PA 19456-9989	264,501	5.2%	Record
Charles Schwab & Co., Inc. Special Custody Account For the Exclusive Benefit of its Customers Attn Mutual Funds 101 Montgomery St. San Francisco, CA 94104-4151	2,589,518	50.7%	Record

**PRINCIPAL SHAREHOLDERS  
BALANCED FUND**

Name and Address	Number of Shares	Percent of Fund	Record or Beneficial
Sun Trust Bank Trustee FBO Hunt Forest Products, Inc. Salary Investment Retirement Plan 8515 E. Orchard Rd. #1T2 Greenwood Village, CO 80111-5002	65,586	5.2%	Beneficial
Charles Schwab & Co., Inc. Special Custody Account For the Exclusive Benefit of its Customers 101 Montgomery St. San Francisco, CA 94104-4151	750,857	59.3%	Record
Arthur G. Garcia Barbara S. Garcia 3817 W. Biddison St. Fort Worth, TX 76109-2708	66,746	5.3%	Beneficial

**PRINCIPAL SHAREHOLDERS  
FIXED INCOME FUND**

Name and Address	Number of Shares	Percent of Fund	Record or Beneficial
Frost National Bank SEI Private Trust Co. Attn Mutual Funds 1 Freedom Valley Dr. Oaks, PA 19456-9989	5,398,609	35.8%	Record
Charles Schwab & Co., Inc. Special Custody Account For the Exclusive Benefit of its Customers 101 Montgomery St. San Francisco, CA 94104	5,300,664	35.2%	Record
Strafe & Co. For Benefit of its Customers Attn: MFDS 0393 P.O. Box 160 Westerville, OH 43081	2,088,131	13.9%	Record

**PRINCIPAL SHAREHOLDERS  
INTERNATIONAL FUND**

Name and Address	Number of Shares	Percent of Fund	Record or Beneficial
Dingle & Co., Inc. c/o Comerica Bank P.O. Box 75000 Detroit, MI 48275-0001	696,538	16.4%	Record
Frost National Bank SEI Private Trust Co. Attn Mutual Funds One Freedom Valley Dr. Oaks, PA 19456-9989	616,145	14.5%	Record
Strafe & Co. Benefit of Customers P.O. Box 160 Westerville, OH 43081-0160	216,722	5.1%	Beneficial
Charles Schwab & Co., Inc. Special Custody Account For the Exclusive Benefit of its Customers 101 Montgomery St. San Francisco, CA 94104-4151	1,377,413	32.3%	Record

No shareholder information is provided for the Small-Mid Cap Equity Fund as the Fund had not commenced operations prior to the date of this SAI.

Shareholders with a controlling interest could affect the outcome of proxy voting or the direction of management of the Funds.

## PROXY VOTING PROCEDURES

The Funds have delegated their authority to vote proxies to the Adviser, with respect to all Funds other than the International Fund, and to TT International, with respect to the International Fund, subject to the supervision of the Board of Trustees. TT International will vote such proxies in accordance with its Proxy Voting Policy, which is included in Appendix A to this Statement of Additional Information. The Adviser's proxy voting policies are summarized below.

### GENERAL

The Chief Compliance Officer is responsible for monitoring the proxy voting process, including engaging and overseeing any third-party vendor retained to review, monitor, or vote proxies.

The Adviser has engaged Institutional Shareholder Services, Inc. ("ISS") as its voting delegate to:

- (1) research and make voting determinations in accordance with the policies and procedures described herein;
- (2) vote and submit proxies in a timely manner;
- (3) handle other administrative functions of proxy voting;
- (4) maintain records of proxy statements received in connection with proxy votes and provide copies of such proxy statements promptly upon request;
- (5) maintain records of votes cast; and
- (6) provide recommendations with respect to proxy voting matters in general.

The Adviser has determined that, except as set forth below, proxies will be voted in accordance with the voting recommendations contained in the applicable domestic or global ISS Voting Guidelines in effect at the time of voting (as applicable, the "ISS Voting Guidelines"). The Adviser will periodically review the ISS Voting Guidelines, including any significant changes or updates thereto. In connection with such reviews, the Adviser may determine that it is not in the best interest of the Funds to vote proxies in accordance with the ISS Voting Guidelines on certain matters. In such event, the Adviser will follow the procedures below in connection with voting any such proxies contrary to the ISS Voting Guidelines.

In the event the ISS Voting Guidelines do not address how a proxy should be voted, the Adviser will vote the proxy in accordance with ISS recommendations. If ISS refrains from making any such recommendations, the Adviser will vote the proxy consistent with the Fund's best interest. Prior to voting any proxies in the absence of ISS recommendations, however, the Chief Compliance Officer will determine whether any material conflict of interest may exist between the Adviser and the Fund with respect thereto. If the Chief Compliance Officer determines that any such material conflict of interest may exist, the Adviser will follow the procedures below in connection with the voting of such proxies.

There may be circumstances under which the Adviser believes that it is in the best interest of a Fund to vote proxies in a manner inconsistent with the ISS Voting Guidelines or ISS recommendations. Prior to voting any proxies inconsistent with the ISS Voting Guidelines or ISS recommendations, however, the Chief Compliance Officer will determine whether any material conflict of interest may exist between the Adviser and the Fund with respect thereto. If the Chief Compliance Officer determines that any such material conflict of interest may exist, the Adviser will follow the procedures below in connection with the voting of such proxies.

The Adviser maintains records relating to the implementation of its proxy voting policies and procedures, including, but not limited to, (i) records of each vote cast, which ISS maintains on the Adviser's behalf, and (ii) documents considered or prepared by the Adviser that are material in making a decision to vote proxies on behalf of a Fund or that memorialize the basis for that decision.

## **CONFLICTS OF INTEREST**

The Adviser has reviewed ISS' conflict of interest policy and code of ethics, which address conflicts of interest that could arise in connection with proxy advisory services provided by ISS or its affiliates. The Adviser believes that ISS' conflict of interest policy and code of ethics contain policies and procedures that are reasonably designed to minimize any such potential conflicts of interest.

In the event that the Adviser or the Chief Compliance Officer determines that voting a proxy may present a material conflict of interest between the Adviser and the Fund, the Adviser will (1) in cases where ISS had made a recommendation, take no further action, in which case ISS shall vote such proxy in accordance with the ISS Voting Guidelines or ISS recommendations, as applicable, (2) disclose such conflict of interest to the Board of Trustees and obtain written direction from the Board as to how to vote the proxy, (3) suggest that the Board engage another party to determine how to vote the proxy, or (4) engage another independent third party to determine how to vote the proxy.

Notwithstanding the foregoing, the Adviser must vote proxies in the best interest of the Funds when material conflicts of interest may exist with respect thereto. The Adviser believes that these policies and procedures are reasonably designed to address material conflicts of interest that may arise between the Adviser and the Funds as to the manner in which proxies are voted.

## **MORE INFORMATION**

The actual voting records relating to portfolio securities during the most recent 12-month period ended June 30 are available without charge, upon request by calling toll-free, (800) 688-LKCM or by accessing the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, a copy of the Funds' proxy voting policies and procedures are currently available by calling (800) 688-LKCM and will be sent within three business days of receipt of a request.

## **INVESTMENT ADVISER**

The investment adviser of the Funds is Luther King Capital Management Corporation (the "Adviser"). The Adviser is controlled by J. Luther King, Jr. Mr. King is a member of the Board of Trustees and President, Chief Executive Officer and Portfolio Manager of the Trust. Under an Investment Advisory Agreement (the "Agreement") with the Funds, the Adviser manages the investment and reinvestment of the Funds' assets, subject to the control and supervision of the Board of Trustees. The Adviser is responsible for making investment decisions for the Funds and for placing the Funds' purchase and sale orders. In addition, subject to any approvals required by the 1940 Act, the Adviser may delegate its duty to make investment decisions and to place purchase and sale orders to one or more investment subadvisers with respect to some or all of the International Fund's assets. In the event of such a delegation, the Adviser is obligated to monitor and review the activities of the subadviser. Under the Agreement, the Funds pay the Adviser an advisory fee calculated by applying a quarterly rate, equal on an annual basis to the following numbers shown as a percentage of average daily net assets for the quarter. However, the Adviser has contractually agreed to waive its advisory fees and reimburse expenses to the extent necessary to keep the total operating expenses of the Funds from exceeding the respective caps as shown in the following table.

The advisory fees and expense caps for the current fiscal year are as follows:

	<u>Advisory Fee</u>	<u>Cap on Total Annual Operating Expenses</u>
Small Cap Equity Fund - Institutional Class	0.75%	1.00%
Small Cap Equity Fund - Adviser Class	0.75%	1.25%
Small-Mid Cap Equity Fund - Institutional Class	0.75%	1.00%
Small-Mid Cap Equity Fund - Adviser Class	0.75%	1.25%
Equity Fund – Institutional Class	0.70%	0.80%
Equity Fund – Adviser Class	0.70%	1.05%
Balanced Fund	0.65%	0.80%
Fixed Income Fund	0.50%	0.65%
International Fund	1.00%	1.20%

As compensation for the services rendered by the Adviser under the Agreement, for the fiscal years ended December 31, 2010, 2009 and 2008 the Adviser earned and waived and/or reimbursed the amounts listed below.

	<u>Advisory Fees Incurred</u>	<u>Waived Fees and/or Expenses Reimbursed by Adviser</u>	<u>Net Fees paid to the Adviser</u>
<b>Small Cap Equity Fund</b>			
Year Ended December 31, 2008	\$4,186,124	\$0	\$4,186,124
Year Ended December 31, 2009	\$3,508,633	\$0	\$3,508,633
Year Ended December 31, 2010	\$4,561,545	\$0	\$4,561,545
<b>Equity Fund</b>			
Year Ended December 31, 2008	\$338,241	\$127,238	\$211,003
Year Ended December 31, 2009	\$283,573	\$133,605	\$149,968
Year Ended December 31, 2010	\$394,979	\$137,617	\$257,362
<b>Balanced Fund</b>			
Year Ended December 31, 2008	\$76,533	\$68,871	\$7,662
Year Ended December 31, 2009	\$72,986	\$68,624	\$4,362
Year Ended December 31, 2010	\$93,582	\$64,824	\$28,758
<b>Fixed Income Fund</b>			
Year Ended December 31, 2008	\$602,916	\$92,808	\$510,108
Year Ended December 31, 2009	\$655,662	\$139,371	\$516,291
Year Ended December 31, 2010	\$784,666	\$120,803	\$663,863
<b>International Fund*</b>			
Year Ended December 31, 2008	\$905,028	\$202,127	\$702,901
Year Ended December 31, 2009	\$379,210	\$271,064	\$108,146
Year Ended December 31, 2010	\$381,799	\$254,640	\$127,159

\* Amounts waived/reimbursed reflect total fees waived/reimbursed for the fiscal year, which are split between the Adviser and TT International.

No advisory fee information is provided for the Small-Mid Cap Equity Fund as the Fund had not commenced operations prior to the date of this SAI.

**PORTFOLIO MANAGERS OF THE SMALL CAP EQUITY, SMALL-MID  
CAP EQUITY, EQUITY, BALANCED AND FIXED INCOME FUNDS**

The portfolio managers listed below have responsibility for the day-to-day management of accounts other than the Small Cap Equity, Small-Mid Cap Equity, Equity, Balanced and Fixed Income Funds. The information listed below for such other accounts is as of December 31, 2010.

	Number of Other Accounts Managed and Assets by Account Type			Number of Accounts and Assets for which Advisory Fee is Performance Based		
	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
J. Luther King, Jr.	4 \$74 million	5 \$557 million	268 \$3.3 billion	0	3 \$157 million	0
Steven R. Purvis	3 \$67 million	0	65 \$1.2 billion	0	0	0
Scot C. Hollmann	0	0	206 \$940 million	0	0	0
Joan M. Maynard	0	0	13 \$83 million	0	0	0
Mark L. Johnson	0	0	44 \$50 million	0	0	0
Mason D. King	0	0	0	0	0	0
Jonathan B. Deweese	1 \$6 million	0	0	0	0	0
Benjamin M. Cowan	1 \$6 million	0	0	0	0	0

**Conflicts of Interest**

The portfolio managers are responsible for managing the Funds and other separately managed accounts, including accounts for investment companies, employee benefit plans, pension plans, endowments, foundations, trusts, and high net worth individuals, and with respect to Mr. King, certain private pooled investment vehicles. When a portfolio manager is responsible for the management of more than one account, the potential arises for the portfolio manager to favor one account over another. The principal types of conflicts of interest that may arise are discussed below. The Adviser believes that it has established policies and procedures that are reasonably designed to mitigate these potential conflicts of interest.

- The portfolio managers are responsible for managing other accounts that may have investment objectives, strategies, and risk profiles that differ from those of the Funds. The portfolio managers make investment decisions for each account based on its investment objectives and guidelines, policies, and other relevant considerations. Consequently, the portfolio managers may purchase or sell securities at the same or different times for one account and not another account or the Funds. The portfolio managers may also make investment decisions on behalf of other accounts that are directly or indirectly contrary to investment decisions made on behalf of the Funds, or make investment decisions that are similar to those made for the Funds, both of which have the potential to adversely impact the Funds depending on market conditions.
- The portfolio managers may purchase or sell for their own accounts securities that are purchased or sold on behalf of the Funds. The portfolio managers also may have a beneficial interest in accounts managed by the Adviser, other than the Funds. The Adviser has implemented a code of ethics and other policies and procedures in an effort to mitigate these potential conflicts of interest.

- The portfolio managers could favor one account over another in allocating new investment opportunities of a limited nature, such as initial public offerings and private placements. The Adviser has implemented policies and procedures, including a rotational system for allocating initial public offerings, in an effort to ensure that investment opportunities of a limited nature are allocated fairly and equitably among eligible accounts.
- The portfolio managers could favor one account over another in the order in which trades for accounts are placed. If the portfolio managers determine to purchase a security for more than one account in an aggregate amount that may influence the market price of the security, accounts that purchased or sold the security first may receive a more favorable price than accounts that made subsequent transactions. The Adviser has implemented trade allocation and aggregation policies and procedures in an effort to mitigate this potential conflict of interest.
- The portfolio managers are responsible for managing other accounts including, with respect to Mr. King, private investment funds, some of which may entitle the Adviser to incentive fees and/or management fees exceeding those paid by the Funds. This compensation structure may present a potential conflict of interest because the Adviser and the portfolio managers may be incentivized to favor such accounts over the Funds.
- The Adviser and the portfolio managers may have significant personal investments in some of the private investment funds managed by the Adviser. As a result of such investments, the Adviser and the portfolio managers may be motivated to favor these funds over the Funds.
- Under Section 28(e) of the Securities Exchange Act of 1934, as amended, the Adviser may pay commissions to brokers for the Funds' transactions that exceed the amount of commissions that would be charged by another broker for the same transactions, provided that the Adviser determines in good faith that the amount of commissions paid are reasonable in relation to the value of the brokerage and research services provided by such broker, either in terms of a particular transaction or the Adviser's overall responsibilities with respect to accounts for which it exercises investment discretion. Pursuant to Section 28(e), the Adviser has entered into soft dollar and commission sharing arrangements with third parties and brokers for eligible brokerage and research products and services. A potential conflict of interest may exist because the Adviser receives these brokerage and research products and services from brokers in exchange for directing commissions from the Funds' transactions, rather than paying for these products and services with its own assets. The Adviser has implemented policies and procedures governing its use of such soft dollar and commission sharing arrangements.

## **Compensation**

As an independent firm, the Adviser has full control over its compensation structure. The Adviser seeks to maintain a compensation program that is competitively positioned to attract and retain high-caliber investment professionals. Each member of the professional staff is provided a salary. They also are eligible to participate in the Adviser's profit sharing plan. The majority of compensation is derived from bonuses, which are discretionary and based on individual merit as well as success of the Adviser in any given year. Criteria for individual bonuses include, among other factors, stock selection, relationship building, investment performance, client service, and portfolio management. There is no standard formula or method for determining bonuses and the factors considered for bonuses vary by individual. Compensation is not based directly on the performance of the Funds or the net asset levels of the Funds.

**Ownership of Securities**

Each portfolio manager owned the following amounts (including shares held indirectly via Luther King Capital Management Corporation’s profit sharing plan) of each of the Funds as of December 31, 2010:

Key

- A. None
- B. \$1 - \$10,000
- C. \$10,001 - \$50,000
- D. \$50,001 - \$100,000
- E. \$100,001 - \$500,000
- F. \$500,001 - \$1,000,000
- G. Over \$1,000,000

<b>Fund Name</b>	<b>Name of Portfolio Manager</b>	<b>Dollar Range of Shares Owned</b>
Small Cap Equity Fund	Steven R. Purvis J. Luther King, Jr. Jonathan B. Deweese Benjamin M. Cowan	F G B B
Equity Fund	J. Luther King, Jr. Scot C. Hollmann Steven R. Purvis Mason D. King	G F E E
Balanced Fund	Scot C. Hollmann J. Luther King, Jr. Mark L. Johnson	F G B
Fixed Income Fund	Joan M. Maynard Scot C. Hollmann Mark L. Johnson	E E C

No ownership information is provided for the Small-Mid Cap Equity Fund as the Fund had not commenced operations prior to the date of this SAI.

**SUB-ADVISER**

TT International, the sub-adviser to the International Fund, is a partnership controlled by Timothy A. Tacchi.

Pursuant to a Sub-Advisory Agreement (“Sub-Advisory Agreement”) entered into between the Adviser and TT International, TT International manages the securities of the International Fund and makes investment decisions for the Fund subject to such policies as the Board of Trustees may determine. By its terms, the Sub-Advisory Agreement will continue in effect for so as long as such continuance is specifically approved at least annually by the Board of Trustees or by a vote of a majority of the outstanding voting securities of the Fund, and, in either case, by a majority of the Trustees who are not parties to the Sub-Advisory Agreement or interested persons of any such party, at a meeting called for the purpose of voting on the Sub-Advisory Agreement. The Sub-Advisory Agreement can be terminated, without penalty, on not more than 60 days’ written notice delivered or mailed by registered mail, postage prepaid, to TT International, and TT International may at any time, without the payment of any penalty, terminate this Agreement by not less than 90 days’ written notice delivered or mailed by registered mail, postage prepaid, to the Adviser. The Sub-Advisory Agreement automatically will terminate in the event of its assignment. The Adviser pays TT International a fee equal to an annual rate of 0.50% of the average daily net assets of the International Fund, which fee is calculated daily and paid quarterly. However, if the Adviser’s fee is

reduced due to fee waivers by the Adviser in order to comply with expense limitations, TT International's compensation will be reduced by a proportionate amount; provided that in no event will TT International be obligated to reimburse the Fund in order to satisfy such expense limitations.

### PORTFOLIO MANAGERS OF THE INTERNATIONAL FUND

The International Fund uses a team of portfolio managers who are primarily responsible for the day-to-day management of the Fund. The International Fund's portfolio management team includes Tim Tacchi, Patrick Deane, Mark Williams, Sharon Dodgson, Oisín Crawley, and Niall Paul.

#### Other Accounts Managed by Portfolio Managers

The following tables identify, for each portfolio manager listed below, as of December 31, 2010, the number of accounts (excluding the International Fund) for which he or she has day-to-day management responsibilities, and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles and other accounts. In addition, the table identifies the number of other accounts that are assessed a performance based fee, together with the total assets in such accounts.

Portfolio Manager(s)	Number of Other Accounts Managed and Assets by Account Type			Number of Accounts and Assets for which Advisory Fee is Performance Based		
	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
Tim Tacchi*	1 \$33.7 million	6 \$2.1 billion	81 \$16.2 billion	0	0	27 \$7.7 billion
Patrick Deane*	1 \$33.7 million	6 \$2.1 billion	81 \$16.2 billion	0	0	27 \$7.7 billion
Oisín Crawley*	1 \$33.7 million	6 \$2.1 billion	81 \$16.2 billion	0	0	27 \$7.7 billion
Sharon Dodgson	1 \$33.7 million	6 \$2.1 billion	81 \$16.2 billion	0	0	27 \$7.7 billion
Niall Paul	1 \$33.7 million	6 \$2.1 billion	81 \$16.2 billion	0	0	27 \$7.7 billion
Mark Williams*	1 \$33.7 million	6 \$2.1 billion	81 \$16.2 billion	0	0	27 \$7.7 billion

\* Partner of TT International

#### Portfolio Manager Compensation

Four of the six portfolio managers listed above are partners of TT International. As part owners of TT International they each receive a percentage of the profits and losses of TT International in accordance with their respective individual percentage ownership of TT International. The portfolio managers are compensated based on the firm's overall profitability. Typically, portfolio managers with larger shares of ownership receive only a share of TT International's profits. Portfolio managers with smaller percentage of shares typically receive a guaranteed minimum profit, shares sometimes payable monthly and always subject to a claw back at the end of the year depending on TT International's overall profitability. There are no firm-sponsored retirement plans and no bonus payments. For non-partners, TT pays a competitive base salary and discretionary bonus.

## Material Conflicts of Interest

Material conflicts of interest may arise when the International Fund's portfolio managers also have day-to-day management responsibilities with respect to one or more other funds or other accounts, as is the case for the portfolio managers listed in the table above. These potential conflicts include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. As a result, the portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

*Allocation of Limited Investment Opportunities.* If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may need to be divided among those funds or accounts, which may limit a fund's ability to take full advantage of the investment opportunity.

*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts.

*Use of Brokers' Commission.* TT International's brokerage policy is derived from that dictated by its principal regulators. The rules essentially allow the use of brokers' commission for the purchase or execution of trades and for research services which assist in TT International's investment management activity for its clients. All expenses to be so treated must be approved in writing by the Compliance and Legal Department before implementation. TT International employs these execution and research services for the benefit of its clients, and the arrangements under which they are provided are managed in accordance with regulatory requirements and TT International's fiduciary obligations.

*Variation in Compensation.* A conflict of interest may arise where the management fee structure differs among funds and/or accounts, such as where certain funds or accounts pay higher management fees or performance-based management fees. When a portfolio manager shares in the profits and losses of an investment adviser (as is the case for each portfolio manager listed above), the portfolio manager might be motivated to devote more attention to, or otherwise favor, more profitable funds and/or accounts.

*Proprietary Investments.* TT International and several of its partners, including the portfolio managers, have substantial personal or proprietary investments in some of the pooled investment vehicles managed by TT International. A portfolio manager might be motivated to favor funds and/or accounts in which he or she, or his or her colleagues, has an interest or in which the investment adviser and/or its affiliates have interests.

*Other Factors.* Several other factors, including the desire to maintain or increase assets under TT International's management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to some funds and/or accounts.

TT International has adopted compliance policies and procedures that are designed to address various conflicts of interest that may arise for TT International and the individuals that it employs. For example, each portfolio manager is subject to TT International's personal account dealing policy as well as its stock allocation policy. TT International has also adopted trade allocation procedures that are designed to facilitate the fair allocation of limited investment opportunities among multiple funds and accounts. There is no guarantee, however, that the policies and procedures adopted by TT International will be able to detect and/or prevent every situation in which an actual or potential conflict may appear.

## Portfolio Manager Security Ownership

The following table shows each portfolio manager's ownership of securities of the International Fund as of December 31, 2010.

<b>Name of Portfolio Manager</b>	<b>Dollar Range of Equity Securities in the International Fund</b>
Tim Tacchi	None
Patrick Deane	None
Oisin Crawley	None
Sharon Dodgson	None
Niall Paul	None
Mark Williams	None

## PORTFOLIO TRANSACTIONS AND BROKERAGE

### THE ADVISER

The Agreement authorizes the Adviser to select the brokers or dealers that will execute the purchases and sales of investment securities for the Funds and directs the Adviser to use its best efforts in seeking best execution with respect to all securities transactions for the Funds. In selecting brokers or dealers for securities transactions for the Funds, the Adviser may consider, among other things: the quality of executions and liquidity provided by the broker; the ability of the broker to maintain confidentiality of client orders and order flow; the ability of the broker to minimize market impact for client transactions; the commission rates charged by the broker in comparison to the charges of other brokers for similar transactions; research and investment capabilities provided by the broker; the broker's ability to obtain timely, accurate, and cost-effective executions; the ability of the broker to accurately communicate the nature of the market for a particular security; the broker's execution policies and commitment to providing best execution; the size and volume of the broker's order flow; and the efficiency and accuracy of the broker's operations area with regard to settlement procedures.

As permitted by Section 28(e) of the Securities Exchange Act of 1934, as amended, the Adviser may cause the Funds to pay higher commission rates than the lowest available when the Adviser believes in good faith that the commissions paid are reasonable in light of the value of the brokerage or research services provided by the broker, either in terms of a particular transaction or the Adviser's overall responsibilities with respect to accounts for which it has investment discretion. These services, which in some cases may also be purchased for cash, include general economic and security market analyses and reports, industry and company analyses and reports, and other third party and proprietary analyses and reports concerning securities and recommendations as to the purchase and sale of securities. The Adviser may use some of these research services in providing investment advisory services to all of its clients, and not all of these research services may be used by the Adviser in providing investment advisory services to the Funds. During the fiscal year ended December 31, 2010, the Small Cap Equity Fund, Equity Fund and Balanced Fund directed transactions to brokers pursuant to which the brokers provided third-party or proprietary research or brokerage services to the Adviser. Pursuant to these arrangements to receive research and brokerage services, during the fiscal year ended December 31, 2010 it is estimated that the Small Cap Equity Fund paid total commissions of \$530,406 on transactions with a principal value of \$287.8 million, the Equity Fund paid total commissions of \$18,647 on transactions with a principal value of \$18.3 million, and the Balanced Fund paid total commissions of \$2,713 on transactions with a principal value of \$2.5 million.

It is not the Adviser's practice to allocate brokerage or principal business on the basis of sales of shares of Funds that may be made through intermediary brokers or dealers. However, the Adviser may place orders with qualified broker-dealers who recommend the Funds or who act as agents in the purchase of shares of the Funds for their clients. The Adviser does not have an affiliated broker, therefore it has not performed any affiliated brokerage transactions. The aggregate amount of brokerage commissions paid by each Fund during the past three fiscal years is as follows:

	<u>Fiscal Year Ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Small Cap Equity Fund	\$1,431,104	\$1,169,491	\$1,446,245
Equity Fund	\$46,984	\$30,855	\$38,203
Balanced Fund	\$11,545	\$5,314	\$2,804
Fixed Income Fund	\$0	\$0	\$0
International Fund	\$414,430	\$172,675	\$167,390

No brokerage commission information is provided for the Small-Mid Cap Equity Fund as the Fund had not commenced operations prior to the date of this SAI.

Some securities considered for investment by the Funds may also be appropriate for other clients served by the Adviser. If purchases or sales of securities consistent with the investment policies of the Funds and one or more of these other clients serviced by the Adviser are considered at or about the same time, transactions in such securities may be allocated among the Funds and clients in accordance with the Adviser's Allocation and Aggregation Policy or in any other manner deemed fair and reasonable by the Adviser.

During the fiscal year ended December 31, 2010, the Funds acquired securities of certain of its "regular brokers or dealers" as defined in the 1940 Act, or their parents. As of December 31, 2010, the following Funds owned the following securities of its "regular brokers or dealers" or their parents:

Equity Fund

Security of "Regular Broker/Dealer" of the Fund	Value of Fund's Aggregate Holding of Securities as of December 31, 2010
JPMorgan Chase & Co.	\$343,602

Balanced Fund

Security of "Regular Broker/Dealer" of the Fund	Value of Fund's Aggregate Holding of Securities as of December 31, 2010
JPMorgan Chase & Co.	\$207,858
Bank of New York Mellon Corporation	\$134,994

Fixed Income Fund

Security of "Regular Broker/Dealer" of the Fund	Value of Fund's Aggregate Holding of Securities as of December 31, 2010
Morgan Stanley	\$993,923

International Fund

Security of "Regular Broker/Dealer" of the Fund	Value of Fund's Aggregate Holding of Securities as of December 31, 2010
Barclays plc	\$906,690

**TT INTERNATIONAL**

Specific decisions to purchase or sell securities for the International Fund are made by portfolio managers who are partners or employees of TT International. The portfolio managers of the International Fund may serve other clients of TT International in a similar capacity.

TT International determines which brokers or dealers are to be used for brokerage transactions and negotiates and approves commission rates paid. In the selection of brokers and dealers to execute security transactions for the International Fund, TT International will endeavor to ensure that the chosen brokers and dealers

have the ability to obtain best execution. TT International believes that, particularly in countries with less developed securities markets, it is important to deal with brokers and dealers that have experience and expertise in the local markets. Other factors in the selection of brokers and dealers include the reliability, integrity, financial condition and general execution and operation capabilities of competitive brokers and dealers and research services provided by them. Based on these factors, TT International may not always direct trades to brokers or dealers that offer the lowest commission rates. On at least an annual basis, TT International establishes for each region or country in which it effects brokerage transactions, a schedule of commissions that will apply generally to its transactions on behalf of its clients in that region or country. As a result, TT International does not negotiate commission rates for particular trades. TT International reviews these commission levels periodically in light of prevailing market commission rates.

TT International participates in commission sharing arrangements to the extent permitted by the Securities and Exchange Commission and the Financial Services Authority, the lead financial regulator in the UK. Under these commission sharing arrangements, TT separately negotiates the execution and research commissions from portfolio transactions. Payments for third party and other eligible research are effected through commission sharing arrangements established with selected key brokers. TT International's commission sharing arrangements are a significant factor, among others, in the selection of brokers and dealers.

In certain instances there may be securities that are suitable for the International Fund as well as for one or more of TT International's other clients. Investment decisions for the International Fund and for TT International's other clients are made with a view to achieving their respective investment objectives. It may develop that a particular security may be bought or sold for only one client even though it might be held by, or bought or sold for, other clients. Likewise, a particular security may be bought for one or more clients when one or more clients are selling that same security. Some simultaneous transactions are inevitable when several clients receive investment advice from the same investment manager, particularly when the same security is suitable for the investment objectives of more than one client. When two or more clients are simultaneously engaged in the purchase or sale of the same security, the securities are allocated among clients in a manner believed to be equitable to each. It is recognized that in some cases this system could have a detrimental effect on the price or volume of the security as far as the International Fund is concerned. However, it is believed that the ability of the International Fund to participate in volume transactions will produce better executions for the International Fund.

It is TT International's policy to exclude institutional accounts, such as the International Fund, from allocations of stock in initial public offerings or other "hot issues," unless the market capitalization of the issuer exceeds a minimum threshold determined by TT International from time to time and TT International otherwise determines participation to be appropriate. This policy is based on TT International's judgment that certain companies with smaller market capitalizations may not be suitable for accounts such as those of the International Fund and that even larger initial public offerings may not be suitable for the International Fund. TT International may allocate these investments to other accounts managed by TT International, which may include accounts in which TT International and its principals have investment or carried interests. As a result the International Fund may not participate in short-term gains based upon post-issue appreciation in the value of "hot issues" even in cases where these opportunities may result, at least in part, from trading activity by the International Fund. However, the International Fund will also avoid the risks associated with some initial public offerings and other "hot issues" of smaller issuers.

## **PORTFOLIO TURNOVER**

Although the Funds generally will not invest for short-term trading purposes, portfolio securities may be sold without regard to the length of time they have been held when, in the opinion of the Adviser or TT International, as applicable, investment considerations warrant such action. Portfolio turnover rate is calculated by dividing (1) the lesser of purchases or sales of long-term portfolio securities for the fiscal year by (2) the monthly average of the value of long-term portfolio securities owned during the fiscal year. A 100% turnover rate would occur if all the securities in a Fund's portfolio, with the exception of securities whose maturities at the time of acquisition were one year or less, were sold and either repurchased or replaced within one year. A high rate of portfolio turnover (100% or more) generally leads to higher transaction costs and may result in a greater number of taxable transactions.

The Funds had the following turnover rates for the past two years:

	Fiscal Year Ended 12-31-09	Fiscal Year Ended 12-31-10
Small Cap Equity Fund	59%	57%
Equity Fund	26%	23%
Balanced Fund	22%	13%
Fixed Income Fund	30%	20%
International Fund	179%	165%

No portfolio turnover information is provided for the Small-Mid Cap Equity Fund as the Fund had not commenced operations prior to the date of this SAI.

#### **CUSTODIAN**

As custodian of the Funds' assets, U.S. Bank, N.A., 1555 N. River Center Drive, Suite 302, Milwaukee, WI 53212, has custody of all securities and cash of the Funds, delivers and receives payment for securities sold, receives and pays for securities purchased, collects income from investments, and performs other duties, all as directed by the officers of the Trust. U.S. Bank, N.A., USBFS and the Distributor are affiliates.

#### **ADMINISTRATOR**

Pursuant to a Fund Administration Agreement, U.S. Bancorp Fund Services, LLC ("USBFS"), 615 East Michigan Street, Milwaukee, Wisconsin 53202, provides each Fund with administrative services. The services under this Agreement are subject to the supervision of the Board of Trustees and officers of the Trust, and include day-to-day administration of matters necessary to the Funds' operations, maintenance of their records, preparation of reports, compliance testing of the Funds' activities, and preparation of periodic updates of the registration statement under federal and state laws. For administration services, USBFS receives from each Fund a fee, calculated daily and paid monthly. U.S. Bank, N.A., USBFS and the Distributor are affiliates.

Administration fees incurred during the past three fiscal years were as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Small Cap Fund	\$510,583	\$404,899	\$467,593
Equity Fund	\$51,100	\$45,510	48,078
Balanced Fund	\$20,125	\$20,325	20,930
Fixed Income Fund	\$127,356	\$107,216	98,006
International Fund	\$45,225	\$46,775	74,056

No administration fee information is provided for the Small-Mid Cap Equity Fund as the Fund had not commenced operations prior to the date of this SAI.

USBFS also acts as Transfer Agent, Dividend-Disbursing Agent, and Fund Accountant for the Funds.

#### **DISTRIBUTOR**

Quasar Distributors, LLC (the "Distributor"), 615 East Michigan Street, Milwaukee, Wisconsin 53202, a registered broker-dealer and member of the Financial Industry Regulatory Authority, distributes the Funds' shares. The Distributor uses its best efforts to distribute the Funds' shares, which shares are offered for sale by the Funds continuously at net asset value per share without the imposition of a sales charge. The Funds pay that portion of the compensation owed to the Distributor that is permitted under Rule 12b-1 of the 1940 Act and the Adviser Class Plan (as defined below), and the Adviser pays the remaining portion of any such compensation. U.S. Bank, N.A., USBFS and the Distributor are affiliates.

## DISTRIBUTION PLANS

With respect to the Balanced, Fixed Income and International Funds and the Institutional Class of the Small Cap Equity, Small-Mid Cap Equity and Equity Funds, the Board has adopted a Distribution Plan pursuant to Rule 12b-1 under the 1940 Act (the “Institutional Class Plan”). Pursuant to this Institutional Class Plan, the Funds can pay up to an aggregate maximum of 0.75% per annum of each Fund’s average daily net assets for actual expenses incurred in the distribution and promotion of the shares of the Funds, including, but not limited to, the printing of Prospectuses, Statements of Additional Information, reports used for sales purposes, advertisements, expenses of preparation and printing of sales literature, and other distribution-related expenses, or for providing ongoing services to shareholders. Although approved, the Board of Trustees has not authorized payments under the Institutional Class Plan.

With respect to the Adviser Class of the Small Cap Equity, Small-Mid Cap Equity and Equity Funds, the Board of Trustees has adopted a Distribution Plan pursuant to Rule 12b-1 under the 1940 Act (the “Adviser Class Plan”). Pursuant to the Adviser Class Plan, the Funds may pay up to an aggregate maximum of 1.00% per annum of each Fund’s average daily net assets for actual expenses incurred in the distribution and promotion of the shares of the Funds, including, but not limited to, the printing of Prospectuses, Statements of Additional Information, reports used for sales purposes, advertisements, expenses of preparation and printing of sales literature, and other distribution-related expenses, or for providing ongoing services to shareholders. The Board currently has authorized payments under the Adviser Class Plan at an annual rate of 0.25% of the average daily net assets of the Funds subject to the Adviser Class Plan.

Administration of each Plan is regulated by Rule 12b-1 under the 1940 Act, which requires that the Board receive and review at least quarterly reports concerning the amount and purpose of expenses which are made, that the Board, including a majority of the Independent Trustees, approve all agreements implementing the Plan, and that the Plan may be continued from year-to-year only if the Board, including a majority of the Independent Trustees, concludes at least annually that continuation of the Plan is likely to benefit shareholders.

The Small Cap Equity Fund – Adviser Class paid the following amounts in 12b-1 expenses for the fiscal year ended December 31, 2010:

Payment to Distributor	\$438
Payment to Dealers	\$95,990

No 12b-1 expense information is provided for the Small-Mid Cap Equity Fund – Adviser Class as the Fund had not commenced operations prior to the date of this SAI.

## INTERESTS OF CERTAIN PERSONS

With the exception of the Adviser, no “interested person” of the Funds, as defined in the 1940 Act, and no Trustee of the Trust who is not an “interested person”, has or had a direct or indirect financial interest in the Institutional Class Plan or Adviser Class Plan or any related agreement.

## CODE OF ETHICS

The Trust, the Adviser and TT International have each adopted a written Code of Ethics. These Codes of Ethics govern the personal securities transactions of trustees, directors, officers and employees who may have access to current trading information of the Funds. The Codes permit such persons to invest in securities for their personal accounts, including securities that may be purchased or held by the Funds, subject to certain conditions. The Codes include reporting and other obligations to monitor personal transactions and confirm that such transactions do not disadvantage the Funds.

## PURCHASE AND PRICING OF SHARES

### PURCHASE OF SHARES

**Purchasing Shares with Liquid Securities.** Certain clients of the Adviser may, subject to the approval of the Trust, purchase shares of the Funds with liquid securities that are eligible for purchase by a Fund (consistent with the Fund's investment policies and restrictions) and that have a value that is readily ascertainable (and not established only by fair valuation procedures) as evidenced by a listing on the American Stock Exchange, the New York Stock Exchange or The Nasdaq Stock Market. These transactions will be effected only if the Adviser intends to retain the security in the Funds as an investment. Assets so purchased by the Funds will be valued in generally the same manner as they would be valued for purposes of pricing a Fund's shares, if such assets were included in the Fund's assets at the time of purchase.

**Automatic Investment Program.** The Automatic Investment Program permits investors who own shares of a Fund with a value of \$10,000 or more to purchase shares (minimum of \$100 per transaction) at regular intervals selected by the investor. Provided the investor's financial institution allows automatic withdrawals, shares are purchased by transferring funds from an investor's checking or savings account. The financial institution must be a member of the Automatic Clearing House network. There is no charge for this service. A \$25 fee will be charged if the investor's bank rejects the scheduled transaction. At the investor's option, the account designated will be debited in the specified amount, and shares will be purchased on a specified day or days of a month.

The Automatic Investment Program is one means by which an investor may use "dollar cost averaging" in making investments. Instead of trying to time market performance, a fixed dollar amount is invested in shares at predetermined intervals. This may help investors to reduce their average cost per share because the agreed upon fixed investment amount allows more shares to be purchased during periods of lower share prices and fewer shares during periods of higher prices. In order to be effective, dollar cost averaging should usually be followed on a sustained, consistent basis. Investors should be aware, however, that shares bought using dollar cost averaging are purchased without regard to their price on the day of investment or market trends. In addition, while investors may find dollar cost averaging to be beneficial, it will not prevent a loss if an investor ultimately redeems his or her shares at a price that is lower than their purchase price.

To establish the Automatic Investment Program, an investor must complete the appropriate sections of the Account Registration Form. Please call the Trust at 800-688-LKCM if you have questions. An investor may cancel his or her participation in this Program or change the amount of purchase at any time by notifying the Transfer Agent by telephone or in writing, five days prior to the effective date of the next transaction. The Trust may modify or terminate this privilege at any time or charge a service fee, although no such fee currently is contemplated.

### PRICING OF SHARES

Shares of the Funds are sold and redeemed on a continual basis at the net asset value per share next computed following acceptance of an order by a Fund. A Fund's net asset value per share for the purpose of pricing purchase and redemption orders is determined as of the close of normal trading (generally 4:00 p.m. Eastern Time) on each day the New York Stock Exchange is open for trading. The NYSE is closed on the following holidays: New Year's Day, Martin Luther King, Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Securities listed on a U.S. securities exchange for which market quotations are readily available are valued at the last quoted sale price on the day the valuation is made. Nasdaq Global Market securities are valued at the NASDAQ Official Closing Price (the "NOCP"). Price information on listed securities is taken from the exchange where the security is primarily traded. Options, futures, unlisted U.S. securities and listed U.S. securities not traded on the valuation date for which market quotations are readily available are valued at the mean of the most recent quoted bid and asked price on the relevant exchanges or markets.

Securities listed on a foreign exchange for which market quotations are readily available are valued at the latest quoted sales price available before the time when assets are valued. Quotations of foreign securities in foreign currency are converted to U.S. dollar equivalents using net foreign exchange quotations received from independent

dealers at the time of valuation. Although the International Fund values its assets in U.S. dollars on a daily basis, it does not intend to convert holdings of foreign currencies into U.S. dollars on a daily basis.

Fixed income securities (other than obligations having a maturity of 60 days or less) are normally valued at the mean of the bid and ask price and/or by using a combination of broker quotes or matrix evaluations provided by an independent pricing service. Fixed income securities purchased with remaining maturities of 60 days or less are valued at amortized cost if it reflects fair value. In the event that amortized cost does not reflect fair value, market prices as determined above will be used.

Other assets and securities for which no quotations are readily available (including restricted securities) are valued in good faith at fair value using methods determined by the Board of Trustees. The Board of Trustees has adopted specific procedures for valuing portfolio securities and delegated the implementation of these procedures to the Adviser. The procedures authorize the Adviser to make all determinations regarding the fair value of a portfolio security and to report such determinations to the Board of Trustees. The Funds may also use independent pricing services to assist in pricing portfolio securities.

An example of how each Fund calculated its total offering price per share as of December 31, 2010 is as follows:

	<u>Net Assets</u>	=	Net Asset Value per share
	Shares Outstanding		
<b>Small Cap Equity Fund</b>	<u>\$690,510,765</u>	=	\$21.49
Institutional Class	32,136,377		
<b>Small Cap Equity Fund</b>	<u>\$44,123,875</u>	=	\$21.00
Adviser Class	2,101,547		
<b>Equity Fund</b>	<u>\$72,369,650</u>	=	\$15.18
Institutional Class	4,768,558		
<b>Balanced Fund</b>	<u>\$16,486,353</u>	=	\$14.25
	1,156,998		
<b>Fixed Income Fund</b>	<u>\$162,352,576</u>	=	\$11.03
	14,713,137		
<b>International Fund</b>	<u>\$36,115,705</u>	=	\$8.31
	4,345,382		

No information is provided for the Small-Mid Cap Equity Fund or the Equity Fund – Adviser Class because neither had commenced operations as of December 31, 2010.

#### **PORTFOLIO HOLDINGS INFORMATION**

It is the policy of LKCM Funds to protect the confidentiality of portfolio holdings and prevent the selective disclosure of non-public information concerning the Funds. No information concerning the portfolio holdings of the Funds may be disclosed to any person except as provided below.

The Adviser and the Funds maintain portfolio holdings disclosure policies that govern the timing and circumstances of disclosure to shareholders and third parties of information regarding the portfolio investments held by the Funds. These portfolio holdings disclosure policies have been approved by the Board of Trustees. Disclosure of the Funds' complete holdings is required to be made quarterly within 60 days of the end of each fiscal quarter in the Annual Report and Semi-Annual Report to Fund shareholders and in the quarterly holdings report on Form N-Q. These reports are available, free of charge, on the EDGAR database on the SEC's website at

www.sec.gov. In addition, each Fund also makes available on the Funds' website a complete schedule of its portfolio holdings no sooner than 30 days following the end of each calendar quarter. Information contained within Fund Fact Sheets is made publicly available on the website upon completion (generally within 10-15 days after the close of the calendar quarter). In an effort to prevent parties from potentially misusing portfolio holdings information, the Funds will generally only disclose the Fund Fact Sheets and complete schedules of portfolio holdings as of the end of the most recent calendar quarter, no earlier than 10 days and 30 days after the end of the calendar quarter, respectively.

In addition, the Funds' service providers, including the administrator, custodian, legal counsel, proxy voting administrator, independent pricing service, and independent registered public accounting firm, may receive portfolio holdings information in connection with their services to the Funds. The Funds' service providers have a duty to keep nonpublic information about the Funds confidential based on existing laws and due to the nature of their roles with the Funds. An officer of the Adviser or the Chief Compliance Officer of the Funds may distribute (or authorize the Funds' administrator to distribute) portfolio holdings to rating and ranking agencies for a legitimate business purpose on a quarterly basis. This information is provided no earlier than 30 days after the end of a calendar quarter and no compensation is received by the Adviser or the Funds as consideration for such disclosure. The Fund's Chief Compliance Officer may waive certain of the requirements of this policy. The Board of Trustees and the Adviser may, on a case-by-case basis, impose additional restrictions on the dissemination of portfolio holdings information beyond those required by the Funds' policy. Notwithstanding these policies, the Funds may disclose portfolio holdings information to the extent required by applicable law.

The Funds' Chief Compliance Officer will report any violations of these policies to the Board of Trustees on a quarterly basis. In no event shall the Adviser, its affiliates or employees, or the Funds receive any direct or indirect compensation in connection with the disclosure of information about the Funds' portfolio holdings.

If the disclosure of portfolio holdings presents a conflict of interest between the shareholders and the Adviser, the Funds' principal distributor or any of their respective affiliates, then such conflict will be reported to the Board for its consideration prior to the dissemination of portfolio holdings information.

## **EXCHANGES**

Shareholders of a Fund may exchange shares of the Fund for shares of another series of LKCM Funds. However, shareholders of the Adviser Class of the Small Cap Equity Fund, Small-Mid Cap Equity Fund and Equity Fund may only exchange shares between Adviser Class Funds.

## **REDEMPTIONS IN KIND**

The Trust has made an election with the SEC to pay in cash all redemptions requested by any shareholder of record limited in amount during any 90-day period to the lesser of (i) \$250,000 or (ii) 1% of the net assets of a Fund at the beginning of such period. Such commitment is irrevocable without the prior approval of the SEC. Redemptions in excess of the above limits may be paid in whole or in part in investment securities or in cash, as the Trustees may deem advisable; however, payment will be made wholly in cash unless the Trustees believe that economic or market conditions exist which would make such a practice detrimental to the best interests of the applicable Fund. If redemptions are paid in investment securities the redeeming shareholders might incur brokerage expenses if they converted these securities to cash. Securities used to make such "in-kind" redemptions will be readily marketable. The method of valuing such securities will be the same as the method of valuing Fund securities described under "Pricing of Shares," and such valuation will be made as of the same time the redemption price is determined.

## **TAXATION**

### **TAXATION OF THE FUNDS**

The following discussion of certain federal income tax matters concerning the Funds and the purchase, ownership and disposition of Fund shares is not complete and may not deal with all aspects of federal income taxation that may be relevant to you in light of your particular circumstances. This discussion is based on the Code,

the regulations promulgated thereunder and judicial and administrative interpretations thereof, all as of the date hereof; all these authorities are subject to change, which may be applied retroactively. You should consult your own tax advisers with regard to the federal tax consequences to you of the purchase, ownership and disposition of Fund shares, as well as the tax consequences to you arising under the laws of any state, locality, foreign country or other taxing jurisdiction.

Each Fund intends to continue to qualify annually for treatment as a “regulated investment company” under Subchapter M of the Code (“RIC”) and, if so qualified, will not be liable for federal income tax to the extent it distributes net earnings and realized net gains to its shareholders on a timely basis. If a Fund fails to qualify for treatment as a RIC, it would be treated as a regular corporation for federal tax purposes. In that case, it would be subject to federal income tax, and any distributions that it made to its shareholders would be taxable as ordinary income (with no part treated as a capital gain distribution), except for the part of those dividends that is “qualified dividend income” (described in the Prospectuses), which is subject to a maximum federal income tax rate of 15%, to the extent of its earnings and profits and would not be deductible by it. This would increase the cost of investing in that Fund for shareholders and would make it more economical for shareholders to invest directly in securities held by that Fund instead of investing indirectly in those securities through the Fund.

Each Fund will be subject to a nondeductible 4% excise tax (“Excise Tax”) to the extent it fails to distribute by the end of any calendar year substantially all of its ordinary income for that year and capital gain net income for the one-year ending on October 31 (or December 31, if that Fund so elects) of that year, plus certain other amounts.

Hedging strategies, such as entering into Forward Contracts and writing (selling) and purchasing options and futures contracts, involve complex rules that will determine for federal income tax purposes the amount, character and timing of recognition of the gains and losses a Fund realizes in connection therewith. Gain from the disposition of foreign currencies (except certain gains that may be excluded by future regulations), and gains from options, futures and Forward Contracts a Fund derives with respect to its business of investing in securities or foreign currencies, will be treated as qualifying income under the income requirement to qualify as a RIC.

Certain futures, foreign currency contracts and “nonequity” options (i.e., certain listed options, such as those on a “broad-based” securities index) in which all Funds but the Equity Fund may invest may be subject to section 1256 of the Code (“section 1256 contracts”). Any section 1256 contracts a Fund holds at the end of its taxable year generally must be “marked-to-market” (that is, treated as having been sold at that time for their fair market value) for federal income tax purposes, with the result that unrealized gains or losses will be treated as though they were realized. Sixty percent of any net gain or loss recognized on these deemed sales, and 60% of any net realized gain or loss from any actual sales of section 1256 contracts, will be treated as long-term capital gain or loss, and the balance will be treated as short-term capital gain or loss. Section 1256 contracts also may be marked-to-market for purpose of the Excise Tax. These rules may operate to increase the amount that a Fund must distribute to satisfy the distribution requirement applicable to RICs (“Distribution Requirement”) (i.e., with respect to the portion treated as short-term capital gain), which will be taxable to its shareholders as ordinary income, and to increase the net capital gain (i.e., the excess of net long-term capital gain over net short-term capital loss) a Fund recognizes, without in either case increasing the cash available to the Fund. A Fund may elect to exclude certain transactions from the operation of section 1256, although doing so may have the effect of increasing the relative proportion of net short-term capital gain (taxable as ordinary income) and/or increasing the amount of dividends that must be distributed to meet the Distribution Requirement and avoid imposition of the Excise Tax.

If a Fund has an “appreciated financial position” – generally, an interest (including an interest through an option, futures or Forward Contract or short sale) with respect to any stock, debt instrument (other than “straight debt”) or partnership interest the fair market value of which exceeds its adjusted basis – and enters into a “constructive sale” of the position, the Fund will be treated as having made an actual sale thereof, with the result that it will recognize gain at that time. A constructive sale generally consists of a short sale, an offsetting notional principal contract or a futures or Forward Contract a Fund or a related person enters into with respect to the same or substantially identical property. In addition, if the appreciated financial position is itself a short sale or such a contract, acquisition of the underlying property or substantially identical property will be deemed a constructive sale. The foregoing will not apply, however, to any transaction by a Fund during any taxable year that would otherwise be treated as a constructive sale if the transaction is closed within 30 days after the end of that year and

the Fund holds the appreciated financial position unhedged for 60 days after that closing (*i.e.*, at no time during that 60-day period is the Fund's risk of loss regarding that position reduced by reason of certain specified transactions with respect to substantially identical or related property, such as having an option to sell, being contractually obligated to sell, making a short sale or granting an option to buy substantially identical stock or securities).

The Balanced and Fixed Income Funds may acquire zero-coupon or other securities issued with original issue discount ("OID"). As a holder of those securities, a Fund must include in its gross income the OID that accrues on them during the taxable year, even if it receives no corresponding payment on them during the year. With respect to "market discount bonds" (*i.e.*, bonds purchased by the Fund at a price less than their issue price plus the portion of "original issue discount" previously accrued thereon), a Fund may likewise elect to accrue and include in income each year a portion of the market discount with respect to such bonds. Because each Fund annually must distribute substantially all of its investment company taxable income, including any OID or market discount, to satisfy the Distribution Requirement and avoid imposition of the Excise Tax, it may be required in a particular year to distribute as a dividend an amount that is greater than the total amount of cash it actually receives. Those distributions will be made from a Fund's cash assets or from the proceeds of sales of its portfolio securities, if necessary. A Fund may realize capital gains or losses from those sales, which would increase or decrease its investment company taxable income and/or net capital gain.

**Investments in Foreign Securities.** Dividends and interest a Fund receives, and gains it realizes, may be subject to income, withholding or other taxes imposed by foreign countries and U.S. possessions ("foreign taxes") that would reduce the yield and/or total return on its securities. Tax conventions between certain countries and the United States may reduce or eliminate foreign taxes, however, and many foreign countries do not impose taxes on capital gains in respect of investments by foreign investors.

If more than 50% of the value of the International Fund's total assets at the close of any taxable year consists of securities of foreign corporations, it will be eligible to, and may, file an election with the Internal Revenue Service that will enable its shareholders, in effect, to receive the benefit of the foreign tax credit with respect to any foreign taxes it paid. Pursuant to any such election, the International Fund would treat those taxes as dividends paid to its shareholders and each shareholder would be required to:

- (1) include in gross income, and treat as paid by the shareholder, the shareholder's proportionate share of those taxes,
- (2) treat the shareholder's share of those taxes and of any dividend the Fund paid that represents income from foreign or U.S. possessions as the shareholder's own income from those sources and
- (3) either deduct the taxes deemed paid by the shareholder in computing the shareholder's taxable income or, alternatively, use the foregoing information in calculating the foreign tax credit against the shareholder's federal income tax.

The International Fund will report to its shareholders shortly after each taxable year their respective shares of its income from sources within foreign countries and U.S. possessions (including its proportionate share of the Portfolio's income from these sources) and the Fund's Foreign Taxes if it makes this election. Individuals who have no more than \$300 (\$600 for married persons filing jointly) of creditable foreign taxes included on Form 1099 and have no foreign source non-passive income will be able to claim a foreign tax credit without having to file the detailed Form 1116 that otherwise is required.

The Funds may invest in the stock of "passive foreign investment companies" ("PFICs"). A PFIC is any foreign corporation (with certain exceptions) that, in general, meets either of the following tests:

- (1) at least 75% of its gross income for the taxable year is passive or
- (2) an average of at least 50% of its assets produce, or are held for the production of, passive income.

Under certain circumstances, a Fund will be subject to federal income tax on a portion of any "excess distribution" it receives on the stock of a PFIC or of any gain on disposition of the stock (collectively "PFIC income"), plus interest thereon, even if the Fund distributes the PFIC income as a taxable dividend to its shareholders. The balance of the PFIC income will be included in the Fund's investment company taxable income and, accordingly, will not be taxable to it to the extent it distributes that income to its shareholders. Fund

distributions attributable to PFIC income will not be eligible for the 15% maximum federal income tax rate on “qualified dividend income” mentioned above.

If a Fund invests in a PFIC and elects to treat the PFIC as a “qualified electing fund” (“QEF”), then in lieu of the foregoing tax and interest obligation, the Fund would be required to include in income each year its *pro rata* share of the QEF’s annual ordinary earnings and net capital gain -- which the Fund probably would have to distribute to its shareholders -- even if the QEF did not distribute those earnings and net capital gain to the Fund. In most instances it will be very difficult, if not impossible, to make this election because of certain requirements thereof.

Each Fund may elect to “mark to market” its stock in any PFIC. “Marking-to-market,” in this context, means including in ordinary income each taxable year the excess, if any, of the fair market value of the stock over a Fund’s adjusted basis therein as of the end of that year. Pursuant to the election, a Fund also may deduct (as an ordinary, not capital, loss) the excess, if any, of its adjusted basis in PFIC stock over the fair market value thereof as of the taxable year-end, but only to the extent of any net mark-to-market gains with respect to that stock included in income by the Fund for prior taxable years under the election. A Fund’s adjusted basis in each PFIC’s stock subject to the election would be adjusted to reflect the amounts of income included and deductions taken thereunder.

Gains or losses (1) from the disposition of foreign currencies, including Forward Contracts, (2) on the disposition of a debt security denominated in a foreign currency that are attributable to fluctuations in the value of the foreign currency between the dates of acquisition and disposition of the security and (3) that are attributable to exchange rate fluctuations between the time a Fund accrues interest, dividends or other receivables or expenses or other liabilities denominated in a foreign currency and the time it actually collects the receivables or pays the liabilities, generally are treated as ordinary income or loss. These gains or losses will increase or decrease the amount of investment company taxable income available to a Fund for distribution to its shareholders as ordinary income, rather than increasing or decreasing the amount of its net capital gain.

**Capital Loss Carryforwards.** As of December 31, 2010, the accumulated capital loss carryforwards for the Funds were as follows:

	<b>Small Cap Equity Fund</b>	<b>Balanced Fund</b>	<b>International Fund</b>
Expiring in 2016	\$—	\$2,359	\$14,977,524
Expiring in 2017	71,739,544	472,805	22,376,424
Expiring in 2018	—	—	906,012
Total capital loss carryforwards	<u>\$71,739,544</u>	<u>\$475,164</u>	<u>\$38,259,960</u>

No capital loss carryforward information is provided for the Small-Mid Cap Equity Fund since the Fund had not commenced operations prior to the date of this SAI.

To the extent that a Fund realizes future net capital gains, taxable distributions will be reduced by any unused capital loss carryforwards as permitted by the Internal Revenue Code.

#### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Deloitte & Touche LLP serves as the Funds’ independent registered public accounting firm, whose services include an audit of the Funds’ financial statements and the performance of other related audit and tax services.

#### **FINANCIAL STATEMENTS**

The audited financial statements for the Funds are incorporated by reference to the Funds’ Annual Report to Shareholders, for the year ended December 31, 2010. As the Small-Mid Cap Equity Fund did not commence operations prior to the date of this SAI, there are no financial statements available at this time. Shareholders of the Small-Mid Cap Equity Fund will be informed of the Fund’s progress through periodic reports when those reports become available. Financial statements audited by the independent registered public accounting firm will be submitted to shareholders at least annually.

## APPENDIX A

### TT International Investment Management Proxy Voting Policy

---

The following policy is designed to ensure that TT International (“TT”) takes all reasonable steps to vote proxies on behalf of accounts for which it has voting authority in the best interest of clients and in accordance with applicable laws.

#### 1.1 General Guidelines

All issues presented for shareholder vote are voted in what TT believes to be the best economic interest of the beneficial owners of the accounts which it manages, in accordance with TT’s fiduciary duties to its clients. TT maintains an active investment strategy, and if TT has a material concern about the management or governance of a company in which it has invested, it may decide to sell the shares. TT decides how to cast each vote on a case-by-case basis, taking into consideration this policy, its obligations under its management agreements with the relevant clients, fund offering documents, and other facts and circumstances which it judges relevant. TT will always comply with a client’s lawful instructions when exercising voting rights attached to that client’s securities.

Proxy voting decisions are taken by the Chief Operating Officer (or in his absence by the Partner, Compliance and Legal or such other partner or employee as the Chief Operating Officer in his discretion appoints). All proxy cards, proxy statements, and related materials received by TT in relation to client accounts are to be forwarded immediately to the Chief Operating Officer (or other partner or employee taking proxy voting decisions in accordance with this paragraph). In taking proxy voting decisions on behalf of client accounts, the Chief Operating Officer (or other partner or employee taking such decisions in accordance with this paragraph) shall seek to vote proxies consistently for all client accounts subject to any special agreements with, instructions from, and sensitivities of particular clients. While portfolio managers may be consulted, if necessary, for financial, market, or commercial information that may assist in taking proxy voting decisions, portfolio managers will not in the ordinary course be consulted on how proxies should be voted.

TT recognises that votes which it casts on behalf of certain types of account, such as accounts subject to the U.S. Employee Retirement Income Security Act of 1974, as amended, (“ERISA”), and accounts of public entities or pension plans, may be subject to special requirements under governing account or plan documents and applicable law. Section 1.7 below addresses the special requirements applicable to accounts subject to ERISA. Accounts managed by TT for employee benefit plans which are not governed by ERISA (such as governmental pension plans) may nevertheless involve fiduciary obligations similar to those applicable to ERISA plans; proxy voting requirements for such accounts are addressed by TT exercising its judgment on a case-by-case basis.

In relation to the hedge funds which it manages, TT has adopted a systematic approach of not voting proxies other than in exceptional circumstances, rather than evaluating each proxy situation. This is for cost benefit considerations, including the typically high turnover of the hedge funds’ holdings, in the interests of the funds’ investors.

#### 1.2 Compliance Review

Any issues or questions raised regarding the voting of a proxy should be discussed with TT’s Compliance Department (“Compliance”). Conflicts of interest in relation to proxy voting will be handled by Compliance as stated in Sections 1.4 and 1.7 below. TT is required to follow any determination by Compliance to vote a proxy in a particular manner. Any departure from the voting guidelines set out below must be cleared by Compliance. Compliance is responsible for reviewing this policy on at least an annual basis and recommending any appropriate changes.

### 1.3 **Voting Guidelines**

TT exercises its voting power in good faith and uses reasonable care in reaching its voting decisions. Each vote requires individual consideration according to the circumstances of the case. Particular circumstances may lead to a departure from TT's general practice. However, without detracting from TT's discretion, the following guidelines should generally be followed, and departures from these guidelines must be cleared by Compliance.

#### A. Board of Directors

- (1) Vote against the election of directors or some or all of non-independent candidates if a vote in favour would result in or continue the board with a majority of non-independent directors.
- (2) Vote against a board where the chair and chief executive officer are the same person.
- (3) Vote against stock option plans which include awards to directors, vote in favour of savings-related share option plans (such as those approved by HMRC).
- (4) Vote against an excessive severance compensation package paid to any director, including one which is contingent on the merger or acquisition of the corporation with a resulting loss of control.
- (5) Vote against directors who have approved excessive severance compensation packages which have not manifestly provided shareholder value.
- (6) Vote against auditors where non-audit related fees exceed those that are audit related.

#### B. Executive Compensation

- (1) Vote in favour of stock option plans which align the interests of shareholders and management and are likely to create a significant correlation over a reasonable period between compensation and the enhancement of shareholder value, subject to (A)B(2) to (A)B(7) below.
- (2) Vote against options awarded at strike prices which are at a discount to market price.
- (3) Vote against the ability to lower the strike price of outstanding options.
- (4) Vote against options unrestricted in time.
- (5) Vote against accelerated vesting of option awards in the event of a change of control.
- (6) Vote against option schemes which concentrate option ownership among a small number of senior executives.
- (7) Vote against stock option compensation plans that unreasonably (greater than 10% in total or 1% per annum) dilute value to shareholders.
- (8) Vote against the making of loans to directors or employees to pay for stock or exercise options.
- (9) Vote against an excessive (more than three times the salary plus bonus of the individual) severance compensation package paid to any employee, including one which is contingent on the merger or acquisition of the corporation with a resulting loss of control.
- (10) Vote against stock option plans proposing omnibus plans (where several types of award are included in one plan) unless each individual type of award is appropriate.
- (11) Vote against stock option plans proposing options which vest immediately.
- (12) Vote against cumulative voting (gives shareholders votes equal to holding multiplied by number of directors to be elected and can be cast for one or more candidates) unless voting for it would facilitate independent or minority representation on an unresponsive board controlled by a block of inside shareholders.
- (13) Vote against evergreen plans (where options that have been exercised are loaded back into the pool available for grant).
- (14) Vote against stock option plans with terms of more than ten years.
- (15) Vote against ratification of remuneration reports for prior periods that would have been voted against for future periods under (A)B(1) and (A)B(14).

### C. Takeover Protection

- (1) Vote against “crown jewel” defences which are made part of an anti-takeover defence, unless they are considered by TT to be in the best interests of shareholders.
- (2) Vote against arrangements that lock up a takeover bid so that other bids are prevented.
- (3) Vote against the payment of “greenmail” e.g. stock options with no set price, unless it is considered by TT to be in the best interests of shareholders.
- (4) Vote against reincorporation proposals that are posed as part of an anti-takeover defence or solely to limit directors’ liability.
- (5) Vote against leveraged buyout proposals where evaluation indicates that management is not pursuing shareholder’s best interests.

### D. Shareholder Rights

- (1) Vote against the creation or extension of dual class voting stock.
- (2) Vote against linked proposals one or more of which is not in the best interests of the shareholders.
- (3) Vote against “stakeholder proposals” which would reduce or dilute the responsibility of directors to the shareholders.
- (4) Vote against a proposal to increase the number of voters required on an issue above two-thirds of the outstanding shares unless it is in the best interest of the shareholders.
- (5) Vote against a proposal the effect of which will be or is likely to dilute unreasonably existing shareholders’ interests.
- (6) Vote against the authorisation of or an increase in “blank cheque” preferred shares (sometimes used as a defence against takeover bids).
- (7) Vote against a proposal to issue new shares that does not include pricing guidelines in the resolution.
- (8) Vote against any proposal that is not supported by sufficient information in the resolution or supporting papers to enable an appropriate decision to be made.

## 1.4 **Conflicts of Interest**

### A. Duty to Report

All Partners and employees of TT are under a duty to report to Compliance any potential conflict of interest of which they become aware regarding voting proxies for client accounts. Upon any such report being made, TT will defer voting any affected proxies until Compliance has determined how the conflict or potential conflict of interest is to be resolved.

### B. Review of Potential Conflicts

Compliance shall consider all potential conflicts of interest relating to proxy voting brought to its attention and will determine whether there exists a material conflict of interest. A conflict of interest will be considered material if Compliance determines that it has the potential to influence TT’s decision-making in voting the proxy.

### C. Material Conflicts of Interest

Where Compliance determines that a material conflict of interest does exist, either as determined by Compliance (i) the proxy shall be voted subordinating the interest of TT to that of the client or (ii) the material conflict shall be disclosed to the client together with TT’s recommendation for voting the proxy and the client’s consent shall be sought on whether the proxy may be voted as recommended by TT. If the client does consent, then the proxy shall be voted in such a manner. If the client does not consent, the proxy shall (i) be voted in the manner directed by the client, or, lacking such direction, (ii) not be voted. The provisions of this Section 1.4(A)C shall not apply to conflicts of interest in relation to accounts subject

to ERISA, procedures for which are stated in Section 1.7 below.

### 1.5 Proxies Not Voted

It generally is TT's policy to vote proxies for which it has voting authority subject to Section 1.4(A)C. Nevertheless, in addition to the circumstances discussed in Section 1.4 above, TT may, with the approval of Compliance, decide not to vote a proxy where (i) TT has determined that voting the proxy is not justified because of the extent to which the cost of voting the proxy outweighs the value to the client of casting such a vote, such as may be the case for U.S. clients with proxies solicited by non-U.S. issuers, or (ii) limitations have been placed on TT's ability to vote the proxy, such as where such security is subject to a securities lending arrangement, or (iii) in TT's judgment a vote will bring no benefit to the client. As stated in Section 1.1 above, TT's policy is not to vote proxies for hedge funds other than in exceptional circumstances.

### 1.6 Recordkeeping

TT shall maintain, in an easily accessible place for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record, the first two years in an appropriate office of TT: (i) a copy of this policy, (ii) proxy statements received regarding client securities, (iii) records of votes cast by TT on behalf of clients, (iv) records of client requests for proxy voting information and responses of TT to such requests, and (v) any documents created by TT that were material to making a decision how to vote, or that memorialized the basis for the decision. TT may rely on proxy statements filed on the U.S. Securities and Exchange Commission's EDGAR system instead of keeping its own copies, and may rely on proxy statements and records of proxy votes cast by TT that are maintained with a third party, such as a proxy voting service, provided that TT has obtained an undertaking from the third party to provide a copy of the documents promptly upon request.

With respect to proxies voted on behalf of ERISA accounts, TT shall maintain records with respect to this policy and the actions taken in individual proxy voting situations, in order to enable the named fiduciary of the applicable plan to determine whether TT is adhering to applicable proxy voting guidelines and fulfilling its fiduciary duties to the plan in a manner which justifies the continuation of the advisory appointment. These records may include information regarding (i) the issuer and the meeting, (ii) the issues voted on and a record of the vote, (iii) the number of shares eligible to be voted on the record date on behalf of the client, (iv) the number of shares voted by TT on behalf of the client, (v) the steps taken to ascertain whether a particular vote was prudent and in the interest of the participants and beneficiaries, and (vi) the reasons for the votes cast.

### 1.7 ERISA Accounts

The following special proxy voting policies and procedures apply to the voting of proxies on behalf of accounts subject to ERISA. Except where expressly noted, the following policies and procedures apply in addition to and not in lieu of the provisions stated in other sections of these Procedures.

#### A. Authority to Vote Proxies

Upon receipt of a request for a proxy vote for an account subject to ERISA, TT will ascertain whether it has the duty to vote the proxies or whether this duty has been retained by the trustee or another named fiduciary of the ERISA plan. The determination will be made by reference to the advisory agreement for the ERISA account and plan documents and, where appropriate, after consultation with Compliance. Where general authority to manage ERISA plan assets has been delegated to TT, TT will have the authority and duty to vote the proxies unless the advisory agreement and plan documents expressly preclude TT from voting proxies.

## B. Voting Guidelines

TT must vote proxies for accounts governed by ERISA (i) solely in the interests of the plan participants and beneficiaries, (ii) for the exclusive purpose of providing benefits to participants and beneficiaries, (iii) with the care, skill and diligence that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and (iv) in accordance with the plan documents to the extent consistent with ERISA. In doing so, TT must consider the factors that may affect the value of the plan's investment and not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives (such as the wishes of the plan sponsor).

## C. Proxy Voting Policies

TT shall ascertain if the ERISA plan has a proxy voting policy or an investment policy which includes a proxy voting policy. TT shall follow the policy unless, in the opinion of Compliance, to do so would be inconsistent with ERISA (if, for example, it would be imprudent or not solely in the interests of the plan participants and beneficiaries in a given instance).

Where TT has proxy voting authority for a pooled investment vehicle which is subject to ERISA, TT may be subject to the proxy voting policies of more than one plan. In such cases, TT will seek to reconcile the policies if possible. If the investment policies conflict, it may be necessary for TT to vote the proxies of the pooled investment vehicle in proportion to each plan's respective investment, unless, in the opinion of Compliance, to do so would be imprudent or conflict with ERISA.

## D. Conflicts of Interest

Where Compliance determines that a material conflict of interest exists regarding proxy votes for ERISA accounts, either as determined by Compliance (i) the proxy shall be voted subordinating the interest of TT to that of the client or (ii) the material conflict shall be disclosed to the named fiduciary of the plan. In the case of a conflict of interest affecting TT as fiduciary of an ERISA account, mere disclosure of the conflict to the ERISA account client and/or consent by the client to the proxy vote proposed by TT will generally be insufficient to resolve the conflict in accordance with ERISA. Consequently, TT, together with the named fiduciary, must determine the procedure for resolution of the conflict of interest consistent with the advisory agreement, the plan documents and ERISA. Depending upon the circumstances, the conflict may be resolved by voting the proxies (i) in accordance with the ERISA plan's pre-determined proxy voting policy, (ii) based upon the recommendations of an independent third party (for example, a proxy voting service) appointed by the named fiduciary, (iii) based upon the recommendations of an independent plan fiduciary, or (iv) based upon the directions of the named fiduciary, accompanied, where necessary, by appropriate amendment(s) of the plan documents and/or the advisory agreement.

## 1.8 **Reporting**

TT shall periodically report to the Boards of TT managed funds as to actions taken in accordance with this policy in relation to securities held for the account of such funds, and to other clients as may be required by applicable laws or contracts.

TT will provide clients with a copy of this policy promptly upon request. Clients may obtain information on how the client's proxies were voted by contacting TT's Client Services Department (Peter Curry, telephone +44 20 7509 1188).

## APPENDIX B

### DESCRIPTION OF BOND RATINGS

#### *Excerpts from Moody's Investors Service, Inc. Long-Term Obligation Ratings:*

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

**Aaa:** judged to be of the highest quality, with minimal credit risk. **Aa:** judged to be of high quality and are subject to very low credit risk. **A:** considered upper-medium grade and are subject to low credit risk. **Baa:** subject to moderate credit risk and considered medium-grade (i.e., may possess certain speculative characteristics). **Ba:** judged to have speculative elements and are subject to substantial credit risk. **B:** considered speculative and are subject to high credit risk. **Caa:** judged to be of poor standing and are subject to very high credit risk. **Ca:** highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest. **C:** the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

*Note:* Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

#### *Excerpts from Standard & Poor's Corporation Long-Term Issue Credit Ratings:*

Issue credit ratings are based, in varying degrees, on the following considerations: Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation; Nature of and provisions of the obligation; Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights. Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default.

**AAA:** highest rating assigned by Standard & Poor's; the obligor's capacity to meet its financial commitment on the obligation is extremely strong. **AA:** differs from the highest-rated obligations only to a small degree; the obligor's capacity to meet its financial commitment on the obligation is very strong. **A:** somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong. **BBB:** exhibits adequate protection parameters; however, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

**BB, B, CCC, CC, C:** Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. **BB:** less vulnerable to nonpayment than other speculative issues; however, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. **B:** more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. **CCC:** currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. **CC:** currently highly vulnerable to nonpayment. **C:** currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or

similar action which have not experienced a payment default. Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par. **D:** payment default. The 'D' rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to 'D' upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

*Plus(+)* or *Minus(-)*: The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

***Excerpts from Fitch Ratings Corporate Finance Obligations — Long-Term Rating Scales:***

Ratings of individual securities or financial obligations of a corporate or sovereign issuer address relative vulnerability to default on an ordinal scale. In addition, for financial obligations in corporate finance, a measure of recovery given default on that liability is also included in the rating assessment.

The relationship between issuer and obligation scale assumes an historical average recovery of between 30%–50% on the obligations of an issuer. As a result, individual obligations of entities, such as corporations, are assigned ratings higher, lower, or the same as that entity's issuer rating or IDR. The difference between issuer and obligation rating reflects expectations of the recovery prospects for each class of obligation, relative to this implied historical average of 30%–50%. At the lower end of the ratings scale, Fitch Ratings now additionally publishes explicit Recovery Ratings in many cases to complement issuer and obligation ratings.

**AAA:** Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. **AA:** Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. **A:** High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. **BBB:** Good credit quality. 'BBB' ratings indicate that expectations of credit risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

**BB:** Speculative. 'BB' ratings indicate an elevated vulnerability to credit risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial alternatives may be available to allow financial commitments to be met. **B:** Highly speculative. 'B' ratings indicate that material credit risk is present. **CCC:** Substantial credit risk. 'CCC' ratings indicate that substantial credit risk is present. **CC:** Very high levels of credit risk. 'CC' ratings indicate very high levels of credit risk. **C:** Exceptionally high levels of credit risk. 'C' indicates exceptionally high levels of credit risk.

Defaulted obligations typically are not assigned 'D' ratings, but are instead rated in the 'B' to 'C' rating categories, depending upon their recovery prospects and other relevant characteristics. This approach better aligns obligations that have comparable overall expected loss but varying vulnerability to default and loss.

*Note:* The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' rating category, or to ratings in the categories below 'B'.