COMPX INTERNATIONAL INC
Form DEF 14A
April 22, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
Filed by Registrant: ý
Filed by a Party other than the Registrant:
Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a 6(e)(2))
ý Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to § 240.14a-12

CompX International Inc.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):
ý No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0 11.
1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0 11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

CompX International Inc.
Three Lincoln Centre
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240 2697

April 25, 2016

To Our Stockholders:

You are cordially invited to attend the 2016 annual meeting of stockholders of CompX International Inc., which will be held on Wednesday, May 25, 2016, at 10:00 a.m., local time, at our corporate offices at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697. The matters to be acted upon at the meeting are described in the attached notice of annual meeting of stockholders and proxy statement.

Whether or not you plan to attend the meeting, please cast your vote as instructed on your proxy card or voting instruction form as promptly as possible to ensure that your shares are represented and voted in accordance with your wishes. Your vote, whether given by proxy or in person at the meeting, will be held in confidence by the inspector of election as provided in our bylaws.

Sincerely,

Steven L. Watson
Chairman of the Board

David A. Bowers
Vice Chairman of the Board and
Chief Executive Officer

CompX International Inc.
Three Lincoln Centre
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240 2697

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 25, 2016

To the Stockholders of CompX International Inc.:

The 2016 annual meeting of stockholders of CompX International Inc. will be held on Wednesday, May 25, 2016, at 10:00 a.m., local time, at our corporate offices at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697, for the following purposes:

1. to elect the nine director nominees named in the proxy statement to serve until the 2017 annual meeting of stockholders;
2. to approve on an advisory basis our named executive officer compensation; and
3. to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The close of business on March 31, 2016 has been set as the record date for the meeting. Only holders of our class A or B common stock at the close of business on the record date are entitled to notice of and to vote at the meeting. A complete list of stockholders entitled to vote at the meeting will be available for examination during normal business hours by any of our stockholders, for purposes related to the meeting, for a period of ten days prior to the meeting at our corporate offices.

You are cordially invited to attend the meeting. Whether or not you plan to attend the meeting, please cast your vote as instructed on the proxy card or voting instruction form as promptly as possible to ensure that your shares are represented and voted in accordance with your wishes.

By Order of the Board of Directors,
A. Andrew R. Louis, Secretary

Dallas, Texas
April 25, 2016

Important Notice Regarding the Availability of Proxy Materials for the
Annual Stockholder Meeting to Be Held on May 25, 2016.

The proxy statement and annual report to stockholders (including CompX's Annual Report on Form 10 K for the fiscal year ended December 31, 2015) are available at www.compx.com/annualmeeting.

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GLOSSARY OF TERMS

"401(k) Plan" means The Employee 401(k) Retirement Plan, a defined contribution plan.

"brokerage firm or other nominee" means a brokerage firm or other nominee such as a banking institution, custodian, trustee or fiduciary (other than our transfer agent, Computershare) through which a stockholder holds its shares of our common stock.

"broker/nominee non-vote" means a non-vote by a brokerage firm or other nominee for shares held for a client's account for which the brokerage firm or other nominee does not have discretionary authority to vote on a particular matter and has not received instructions from the client.

"Computershare" means Computershare Trust Company, N.A., our stock transfer agent and registrar.

"CompX," "us," "we" or "our" means CompX International Inc.

"Contran" means Contran Corporation, the parent corporation of our consolidated tax group.

"Dixie Rice" means Dixie Rice Agricultural L.L.C., one of our parent companies.

"EWI" means EWI RE, Inc., a reinsurance brokerage and risk management corporation wholly owned by NL.

"Family Trust" means the Harold C. Simmons Family Trust No. 2 of which Serena Simmons Connelly and Lisa K. Simmons are co-trustees.

"independent directors" means the following directors: Thomas E. Barry, Norman S. Edelcup, Elisabeth C. Fisher, Edward J. Hardin, Ann Manix, Cecil H. Moore, Jr., George E. Poston, and Mary A. Tidlund, as applicable.

"ISA" means an intercorporate services agreement between Contran and a related company pursuant to which employees of Contran provide certain services, including executive officer services, to such related company on an annual fixed fee basis.

"Kronos Worldwide" means Kronos Worldwide, Inc., one of our publicly held sister corporations that is an international manufacturer of titanium dioxide products.

"named executive officer" means any person named in the 2015 Summary Compensation Table in this proxy statement.

"NL" means NL Industries, Inc., one of our publicly held parent corporations that is a diversified holding company (i) of which we are a subsidiary and (ii) that holds a significant investment in Kronos Worldwide.

"nonemployee directors" means the following directors: Thomas E. Barry, Norman S. Edelcup, Loretta J. Feehan, Elisabeth C. Fisher, Edward J. Hardin, Ann Manix, Cecil H. Moore, Jr., Bobby D. O'Brien, George E. Poston, Mary A. Tidlund and Steven L. Watson, as applicable.

"NYSE" means the New York Stock Exchange.

"NYSE MKT" means the NYSE MKT, the stock exchange on which our shares of class A common stock trade.

"PCAOB" means the Public Company Accounting Oversight Board, a private sector, non-profit corporation that oversees auditors of U.S. public companies.

"PwC" means PricewaterhouseCoopers LLP, our independent registered public accounting firm.

"record date" means the close of business on March 31, 2016, the date our board of directors set for the determination of stockholders entitled to notice of and to vote at the 2016 annual meeting of our stockholders.

"RPT Policy" means the CompX International Inc. Policy Regarding Related Party Transactions dated June 3, 2015.

"Say-on-Pay" means the second proposal in this proxy statement for a nonbinding advisory vote for the consideration of our stockholders to approve the compensation of our named executive officers as such proposal is described and as such compensation is disclosed in this proxy statement.

"SEC" means the U.S. Securities and Exchange Commission.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"stockholder of record" means a stockholder of our class A or B common stock who holds shares in its name in certificate form or electronically with our transfer agent, Computershare.

"Tall Pines" means Tall Pines Insurance Company, an indirect wholly owned captive insurance subsidiary of Valhi.

"TIMET" means Titanium Metals Corporation, a former publicly held sister corporation of which Precision Castparts Corp. (NYSE: PCP) purchased control on December 20, 2012 in a tender offer and subsequently on January 7, 2013 became a wholly owned subsidiary of Precision Castparts Corp.

"Valhi" means Valhi, Inc., one of our publicly held parent corporations that is a diversified holding company of which NL and Kronos Worldwide are subsidiaries.

"VHC" means Valhi Holding Company, one of our parent corporations.

CompX International Inc.
Three Lincoln Centre
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PROXY STATEMENT

GENERAL INFORMATION

We are providing this proxy statement in connection with the solicitation of proxies by and on behalf of our board of directors for use at our 2016 annual meeting of stockholders to be held on Wednesday, May 25, 2016 and at any adjournment or postponement of the meeting. We initiated the mailing of our 2016 annual meeting materials on or about April 25, 2016 to the holders of our class A or B common stock as of the close of business on March 31, 2016. Our mailed materials include:

- the accompanying notice of the 2016 annual meeting of stockholders;
- this proxy statement;
- our 2015 Annual Report to Stockholders, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2015; and
- the proxy card (or voting instruction form if you hold your shares through a brokerage firm or other nominee and not in your name in certificate form or electronically with our transfer agent, Computershare).

We are furnishing our 2015 annual report to all of our stockholders entitled to vote at the 2016 annual meeting. We are not incorporating the 2015 annual report into this proxy statement and you should not consider the annual report as proxy solicitation material. The accompanying notice of annual meeting of stockholders sets forth the time, place and purposes of the meeting. Our principal executive offices are located at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

Please refer to the Glossary of Terms on page ii for the definitions of certain terms used in this proxy statement.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

Q: What is the purpose of the annual meeting?

A: At the annual meeting, stockholders will vote on the following, as described in this proxy statement:

- Proposal 1 – the election of the nine director nominees named in this proxy statement; and
- Proposal 2 – the adoption of a nonbinding advisory resolution that approves the named executive officer compensation described in this proxy statement (Say-on-Pay).

In addition, stockholders will vote on any other matter that may properly come before the meeting.

Q: How does the board recommend that I vote?

A: The board of directors recommends that you vote FOR:

- the election of each of the nominees for director named in this proxy statement; and
- the approval and adoption of proposal 2 (Say-on-Pay).

Q: Who is allowed to vote at the annual meeting?

A: The board of directors has set the close of business on March 31, 2016 as the record date for the determination of stockholders entitled to notice of and to vote at the meeting. Only holders of our class A or B common stock as of the close of business on the record date are entitled to vote at the meeting. On the record date, 2,411,107 shares of our class A common stock and 10,000,000 shares of our class B common stock were issued and outstanding. Each share of our class A common stock entitles its holder to one vote. Each share of our class B common stock entitles its holder to ten votes with respect to the election of directors and one vote on all other matters.

Q: If I hold my shares through a brokerage firm or other nominee, how may I vote in person at the annual meeting?

A: If you wish to vote in person at the annual meeting, you will need to follow the instructions on your voting instruction form on how to obtain the appropriate documents to vote in person at the meeting.

Q: How do I vote if I am a stockholder of record?

A: If you hold shares of our class A or B common stock in your name in certificate form or electronically with our transfer agent, Computershare, and not through a brokerage firm or other nominee, you are a stockholder of record. As a stockholder of record, you may:

- vote over the internet at www.investorvote.com/CIX;
- vote by telephone using the voting procedures set forth on your proxy card;
- instruct the agents named on your proxy card how to vote your shares by completing, signing and mailing the enclosed proxy card in the envelope provided; or
- vote in person at the annual meeting.

Q: What are the consequences if I am a stockholder of record and I execute my proxy card but do not indicate how I would like my shares voted for one or more of the director nominees named in this proxy statement or proposal 2 (Say-on-Pay)?

A: If you are a stockholder of record (shares held in the stockholder's name in certificate form or electronically with Computershare, our transfer agent, and not through a brokerage firm or other nominee), the agents named on your proxy card will vote your shares on such uninstructed nominee or proposal as recommended by the board of directors in this proxy statement.

Q: If I do not want to vote my shares in person at the annual meeting, how do I vote if my shares are held through a brokerage firm or other nominee?

A: If your shares are held through a brokerage firm or other nominee, you must follow the instructions from your brokerage firm or other nominee on how to vote your shares. In order to ensure your brokerage firm or other nominee votes your shares in the manner you would like, you must provide voting instructions to your brokerage firm or other nominee by the deadline provided in the materials you received from your brokerage firm or other nominee.

Brokerage firms or other nominees may not vote your shares on the election of a director nominee or proposal 2 (Say-on-Pay) in the absence of your specific instructions as to how to vote. We encourage you to provide instructions to your brokerage firm or other nominee regarding the voting of your shares. If you do not instruct your brokerage firm or other nominee how to vote with respect to the election of a director nominee or proposal 2 (Say-on-Pay), your brokerage firm or other nominee may not vote with respect to the election of such director nominee or on proposal 2 (Say-on-Pay) and your vote will be counted as a "broker/nominee non-vote." "Broker/nominee non-votes" are non-votes by a brokerage firm or other nominee for shares held in a client's account for which the brokerage firm or other nominee does not have discretionary authority to vote on a particular matter and has not received instructions from the client. How we treat broker/nominee non-votes is separately described in each of the answers below regarding what constitutes a quorum and the requisite votes necessary to elect a director nominee or approve proposal 2 (Say-on-Pay).

Q: Who will count the votes?

A: The board of directors has appointed Computershare, our transfer agent and registrar, to ascertain the number of shares represented, tabulate the vote and serve as inspector of election for the meeting.

Q: Is my vote confidential?

A: Yes. All proxy cards, ballots or voting instructions delivered to Computershare will be kept confidential in accordance with our bylaws.

Q: How do I change or revoke my proxy instructions if I am a stockholder of record?

A: If you are a stockholder of record, you may change or revoke your proxy instructions in any of the following ways:

- delivering to Computershare a written revocation;
- submitting another proxy card bearing a later date;
- changing your vote on www.investorvote.com/CIX;
- using the telephone voting procedures set forth on your proxy card; or
- voting in person at the annual meeting.

Q: How do I change or revoke my voting instructions if my shares are held through a brokerage firm or other nominee?

A: If your shares are held through a brokerage firm or other nominee, you must follow the instructions from your brokerage firm or other nominee on how to change or revoke your voting instructions or how to vote in person at the annual meeting.

Q: What constitutes a quorum?

A: A quorum is the presence, in person or by proxy, of the holders of a majority of the votes from holders of the outstanding shares of our class A and B common stock, counted as a single class, entitled to vote at the meeting.

Shares that are voted "abstain" or "withheld" are counted as present and entitled to vote and are, therefore, included for purposes of determining whether a quorum is present at the annual meeting.

As already discussed in the previous answer regarding how to vote shares held through a brokerage firm or other nominee, there are no proposals for the 2016 annual meeting that would allow a brokerage firm or nominee to vote uninstructed shares. If a brokerage firm or other nominee receives no instruction for the election of any director nominee and proposal 2 (Say-on-Pay), such uninstructed shares will be counted as not entitled to vote and are, therefore, not considered for purposes of determining whether a quorum is present at the annual meeting. If a brokerage firm or other nominee receives instructions on the election of any director nominee or proposal 2 (Say-on-Pay), such instructed shares will be counted as present and entitled to vote and are, therefore, included for purposes of determining whether a quorum is present at the annual meeting.

NL directly held approximately 86.7% of the outstanding shares of our combined class A and B common stock as of the record date. NL has indicated its intention to have its shares of our common stock represented at the meeting. If NL attends the meeting in person or by proxy, the meeting will have a quorum present.

Q: Assuming a quorum is present, what vote is required to elect a director nominee?

A: A plurality of affirmative votes of the holders of our outstanding class A and B shares of common stock, voting together as a single class, represented and entitled to vote at the meeting is necessary to elect each director nominee. You may indicate on your proxy card or in your voting instructions that you desire to withhold authority to vote for any of the director nominees. Since director nominees need only receive a plurality of affirmative votes from the holders represented and entitled to vote at the meeting to be elected, a vote withheld or a broker/nominee non-vote regarding a particular nominee will not affect the election of such director nominee.

NL has indicated its intention to have its shares of our common stock represented at the meeting and to vote such shares FOR the election of each of the director nominees named in this proxy statement. If NL attends the meeting in person or by proxy and votes as indicated, the stockholders will elect all of the nominees named in this proxy statement to the board of directors.

Q: Assuming a quorum is present, what vote is required to adopt and approve proposal 2 (Say-on-Pay)?

A: The stockholder resolution contained in this proposal provides that the nonbinding affirmative vote of the holders of the majority of the class A and B shares of common stock, voting together as a single class, present in person or represented by proxy at the 2016 annual meeting and entitled to vote on the subject matter will be the requisite vote to adopt the resolution and approve the compensation of our named executive officers as such compensation is disclosed in this proxy statement. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a negative vote. Broker/nominee non-votes will not be counted as entitled to vote and will have no effect on this proposal.

NL has indicated its intention to have its shares of our common stock represented at the meeting and to vote such shares FOR this nonbinding advisory proposal. If NL attends the meeting in person or by proxy and votes as indicated, the stockholders will, by a nonbinding advisory vote, approve this proposal.

Q: Assuming a quorum is present, what vote is required to approve any other matter to come before the meeting?

A: Except as applicable laws may otherwise provide, the approval of any other matter that may properly come before the meeting will require the affirmative vote of the holders of the majority of the class A and B shares of common stock, voting together as a single class, present in person or represented by proxy at the 2016 annual meeting and entitled to vote on the subject matter. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a negative vote.

Q: If I am a stockholder of record, how will the agents named on my proxy card vote on any other matter to come before the meeting?

A: If you are a stockholder of record and to the extent allowed by applicable law, the agents named on your proxy card will vote in their discretion on any other matter that may properly come before the meeting.

Q: Who will pay for the cost of soliciting the proxies?

A: We will pay all expenses related to the solicitation, including charges for preparing, printing, assembling and distributing all materials delivered to stockholders. In addition to the solicitation by mail, our directors, officers and regular employees may solicit proxies by telephone or in person for which such persons will receive no additional compensation. Upon request, we will reimburse brokerage firms or other nominees for their reasonable out-of-pocket expenses incurred in distributing proxy materials and voting instructions to the beneficial owners of our class A or B common stock that hold such stock in accounts with such entities.

CONTROLLING STOCKHOLDER

NL directly held approximately 86.7% of the outstanding shares of our combined class A and B common stock as of the record date, which represents approximately 98.4% of the combined voting power of our class A and B common stock for the election of directors and 86.7% of the combined voting power of our class A and B common stock for other matters. NL has indicated its intention to have its shares of our common stock represented at the meeting and to vote such shares FOR the election of each of the director nominees named in this proxy statement and FOR proposal 2 (Say-on-Pay). If NL attends the meeting in person or by proxy and votes as indicated, the meeting will have a quorum present and the stockholders will elect all of the nominees named in this proxy statement to the board of directors and approve proposal 2 (Say-on-Pay).

SECURITY OWNERSHIP

Ownership of CompX. The following table and footnotes set forth as of the record date the beneficial ownership, as defined by regulations of the SEC, of our class A and B common stock held by each individual, entity or group known to us to own beneficially more than 5% of the outstanding shares of our class A or B common stock, each of our directors, each named executive officer and all of our current directors and executive officers as a group. See footnote 3 below for information concerning the relationships of certain individuals and entities that may be deemed to own indirectly and beneficially more than 5% of the outstanding shares of our class A or B common stock. All information is taken from or based upon ownership filings made by such individuals or entities with the SEC or upon information provided by such individuals or entities.

	CompX Class A Common Stock			CompX Class B Common Stock			CompX Class A and B Common Stock Combined
Beneficial Owner	Amount and Nature of Beneficial Ownership (1)		Percent of Class (2)	Amount and Nature of Beneficial Ownership (1)		Percent of Class (2)	Percent of Class (2)
5% Stockholders:							
Harold C. Simmons Family Trust No. 2; Lisa K. Simmons and Serena Simmons Connelly as co-trustees	764,004	(3)(4)	31.7%	10,000,000	(3)(4)	100%	86.7%
Serena Simmons Connelly	2,000	(3)(4)	*	-0-		-0-	*
Sessa Capital (Master), L.P.	431,732	(5)	17.9%	-0-		-0-	3.5%
Royce & Associates, LLC	318,600	(6)	13.2%	-0-		-0-	2.6%
Dimensional Fund Advisors LP	182,876	(7)	7.6%	-0-		-0-	1.5%
Renaissance Technologies LLC	130,300	(8)	5.4%	-0-		-0-	1.0%
Current Directors and Named Executive Officers (9):							
Thomas E. Barry	-0-	(9)	-0-	-0-		-0-	-0-
David A. Bowers	10,000	(9)	*	-0-		-0-	*
Norman S. Edelcup	13,000	(9)	*	-0-		-0-	*
Loretta J. Feehan	2,000	(9)	*	-0-		-0-	*
Elisabeth C. Fisher	-0-	(9)	-0-	-0-		-0-	-0-
Edward J. Hardin	20,000	(9)	*	-0-		-0-	*
Ann Manix	1,175	(9)	*	-0-		-0-	*
Cecil H. Moore, Jr.	-0-	(9)	-0-	-0-		-0-	-0-

Bobby D. O'Brien	2,300	(9)	*	-0-	-0-	*
George E. Poston	3,000	(9)	*	-0-	-0-	*
Mary A. Tidlund	-0-	(9)	-0-	-0-	-0-	-0-
Steven L. Watson	17,000	(9)	*	-0-	-0-	*
James W. Brown	-0-	(9)	-0-	-0-	-0-	-0-
Scott C. James	-0-	(9)	-0-	-0-	-0-	-0-
Current directors and executive officers as a group (20 persons	68,675	(9)	2.8%	-0-	-0-	*

* Less than 1%.

(1) Beneficial ownership as reported in the above table has been determined in accordance with Rule 13d-3 under the Securities Exchange Act, and is not necessarily indicative of beneficial ownership for any other purpose. Except as otherwise noted, the listed entities, individuals or group have sole investment power and sole voting power as to all shares set forth opposite their names. Other than the investment funds, the business address for each listed person or entity is Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

(2) The percentages set forth above and in the following footnotes are based on 2,411,107 shares of our class A common stock and 10,000,000 shares of our class B common stock outstanding as of the record date. As already discussed, each share of our class A common stock entitles its holder to one vote and each share of our class B common stock entitles its holder to ten votes with respect to the election of directors and one vote on all other matters. In certain instances, shares of our class B common stock are automatically convertible into shares of our class A common stock.

(3) The following is a description of certain related entities or persons that may be deemed to beneficially own outstanding shares of our common stock.

All of Contran's outstanding voting stock is held by the Family Trust or is held directly by Lisa K. Simmons and Serena Simmons Connelly or entities related to them. As co-trustees of the Family Trust, each of Ms. Simmons and Ms. Connelly has the shared power to vote and direct the disposition of the shares of Contran stock held by the Family Trust, and Ms. Simmons and Ms. Connelly each has the power to vote and direct the disposition of the shares held directly by them and the entities related to them. Ms. Simmons and Ms. Connelly are sisters and also serve as the co-chairs of the board of directors of Contran.

Contran is the sole owner of Valhi's outstanding shares of non-voting preferred stock. Contran is also the holder of the sole membership interest of Dixie Rice and may be deemed to control Dixie Rice. Dixie Rice is the direct holder of all of the outstanding common stock of VHC and may be deemed to control VHC.

Ms. Simmons and Ms. Connelly directly hold, or are related to the following person or entities that directly hold, the following percentages of the outstanding shares of NL common stock:

Valhi	82.9%
Kronos Worldwide	Less than 1%
Serena Simmons Connelly	Less than 1%

Ms. Simmons and Ms. Connelly are related to the following entities that directly hold the following percentages of the outstanding shares of Kronos worldwide common stock:

Valhi	50.0%
NL	30.4%
Contran	Less than 1%

Ms. Simmons and Ms. Connelly directly hold, or are related to the following person or entity that directly holds, the following percentages of the outstanding shares of Valhi common stock (a):

VHC	92.6%
Serena Simmons Connelly	Less than 1%

(a) NL (including a wholly owned subsidiary of NL) and Kronos Worldwide own 14,372,970 shares and 1,724,916 shares, respectively, of Valhi common stock. Since NL and Kronos Worldwide are majority owned subsidiaries of Valhi and pursuant to Delaware law, Valhi treats the shares of Valhi common stock that NL and Kronos Worldwide own as treasury stock for voting purposes. Pursuant to Section 13(d)(4) of the Securities Exchange Act, such shares are not deemed outstanding for the purposes of calculating the percentage ownership of the outstanding shares of Valhi common stock as of the record date in this proxy statement.

By virtue of the stock ownership in each of VHC, Dixie Rice and Contran, the role of Ms. Simmons and Ms. Connelly as co-trustees of the Family Trust, Ms. Simmons and Ms. Connelly being beneficiaries of the Family Trust, the direct holdings of Contran voting stock by each of Ms. Simmons and Ms. Connelly and entities related to them, and the positions as co-chairs of the Contran board by each of Ms. Simmons and Ms. Connelly, in each case as described above:

- Ms. Simmons and Ms. Connelly may be deemed to control the Family Trust;
- Ms. Simmons and Ms. Connelly may be deemed to control each of Contran, Dixie Rice, VHC, Valhi, NL, Kronos Worldwide and us; and
- Ms. Simmons and Ms. Connelly, Contran, Dixie Rice, VHC, Valhi, NL, Kronos Worldwide and we may be deemed to possess indirect beneficial ownership of shares of common stock directly held by such entities, including any shares of our common stock.

Except for the 2,000 shares of our class A common stock she holds directly, Ms. Connelly disclaims beneficial ownership of all shares of our Class A and B common stock except to the extent of her pecuniary interest in such shares, if any. Ms. Simmons disclaims beneficial ownership of all shares of our Class A and B common stock, except to the extent of her pecuniary interest in such shares, if any.

(4) The shares attributable to the Family Trust and their co-trustees consist of shares held directly by the following entities. For more information concerning the relationships among these persons or entities, please see footnote 3 above.

	CompX Class A Common Stock		CompX Class B Common Stock		CompX Class A and B Common Stock Combined
Beneficial Owner	Shares	Percent of Class	Shares	Percent of Class	Percent of Class
NL	755,104	31.3%	10,000,000	100.0%	86.7%
Contran	5,900	*	-0-	-0-	*
Kronos Worldwide.	3,000	*	-0-	-0-	*
	764,004	31.7%	10,000,000	100.0%	86.7%

* Less than 1%

(5) Based on a Schedule 13G executed on August 29, 2014, that Sessa Capital (Master), L.P., Sessa Capital GP, LLC, Sessa Capital IM, L.P., Sessa Capital IM GP, LLC and John Petry filed with the SEC. Sessa Capital GP, LLC is the general partner of Sessa Capital (Master), L.P. Sessa Capital IM, L.P. is the investment manager of the Sessa Capital (Master), L.P. Sessa Capital IM GP, LLC is the general partner of Sessa Capital IM, L.P. Mr. Petry is the manager of Sessa Capital GP, LLC and Sessa Capital IM GP, LLC. Mr. Petry and these entities may each be deemed to own these 431,732 shares and each has sole power to vote or direct the vote of these shares and to dispose or direct the disposition of these shares. The address for Mr. Petry and these entities is 444 Madison Ave. 3rd Floor, New York, New York 10022.

(6) Based on Amendment No. 14 to Schedule 13G executed on January 12, 2016 that Royce & Associates, LLC filed with the SEC. Royce & Associates, LLC is an investment adviser that manages various accounts. One of these accounts, the Royce Value Trust, Inc., holds 211,100 of these shares. The address of Royce & Associates, LLC is 745 Fifth Avenue, New York, New York 10151.

(7) Based on Amendment No. 6 to Schedule 13G executed on February 9, 2016 that Dimensional Fund Advisors LP filed with the SEC. Dimensional Fund Advisors LP is an investment adviser that furnishes investment advice to four investment companies and serves as investment manager or sub-advisor to certain other commingled funds, group trusts and separate accounts. In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain of these funds. Dimensional Fund Advisors LP has sole voting power over 182,488 of these shares and sole dispositive power over all of these shares. Dimensional Fund Advisors LP disclaims beneficial ownership of all of these shares. Its address is Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(8) Based on Amendment No. 7 to Schedule 13G executed on February 11, 2016 that Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation filed with the SEC. Both Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation are investment advisers that beneficially own all of these shares. Renaissance Technologies Holdings Corporation is a majority owner of Renaissance Technologies LLC. Their address is 800 Third Avenue, New York, New York 10022.

(9) Each of our directors or executive officers disclaims beneficial ownership of any shares of our common stock, except to the extent he or she has a pecuniary interest in such shares, if any.

We understand that Contran and related entities may consider acquiring or disposing of shares of our common stock through open market or privately negotiated transactions, depending upon future developments, including, but not limited to, the availability and alternative uses of funds, the performance of our common stock in the market, an assessment of our business and prospects, financial and stock market conditions and other factors deemed relevant by such entities. We may similarly consider acquisitions of shares of our common stock and acquisitions or dispositions of securities issued by related entities.

Ownership of Related Companies. Some of our directors and executive officers own equity securities of several companies related to us.

Ownership of NL and Valhi. The following table and footnotes set forth the beneficial ownership, as of the record date, of the shares of NL and Valhi common stock held by each of our directors, each named executive officer and all of our current directors and executive officers as a group. All information is taken from or based upon ownership filings made by such persons with the SEC or upon information provided by such persons.

Name of Beneficial Owner	NL Common Stock Amount and Nature of Beneficial Ownership (1)		NL Common Stock Percent of Class (1)(2)	Valhi Common Stock Amount and Nature of Beneficial Ownership (1)		Valhi Common Stock Percent of Class (1)(3)
Thomas E. Barry	-0-	(4)	-0-	51,500	(4)	*
David A. Bowers	-0-	(4)	-0-	-0-	(4)	-0-
Norman S. Edelcup	-0-	(4)	-0-	112,000	(4)	*
Loretta J. Feehan	3,000	(4)	*	3,000	(4)	*
Elisabeth C. Fisher	-0-	(4)	-0-	-0-	(4)	-0-
Edward J. Hardin	-0-	(4)	-0-	4,000	(4)	*
Ann Manix	2,000	(4)	*	-0-	(4)	-0-
Cecil H. Moore, Jr.	12,500	(4)	*	-0-	(4)	-0-
Bobby D. O'Brien	-0-	(4)	-0-	3,000	(4)	*
George E. Poston	-0-	(4)	-0-	-0-	(4)	-0-
Mary A. Tidlund	-0-	(4)	-0-	-0-	(4)	-0-
Steven L. Watson	20,500	(4)	*	91,238	(4)	*
James W. Brown	-0-	(4)	-0-	-0-	(4)	-0-
Scott C. James	-0-	(4)	-0-	-0-	(4)	-0-
Current directors and executive officers as a group (20 persons)	38,000	(4)	*	268,236	(4)	*

* Less than 1%.

(1) Beneficial ownership as reported in the above table has been determined in accordance with Rule 13d-3 under the Securities Exchange Act, and is not necessarily indicative of beneficial ownership for any other purpose. Except as otherwise noted, the individuals or group have sole investment power and sole voting power as to all shares set forth opposite their names.

(2) The percentages are based on 48,691,884 shares of NL common stock outstanding as of the record date.

(3) The percentages are based on 339,142,949 shares of Valhi common stock outstanding as of the record date. NL (including a wholly owned subsidiary of NL) and Kronos Worldwide own 14,372,970 shares and 1,724,916 shares, respectively, of Valhi common stock. Since NL and Kronos Worldwide are majority owned subsidiaries of Valhi and pursuant to Delaware law, Valhi treats the shares of Valhi common stock that NL and Kronos Worldwide own as treasury stock for voting purposes. Pursuant to Section 13(d)(4) of the Securities Exchange Act, such shares are not deemed outstanding for the purposes of calculating the

percentage ownership of the outstanding shares of Valhi common stock as of the record date in this proxy statement.

(4) Each of our directors or executive officers disclaims beneficial ownership of any shares of NL or Valhi common stock, except to the extent he or she has a pecuniary interest in such shares, if any.

PROPOSAL 1
ELECTION OF DIRECTORS

Our bylaws provide that the board of directors shall consist of one or more members as determined by our board of directors or stockholders. Our board of directors has currently set the number of directors at twelve. The board of directors recommends the nine director nominees named in this proxy statement for election at our 2016 annual stockholder meeting. If all the nominees are elected, the number of directors will be set at nine effective at the adjournment of the meeting. The directors elected at the meeting will hold office until our 2017 annual stockholder meeting and until their successors are duly elected and qualified or their earlier removal or resignation.

All of the director nominees are currently members of our board of directors whose terms will expire at the 2016 annual meeting. Mr. Norman S. Edelcup, Mr. Edward J. Hardin and Mr. George E. Poston are each not standing for reelection as a director. All of the nominees have agreed to serve if elected. If any nominee is not available for election at the meeting, your shares will be voted FOR an alternate nominee to be selected by the board of directors, unless you withhold authority to vote for such unavailable nominee. The board of directors believes that all of its nominees will be available for election at the meeting and will serve if elected.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE FOLLOWING NOMINEES FOR DIRECTOR.

Nominees for Director. All of our nominees have extensive senior management and policy-making or significant accounting experience. We believe all of our nominees are knowledgeable about our business. Each of our independent directors is financially literate. The board of directors considered each nominee's specific business experiences described in the biographical information provided below in determining whether to nominate him or her for election as a director.

Thomas E. Barry, age 72, has served on our board of directors since March 2016. Dr. Barry has held the position of professor of marketing in the Edwin L. Cox School of Business at Southern Methodist University since 1970. He also served the university as vice president for executive affairs from 1995 to 2015. Since prior to 2011, he has served as a director of Valhi and a member of its audit and management development and compensation committees (including serving as chairman of Valhi's audit committee since March 2016). He is a member of our audit committee.

Dr. Barry has over 15 years of experience on Valhi's board of directors, audit committee and management development and compensation committee. He also has senior executive, operating, corporate governance, finance and financial accounting oversight experience from a large, non-profit, private educational institution for which he currently serves and from a former publicly held corporation affiliated with us, which was publicly held at the time he served as one of its directors.

David A. Bowers, age 78, has served as our vice chairman of the board since 2001, and as our chief executive officer since 2002. He has served on our board of directors since 1993. He also served as our president from 2002 to 2014. Mr. Bowers has been employed by us or our predecessors since 1960 in various sales, marketing and executive positions, having been named president of our security products and related businesses in 1979. Mr. Bowers is trustee emeritus and former chairman of the board of Monmouth College, Monmouth, Illinois.

Mr. Bowers has over 55 years of experience serving CompX, in which he developed general management, senior executive, corporate governance, finance and financial accounting oversight experience.

Loretta J. Feehan, age 60, has served as a director of us, Kronos Worldwide, NL and Valhi since 2014. She is a certified public accountant who consults on financial and tax matters. She served as a tax partner with Deloitte and Touche LLP in the Denver office until 1992 primarily serving corporate clients. She now has her own consulting practice serving a variety of businesses and individual clients. Ms. Feehan also teaches continuing education courses to tax practitioners around the country. Ms. Feehan has been a financial advisor to Serena Simmons Connelly and Lisa K. Simmons since prior to 2011.

Ms. Feehan has two years of experience as a director of us, Kronos Worldwide, NL and Valhi. She also has over 38 years of financial and tax accounting and auditing experience, certain years of which were as a partner of one the largest international accounting firms.

Elisabeth C. Fisher, age 59, has served on our board of directors since March 2016. Ms. Fisher is currently a private investor and retired from Deloitte & Touche LLP in 2013 after eleven years as a partner in their Houston office in which she served in various capacities with the public accounting firm. Among other positions, she served as partner in charge of their Mid-America region real estate practice, served on their real estate services executive committee and was a technical resource to numerous national clients with respect to environmental accounting and auditing issues. Prior to joining Deloitte & Touche, Ms. Fisher spent 22 years with Arthur Andersen LLP, including 9 years as a partner. Ms. Fisher's clients included companies in the real estate, construction, hospitality and leisure, manufacturing and waste management industries, and she has extensive experience with public company regulatory requirements. Ms. Fisher has served as a director and on the audit committee of Valhi since March 2016. She is a member of our audit committee.

Ms. Fisher has over 33 years of financial and auditing experience, certain years of which were as a partner of one the largest international accounting firms.

Ann Manix, age 63, has served on our board of directors since 1998. Since 2014, Ms. Manix has served as a director of Blue Canyon Partners, a global management consulting firm. She served on the global market intelligence, consulting and financial advisory team for Ducker Worldwide, LLC, a privately held industrial research firm, from 2011 to 2014, and as a managing partner for the firm from 1994 until 2006. Additionally, she has served as a principal of Summus, Ltd., a strategic consulting firm, since 2008. She is chairwoman of our management development and compensation committee and a member of our audit committee.

Ms. Manix has over 17 years of experience on our board of directors and audit committee and 15 years of experience on our management development and compensation committee. She has senior executive, operating, corporate governance, finance and financial accounting oversight experience from other publicly and privately held entities for which she formerly served.

Cecil H. Moore, Jr., age 76, has served on our board of directors since March 2016. Mr. Moore is currently a private investor and retired from KPMG LLP in 2000 after 37 years in which he served in various capacities with the public accounting firm. Among other positions, he served as managing partner of the firm's Dallas, Texas office from 1990 to 1999. Prior to 1990, Mr. Moore was partner-in-charge of the audit and accounting practice of the firm's Dallas, Texas office for 12 years. Since 2014, Mr. Moore has served as a director and chairman of the audit committee of Sizmek Inc., a publicly held on-line advertising business that was spun-off in 2014 by Digital Generation, Inc. From 2011 to 2014, he served as a director and chairman of the audit committee of Digital Generation, Inc., a former publicly held provider of digital technology services to media outlets. From 2003 until 2009, Mr. Moore served as a director and chairman of the audit committee of Perot Systems Corporation, a worldwide provider of information technology services and business solutions. Perot Systems became privately held upon its acquisition by Dell, Inc. in 2009. Since prior to 2011, he has served as a director and on the audit committee of NL, and as a director and chairman of the audit committee of Kronos Worldwide. He is the chairman of our audit committee.

Mr. Moore has over twelve years of experience on the boards of directors and audit committees of Kronos Worldwide and NL. He also has senior executive, operating, corporate governance, finance, financial accounting and auditing experience from one of the largest independent international public accounting firms and from other publicly held entities for which he currently serves or formerly served.

Bobby D. O'Brien, age 58, has served on our board of directors and as our executive vice president since 2013. He currently serves as vice chairman of the board, president and chief executive officer of Kronos Worldwide, executive vice president of NL and president and chief financial officer of Valhi and Contran. From 2009 to 2012, Mr. O'Brien served as chief executive officer of TIMET and its president from prior to 2011 to 2012. Additionally, he has served as a director of Kronos Worldwide and Valhi since 2014 and a director of Contran since November 2015. Mr. O'Brien has served in financial and accounting positions (including officer positions) with various companies related to us and Contran since 1988.

Mr. O'Brien has extensive experience with our business. He also has senior executive, operating, corporate governance, finance and financial accounting oversight experience with us and from other publicly and privately held entities related to us for which he currently serves or formerly served.

Mary A. Tidlund, age 59, has served on our board of directors since March 2016. Ms. Tidlund has served as the president of The Mary A. Tidlund Charitable Foundation, a charitable organization that designs and funds sustainable development projects around the world, since she founded it in 1998. From 1989 to 1995, she served as president and chief executive officer of Williston Wildcatters Oil Corporation, a former publicly traded oil exploration and service company. Ms. Tidlund has served as a director and on the audit committee of Valhi since March 2016, and also served as a director of Valhi from May 2014 to May 2015. She is a member of our audit committee.

Ms. Tidlund has senior executive, operating, corporate governance, finance and financial accounting oversight experience from a publicly traded oil exploration and service company for which she formerly served.

Steven L. Watson, age 65, has served as our chairman of the board since 2013 and on our board of directors since 2000. He currently serves as chairman of the board of Kronos Worldwide and NL, chairman of the board and chief executive officer of Valhi and vice chair of the board and chief executive officer of Contran. Mr. Watson has served as a director of Kronos Worldwide, NL, Valhi and Contran since prior to 2011. Mr. Watson has served as an executive officer or director of various companies related to Contran and Valhi since 1980.

Mr. Watson has extensive experience with our business. He also has senior executive, operating, corporate governance, finance and financial accounting oversight experience from other publicly and privately held entities affiliated with us for which he currently serves or formerly served.

EXECUTIVE OFFICERS

Set forth below is certain information relating to our executive officers. Each executive officer serves at the pleasure of the board of directors. Biographical information with respect to Steven L. Watson, David A. Bowers and Bobby D. O'Brien is set forth under the Nominees for Director subsection above.

Name	Age	Position(s)
Steven L. Watson	65	Chairman of the Board
David A. Bowers	78	Vice Chairman of the Board and Chief Executive Officer
Scott C. James	50	President and Chief Operating Officer
Kelly D. Luttmer	52	Executive Vice President and Global Tax Director
Bobby D. O'Brien	58	Executive Vice President
Gregory M. Swalwell	59	Executive Vice President

James W. Brown	59	Vice President, Chief Financial Officer and Controller
Steven S. Eaton	57	Vice President and Director of Internal Control over Financial Reporting
A. Andrew R. Louis	55	Vice President and Secretary
Andrew B. Nace	51	Vice President
John A. St. Wrba	59	Vice President and Treasurer

Scott C. James has served as our president and chief operating officer since August 2014 and as our vice president from 2002 to 2014. He has served as president of both of our divisions, CompX Security Products and CompX Marine, from 2002 and 2005, respectively. Since 1992, Mr. James has served in various sales, marketing and executive positions (including officer positions) with our security products operations.

Kelly D. Luttmer has served as our executive vice president and global tax director since 2015, as our vice president and global tax director from 2012 to 2015 and as our vice president and tax director from 2004 to 2012. She currently serves as executive vice president and global tax director of Kronos Worldwide and NL and as executive vice president and chief tax officer of Valhi and Contran. Ms. Luttmer has served in tax accounting positions (including officer positions) with various companies related to us and Contran since 1989.

Gregory M. Swalwell has served as our executive vice president since 2013. He currently serves as executive vice president and chief financial officer of Kronos Worldwide and NL, and as executive vice president, controller and chief accounting officer of Valhi and Contran. Mr. Swalwell has served in accounting and financial positions (including officer positions) with various companies related to us and Contran since 1988.

James W. Brown has served as our vice president, chief financial officer and controller since 2014. He currently serves as vice president business planning and strategic initiatives of Valhi. Mr. Brown has served in accounting and financial positions (including officer positions) with various companies related to us and Contran since 2003.

Steven S. Eaton has served as our vice president and director of internal control over financial reporting since May 2015. He currently serves as vice president and director of internal control over financial reporting for Kronos Worldwide, NL and Valhi. Mr. Eaton has served in internal audit positions (including officer positions) with various companies related to us and Contran since 2006.

A. Andrew R. Louis has served as our vice president since 2011 and as our secretary since 1998. He currently serves as vice president and secretary of Kronos Worldwide, NL and Valhi and as secretary of Contran. He has served as legal counsel (including officer positions) of various companies related to us and Contran since 1995.

Andrew B. Nace has served as our vice president since 2013. He currently serves as vice president of Kronos Worldwide and NL and senior vice president and general counsel of Valhi and Contran. Mr. Nace has served as legal counsel (including officer positions) to companies related to us and Contran since 2003.

John A. St. Wrba has served as our vice president and treasurer since 2011. He currently serves as vice president and treasurer of Contran, Valhi, Kronos Worldwide and NL. Mr. St. Wrba has served in treasurer positions (including officer positions) in various companies related to us and Contran since 2003.

CORPORATE GOVERNANCE

Controlled Company Status, Director Independence and Committees. Because of NL's ownership of 86.7% of the outstanding shares of our combined class A and B common stock, which represents 98.4% of the voting power for the election of directors and 86.7% of the voting power for other matters, we are considered a controlled company under the corporate governance standards of the NYSE MKT. Pursuant to the corporate governance standards, a controlled company may choose not to have a majority of independent directors, independent compensation or nominations committees or charters for these committees. We have decided not to have an independent nominations or corporate governance committee or charters for these committees. Our board of directors believes that the full board of directors best represents the interests of all of our stockholders and that it is appropriate for all matters that would otherwise be considered by a nominations or risk oversight committee to be considered and acted upon by the full board of directors. Applying the NYSE MKT director independence standards without any additional categorical standards, the board of directors has determined that Thomas E. Barry, Norman S. Edelcup, Elisabeth C. Fisher, Edward J. Hardin, Ann Manix, Cecil H. Moore, Jr., George E. Poston and Mary A. Tidlund are independent and have no material relationship with us that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. While the members of our management development and compensation committee currently satisfy the independence requirements of the NYSE MKT, we have chosen not to satisfy all of the NYSE MKT corporate governance standards for a compensation committee and not to have a charter for our management development and compensation committee.

2015 Meetings and Standing Committees of the Board of Directors. The board of directors held five meetings in 2015. Each of our directors then in office attended all of such meetings and of the 2015 meetings of the committees on which he or she served at the time. It is expected that each director nominee will attend our annual meeting of stockholders, which is held immediately before the annual meeting of the board of directors. All of our directors who were elected at our 2015 annual stockholder meeting attended such meeting.

The board of directors has established and delegated authority to two standing committees, which are described below. The board of directors is expected to elect the members of the standing committees at the board of directors annual meeting immediately following the annual stockholder meeting. The board of directors from time to time may establish other committees to assist it in the discharge of its responsibilities.

Audit Committee. Our audit committee assists with the board of directors' oversight responsibilities relating to our financial accounting and reporting processes and auditing processes. The purpose, authority, resources and responsibilities of our audit committee are more specifically set forth in its charter. Applying the requirements of the NYSE MKT corporate governance standards (without additional categorical standards) and SEC regulations, as applicable, the board of directors has previously determined that:

- each member of our audit committee is independent, financially literate and has no material relationship with us other than serving as our director; and
- each of Mr. Norman S. Edelcup, Ms. Elisabeth C. Fisher and Mr. Cecil H. Moore, Jr. is an "audit committee financial expert."

No member of our audit committee serves on more than three public company audit committees except for Cecil H. Moore, Jr., who serves on four public company audit committees. The board of directors has determined that such simultaneous service by Mr. Moore does not impair his ability to effectively serve on our audit committee. For further information on the role of our audit committee, see the Audit Committee Report in this proxy statement. The current members of our audit committee are Cecil H. Moore, Jr. (chairman), Thomas E. Barry, Elisabeth C. Fisher, Ann Manix, and Mary A. Tidlund. Each of Messrs. Edelcup, Hardin and Poston, who are not standing for reelection as a director, was previously a member of our audit committee until March 2016. Our audit committee held seven meetings in 2015.

Management Development and Compensation Committee. The principal responsibilities of our management development and compensation committee are:

- to recommend to the board of directors whether or not to approve any proposed charge to us or any of our privately held subsidiaries pursuant to our ISA with Contran;

- to review, approve and administer certain matters regarding our employee benefit plans or programs, including annual incentive compensation awards;
- to review, approve, administer and grant awards under our equity compensation plan; and
- to review and administer such other compensation matters as the board of directors may direct from time to time.

As discussed above, the board of directors has determined that each member of our management development and compensation committee is independent by applying the NYSE MKT director independence standards (without additional categorical standards). The management development and compensation committee may delegate to its members or our officers any or all of its authority as it may choose subject to certain limitations of Delaware law on what duties directors may delegate. The committee has not exercised this right of delegation. With respect to the role of our executive officers in determining or recommending the amount or form of executive compensation, see the Compensation Discussion and Analysis section of this proxy statement. With respect to director cash compensation, our executive officers make recommendations on such compensation directly to our board of directors for its consideration without involving the management development and compensation committee. The current members of our management development and compensation committee are Ann Manix (chairwoman), Norman S. Edelcup and George E. Poston. Our management development and compensation committee held one meeting in 2015. Each of Messrs. Edelcup and Poston are not standing for reelection as a director. It is our expectation that following the meeting, one or more of our independent directors will be appointed to serve on our management development and compensation committee with Ms. Manix.

Risk Oversight. Our board of directors oversees the actions we take in managing our material risks. Our management is responsible for our day-to-day management of risk. The board's oversight of our material risks is undertaken through, among other things, various reports and assessments that management presents to the board and the related board discussions. The board has delegated some of its primary risk oversight to our audit committee and management development and compensation committee. Our audit committee annually receives management's reports and assessments on, among other things, the risk of fraud, certain material business risks and a ranking of such material business risks and our insurance program. The audit committee also receives reports from our independent registered public accounting firm regarding, among other things, financial risks and the risk of fraud. Our management development and compensation committee receives management's assessments on the likelihood that our compensation policies and practices could have a material adverse effect on us, as more fully described in the Compensation Policies and Practices as They Relate to Risk Management section of this proxy statement. The audit committee and management development and compensation committee report to the board of directors about their meetings. We believe the leadership structure of the board of directors is appropriate for our risk oversight.

Identifying and Evaluating Director Nominees. Historically, our management has recommended director nominees to the board of directors. As stated in our corporate governance guidelines:

- our board of directors has no specific minimum qualifications for director nominees;
- each nominee should possess the necessary business background, skills and expertise at the policy-making level and a willingness to devote the required time to the duties and responsibilities of membership on the board of directors; and
- the board of directors believes that experience as our director is a valuable asset and that directors who have served on the board for an extended period of time are able to provide important insight into our current and future operations.

In identifying, evaluating and determining our director nominees, the board of directors follows such corporate governance guidelines. The board also considers the nominee's ability to satisfy the need, if any, for required expertise on the board of directors or one of its committees. While we do not have any policy regarding the diversity of our nominees, the board does consider diversity in the background, skills and expertise at the policy making level of our director nominees, and as a result our board believes our director nominees do possess a diverse range of senior management experience that aids the board in fulfilling its responsibilities. The board of directors believes its procedures for identifying and evaluating director nominees are appropriate for a controlled company under the NYSE MKT corporate governance standards.

Leadership Structure of the Board of Directors and Independent Director Meetings. Steven L. Watson serves as our chairman of the board and David A. Bowers serves as our vice chairman of the board and chief executive officer. Pursuant to our corporate governance guidelines, our independent directors are entitled to meet on a regular basis throughout the year, and will meet at least once annually, without the participation of our other directors who are not independent. While we do not have a lead independent director, the chairman of our audit committee presides at all of the meetings of our independent directors. The board of directors believes our leadership structure is appropriate for a controlled company under the NYSE MKT corporate governance standards. The board of directors believes our leadership structure is appropriate because the board recognizes that while there is no single organizational structure that is ideal in all circumstances, the board believes that having different individuals serve as our chairman of the board and as our chief executive officer reflects the established working relationship for these positions regarding our business and provides an appropriate breadth of experience and perspective that effectively facilitates the formulation of our long-term strategic direction and business plans. In addition, the board of directors believes that since Steven L. Watson is employed by Contran, which indirectly through related entities holds a majority of our outstanding common stock, his service as our chairman of the board is beneficial in providing strategic leadership for us since there is a commonality of interest that is closely aligned in building long-term stockholder value for all of our stockholders. In 2015, we complied with the NYSE MKT requirements for meetings of our independent directors. It is expected that we will continue this leadership structure for 2016.

Stockholder Proposals and Director Nominations for the 2017 Annual Meeting of Stockholders. Stockholders may submit proposals on matters appropriate for stockholder action at our annual stockholder meetings, consistent with rules adopted by the SEC. We must receive such proposals not later than December 26, 2016 to be considered for inclusion in the proxy statement and form of proxy card relating to our annual meeting of stockholders in 2017. Our bylaws require that the proposal must set forth a brief description of the proposal, the name and address of the proposing stockholder as they appear in our records, the number of shares of our common stock the stockholder holds and any material interest the stockholder has in the proposal.

The board of directors will consider the director nominee recommendations of our stockholders in accordance with the process discussed above. Our bylaws require that a nomination set forth the name and address of the nominating stockholder, a representation that the stockholder will be a stockholder of record entitled to vote at the annual stockholder meeting and intends to appear in person or by proxy at the meeting to nominate the nominee, a description of all arrangements or understandings between the stockholder and the nominee (or other persons pursuant to which the nomination is to be made), such other information regarding the nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC and the consent of the nominee to serve as a director if elected.

For proposals or director nominations to be brought at the 2017 annual meeting of stockholders but not included in the proxy statement for such meeting, our bylaws require that the proposal or nomination must be delivered or mailed to our principal executive offices in most cases no later than March 13, 2017. Proposals and nominations should be addressed to our corporate secretary at CompX International Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

Communications with Directors. Stockholders and other interested parties who wish to communicate with the board of directors or its independent directors may do so through the following procedures. Such communications not involving complaints or concerns regarding accounting, internal accounting controls and auditing matters related to us may be sent to the attention of our corporate secretary at CompX International Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697. Provided that any such communication relates to our business or affairs and is within the function of our board of directors or its committees, and does not relate to insignificant or inappropriate matters, such communication, or a summary of such communication, will be forwarded to the chairman of our audit committee, who also serves as the presiding director of our independent director meetings.

Complaints or concerns regarding accounting, internal accounting controls and auditing matters, which may be made anonymously, should be sent to the attention of our General Counsel with a copy to our chief financial officer at the same address as our corporate secretary. These complaints or concerns will be forwarded to the chairman of our audit committee. We will investigate and keep these complaints or concerns confidential and anonymous, to the extent feasible, subject to applicable law. Information contained in such a complaint or concern may be summarized, abstracted and aggregated for purposes of analysis and investigation.

Compensation Committee Interlocks and Insider Participation. As discussed above, for 2015 the members of our management development and compensation committee were Ann Manix, Norman S. Edelcup and George E. Poston. No member of the committee:

- was an officer or employee of ours during 2015 or any prior year;
- had any related party relationships with us that requires disclosure under applicable SEC rules; or
- had any interlock relationships under applicable SEC rules.

For 2015, no executive officer of ours had any interlock relationships within the scope of the intent of applicable SEC rules. However, at certain times in 2015 each of Bobby D. O'Brien and Steven L. Watson was an executive officer of ours and on the board of directors of Contran when concurrently also serving as one of our directors.

Code of Business Conduct and Ethics. We have adopted a code of business conduct and ethics. The code applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller. Only the board of directors may amend the code. Only our audit committee or other committee of the board of directors with specifically delegated authority may grant a waiver of this code. We will disclose amendments to or waivers of the code as required by law and the applicable rules of the NYSE MKT.

Corporate Governance Guidelines. We have adopted corporate governance guidelines to assist the board of directors in exercising its responsibilities. Among other things, the corporate governance guidelines provide for director qualifications, for independence standards and responsibilities, for approval procedures for ISAs and that our audit committee chairman preside at all meetings of the independent directors.

Availability of Corporate Governance Documents. A copy of each of our audit committee charter, code of business conduct and ethics and corporate governance guidelines is available on our website at www.compx.com under the corporate section.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS AND OTHER INFORMATION

Compensation Discussion and Analysis. This compensation discussion and analysis describes the key principles and factors underlying our executive compensation policies for our named executive officers. In 2015, we employed two of our named executive officers. Contran employed and directly compensated our three other named executive officers who provided their services to us in 2015 under our ISA with Contran.

As defined in the Glossary of Terms at the beginning of this proxy statement, the phrase "named executive officers" refers to the five persons whose compensation is summarized in the 2015 Summary Compensation Table in this proxy statement. Such phrase is not intended to refer, and does not refer, to all of our executive officers.

Nonbinding Advisory Stockholder Vote on Executive Officer Compensation. For the 2015 annual meeting of stockholders, we submitted a nonbinding advisory proposal recommending the stockholders adopt a resolution approving the compensation of our named executive officers as disclosed in the 2015 proxy statement. At the annual meeting, the resolution received the affirmative vote of 94.1% of the eligible votes. We considered the favorable result and determined not to make any material changes to our compensation practices.

Compensation of our Named Executive Officers Employed by Us. In each of the last three years, we employed the following named executive officers:

Name	Position(s)
David A. Bowers	Vice Chairman of the Board and Chief Executive Officer
Scott C. James	President and Chief Operating Officer

Messrs. Bowers and James were executive officers for all of the last three years.

Overview. Prior to 2013, we decided to forego long-term compensation (other than defined contribution plans that are generally available on a non-discriminatory basis to all employees) and implemented a compensation program that is primarily cash-based, with minimal perquisites, if any. Our objectives for the primarily cash-based compensation program as it relates to our senior officers, including all of our named executive officers employed by us, are to:

- have a total individual compensation package that is easy to understand;
- encourage them to maximize long-term stockholder value; and
- achieve a balanced compensation package that would attract and retain highly qualified senior officers and appropriately reflect each such officer's individual performance, contributions and general market value.

In furtherance of our objectives and in an effort to separate annual operating planning from annual incentive compensation, we implemented discretionary incentive bonuses for our senior officers. As a result, annual compensation for our named executive officers employed by us primarily consists of base salaries and discretionary incentive bonuses.

We do not base our employed named executive officer compensation on any specific measure of, or formula based upon, our financial performance, although we do consider our financial performance as one factor in determining the compensation of our employed named executive officers. We determine the amount of each component of such compensation solely in our collective business judgment and experience, without performing any independent market research. We do not enter into any written employment agreements with our employed named executive officers.

Base Salaries. We have established the annual base salaries for our employed named executive officers on a position-by-position basis based on responsibility and experience. We pay this portion of each of our employed named executive officer's compensation to provide him with a reliable amount of compensation for the year, subject to his continued at-will employment and satisfactory performance for his services at the level of his responsibilities. Our chief executive officer has the responsibility to conduct annual internal reviews of our employed named executive officer salary levels in order to rank salary, individual performance and job value to each position. He then makes recommendations on salaries, other than his own, to our chairman of the board and then to our management development and compensation committee. The chairman of the board makes the recommendation on our chief executive officer's salary to the committee. The committee reviews the recommendations regarding changes in salaries for executive officers and may take such action, including modifications to the recommendations, as it deems appropriate. The recommendations of our chief executive officer and our chairman of the board and the determinations of our management development and compensation committee are based on our evaluations of the past year annual base-salary amounts with adjustments made as a result of our past and expected future financial performance, inflation, past and potential future individual performance and contributions or alternative career opportunities that might be available to our named executive officers employed by us, without performing any independent market research.

In all cases, no specific measure of, or formula based upon, our financial performance was utilized in determining the increase in an executive officer's base salary for a year, although we did consider our financial performance as one factor in determining such increase. There is no specific weighting of factors in determining such increases. The salaries for our named executive officers employed by us are disclosed in their salary column in the 2015 Summary Compensation Table in this proxy statement for each of the last three years in which such officer served as one of our executive officers.

Annual Incentive Bonuses. We pay discretionary incentive bonuses annually in cash to each of our employed named executive officers to motivate him to achieve higher levels of performance in attaining our corporate goals and reward him for such performance. We determine the amount of any such incentive bonuses we pay our named executive officers employed by us on a year-end discretionary evaluation of each such officer's responsibility, performance, attitude and potential. The amount of the incentive bonus is also influenced by the amount of the named executive officer's base salary and prior year incentive bonus, as well as our financial performance. We based our award of incentive bonuses for each year primarily upon the chairman of the board's recommendation regarding the chief executive officer, the chief executive officer's recommendations regarding the other named executive officers employed by us and the determinations of our management development and compensation committee, which may take such action, including modifications to the recommendations, as it deems appropriate. No specific overall performance measures were utilized and there is no specific measure of, or formula based upon, our financial performance that was utilized in determining an employed named executive officer's bonus, although we did consider our financial performance as one factor in determining such bonus. Additionally, there is no specific weighting of factors considered in the determination of incentive bonuses paid to these executive officers.

We approved discretionary incentive bonuses for our employed named executive officers in the last three years as a percentage of the officer's base salary as follows.

	Discretionary Incentive Bonuses as a Percentage of Base Salary		
Named Executive Officer	2013 (1)	2014 (1)	2015 (1)
David A. Bowers	100%	105%	110%
Scott C. James	100%	118%	118%

(1) These bonuses were approved by our management development and compensation committee in the first quarter of the following year, and such bonuses were paid in such following year for performance in the reported year.

The 2015 discretionary incentive bonuses for Messrs. Bowers and James recognized, among other things, the continuation of our higher sales and operating income in 2015 in both of our segments as compared to 2014. The 2013 and 2014 discretionary incentive bonuses for Messrs. Bowers and James primarily recognized our significantly improved operating income year over year for our current businesses and the promotion of Mr. James in August 2014 to our president and chief operating officer. These discretionary incentive bonuses are disclosed in the bonus column in the 2015 Summary Compensation Table in this proxy statement.

Defined Contribution Plans. We pay discretionary annual contributions to the CompX Capital Accumulation Plan, a profit sharing defined contribution plan, and The Employee 401(k) Retirement Plan, a 401(k) defined contribution plan. Participants of these plans are employees of certain of our operations. In March of each year, upon the recommendation of our chief executive officer and the approval of our management development and compensation committee, we contributed for the plan year that ended on December 31 of the prior year, subject to certain limitations under the respective plans and the U.S. Internal Revenue Code of 1986, as amended:

- to the CompX Capital Accumulation Plan for each of the last three plan years, 7.25% of that year's earnings before taxes of our combined CompX security products division and Livorsi marine components unit for each of the last three years (with certain adjustments); and
- to our 401(k) plan for each of the last three plan years, a matching contribution from a pool of 5% of the earnings before taxes of the business unit up to 100% of the participant's eligible earnings.

Each of Messrs. Bowers and James received such contributions for each of the last three years. These contributions are included in their all other compensation column in the 2015 Summary Compensation Table in this proxy statement.

Compensation of our Named Executive Officers Employed by Contran. For each of the last three years, certain of our named executive officers were employed by Contran and provided their services to us pursuant to our ISA with Contran. Our named executive officers who provided services to us pursuant to our ISA with Contran are as follows:

Name	Positions with CompX
Steven L. Watson	Chairman of the Board
Bobby D. O'Brien	Executive Vice President
James W. Brown	Vice President, Chief Financial Officer and Controller

The nature of the duties of each of our named executive officers who are employees of Contran is consistent with the duties normally associated with the officer titles and positions such officer holds with us.

Intercorporate Services Agreement with Contran. In each of the last three years, we paid Contran a fee for services provided pursuant to our ISA with Contran, which fee was approved by our independent directors after receiving the recommendation of our management development and compensation committee and the concurrence of our chief financial officer. Such services provided under this ISA included the services of our named executive officers employed by Contran, and as a result a portion of the aggregate ISA fee we pay to Contran is paid with respect to services provided to us by such named executive officers.

The charge under this ISA reimburses Contran for its cost of employing the personnel who provide the services by allocating such cost to us based on the estimated percentage of time such personnel were expected to devote to us over the year. The amount of the fee we paid for each year under this ISA for a person who provided services to us represents, in management's view, the reasonable equivalent of "compensation" for such services. See the Intercorporate Services Agreements part of the Certain Relationships and Transactions section of this proxy statement for the aggregate amount we paid to Contran in 2015 under this ISA. Under the various ISAs among Contran and its subsidiaries and affiliates, we shared the cost of the employment of our executive officers employed by Contran with Contran and certain of its other publicly and privately held subsidiaries.

For our named executive officers employed by Contran, the portion of the annual charge we paid for each of the last three years to Contran under this ISA attributable to each of their services, as applicable, is set forth in footnote 3 to the 2015 Summary Compensation Table in this proxy statement. As discussed further below, the amount charged under the ISA is based upon Contran's cost of employing or engaging the personnel who provide the services to us (including the services of our named executive officers employed by Contran) by allocating such cost to us based on the estimated percentage of time such personnel were expected to devote to us over the year. The amount charged under the ISA is not dependent upon our financial performance. As previously disclosed, our prior vice president, chief financial officer and controller, who was employed by Contran, resigned his employment with Contran effective April 10, 2014 in order to take a position with an unrelated company. Our board of directors elected James W. Brown, an employee of Contran, as our vice president, chief financial officer and controller effective April 10, 2014. Accordingly, for purposes of the 2015 Summary Compensation Table, the portion of the 2014 ISA charge for the 2014 services for our vice president, chief financial officer and controller was prorated one-fourth to the prior vice president, chief financial officer and controller and three-fourths to Mr. Brown.

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We believe the cost of the services received under our ISA with Contran, after considering the quality of the services received, is fair to us and is no less favorable to us than we could otherwise obtain from an unrelated third party for comparable services, based solely in our collective business judgment and experience without performing any independent market research.

In the early part of each year, Contran's management, including certain of our executive officers, estimates the percentage of time that each Contran employee, including certain of our named executive officers, is expected to devote in the upcoming year to Contran and its subsidiaries and affiliates, including us. Contran's management then allocates Contran's cost of employing each of its employees among Contran and its various subsidiaries based on such estimated percentages. Contran's aggregate cost of employing each of its employees comprises:

- the annualized base salary of such employee at the beginning of the year;
- an estimate of the bonus Contran will pay or accrue for such employee (other than bonuses for specific matters) for the year, using as a reasonable approximation for such bonus the actual bonus that Contran paid or accrued for such employee in the prior year; and
- Contran's portion of the social security and medicare taxes on such base salary and an estimated overhead factor (23% for 2015 and 25% for each of 2014 and 2013) applied to the base salary for the cost of medical and life insurance benefits, unemployment taxes, disability insurance, defined benefit and defined contribution plan benefits, professional education and licensing and costs of providing an office, equipment and supplies related to providing such services.

Contran's senior management subsequently made such adjustments to the details of the proposed ISA charge as they deemed necessary for accuracy, overall reasonableness and fairness to us.

In the first quarter of each year, the proposed charge for that year under our ISA with Contran was presented to our management development and compensation committee, and the committee considered whether to recommend that our board of directors approve the ISA charge. Among other things during such presentation, the committee was informed of:

- the quality of the services Contran provides to us, including the quality of the services certain of our executive officers provide to us;
- for comparative purposes, the $1.0 million charge to us in 2013 for the services of Harold C. Simmons for his consultation and advice to our chief executive officer regarding major strategic corporate matters prior to his death on December 28, 2013, and the lack of such $1.0 million charge to us in 2014 and 2015;
- the comparison of the ISA charge and number of full-time equivalent employees reflected in the charge by department for the prior year and proposed for the current year;
- the comparison of the prior year and proposed current year charges by department and in total and such amounts as a percentage of Contran's similarly calculated costs for its departments and in total for those years;
- the comparison of the prior year and proposed current year average hourly rate; and

- the concurrence of our chief financial officer as to the reasonableness of the proposed charge.

In determining whether to recommend that the board of directors approve the proposed ISA fee to be charged to us, the management development and compensation committee considers the three elements of Contran's cost of employing the personnel who provide services to us, including the cost of employing certain of our named executive officers, in the aggregate and not individually. After considering the information contained in such presentations, and following further discussion and review, our management development and compensation committee recommended that our board of directors approve the proposed ISA fee after concluding that:

- the cost to employ the additional personnel necessary to provide the quality of the services provided by Contran would exceed the proposed aggregate fee to be charged by Contran to us under our ISA with Contran; and
- the cost for such services would be no less favorable than could otherwise be obtained from an unrelated third party for comparable services in the committee's collective business judgment and experience, without performing any independent market research.

In reaching its recommendation, our management development and compensation committee did not review:

- any ISA charge from Contran to any other publicly held parent or sister company, although such charge was separately reviewed by the management development and compensation committee of the applicable company; and
- the compensation policies of Contran or the amount of time our named executive officers employed by Contran are expected to devote to us because:
  - each of our named executive officers employed by Contran, provides services to many companies related to Contran, including Contran itself;
  - the fee we pay to Contran under our ISA with Contran each year does not represent all of Contran's cost of employing each of such named executive officers;
  - Contran and these other companies related to Contran absorb the remaining amount of Contran's cost of employing each of such named executive officers; and
  - the members of our management development and compensation committee consider the other factors discussed above in determining whether to recommend that the proposed ISA fee for each year be approved by the full board of directors.

Based on the recommendation of our management development and compensation committee as well as the concurrence of our chief financial officer, our independent directors approved the proposed annual ISA charge effective January 1, 2015, with our other directors abstaining.

For financial reporting and income tax purposes, the ISA fee is expensed as incurred on a quarterly basis. Contran has implemented a limit of $1.0 million on any individual's charge to a publicly held company in order to enhance the deductibility by the company of the charge for tax purposes under Section 162(m) of the Internal Revenue Code of 1986, if such section were to be deemed applicable. Section 162(m) generally disallows a tax deduction to publicly held companies for non-performance based compensation over $1.0 million paid to the company's chief executive officer and four other most highly compensated executive officers.

Director Fees, including Equity-Based Compensation. We paid director fees in the form of cash and stock compensation to certain of our named executive officers who provide their services to us pursuant to our ISA with Contran and who also served on our board of directors. Mr. Bowers does not receive these fees because we do not pay these fees to directors who are also employed by us. Other than these director fees, we did not pay any compensation directly to such named executive officers. See the Director Compensation section of this proxy statement.

The 2015 Summary Compensation Table sets forth in footnote 3 the cash fees we paid to each of Messrs. O'Brien and Watson for his director services. The director fees paid to each of them are the annual director retainer fees and the fees for attending board meetings, as our named executive officers who also serve on our board of directors are not members of any board committee. The cash director fees are not dependent upon our financial performance.

The 2015 Summary Compensation Table sets forth in footnote 4 the director stock grants we paid to each of Messrs. O'Brien and Watson for his director services in the last three years, as applicable. See the 2015 Grants of Plan-Based Awards section in this proxy statement for a discussion of these annual grants and the formula by which the stock awards are determined. The stock grants each of Messrs. O'Brien and Watson received were pursuant to the same formula for all directors eligible to receive such grants. The dollar amount of the stock awards appearing in the 2015 Summary Compensation Table represents the value recognized for financial statement reporting purposes of shares of common stock we granted to each of Messrs. O'Brien and Watson for his director services.

Prior to 2013, we decided to forego the grant of any equity compensation other than annual awards of stock to our directors, as discussed above. We also do not have any security ownership requirements or guidelines for our management or directors. We do not currently anticipate any equity-based compensation will be granted in 2016, other than the annual grants of stock to our directors.

Deductibility of Compensation. It is our general policy to structure the performance-based portion of the compensation of our executive officers, if any, in a manner that enhances our ability to deduct fully such compensation under Section 162(m) of the Internal Revenue Code.

Compensation Committee Report. The management development and compensation committee has reviewed with management the Compensation Discussion and Analysis section in this proxy statement. Based on the committee's review and a discussion with management, the committee recommended to the board of directors that our compensation discussion and analysis be included in this proxy statement.

The members of our management development and compensation committee submit the foregoing report as of February 24, 2016.

Ann Manix	Norman S. Edelcup	George E. Poston
Chairwoman of our Management Development and Compensation Committee	Member of our Management Development and Compensation Committee	Member of our Management Development and Compensation Committee

Summary of Cash and Certain Other Compensation of Executive Officers. The 2015 Summary Compensation Table below provides information concerning compensation we and our subsidiaries paid or accrued for services rendered during the last three years by our chief executive officer, our chief financial officer and each of the three other most highly compensated individuals (in certain instances, based on ISA charges to us) who were executive officers of ours during 2015. Messrs. Brown, O'Brien and Watson were employees of Contran for their years reported in this table and provided their services to us and our subsidiaries pursuant to our ISA with Contran. For a discussion of this ISA, see the Intercorporate Services Agreements part of the Certain Relationships and Transactions section of this proxy statement.

2015 SUMMARY COMPENSATION TABLE (1)

Name and Principal Position	Year	Salary		Bonus	Stock Awards		All Other Compensation		Total
Steven L. Watson	2015	$152,300	(3)	$ -0-	$11,500	(4)	$ -0-		$163,800
Chairman of the Board	2014	138,400	(3)	-0-	10,950	(4)	-0-		149,350
	2013	145,400	(3)	-0-	12,480	(4)	-0-		157,880
David A. Bowers	2015	518,013		550,000	-0-		35,153	(5)	1,103,166
Vice Chairman of the	2014	473,866		500,000	-0-		36,066	(5)	1,009,932
Board and Chief	2013	448,951		450,000	-0-		32,790	(5)	931,741
Executive Officer									
Scott C. James	2015	350,880		400,000	-0-		35,153	(5)	786,033
President and Chief	2014	295,115		350,000	-0-		36,066	(5)	681,181
Operating Officer	2013	286,385		287,000	-0-		32,790	(5)	606,175
Bobby D. O'Brien (2)	2015	191,900	(3)	-0-	11,500	(4)	-0-		203,400
Executive Vice President	2014	170,300	(3)	-0-	10,950	(4)	-0-		181,250
James W. Brown (2)	2015	561,500	(3)	-0-	-0-		-0-		561,500
Vice President, Chief Financial Officer and Controller	2014	364,600	(3)(6)	-0-	-0-		-0-		364,600

(1) Certain non-applicable columns have been omitted from this table.

(2) 2014 was the first year Messrs. Brown and O'Brien were named executive officers. Our board of directors elected Mr. Brown as our vice president, chief financial officer and controller effective April 10, 2014, and accordingly Mr. Brown served as our chief financial officer for only a portion of 2014.

(3) The amounts shown in the table as salary compensation for Messrs. Brown, O'Brien and Watson represent the portion of the fees we paid to Contran pursuant to the ISA attributable to the services each of these officers rendered to us. The ISA charges disclosed for Contran employees who perform executive officer services to us and our subsidiaries are based on various factors described in the Compensation Discussion and Analysis section of this proxy statement. Our management development and compensation committee considers the factors described in the Compensation Discussion and Analysis section of this proxy statement in determining whether to recommend that our board of directors approve the aggregate proposed ISA fee with Contran. As discussed in the Compensation Discussion and Analysis section of this proxy statement, our management development and compensation committee does not consider any ISA charge from Contran to any other publicly held parent or sister company of ours, although such charge is separately reviewed by the management development and compensation

committee of the applicable company. The amount shown in the table as salary for each of Messrs. O'Brien and Watson also includes director cash compensation we paid to each of them, as indicated in the following table.

	2013	2014	2015
Steven L. Watson			
ISA Fees:	$115,400	$109,400	$122,300
Director Fees Earned or Paid in Cash:	30,000	29,000	30,000
	$145,400	$138,400	$152,300

Bobby D. O'Brien

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An ETN that is tied to a specific market index may not be able to replicate and maintain exactly the composition and relative weighting of securities, commodities, or other components in the applicable market index. ETNs also incur certain expenses not incurred by their applicable market index, and the Fund would bear a proportionate share of any fees and expenses borne by the ETN in which it invests.

A Fund’s decision to sell its ETN holdings may be limited by the availability of a secondary market. In addition, although an ETN may be listed on an exchange, the issuer may not be required to maintain the listing and there can be no assurance that a secondary market will exist for an ETN. Some ETNs that use leverage in an effort to amplify the returns of an underlying market index can, at times, be relatively illiquid and may therefore be difficult to purchase or sell at a fair price. Leveraged ETNs may offer the potential for greater return, but the potential for loss and speed at which losses can be realized also are greater.

Floating Rate and Variable Rate Demand Notes

Each Fund may purchase taxable or tax-exempt floating rate and variable rate demand notes for short-term cash management or other investment purposes. Floating rate and variable rate demand notes and bonds may have a stated maturity in excess of one year, but may have features that permit a holder to demand payment of principal plus accrued interest upon a specified number of days’ notice. Frequently, such obligations are secured by letters of credit or other credit support arrangements provided by banks. The issuer has a corresponding right, after a given period, to prepay in its discretion the outstanding principal of the obligation plus accrued interest upon a specific number of days’ notice to the holders. The interest rate of a floating rate instrument may be based on a known lending rate, such as a bank’s prime rate, and is reset whenever such rate is adjusted. The interest rate on a variable rate demand note is reset at specified intervals at a market rate.

Foreign Currency Transactions

Each Fund may engage in currency exchange transactions to protect against uncertainty in the level of future foreign currency exchange rates and to increase current return. There can be no assurance that appropriate foreign currency transactions will be available for the Fund at any time or that the Fund will enter into such transactions at any time or under any circumstances even if appropriate transactions are available to it.

Each Fund may engage in both ‘‘transaction hedging’’ and ‘‘position hedging.’’ When it engages in transaction hedging, the Fund enters into foreign currency transactions with respect to specific receivables or payables of the Fund generally arising in connection with the purchase or sale of its portfolio securities. Each Fund may engage in transaction hedging when it desires to ‘‘lock in’’ the U.S. dollar price of a security it has agreed to purchase or sell, or the U.S. dollar equivalent of a dividend or interest payment in a foreign currency. By transaction hedging, the Fund may attempt to protect against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the applicable foreign currency during the period between the date on which the security is purchased or sold or on which the dividend or interest payment is declared, and the date on which such payments are made or received.

Each Fund may purchase or sell a foreign currency on a spot (i.e., cash) basis at the prevailing spot rate in connection with transaction hedging. Each Fund may also enter into contracts to purchase or sell foreign currencies at a future date (‘‘forward contracts’’) and purchase and sell foreign currency futures contracts. For transaction hedging purposes, each Fund may also purchase exchange-listed and over-the-counter call and put options on foreign currency futures contracts and on foreign currencies. A put option on a futures contract gives the Fund the right to assume a short position in the futures contract until expiration of the option. A put option on currency gives the Fund the right to sell a currency at a specified exercise price until the expiration of the option. A call option on a futures contract gives the Fund the right to assume a long position in the futures contract until the expiration of the option. A call option on currency gives the Fund the right to purchase a currency at the exercise price until the expiration of the option.

When it engages in position hedging, the Fund enters into foreign currency exchange transactions to protect against a decline in the values of the foreign currencies in which securities held by the Fund are denominated or are quoted in their principle trading markets or an increase in the value of currency for securities which the Fund expects to purchase. In connection with position hedging, each Fund may purchase put or call options on foreign currency and foreign currency futures contracts and buy or sell forward contracts and foreign currency futures contracts. Each Fund may also purchase or sell foreign currency on a spot basis.

The precise matching of the amounts of foreign currency exchange transactions and the value of the portfolio securities involved will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements in the values of those securities between the dates the currency exchange transactions are entered into and the dates they mature. It is impossible to forecast with precision the market value of each Fund's portfolio securities at the expiration or maturity of a forward or futures contract. Accordingly, it may be necessary for a Fund to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security or securities being hedged is less than the amount of foreign currency the Fund is obligated to deliver and if a decision is made to sell the security or securities and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security or securities of the Fund if the market value of such security or securities exceeds the amount of foreign currency the Fund is obligated to deliver. To offset some of the costs of hedging against fluctuations in currency exchange rates, the Fund may write covered call options on those currencies.

Transaction and position hedging do not eliminate fluctuations in the underlying prices of the securities that the Fund owns or intends to purchase or sell. They simply establish a rate of exchange that one can achieve at some future point in time. Additionally, although these techniques tend to minimize the risk of loss due to a decline in the value of the hedged currency, they tend to limit any potential gain which might result from the increase in the value of such currency.

Each Fund may also seek to increase its current return by purchasing and selling foreign currency on a spot basis, by purchasing and selling futures contracts on foreign currencies and options on foreign currencies and on foreign currency futures contracts, and by purchasing and selling foreign currency forward contracts. The value of any currency, including U.S. dollars and foreign currencies, may be affected by complex political and economic factors applicable to the issuing country. In addition, the exchange rates of foreign currencies (and therefore the values of foreign currency options, forward contracts and futures contracts) may be affected significantly, fixed, or supported directly or indirectly by U.S. and foreign government actions. Government intervention may increase risks involved in purchasing or selling foreign currency options, forward contracts, and futures contracts because exchange rates may not be free to fluctuate in response to other market forces. Foreign governmental restrictions or taxes could result in adverse changes in the cost of acquiring or disposing of foreign currencies.

Foreign Securities

Each Fund may invest in foreign (non-U.S.) securities. Investing in securities issued by foreign companies involves considerations and possible risks not typically associated with investing in securities issued by domestic corporations. The values of foreign investments are affected by changes in currency rates or exchange control regulations, application of foreign tax laws, including withholding taxes, changes in governmental administration or economic or monetary policy (in the United States or abroad), or changed circumstances in dealings between nations. Costs are incurred in connection with conversions between various currencies. In addition, foreign brokerage commissions are generally higher than in the United States, and foreign securities markets may be less liquid, more volatile, and less subject to governmental supervision than in the United States. Investments in foreign countries could be affected by other factors not present in the United States, including expropriation, confiscatory taxation, lack of uniform accounting and auditing standards, and potential difficulties in enforcing contractual obligations which could extend settlement periods.

Investments in foreign securities, especially in emerging market countries, will expose the Fund to the direct or indirect consequences of political, social or economic changes in the countries that issue the securities or in which the issuers are located. Certain countries in which a Fund may invest, especially emerging market countries, have historically experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties, and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. The cost of servicing external debt will generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates that are adjusted based upon international interest rates. In addition, with respect to certain foreign countries, there is a risk of:

- the possibility of expropriation of assets;
- confiscatory taxation;

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- difficulty in obtaining or enforcing a court judgment;
- economic, political or social instability; and
- diplomatic developments that could affect investments in those countries.

Each Fund may invest in sponsored and unsponsored American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs) and similar depositary receipts. ADRs, typically issued by a financial institution (a depositary), evidence ownership interests in a security or a pool of securities issued by a foreign company and deposited with the depositary. Prices of ADRs are quoted in U.S. dollars, and ADRs are traded in the United States. GDRs are receipts issued outside the United States, typically by non-United States banks and trust companies, which evidence ownership of either foreign or domestic securities. Generally, GDRs, in bearer form, are designated for use outside the United States. Ownership of ADRs and GDRs entails similar investment risks to direct ownership of foreign securities traded outside the U.S., including increased market liquidity, currency, political, information and other risks. Income and gains earned by the Fund in respect of foreign securities may be subject to foreign withholding and other taxes, which will reduce the Fund’s return on such securities.

Forward Commitments and Dollar Rolls

Each Fund may enter into contracts to purchase securities for a fixed price at a future date beyond customary settlement time (‘‘forward commitments’’) if the Fund sets aside on its books liquid assets in an amount sufficient to meet the purchase price, or if the Fund enters into offsetting contracts for the forward sale of other securities it owns. In the case of to-be-announced (‘‘TBA’’) purchase commitments, the unit price and the estimated principal amount are established when the Fund enters into a contract, with the actual principal amount being within a specified range of the estimate. Forward commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in the value of the Fund’s other assets. Where such purchases are made through dealers, the Fund relies on the dealer to consummate the sale. The dealer’s failure to do so may result in the loss to the Fund of an advantageous yield or price. Although the Fund will generally enter into forward commitments with the intention of acquiring securities for its portfolio or for delivery pursuant to options contracts it has entered into, the Fund may dispose of a commitment prior to settlement if the Advisor deems it appropriate to do so. The Fund may realize short-term profits or losses upon the sale of forward commitments.

Each Fund may enter into TBA sale commitments to hedge its portfolio positions or to sell securities it owns under delayed delivery arrangements. Proceeds of TBA sale commitments are not received until the contractual settlement date. Unsettled TBA sale commitments are valued at current market value of the underlying securities. If the TBA sale commitment is closed through the acquisition of an offsetting purchase commitment, the Fund realizes a gain or loss on the commitment without regard to any unrealized gain or loss on the underlying security. If the Fund delivers securities under the commitment, the Fund realizes a gain or loss from the sale of the securities based upon the unit price established at the date the commitment was entered into.

Each Fund may enter into dollar roll transactions (generally using TBAs) in which it sells a debt security for delivery in the current month and simultaneously contracts to purchase similar securities (for example, same type, coupon and maturity) at an agreed upon future time. By engaging in a dollar roll transaction, the Fund foregoes principal and interest paid on the security that is sold, but receives the difference between the current sales price and the forward price for the future purchase. The Fund would also be able to earn interest on the proceeds of the sale before they are reinvested. The Fund accounts for dollar rolls as purchases and sales. Dollar rolls may be used to create investment leverage and may increase the Fund’s risk and volatility.

The obligation to purchase securities on a specified future date involves the risk that the market value of the securities that the Fund is obligated to purchase may decline below the purchase price. In addition, in the event the other party to the transaction files for bankruptcy, becomes insolvent or defaults on its obligation, the Fund may be adversely affected.

Government Mortgage Pass-Through Securities

Each Fund may invest in mortgage pass-through securities representing participation interests in pools of residential mortgage loans purchased from individual lenders by an agency, instrumentality or sponsored corporation of the United States government (‘‘Federal Agency’’) or originated by private lenders and guaranteed, to the extent provided in such securities, by a Federal Agency. Such securities, which are ownership interests in the underlying mortgage loans, differ from conventional debt securities, which provide for periodic payment of interest in fixed amounts (usually semiannually) and principal payments at payments (not necessarily in fixed amounts) that are a ‘‘pass-through’’ of the monthly interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans, net of any fees paid to the guarantor of such securities and the servicer of the underlying mortgage loans.

The government mortgage pass-through securities in which a Fund may invest include those issued or guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac. Ginnie Mae certificates are direct obligations of the U.S. Government and, as such, are backed by the ‘‘full faith and credit’’ of the United States. Fannie Mae is a federally chartered, privately owned corporation. Freddie Mac is a corporate instrumentality of the United States. Fannie Mae and Freddie Mac certificates are not backed by the full faith and credit of the United States, but the issuing agency or instrumentality has the right to borrow, to meet its obligations, from an existing line of credit with the U.S. Treasury. The U.S. Treasury has no legal obligation to provide such line of credit and may choose not to do so.

Certificates for these types of mortgage-backed securities evidence an interest in a specific pool of mortgages. These certificates are, in most cases, ‘‘modified pass-through’’ instruments, wherein the issuing agency guarantees the payment of principal and interest on mortgages underlying the certificates, whether or not such amounts are collected by the issuer on the underlying mortgages. The Housing and Economic Recovery Act of 2008 (‘‘HERA’’) authorized the Secretary of the Treasury to support Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (‘‘FHLBs’’) (collectively, the ‘‘GSEs’’) by purchasing obligations and other securities from those government-sponsored enterprises. HERA gave the Secretary of the Treasury broad authority to determine the conditions and amounts of such purchases.

On September 6, 2008, the Federal Housing Finance Agency (‘‘FHFA’’) placed Fannie Mae and Freddie Mac into conservatorship. As the conservator, FHFA succeeded to all rights, titles, powers, and privileges of Fannie Mae and Freddie Mac and of any stockholder, officer or director of Fannie Mae and Freddie Mac with respect to Fannie Mae and Freddie Mac and the assets of Fannie Mae and Freddie Mac. FHFA selected a new chief executive officer and chairman of the board of directors for Fannie Mae and Freddie Mac.

In connection with the conservatorship, the U.S. Treasury, exercising powers granted to it under HERA, entered into a Senior Preferred Stock Purchase Agreement (‘‘SPA’’) with each of Fannie Mae and Freddie Mac pursuant to which the U.S. Treasury will purchase up to an aggregate of $100 billion of each of Fannie Mae and Freddie Mac to maintain a positive net worth in each enterprise. This agreement contains various covenants that severely limit each enterprise’s operations. In exchange for entering into these agreements, the U.S. Treasury received $1 billion of each enterprise’s senior preferred stock and warrants to purchase 79.9% of each enterprise’s common stock. On February 18, 2009, the U.S. Treasury announced that it was doubling the size of its commitment to each enterprise under the Senior Preferred Stock Program to $200 billion. The U.S. Treasury’s obligations under the Senior Preferred Stock Program are for an indefinite period of time for a maximum amount of $200 billion per enterprise. On December 24, 2009, the U.S. Treasury announced further amendments to the SPAs which included additional financial support for each GSE through the end of 2012 and changes to the limits on their retained mortgage portfolios. It is difficult, if not impossible, to predict the future political, regulatory or economic changes that could impact the GSEs.

Fannie Mae and Freddie Mac are continuing to operate as going concerns while in conservatorship and each remain liable for all of its obligations, including its guaranty obligations, associated with its mortgage-backed securities. The Senior Preferred SPA is intended to enhance each of Fannie Mae’s and Freddie Mac’s ability to meet its obligations. The FHFA has indicated that the conservatorship of each enterprise will end when the director of FHFA determines that FHFA’s plan to restore the enterprise to a safe and solvent condition has been completed.

Hybrid Securities

Each Fund may acquire hybrid securities. A hybrid security combines an income-producing debt security (‘‘income producing component’’) and the right to receive payment based on the change in the price of an equity security (‘‘equity component’’). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred stocks and money market instruments, which may be represented by derivative instruments. The equity component is achieved by investing in securities or instruments such as cash-settled warrants or options to receive a payment based on whether the price of a common stock surpasses a certain exercise price or options on a stock index. A hybrid security comprises two or more separate securities, each with its own market value. Therefore, the ‘‘market value’’ of a hybrid security is the sum of the values of its income-producing component and its equity component.

A holder of a hybrid security faces the risk of a decline in the price of the security or the level of the index involved in the equity component, causing a decline in the value of the security or instrument, such as a call option or warrant, purchased to create the hybrid security. The equity component has risks typical to a purchased call option. Should the price of the stock fall below the exercise price and remain there throughout the exercise period, the entire amount paid for the call option or warrant would be lost. Because a hybrid security includes the income-producing component as well, the holder of a hybrid security also faces risks typical to all debt securities.

Illiquid Securities

Each Fund may invest in illiquid securities. A Fund will not invest in illiquid securities if immediately after such investment more than 15% of the Fund's net assets would be invested in such securities. For this purpose, illiquid securities include, among others, securities that are illiquid by virtue of the absence of a readily available market or legal or contractual restrictions on resale. Securities that have legal or contractual restrictions on resale but have a readily available market are not deemed illiquid for purposes of this limitation.

Historically, illiquid securities have included securities subject to contractual or legal restrictions on resale because they have not been registered under the Securities Act or which are otherwise not readily marketable. Securities which have not been registered under the Securities Act are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market. The Funds do not typically hold a significant amount of these restricted or other illiquid securities because of the potential for delays on resale and uncertainty in valuation. Limitations on resale may have an adverse effect on the marketability of portfolio securities, and the Funds might be unable to dispose of restricted or other illiquid securities promptly or at reasonable prices and might thereby experience difficulty satisfying redemptions within seven days. The Funds might also have to register such restricted securities in order to dispose of them, resulting in additional expense and delay. Adverse market conditions could impede such a public offering of securities.

In recent years, a large institutional market has developed for certain securities that are not registered under the Securities Act, including repurchase agreements, commercial paper, foreign securities, municipal securities and corporate bonds and notes. Institutional investors depend on an efficient institutional market in which the unregistered security can be readily resold or on an issuer's ability to honor a demand for repayment. The fact that there are contractual or legal restrictions on resale to the general public or to certain institutions may not be indicative of the liquidity of such investments.

Rule 144A under the Securities Act allows a broader institutional trading market for securities otherwise subject to restriction on resale to the general public. Rule 144A establishes a safe harbor from the registration requirements of the Securities Act of resales of certain securities to qualified institutional buyers, which generally creates a more liquid market for securities eligible for resale under Rule 144A than other types of restricted securities.

The Advisor will monitor the liquidity of restricted securities in the Fund's portfolio, under the supervision of the Board. In reaching liquidity decisions, the Advisor will consider, among other things, the following factors: (1) the frequency of trades and quotes for the security; (2) the number of dealers wishing to purchase or sell the security and the number of other potential purchasers; (3) dealer undertakings to make a market in the security; and (4) the nature of the security and the nature of the marketplace trades (e.g., the time needed to dispose of the security, the method of soliciting offers and the mechanics of the transfer).

Inflation-Protected Securities

Each Fund may invest in U.S. Treasury Inflation Protected Securities (''U.S. TIPS''), which are debt securities issued by the U.S. Department of Treasury, the principal amounts of which are adjusted daily based upon changes in the rate of inflation. Each Fund may also invest in other inflation-protected securities issued by non-U.S. governments or by private issuers. U.S. TIPS pay interest on a semi-annual basis, equal to a fixed percentage of the inflation-adjusted principal amount. The interest rate on these bonds is fixed at issuance, but over the life of the bond this interest may be paid on an increasing or decreasing principal value that has been adjusted for inflation.

Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed for U.S. TIPS, even during a period of deflation. However, because the principal amount of U.S. TIPS would be adjusted downward during a period of deflation, the Fund will be subject to deflation risk with respect to its investments in these securities. In addition, the current market value of the bonds is not guaranteed, and will fluctuate. If a Fund purchases in the secondary market U.S. TIPS whose principal values have been adjusted upward due to inflation since issuance, the Fund may experience a loss if there is a subsequent period of deflation. Each Fund may also invest in other inflation-related bonds which may or may not provide a guarantee of principal. If a guarantee of principal is not provided, the adjusted principal value of the bond repaid at maturity may be less than the original principal amount.

The periodic adjustment of U.S. TIPS is currently tied to the CPI-U, which is calculated by the Department of Treasury. The CPI-U is a measurement of changes in the cost of living, made up of components such as housing, food, transportation and energy. Inflation-protected bonds issued by a non-U.S. government are generally adjusted to reflect a comparable inflation index, calculated by that government. There can no assurance that the CPI-U or any non-U.S. inflation index will accurately measure the real rate of inflation in the prices of goods and services. If interest rates rise due to reasons other than inflation, investors in these securities may not be protected to the extent that the increase is not reflected in the bond's inflation measure. In addition, there can be no assurance that the rate of inflation in a non-U.S. country will be correlated to the rate of inflation in the United States.

Infrastructure Investments

Each Fund may invest in securities and other obligations of U.S. and non-U.S. issuers providing exposure to infrastructure investment. Infrastructure investments may be related to physical structures and networks that provide necessary services to society, such as transportation and communications networks, water and energy utilities and public service facilities. Securities, instruments, and obligations of infrastructure-related companies and projects are more susceptible to adverse economic or regulatory occurrences affecting their industries. Infrastructure companies may be subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, high leverage, costs associated with environmental and other regulations, the effects of economic slowdown, surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies, and other factors. Infrastructure companies and projects also may be affected by or subject to regulation by various government authorities, including rate regulation; service interruption due to environmental, operational or other mishaps; the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards; and general changes in market sentiment towards infrastructure and utilities assets.

Initial Public Offerings

Each Fund may purchase debt or equity securities in initial public offerings (''IPOs''). These securities, which are often issued by unseasoned companies, may be subject to many of the same risks of investing in companies with smaller market capitalizations. Securities issued in IPOs have no trading history, and information about the companies may be available for very limited periods. Securities issued in an IPO frequently are very volatile in price, and the Fund may hold securities purchased in an IPO for a very short period of time. As a result, the Fund's investments in IPOs may increase portfolio turnover, which increases brokerage and administrative costs and may result in taxable distributions to shareholders.

At any particular time, or from time to time, a Fund may not be able to invest in securities issued in IPOs, or invest to the extent desired because, for example, only a small portion (if any) of the securities being offered in an IPO may be made available to the Fund. In addition, under certain market conditions, a relatively small number of companies may issue securities in IPOs. There can be no assurance that investments in IPOs will improve the Fund's performance.

Inverse Floaters

Inverse floaters constitute a class of CMOs with a coupon rate that moves inversely to a designated index, such as LIBOR (London Interbank Offered Rate). Inverse floaters have coupon rates that typically change at a multiple of the changes of the relevant index rate. Any rise in the index rate (as a consequence of an increase in interest rates) causes a drop in the coupon rate on an inverse floater while any drop in the index rate causes an increase in the coupon rate of an inverse floater. In some circumstances, the coupon on an inverse floater could decrease to zero. In addition, like most other debt securities, the value of inverse floaters will decrease as interest rates increase and their average lives will extend. Inverse floaters exhibit greater price volatility than the majority of mortgage-backed securities. In addition, some inverse floaters display extreme sensitivity to changes in prepayments. As a result, the yield to maturity of an inverse floater is sensitive not only to changes in interest rates, but also to changes in prepayment rates on the related underlying mortgage assets. As described above, inverse floaters may be used alone or in tandem with interest-only stripped mortgage instruments.

Investment Companies

Each Fund may invest in securities of other open- or closed-end investment companies. Each Fund may purchase shares of closed-end funds that are managed by an affiliate of the Advisor only to the extent that they are traded on a national exchange. Each Fund may also invest a portion of its assets in pooled investment vehicles other than registered investment companies. For example, some vehicles which are commonly referred to as ‘‘exchanged traded funds’’ may not be registered investment companies because of the nature of their underlying investments. As a stockholder in an investment company or other pooled vehicle, the Fund will bear its ratable share of that investment company’s or vehicle’s expenses, and would remain subject to payment of the fund’s advisory and administrative fees with respect to assets so invested.

Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies or vehicles. In addition, the securities of other investment companies or pooled vehicles may be leveraged and will therefore be subject to leverage risks (in addition to other risks of the investment company's or pooled vehicle's strategy). The Fund will also incur brokerage costs when purchasing and selling shares of investment companies and other pooled vehicles.

An investment in the shares of another fund is subject to the risks associated with that fund's portfolio securities. To the extent a Fund invests in shares of another fund, that Fund's shareholders would indirectly pay a portion of that Fund's expenses, including advisory fees, brokerage and other distribution expenses. These fees and expenses are in addition to the direct expenses of the Fund's own operations.

Loan Participation and Assignments

Investment in secured or unsecured fixed or floating rate loans (''Loans'') arranged through private negotiations between a borrowing corporation, government, or other entity and one or more financial institutions (''Lenders'') may be in the form of participations in Loans (''Participation'') or assignments of all or a portion of Loans from third parties (''Assignments''). Participations typically result in the Fund having a contractual relationship only with the Lender, not with the borrower. The Fund has the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Fund generally has no direct right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, nor any rights of set-off against the borrower, and the Fund may not directly benefit from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. In the event of the insolvency of the selling Lender, the Fund may be treated as a general creditor of that Lender and may not benefit from any set-off between the Lender and the borrower.

When a Fund purchases Assignments from Lenders, it acquires direct rights against the borrower on the Loan. In an Assignment, the Fund is entitled to receive payments directly from the borrower and, therefore, does not depend on the selling bank to pass these payments onto the Fund. However, because Assignments are arranged through private negotiations between potential assignees and assignors, the rights and obligations acquired by the Fund as the purchaser of an Assignment may differ from, and be more limited than, those held by the assigning Lender.

Assignments and Participations are generally not registered under the Securities Act, and thus may be subject to the Funds' limitation on investment in illiquid securities. The lack of a liquid secondary market could have an adverse impact on the value of such securities and on the Funds' ability to dispose of particular Assignments or Participations when necessary to meet the Funds' liquidity needs or in response to a specific economic event, such as a deterioration in the creditworthiness of the borrower.

Money Market Instruments

Each Fund may invest, for defensive purposes or otherwise, some or all of their assets in high-quality fixed-income securities, money market instruments and money market mutual funds, or hold cash or cash equivalents in such amounts as the Advisor deems appropriate under the circumstances. In addition, each Fund may invest in these instruments pending allocation of its respective offering proceeds. Money market instruments are high-quality, short-term, fixed-income obligations, which generally have remaining maturities of one year or less and may include U.S. Government securities, commercial paper, certificates of deposit, and bankers' acceptances issued by domestic branches of U.S. banks that are members of the Federal Deposit Insurance Corporation (''FDIC'') and repurchase agreements.

Margin Payments

When a Fund purchases or sells a futures contract, it is required to deposit with its custodian an amount of cash, U.S. Treasury bills, or other permissible collateral equal to a small percentage of the amount of the futures contract. This amount is known as ‘‘initial margin.’’ Initial margin requirements are established by the exchanges on which futures contracts trade and may, from time to time, change. The nature of initial margin is different from that of margin in security transactions in that it does not involve borrowing money to finance transactions. Rather, initial margin is similar to a performance bond or good faith deposit that is returned to the Fund upon termination of the contract, assuming the Fund satisfies its contractual obligations. In addition, brokers may establish margin deposit requirements in excess of those required by the exchanges.

Subsequent payments to and from the broker occur on a daily basis in a process known as ‘‘marking to market.’’ These payments are called ‘‘variation margin’’ and are made as the value of the underlying futures contract fluctuates. For example, when a Fund sells a futures contract and the price of the underlying index rises above the delivery price, the Fund’s position declines in value. The Fund then pays the broker a variation margin payment equal to the difference between the delivery price of the futures contract and the value of the index underlying the futures contract. Conversely, if the price of the underlying index falls below the delivery price of the contract, the Fund’s futures position increases in value. The broker then must make a variation margin payment equal to the difference between the delivery price of the futures contract and the value of the index underlying the futures contract.

When a Fund terminates a position in a futures contract, a final determination of variation margin is made, additional cash is paid by or to the Fund and the Fund realizes a loss or a gain. Such closing transactions involve additional commission costs.

Mortgage Dollar Rolls

Each Fund may enter into mortgage dollar rolls with a bank or a broker-dealer. A mortgage dollar roll is a transaction in which the Fund sells mortgage-related securities for immediate settlement and simultaneously purchases the same type of securities for forward settlement at a discount. While the Fund begins accruing interest on the newly purchased securities from the purchase or trade date, it is able to invest the proceeds from the sale of its previously owned securities, which will be used to pay for the new securities, in money market investments until future settlement date. The use of mortgage dollar rolls is a speculative technique involving leverage and can have an economic effect similar to borrowing money for investment purposes.

Mortgage-backed and Asset-backed Securities

Mortgage-backed securities, including collateralized mortgage obligations (‘‘CMOs’’) and certain stripped mortgage-backed securities, represent a participation in, or are secured by, mortgage loans. Asset-backed securities are structured like mortgage-backed securities, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include such items as motor vehicle installment sales or installment loan contracts, leases of various types of real and personal property, and receivables from credit card agreements. The cash flow generated by the underlying assets is applied to make required payments on the securities and to pay related administrative expenses. The amount of residual cash flow resulting from a particular issue of asset-backed or mortgage-backed securities depends on, among other things, the characteristics of the underlying assets, the coupon rates on the securities, prevailing interest rates, the amount of administrative expenses, and the actual prepayment experience on the underlying assets. Each Fund may invest in any such instruments or variations as may be developed, to the extent consistent with its investment objectives and policies and applicable regulatory requirements. In general, the collateral supporting asset-backed securities is of a shorter maturity than mortgage loans and is likely to experience substantial prepayments.

Mortgage-backed securities have yield and maturity characteristics corresponding to the underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity, when the entire principal amount comes due, payments on certain mortgage-backed securities include both interest and a partial repayment of principal. Besides the scheduled repayment of principal, repayments of principal may result from the voluntary prepayment, refinancing or foreclosure of the underlying mortgage loans. If property owners make unscheduled prepayments of their mortgage loans, these prepayments will result in early payment of the applicable mortgage-backed securities. In that event a Fund may be unable to invest the proceeds from the early payment of the mortgage-backed securities in an investment that provides as high a yield as the mortgage-backed securities. Consequently, early payment associated with mortgage-backed securities may cause these securities to experience significantly greater price and yield volatility than that experienced by traditional debt securities. The occurrence of mortgage prepayments is affected by factors including the level of interest rates, general economic conditions, the location and age of the mortgage and other social and demographic conditions. During periods of falling interest rates, the rate of mortgage prepayments tends to increase, thereby tending to decrease the life of mortgage-backed securities. During periods of rising interest rates, the rate of mortgage prepayments usually decreases, thereby tending to increase the life of mortgage-backed securities. If the life of a mortgage-backed security is inaccurately predicted, the Fund may not be able to realize the rate of return it expected.

Adjustable rate mortgage securities (‘‘ARMs’’), like traditional mortgage-backed securities, are interests in pools of mortgage loans that provide investors with payments consisting of both principal and interest as mortgage loans in the underlying mortgage pool are paid off by the borrowers. Unlike fixed-rate mortgage-backed securities, ARMs are collateralized by or represent interests in mortgage loans with variable rates of interest. These interest rates are reset at periodic intervals, usually by reference to an interest rate index or market interest rate. Although the rate adjustment feature may act as a buffer to reduce sharp changes in the value of adjustable rate securities, these securities are still subject to changes in value based on, among other things, changes in market interest rates or changes in the issuer’s creditworthiness. Because the interest rates are reset only periodically, changes in the interest rate on ARMs may lag changes in prevailing market interest rates. Also, some ARMs (or the underlying mortgages) are subject to caps or floors that limit the maximum change in the interest rate during a specified period or over the life of the security. As a result, changes in the interest rate on an ARM may not fully reflect changes in prevailing market interest rates during certain periods. Each Fund may also invest in ‘‘hybrid’’ ARMs, whose underlying mortgages combine fixed-rate and adjustable rate features.

Mortgage-backed and asset-backed securities are less effective than other types of securities as a means of ‘‘locking in’’ attractive long-term interest rates. One reason is the need to reinvest prepayments of principal; another is the possibility of significant unscheduled prepayments resulting from declines in interest rates. These prepayments would have to be reinvested at lower rates. The automatic interest rate adjustment feature of mortgages underlying ARMs likewise reduces the ability to lock-in attractive rates. As a result, mortgage- backed and asset-backed securities may have less potential for capital appreciation during periods of declining interest rates than other securities of comparable maturities, although they may have a similar risk of decline in market value during periods of rising interest rates. Prepayments may also significantly shorten the effective maturities of these securities, especially during periods of declining interest rates. Conversely, during periods of rising interest rates, a reduction in prepayments may increase the effective maturities of these securities, subjecting them to a greater risk of decline in market value in response to rising interest rates than traditional debt securities, and, therefore, potentially increasing the volatility of the Fund.

At times, some mortgage-backed and asset-backed securities will have higher than market interest rates and therefore will be purchased at a premium above their par value. Prepayments may cause losses on securities purchased at a premium.

Asset-backed securities may be collateralized by the fees earned by service providers. The values of asset-backed securities may be substantially dependent on the servicing of the underlying asset and are therefore subject to risks associated with negligence by, or defalcation of, their servicers. In certain circumstances, the mishandling of related documentation may also affect the rights of the security holders in and to the underlying collateral. The insolvency of entities that generate receivables or that utilize the assets may result in added costs and delays in addition to losses associated with a decline in the value of the underlying assets.

Preferred Securities

There are two basic types of preferred securities, traditional and hybrid-preferred securities. Traditional preferred securities consist of preferred stock issued by an entity taxable as a corporation. Preferred stocks, which may offer fixed or floating rate dividends, are perpetual instruments and considered equity securities. Preferred securities are subordinated to senior debt instruments in a company’s capital structure, in terms of priority to corporate income and claim to corporate assets, and therefore will be subject to greater credit risk than debt instruments. Alternatively, hybrid-preferred securities may be issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, or by an affiliated trust or partnership of the corporation, generally in the form of preferred interests in subordinated debentures or similarly structured securities. The hybrid-preferred securities market consists of both fixed and adjustable coupon rate securities that are either perpetual in nature or have stated maturity dates. Hybrid-preferred securities are considered debt securities. Due to their similar attributes, the Advisor a also consider senior debt perpetual issues, certain securities with convertible features as well as exchange-listed senior debt issues that trade with attributes of exchange-listed perpetual and hybrid-preferred securities to be part of the broader preferred securities market.

Traditional Preferred Securities. Traditional preferred securities pay fixed or floating dividends to investors and have ‘‘preference’’ over common stock in the payment of dividends and the liquidation of a company’s assets. This means that a company must pay dividends on preferred stock before paying any dividends on its common stock. In order to be payable, distributions on such preferred securities must be declared by the issuer’s board of directors. Income payments on preferred securities may be cumulative, causing dividends and distributions to accumulate even if not declared by the board of directors or otherwise made payable. In such a case, all accumulated dividends must be paid before any dividend on the common stock can be paid. However, many traditional preferred stocks are non-cumulative, in which case dividends do not accumulate and need not ever be paid. Each Fund may invest in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any missed payments to its stockholders. There is no assurance that dividends or distributions on the traditional preferred securities in which a Fund invests will be declared or otherwise made payable. Preferred securities may also contain provisions under which payments must be stopped (i.e., stoppage is compulsory, not discretionary). The conditions under which this occurs may relate to, for instance, capitalization levels. Hence, if a company incurs significant losses that deplete retained earnings automatic payment stoppage could occur. In some cases the terms of the preferred securities provide that the issuer would be obligated to attempt to issue common shares to raise funds for the purpose of making the preferred payments. However, there is no guarantee that the issuer would be successful in placing common shares.

Preferred stockholders usually have no right to vote for corporate directors or on other matters. Shares of traditional preferred securities have a liquidation preference that generally equals the original purchase price at the date of issuance. The market value of preferred securities may be affected by, among other factors, favorable and unfavorable changes impacting the issuer or industries in which they operate, movements in interest rates and inflation and the broader economic and credit environments, and by actual and anticipated changes in tax laws, such as changes in corporate and individual income tax rates. Because the claim on an issuer's earnings represented by traditional preferred securities may become onerous when interest rates fall below the rate payable on such securities, the issuer may redeem the securities. Thus, in declining interest rate environments in particular, a Fund's holdings of higher rate-paying fixed rate preferred securities may be reduced, and the Fund may be unable to acquire securities of comparable credit quality paying comparable rates with the redemption proceeds.

Hybrid-preferred Securities. Hybrid-preferred securities are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. In addition, hybrid-preferred securities typically permit an issuer to defer the payment of income for eighteen months or more without triggering an event of default. Generally, the maximum deferral period is five years. Because of their subordinated position in the capital structure of an issuer, the ability to defer payments for extended periods of time without default consequences to the issuer, and certain other features (such as restrictions on common dividend payments by the issuer or ultimate guarantor when full cumulative payments on the hybrid preferred securities have not been made), these hybrid-preferred securities are often treated as close substitutes for traditional preferred securities, both by issuers and investors. Hybrid-preferred securities have many of the key characteristics of equity due to their subordinated position in an issuer's capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows.

Hybrid-preferred securities are typically issued with a final maturity date. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer's option for a specified time without default. No redemption can typically take place unless all cumulative payment obligations have been met, although issuers may be able to engage in open-market repurchases without regard to whether all payments have been paid.

Many hybrid-preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. At the time the trust or special purpose entity sells such preferred securities to investors, it purchases debt of the operating company (with terms comparable to those of the trust or special purpose entity securities), which enables the operating company to deduct for tax purposes the interest paid on the debt held by the trust or special purpose entity. The trust or special purpose entity is generally required to be treated as transparent for U.S. federal income tax purposes such that the holders of the trust preferred securities are treated as owning beneficial interests in the underlying debt of the operating company. Accordingly, payments on the hybrid-preferred securities are generally treated as interest rather than dividends for U.S. federal income tax purposes and, as such, are not eligible for the DRD or the reduced rates of tax that apply to qualified dividend income. The trust or special purpose entity in turn would be a holder of the operating company's debt and would have priority with respect to the operating company's earnings and profits over the operating company's common stockholders, but would typically be subordinated to other classes of the operating company's debt. Typically a preferred security has a credit rating that is lower than that of its corresponding operating company's senior debt securities.

Within the category of hybrid-preferred securities are senior debt instruments that trade in the broader preferred securities market. These debt instruments, which are sources of long-term capital for the issuers, have structural features similar to other preferred securities such as maturities ranging from 30 years to perpetuity, call features, quarterly payments, exchange listings and the inclusion of accrued interest in the trading price.

In some cases traditional and hybrid securities may include loss absorption provisions that make the securities more equity like. This is particularly true in the financial sector, the largest preferred issuer segment. Events in global financial markets in recent periods have caused regulators to review the function and structure of preferred securities more closely. While loss absorption language is relatively rare in the preferred market today, it may become much more prevalent.

In one version of a preferred security with loss absorption characteristics, the liquidation value of the security may be adjusted downward to below the original par value under certain circumstances. This may occur, for instance, in the event that business losses have eroded capital to a substantial extent. The write down of the par value would occur automatically and would not entitle the holders to seek bankruptcy of the company. Such securities may provide for circumstances under which the liquidation value may be adjusted back up to par, such as an improvement in capitalization and/or earnings.

Another preferred structure with loss absorption characteristics is the contingent capital security (sometimes referred to as ‘‘CoCo’s’’). These securities provide for mandatory conversion into common shares of the issuer under certain circumstances. The mandatory conversion might relate, for instance, to maintenance of a capital minimum, whereby falling below the minimum would trigger automatic conversion. Since the common stock of the issuer may not pay a dividend, investors in these instruments could experience a reduced income rate, potentially to zero; and conversion would deepen the subordination of the investor, hence worsening standing in a bankruptcy. In addition, some such instruments have a set stock conversion rate that would cause an automatic write-down of capital if the price of the stock is below the conversion price on the conversion date.

Preferred securities may be subject to changes in regulations and there can be no assurance that the current regulatory treatment of preferred securities will continue.

Convertible Preferred Securities. Some preferred securities, generally known as convertible preferred securities, provide for an investor option to convert their holdings into common shares of the issuer. These securities may have lower rates of income than other preferred securities, and the conversion option may cause them to trade more like equities than typical fixed income instruments.

Floating Rate Securities. Each Fund may invest in floating rate preferred securities, which provide for a periodic adjustment in the interest rate paid on the securities. The terms of such securities provide that interest rates are adjusted periodically based upon an interest rate adjustment index. The adjustment intervals may be regular, and range from daily up to annually, or may be event-based, such as a change in the prime rate. Because of the interest rate reset feature, floating rate securities provide the Fund with a certain degree of protection against rises in interest rates, although the interest rates of floating rate securities will participate in any declines in interest rates as well.

Private Funds

Each Fund may also invest in private investment funds vehicles, or structures such as ‘‘hedge funds’’ or private equity funds. Private funds may utilize leverage without limit and, to the extent a Fund invests in private funds that utilize leverage, the Fund will indirectly be exposed to the risks associated with that leverage and the values of its shares may be more volatile as a result. If a fund or investment pool in which a Fund invests is not publicly offered or there is no public market for its shares, the Fund may be prohibited by the terms of its investment from selling its shares in the fund or pool, or may not be able to find a buyer for those shares at an acceptable price. Securities issued by private funds are generally issued in private placements and are restricted securities. An investment in a Private fund may be highly volatile and difficult to value. The Fund would bear its pro rata share of the expenses of any Private fund in which it invests.

Real Estate Companies

Each Fund, to varying degrees, may invest in real estate securities, including securities issued by REITs and other issuers in the real estate industry. To the extent that a Fund invests in real estate securities, that Fund’s portfolio will be impacted by the performance of the real estate market generally, and the Fund may be exposed to greater risk and experience higher volatility. Each Fund’s investments in real estate securities will be affected by factors generally affecting the value of real estate and the earnings of companies engaged in the real estate industry. These factors include, among others: (1) changes in general economic and market conditions; (2) risks related to local economic conditions, overbuilding and increased competition; (3) increases in property taxes and operating expenses; (4) changes in zoning laws; (5) casualty and condemnation losses; (6) variations in rental income, neighborhood values or the appeal of property to tenants; (7) the availability of financing; and (8) changes in interest rates. The value of investments in the real estate industry may go through cycles of relative under-performance and over-performance in comparison to the broader securities markets in general. Other factors may contribute to the risk of investing, directly or indirectly, in the commercial real estate industry.

Current Adverse Economic Conditions. The volatility in the broader credit markets over the past several years has caused the global financial markets to become more volatile. The real estate industry has been dramatically impacted as a result. The confluence of the dislocation in the credit markets generally, along with the broad-based stress in the United States real estate industry, has created a difficult operating environment for owners and investors in real estate and investors should be aware that the general risks of investing in real estate may be magnified.

In addition, recent instability in the United States, European and other credit markets has at times made it more difficult for borrowers to obtain financing or refinancing on attractive terms or at all. In particular, because of conditions in the credit markets, borrowers may be subject to increased interest expenses for borrowed money and tightening underwriting standards. There is also a risk that a general lack of liquidity or other adverse events in the credit markets may adversely affect the ability of real estate companies to finance real estate developments and projects or to refinance completed projects.

For example, adverse developments relating to sub-prime mortgages in the United States have adversely affected the willingness of some lenders to extend credit, which may make it more difficult for real estate companies to obtain financing, on attractive terms or at all, so that they may commence or complete real estate development projects, refinance completed projects or purchase real estate. It also may adversely affect the price at which companies can sell real estate, because purchasers may not be able to obtain financing on attractive terms or at all. These developments also may adversely affect the broader economy, which in turn may adversely affect the real estate markets. Such developments could, in turn, reduce the number of real estate funds publicly-traded during the investment period and reduce a Fund’s investment opportunities in the real estate industry.

Development Risks. Certain commercial real estate companies engage in the development or construction of real estate properties. To the extent a Fund directly or indirectly invests in such companies, the Fund will be exposed to a variety of risks inherent in real estate development and construction. These include the risk that there will be insufficient tenant or consumer demand to occupy newly developed properties or produce the revenues needed to make the development project successful, the risk that prices of construction materials or construction labor may rise materially during the development, and the risk that other legal, regulatory, economic or other factors beyond the real estate company’s control will adversely affect the viability of a development project.

Lack of Insurance. Certain issuers of real estate securities in which a Fund may directly or indirectly invest may fail to carry comprehensive liability, fire, flood, earthquake, extended coverage and rental loss insurance, or the insurance that is in place may be insufficient or subject to various policy specifications, limits and deductibles. Should any type of uninsured loss occur, a real estate company could lose its investment in, and anticipated profits and cash flows from, a number of properties. As a result, the Fund’s investment performance may be adversely affected.

Financial Leverage. Many real estate companies utilize a high degree of financial leverage, which increases investment risk and could adversely affect a company’s operations and market value in periods of rising interest rates. In addition, the financial covenants associated with borrowings may limit a real estate company’s flexibility and adversely affect its ability to operate effectively.

Environmental Issues. In connection with the ownership (direct or indirect), operation, management, and development of real properties that may contain hazardous or toxic substances, a real estate company may be considered an owner, operator or responsible party of such properties, and may therefore be potentially liable for environmental issues, including removal or remediation costs, governmental fines and liabilities for injuries to persons and property, as well as other costs. The existence of any such material environmental liability could have a material adverse effect on the results of operations and cash flow of any such real estate company and, as a result, the amount available to make distributions on shares of a Fund could be reduced.

There are also special risks associated with the particular commercial real estate sectors in which a Fund may invest. These include:

Retail Properties. Retail properties are affected by the overall health of the economy and may be adversely affected by, among other things, the growth of alternative forms of retailing, bankruptcy, departure or cessation of operations of a tenant, a shift in consumer demand due to demographic changes, changes in spending patterns and lease terminations.

Office Properties. Office properties are affected by the overall health of the economy and other factors such as a downturn in the businesses operated by their tenants, obsolescence and non-competitiveness.

Industrial Properties. Industrial properties are affected by the overall health of the economy and other factors such as downturns in the manufacturing, processing and shipping of goods.

Hotel Properties. The risks of hotel properties include, among other things, the necessity of a high level of continuing capital expenditures, competition, increases in operating costs that may not be offset by increases in revenues, dependence on business and commercial travelers and tourism, increases in fuel costs and other expenses of travel, and adverse effects of general and local economic conditions. Hotel properties tend to be more sensitive to adverse economic conditions and competition than many other commercial properties.

Healthcare Properties. Healthcare properties and healthcare providers are affected by several significant factors, including federal, state and local laws governing licenses, certification, adequacy of care, pharmaceutical distribution, rates, equipment, personnel and other factors regarding operations, continued availability of revenue from government reimbursement programs and competition on a local and regional basis. The failure of any healthcare operator to comply with governmental laws and regulations may affect its ability to operate its facility or receive government reimbursements.

Multifamily Properties. The value and successful operation of a multifamily property may be affected by a number of factors, such as the location of the property, the ability of the management team, the level of mortgage interest rates, the presence of competing properties, adverse economic conditions in the locale, oversupply and rent control laws or other laws affecting such properties.

Shopping Centers. Shopping center properties are dependent upon the successful operations and financial condition of their tenants, particularly certain of their major tenants, and could be adversely affected by bankruptcy of those tenants. In some cases a tenant may lease a significant portion of the space in one center, and the filing of bankruptcy could cause significant revenue loss, including the loss of revenue from smaller tenants with co-tenancy rights. Like others in the commercial real estate industry, shopping centers are subject to environmental risks and interest rate risk. They also face the need to enter into new leases or renew leases on favorable terms to generate rental revenues. Shopping center properties could be adversely affected by changes in the local markets where their properties are located, as well as by adverse changes in national economic and market conditions.

Self-Storage Properties. The value and successful operation of a self-storage property may be affected by a number of factors, such as the ability of the management team, the location of the property, the presence of competing properties, changes in traffic patterns, and effects of general and local economic conditions with respect to rental rates and occupancy levels.

REITs

Each Fund may invest in REITs, including domestic and foreign REITs. REITs are pooled investment vehicles that invest primarily in either real estate or real estate related loans. In addition to the general risks associated with investments in real estate, investing in REITs will subject a Fund to various risks, including:

Dependence on Tenants. The value of a Fund's investments in REITs and the ability to make distributions to its shareholders depend upon the ability of the tenants of the properties in which such REITs invest to generate enough income in excess of their operating expenses to make their lease payments. Changes beyond the control of a REIT's portfolio companies may adversely affect their tenants' ability to make their lease payments and, in such event, would substantially reduce both their income from operations and ability to make distributions to such REIT's portfolio companies and, consequently, the Fund.

Risks of Investing in Net-Leased Real Estate. Where REITs invest in properties with net leases, in addition to satisfying their rent obligations, tenants in such properties are responsible for the payment of real estate taxes, insurance and ordinary maintenance and repairs. However, under the provisions of future leases with such tenants, the REITs may be required to pay some expenses, such as the costs of environmental liabilities, roof and structural repairs, insurance, certain non-structural repairs and maintenance. If such properties incur significant expenses that must be paid by such REITs under the terms of these leases, the REITs business, financial condition and results of operations will be adversely affected and the amount of cash available to meet expenses and to make distributions to holders of their common stock may be reduced.

Tax Risk. Qualification as a REIT under the Code in any particular year is a complex analysis that depends on a number of factors. There can be no assurance that the entities in which a Fund invests with the expectation that they will be taxed as a REIT will qualify as a REIT. An entity that fails to qualify as a REIT would be subject to a corporate level tax, would not be entitled to a deduction for dividends paid to its shareholders and would not pass through to its shareholders the character of income earned by the entity. If a Fund were to invest in an entity that failed to qualify as a REIT, such failure could significantly reduce the Fund’s yield on that investment.

Dividends paid by REITs will not generally qualify for the reduced U.S. federal income tax rates applicable to qualified dividends under the Code. A Fund’s investments in REITs may include an additional risk to shareholders. Some or all of a REIT’s annual distributions to its investors may constitute a non-taxable return of capital. Any such return of capital will generally reduce a Fund’s basis in the REIT investment, but not below zero. To the extent that the distributions from a particular REIT exceed the Fund’s basis in such REIT, the Fund will generally recognize gain. In part because REIT distributions often include a non-taxable return of capital, Fund distributions to shareholders may also include a non-taxable return of capital. Shareholders that receive such a distribution will also reduce their tax basis in their shares of such Fund, but not below zero. To the extent that the distribution exceeds a shareholder’s basis in the Fund’s shares, such shareholder will generally recognize a capital gain.

Key Personnel Risk. Where investments are made in REITs, success may depend to a significant degree upon the contributions of certain of executive officers and other key personnel who may be difficult to replace. There can be no guarantee that all, or any particular one of such key personnel, will remain affiliated with the REIT's adviser. If any of such key personnel were to cease their affiliation with the REIT's adviser, operating results could suffer. Further, separate key person life insurance may not be maintained on such key personnel. The future success of such REITs depends, in large part, upon their adviser's ability to hire and retain highly skilled managerial, operational, and marketing personnel. Competition for such personnel is intense, and there can be no assurance of success in attracting and retaining such skilled personnel. If such key personnel are lost or their services are unable to obtain, the ability to implement investment strategies could be delayed or hindered, and the value of the Fund's investment may decline.

Repurchase Agreements

Repurchase agreements, which may be viewed as a type of secured lending by a Fund, typically involve the acquisition by the Fund of debt securities from a selling financial institution such as a bank, savings and loan association or broker-dealer. The repurchase agreements will provide that the Fund will sell back to the institution, and that the institution will repurchase, the underlying security (''collateral'') at a specified price and at a fixed time in the future, usually not more than seven days from the date of purchase. The collateral will be maintained in a segregated account and, with respect to repurchase agreements, will be marked to market daily to ensure that the full value of the collateral, as specified in the repurchase agreement, does not decrease below the repurchase price plus accrued interest. If such a decrease occurs, additional collateral will be requested and, when received, added to the account to maintain full collateralization. The Fund will accrue interest from the institution until the date the repurchase occurs. Although this date is deemed by the Fund to be the maturity date of a repurchase agreement, the maturities of the collateral securities are not subject to any limits and may exceed one year.

Reverse Repurchase Agreements

Reverse repurchase agreements involve sales by a Fund of portfolio securities concurrently with an agreement by the Fund to repurchase the same securities at a later date at a fixed price. Reverse repurchase agreements are speculative techniques involving leverage. Reverse repurchase agreements involve the risk that the market value of the securities the Fund is obligated to repurchase under the agreement may decline below the repurchase price. Reverse repurchase agreements involve the risk that the buyer of the securities sold might be unable to deliver them when the Fund seeks to repurchase the securities. If the buyer files for bankruptcy or becomes insolvent, the Fund may be delayed or prevented from recovering the security that it sold.

Securities Loans

Each Fund may make secured loans of its portfolio securities, on either a short-term or long-term basis, amounting to not more than one third of its total assets, thereby potentially realizing additional income. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. If a borrower defaults, the value of the collateral may decline before the Fund can dispose of it.

Short Sales

Short sales are transactions in which a Fund sells a security it does not own, in anticipation of a decline in the market value of that security. To complete such a transaction, the Fund must borrow the security to make delivery to the buyer. The Fund then is obligated to replace the security borrowed by purchasing it at the market price at or prior to the time of replacement. The price at such time may be more or less than the price at which the security was sold by the Fund. Until the security is replaced, the Fund is required to repay the lender any dividends or interest that accrue during the period of the loan. To borrow the security, the Fund also may be required to pay a premium, which would increase the cost of the security sold. The net proceeds of the short sale will be retained by the broker (or by the Fund's custodian in a special custody account), to the extent necessary to meet margin requirements, until the short position is closed out. The Fund also will incur transaction costs in effecting short sales.

The Fund will incur a loss as a result of the short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund will generally realize a gain if the security declines in price between those dates. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the Fund may be required to pay in connection with a short sale. An increase in the value of a security sold short by the Fund over the price at which it was sold short will result in a loss to the Fund. There can be no assurance that the Fund will be able to close out the position at any particular time or at an acceptable price. The Fund's ability to engage in short sales may from time to time be limited or prohibited because of the inability to borrow certain securities in the market, legal restrictions on short sales or other reasons.

Special Purpose Acquisition Companies

Each Fund may invest in stock, warrants and other securities of special purpose acquisition companies (''SPACs'') or similar special purpose entities that pool funds to seek potential acquisition opportunities. Unless and until an acquisition meeting the SPAC's requirements is completed, a SPAC generally invests its assets (less a portion retained to cover expenses) in U.S. Government securities, money market securities and cash; if an acquisition that meets the requirements for the SPAC is not completed within a pre-established period of time, the invested funds are returned to the entity's shareholders. Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. In addition, these securities, which are typically traded in the over-the-counter market, may be considered illiquid and/or be subject to restrictions on resale. Each Fund's affiliates may create a SPAC for purchase by the Fund to assist the Fund in purchasing certain assets not otherwise available to the Fund.

Stripped Mortgage Securities

Stripped Mortgage Securities may be issued by Federal Agencies, or by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks and special purpose subsidiaries of the foregoing. Stripped Mortgage Securities usually are structured with two classes that receive different proportions of the interest and principal distribution of a pool of mortgage assets. A common type of Stripped Mortgage Security 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 interest-only or ''IO'' class), while the other class will receive all of the principal (the principal-only or ''PO'' class). PO classes generate income through the accretion of the deep discount at which such securities are purchased, and, while PO classes do not receive periodic payments of interest, they receive monthly payments associated with scheduled amortization and principal prepayment from the mortgage assets underlying the PO class. The yield to maturity on a PO or an IO class security is extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets. A slower than expected rate of principal payments may have an adverse effect on a PO class security's yield to maturity. If the underlying mortgage assets experience slower than anticipated principal repayment, the Fund may fail to fully recoup its initial investment in these securities. Conversely, a rapid rate of principal payments may have a material adverse effect on an IO class security's yield to maturity. If the underlying mortgage assets experience greater than anticipated prepayments or principal, the Fund may fail to fully recoup its initial investment in these securities.

Structured Investments

A structured investment is a security having a return tied to an underlying index or other security or asset class. Structured investments generally are individually negotiated agreements and may be traded over-the-counter. Structured investments are organized and operated to restructure the investment characteristics of the underlying security. This restructuring involves the deposit with or purchase by an entity, such as a corporation or trust, or specified instruments (such as commercial bank loans) and the issuance by that entity or one or more classes of securities (‘‘structured securities’’) backed by, or representing interests in, the underlying instruments. The cash flow on the underlying instruments may be apportioned among the newly issued structured securities to create securities with different investment characteristics, such as varying maturities, payment priorities and interest rate provisions, and the extent of such payments made with respect to structured securities is dependent on the extent of the cash flow on the underlying instruments. Because structured securities typically involve no credit enhancement, their credit risk generally will be equivalent to that of the underlying instruments. Investments in structured securities are generally of a class of structured securities that is either subordinated or unsubordinated to the right of payment of another class. Subordinated structured securities typically have higher yields and present greater risks than unsubordinated structured securities. Investments in government and government-related and restructured debt instruments are subject to special risks, including the inability or unwillingness to repay principal and interest, requests to reschedule or restructure outstanding debt, and requests to extend additional loan amounts.

Warrants

Each Fund may invest in warrants, which are instruments that give the Fund the right to purchase certain securities from an issuer at a specific price (the ‘‘strike price’’) for a limited period of time. The strike price of warrants typically is much lower than the current market price of the underlying securities, yet they are subject to similar price fluctuations. As a result, warrants may be more volatile investments than the underlying securities and may offer greater potential for capital appreciation as well as capital loss. Warrants do not entitle a holder to dividends or voting rights with respect to the underlying securities and do not represent any rights in the assets of the issuing company. Also, the value of the warrant does not necessarily change with the value of the underlying securities and a warrant ceases to have value if it is not exercised prior to the expiration date. These factors can make warrants more speculative than other types of investments.

In addition to warrants on securities, each Fund may purchase put warrants and call warrants whose values vary depending on the change in the value of one or more specified securities indices (‘‘index warrants’’). Index warrants are generally issued by banks or other financial institutions and give the holder the right, at any time during the term of the warrant, to receive upon exercise of the warrant a cash payment from the issuer based on the value of the underlying index at the time of exercise. In general, if the value of the underlying index rises above the exercise price of the index warrant, the holder of a call warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the value of the index and the exercise price of the warrant; if the value of the underlying index falls, the holder of a put warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the exercise price of the warrant and the value of the index. The holder of a warrant would not be entitled to any payments from the issuer at any time when, in the case of a call warrant, the exercise price is greater than the value of the underlying index, or, in the case of a put warrant, the exercise price is less than the value of the underlying index. If the Fund were not to exercise an index warrant prior to its expiration, then the Fund would lose the amount of the purchase price paid by it for the warrant.

Each Fund will normally use index warrants in a manner similar to its use of options on securities indices. The risks of the Fund’s use of index warrants are generally similar to those relating to its use of index options. Unlike most index options, however, index warrants are issued in limited amounts and are not obligations of a regulated clearing agency, but are backed only by the credit of the bank or other institution which issues the warrant. Also, index warrants generally have longer terms than index options. Index warrants are not likely to be as liquid as certain index options backed by a recognized clearing agency. In addition, the terms of index warrants may limit the Fund’s ability to exercise the warrants at such time, or in such quantities, as the Fund would otherwise wish to do.

When, As and If Issued Securities

Each Fund may purchase securities on a ‘‘when, as and if issued’’ basis under which the issuance of the security depends upon the occurrence of a subsequent event, such as approval of a merger, corporate reorganization, leveraged buyout, or debt restructuring. An increase in the percentage of the Fund’s assets committed to the purchase of securities on a ‘‘when, as and if issued’’ basis may create investment leverage and increase the volatility of the Fund’s NAV. The Fund may also sell securities on a ‘‘when, as and if issued’’ basis provided that the issuance of the security will result automatically from the exchange or conversion of a security owned by the Fund at the time of the sale.

When-Issued, Delayed Delivery and Forward Commitment Securities

To reduce the risk of changes in securities prices and interest rates, a Fund may purchase securities on a forward commitment, when-issued or delayed delivery basis. This means that delivery and payment occur a number of days after the date of the commitment to purchase. The payment obligation and the interest rate receivable with respect to such purchases are determined when the Fund enters into the commitment, but the Fund does not make payment until it receives delivery from the counterparty. The Fund may, if it is deemed advisable, sell the securities after it commits to a purchase but before delivery and settlement takes place.

Securities purchased on a forward commitment, when-issued or delayed delivery basis are subject to changes in value based upon the public's perception of the creditworthiness of the issuer and changes (either real or anticipated) in the level of interest rates. Purchasing securities on a when-issued or delayed delivery basis can present the risk that the yield available in the market when the delivery takes place may be higher than that obtained in the transaction itself. Purchasing securities on a forward commitment, when-issued or delayed delivery basis when the Fund is fully, or almost fully invested, results in a form of leverage and may cause greater fluctuation in the value of the net assets of the Fund. In addition, there is a risk that securities purchased on a when-issued or delayed delivery basis may not be delivered, and that the purchaser of securities sold by the Fund on a forward basis will not honor its purchase obligation. In such cases, the Fund may incur a loss.

Zero-Coupon and Payment-in-Kind Bonds

Each Fund may invest in so-called ‘‘zero-coupon’’ bonds and ‘‘payment-in-kind’’ bonds. Zero-coupon bonds are issued at a significant discount from their principal amount in lieu of paying interest periodically. Payment-in-kind bonds allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. Because zero-coupon and payment-in-kind bonds do not pay current interest in cash, their value is subject to greater fluctuation in response to changes in market interest rates than bonds that pay interest currently. Both zero-coupon and payment-in-kind bonds allow an issuer to avoid the need to generate cash to meet current interest payments. Accordingly, such bonds may involve greater credit risks than bonds paying interest currently in cash. Each Fund is required to accrue interest income on such investments and to distribute such amounts at least annually to shareholders even though the investments do not make any current interest payments. Thus, it may be necessary at times for the Funds to liquidate other investments in order to satisfy its distribution requirements under the Code.

DISCLOSURE OF PORTFOLIO HOLDINGS

In accordance with the Trust's policies and procedures, subject to the pre-approval of the Trust's Chief Compliance Officer, Gemini Fund Services, LLC ("Gemini"), the Funds' transfer agent and fund accountant, is responsible for dissemination of information about the Funds' portfolio holdings to nationally recognized statistical rating organizations and providers of risk management and portfolio analysis tools such as Standard & Poors, Morningstar, Bloomberg, Reuters, and FactSet. The Funds' Chief Compliance Officer may authorize Gemini to disclose portfolio holdings information to rating and statistical agencies.

The Funds' full portfolio holdings are disclosed in publicly available filings approximately 60 days following the end of a calendar quarter or fiscal quarter with the Securities and Exchange Commission in applicable regulatory filings including shareholder's reports, Form N-Q, Form N-CSR or such other filings, reports or disclosure documents as the applicable regulatory authorities may require. Portfolio holdings in the Funds' annual and semi-annual reports are mailed to shareholders and these reports are also publicly posted on the Funds' website in accordance with SEC guidelines. Additionally, quarterly reports are filed with the SEC and available on the SEC's website. Portfolio holdings are provided to shareholders in the Funds' annual and semi-annual reports, which are mailed to shareholders and posted on the Funds' website in accordance with the SEC guidelines. Additionally, quarterly reports are filed with the SEC.

The Fund Accountant shall send portfolio holding to nationally-recognized rating agencies via electronic transmission at least annually.

The Funds or a Service Provider may disclose the Funds' portfolio securities holdings to selected third parties when the Funds have a legitimate business purpose for doing so. Examples of legitimate business purposes in which selective disclosure of the Funds' portfolio securities may be appropriate include disclosure for due diligence purposes to an investment advisor that is in merger or acquisition talks with the Advisor; disclosure to a newly hired investment advisor or sub-advisor prior to its commencing its duties; disclosure to third party service providers of accounting, auditing, custody, proxy voting and other services to the Funds; or disclosure to a rating or ranking organization.

As required by the federal securities laws, including the 1940 Act, the Funds will disclose their portfolio holdings in their applicable regulatory filings, including shareholder reports, reports on Form N-Q, Form N-CSR or such other filings, reports or disclosure documents as the applicable regulatory authorities may require.

In accordance with the Funds' policies and procedures, third parties are required to keep confidential any information disclosed to them and to not engage in trading based on such information in accordance with the foregoing and no compensation may be received by the Funds, a Service Provider or any affiliate in connection with disclosure of such information. The Funds' Board will oversee disclosure under the foregoing policies and procedures by approval in advance of disclosures for legitimate business purposes and by regular review of reports on disclosures of the Funds' portfolio holdings.

PORTFOLIO TURNOVER

Although the Funds generally do 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 Advisor, investment considerations warrant such action. Portfolio turnover rate is calculated by dividing (1) the lesser of purchases or sales of portfolio securities for the fiscal year by (2) the monthly average of the value of 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.

MANAGEMENT OF THE FUNDS

The Board of Trustees has the responsibility for the overall management of the Fund, including general supervision and review of the Fund's investment activities. The Board of Trustees appoints the officers of the Fund who are responsible for the day-to-day operations of the Fund. The affiliations of the officers and Trustees and their principal occupations for the past five years are listed in the table below.

Interested Trustee and Officers and their Qualifications

The Interested Trustee and Officers and their qualifications are noted in the table below. The Board of Trustees believes that the Interested Trustee's and each Officer's experience, qualifications, attributes or skills lead to the conclusion that the Interested Trustee and each Officer should serve in their respective capacity. Among other attributes common to the Interested Trustee and each of the Officers are their ability to review critically, evaluate, question and discuss information provided to them, to interact effectively with service providers, counsel and the independent registered public accounting firm, to exercise effective business judgment in the performance of their duties, and to represent the interests of all Fund shareholders. The Interested Trustee's and each of the Officer's ability to perform their respective duties effectively may have been attained through their educational background or professional training; business experience, or in various roles at public companies, private entities or other organizations; and/or other life experiences. In addition to these shared characteristics, set forth below is a brief discussion of the specific qualifications, attributes or skills considered for the Interested Trustee and Officers that support the conclusion that each person is qualified to serve in their respective capacity.

Name and Address and Year of Birth	Position and Offices with the Trust	Principal Occupation(s) during the Past Five Years	Other Directorships Held by Director in Past Five Years	Other Relevant Experience
Independent Trustees				
Kevin T. Kogler 455 Market Street, Suite 1600 San Francisco, CA 94105	Trustee, since 2011	President & Founder of MicroBiz, LLC, 2012 to present; Principal, Robertson Piper Software Group, 2006 to 2012; Senior Vice President, Investment Banking, Friedman, Billings Ramsey, 2003 to 2006.	ETSpreads Trust Shelton Funds	Experience in investment banking and technology industry. M.B.A.

Year of Birth: 1966				
Stephen H. Sutro 455 Market Street, Suite 1600 San Francisco, CA 94105 Year of Birth: 1969	Trustee, since 2011	Partner, Duane Morris LLP (law firm), 2003 to present.	ETSpreads Trust Shelton Funds	Service on boards for nonprofit organizations. J.D.

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Marco L. Quazzo 455 Market Street, Suite 1600 San Francisco, CA 94105 Year of Birth: 1962	Trustee, since 2014	Principal, Bartko Zankel Bunzel & Miller, March 2015-Present; Partner, Barg Coffin Lewis & Trapp LLP (law firm), 2008 to March 2015	Shelton Funds	Experience with business law, corporate governance and risk management. J.D.
Interested Trustee[1]				
Stephen C. Rogers 1050 17th Street, Suite 1710 Denver, CO 80265 Year of Birth: 1966	Chairman of the Board & Trustee since 2011	Portfolio Manager, Shelton Capital Management, 2003 to present; Chief Executive Officer, Shelton Capital Management, 1999 to present; Secretary 1999 to November 2012.	ETSpreads Trust Shelton Funds	
Officers				
Teresa Axelson 1050 17th Street, Suite 1710 Denver, CO 80265 Year of Birth: 1947	Chief Compliance Officer, since 2011; Secretary, since 2012	Chief Compliance Officer, Shelton Capital Management, 2011 to present; Consultant, 2011; Vice President-Secretary, Chief Compliance Officer, Securities Management and Research, Inc.; SM&R Investments, Inc. (6 mutual funds) and American National Investment Accounts, Inc. (5 mutual funds), 1968 - 2010.	N/A	
William P. Mock 455 Market Street, Suite 1600 San Francisco, CA 94105 Year of Birth: 1966	Treasurer, since 2011	Portfolio Manager, Shelton Capital Management, since 2010; Portfolio Manager, ETSpreads, 2007 to present; Head Trader, TKI Capital Management, 2003-2006.	N/A	

[1] Basis of Interestedness. Stephen C. Rogers is affiliated with Shelton Capital Management, which is the investment advisor of the Funds.

The Board met four times during the fiscal year ended December 31, 2015. Currently, the Board has an Audit Committee and a Pricing Committee. The responsibilities of each committee and its members are described below.

Board Leadership Structure and Standing Board Committees

Stephen C. Rogers currently serves as the chairman of the board and has served in such capacity since 2011. Of the board's four members, Stephen C. Rogers is the only member who is an "interested person" as that term is defined in the Investment Company Act. The remaining members are Independent Trustees. The Independent Trustees meet separately to consider a variety of matters that are scheduled to come before the board and meet periodically with the Funds' Chief Compliance Officer and fund auditors. They are advised by independent legal counsel. No Independent Trustee may serve as an officer or employee of a fund. The board has also established several committees, as described below. The Audit Committee is comprised solely of Independent Trustees. The board has no lead Independent Trustee. The board believes that the current leadership structure, with Independent Trustees filling all but one position on the board is appropriate and allows for independent oversight of the Funds.

Audit Committee: The Board has an Audit Committee comprised only of the Independent Trustees (currently, Messrs. Quazzo, Kogler, and Sutro). The Audit Committee has the responsibility, among other things, to (1) recommend the selection of the Funds' independent auditors; (2) review and approve the scope of the independent auditors' audit activity; (3) review the financial statements which are the subject of the independent auditor's certifications; and (4) review with such independent auditors the adequacy of the Funds' basic accounting system and the effectiveness of the Funds' internal accounting controls. During the fiscal year ended December 31, 2015, there were four meetings of the Audit Committee.

Pricing Committee: The Board has a Pricing Committee, comprised of the Independent Trustees of the Trust, certain officers of the Trust and of the Manager, which reviews and monitors the pricing policies adopted by the Board. The Pricing Committee is responsible for determining the fair value of each Fund's securities as needed in accordance with the pricing policies and performs such other tasks as the Board deems necessary. The Pricing Committee meets on an ad hoc basis to discuss issues relating to the valuation of securities held by the Funds. Committee members are required to report actions taken at their meetings at the next scheduled Board meeting following the Pricing Committee's meeting. The Pricing Committee may take action if at least two members of the Pricing Committee meet in person or via telephone or be electronic exchange. During the fiscal year ended December 31, 2015, there were seventeen meetings of the Pricing Committee.

Risk Oversight by the Board

As previously disclosed, the board oversees the management of the funds and meets at least quarterly with management of the advisor to review reports and receive information regarding fund operations. Risk oversight relating to the funds is one component of the board's oversight and is undertaken in connection with the duties of the board. As described in the previous section, the board's committees assist the board in overseeing various types of risks relating to the funds. The board receives regular reports from each committee regarding the committee's areas of responsibility and, through those reports and its regular interactions with management of the advisor during and between meetings, analyzes, evaluates, and provides feedback on the advisor's risk management processes. In addition, the board receives information regarding, and has discussions with senior management of the advisor about, the advisor's enterprise risk management systems and strategies. There can be no assurance that all elements of risk, or even all elements of material risk, will be disclosed to or identified by the board.

As shown in the following table, the Fund pays the fees of the Trustees who are not affiliated with the Advisor, which are currently $520.83 per Trustee per quarter. The table provides information regarding the Fund as of December 31, 2015.

Name/Position	Aggregate Fund Group compensation	Pension or Estimated Retirement benefits accrued as Fund expenses	Annual benefits upon retirement	Total compensation respecting Registrant and Fund complex paid to Trustees
Stephen C. Rogers[1] Chairman of the Board & Trustee	None	None	None	None
Kevin T. Kogler Trustee	$2,083	None	None	$25,000
Stephen H. Sutro Trustee	$2,083	None	None	$25,000
Marco L. Quazzo	$2,083	None	None	$25,000

Trustee

[1] Basis of Interestedness. Stephen C. Rogers is affiliated with Shelton Capital Management, which is the investment advisor of the Funds.

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Aggregate Dollar Range of Equity Securities in the Trust and Fund Complex as of December 31, 2015:

	Dollar Range of Equity Securities in the Trust	Shelton Funds Complex
Stephen C. Rogers	None	Above $100,000
Marco Quazzo	None	$10,000 - $50,001
Kevin T. Kogler	$1 - $10,000	Above $100,000
Stephen H. Sutro	None	Above $100,000

Investment Advisory and Other Services Shelton Capital Management, a California Limited Partnership, is the investment advisor to the Trust, on behalf of the listed funds, pursuant to the Investment Advisory Agreement (the "Advisory Agreement") effective upon launch of each Fund and for a two-year period thereafter, between SCM Trust, and the Advisor. The Advisor is controlled by its general partner, RFS Partners, L.P., which in turn is controlled by its general partner, RFS Incorporated (a subchapter S corporation), which in turn is controlled by a private family trust, of which Mr. Stephen C. Rogers is a co-trustee. Shelton Capital Management manages $1.5 billion in assets as of June 30, 2016. The assets under management are comprised of $1.1 billion in mutual fund assets and $441 million in private client assets. Shelton Capital Management has been managing mutual funds since 1985. Pursuant to the Advisory Agreement, the Advisor is required to provide investment research and portfolio management, including the selection of securities for the Funds to purchase, hold, or sell and the selection of brokers or dealers through whom the portfolio transactions of the Fund are executed. The Advisor's activities are subject to review and supervision by the Board of Trustees to which the Advisor renders periodic reports of each Fund's investment activities.

Each Fund pays for its own operating expenses and for its share of the Trust's expenses not assumed by the Advisor, including, but not limited to, legal fees and expenses of counsel to each Fund; auditing and accounting expenses; taxes and governmental fees; dues and expenses incurred in connection with membership in investment company organizations; fees and expenses of the Funds' custodian, any sub-custodians, transfer agents and registrars; fees and expenses with respect to administration; expenses for portfolio pricing services by a pricing agent, if any; expenses of preparing share certificates and other expenses in connection with the issuance, offering and underwriting of shares issued by the Funds; expenses relating to investor and public relations; expenses of registering or qualifying securities of the Funds for public sale; freight, insurance and other charges in connection with the shipment of the Funds' portfolio securities; brokerage commissions or other costs of acquiring or disposing of any portfolio holding of the Funds; expenses of preparation and distribution of reports, notices and dividends to Funds' shareholders; expenses of the Funds' dividend reinvestment and cash purchase plan; costs of stationery; any litigation expenses; costs of Fund shareholder's and other meetings.

For the Manager's services, each Fund pays a monthly fee computed at the annual rates shown in the table below:

	Management Fee per annum	Range of average daily net assets of each fund
BDC Income Fund	0.90%	All assets
Real Estate Income Fund	0.80%	All Assets

The Advisory Agreement will be effective upon launch of each fund and for a two-year period thereafter. The Agreement will be in effect thereafter only if it is renewed for successive periods not exceeding one year by (i) the Board of Trustees or a vote of a majority of the outstanding voting securities of the Funds, and (ii) a vote of a majority of the Trustees who are not parties to the Advisory Agreement or an interested person of any such party (other than as a Trustee), cast in person at a meeting called for the purpose of voting on the Advisory Agreement.

The Advisory Agreement may be terminated without penalty at any time by the Funds (either by the Board of Trustees or by a majority vote of the Fund's outstanding shares) with 60 day's written notice. The Advisory Agreement may also be terminated by the Advisor on 60-days' written notice and will automatically terminate in the event of its assignment as defined in the 1940 Act.

The BDC Income Fund pays for its own operating expenses and for its share of the Fund expenses not assumed by the Advisor including, but not limited to, taxes and governmental fees, fees and expenses of the Fund's custodian, agents, broker and dealers; expenses incurred in connection with the acquisition and disposal of the assets of the Fund, including brokerage commissions; expenses in connection with the exercise of the voting rights of the Fund's shares; expenses relating to interest charges; expenses incurred regarding registration and transfer; and any litigation expenses.

Administrative Services

Pursuant to the restated Fund Administration Servicing Agreement, Shelton Capital Management also serves as the Trust's Administrator (in such capacity, the "Administrator"). The Administrator is responsible for handling the administrative requirements of the Funds and, as compensation for these duties, receives fees of 0.10% on the first $500 million in combined assets of the Funds, 0.08% on the next $500 million in combined assets of the Fund, and 0.06% on the Fund for assets over $1 billion.

Portfolio Manager

The table below includes details about the type, number, and assets under management for the various types of accounts, and total assets in the accounts with respect to which the advisory fee is based on the performance of the accounts that Messrs. Harris and Pike, managed as of March 31, 2016:

Shelton BDC Income Fund

David Harris

Type of Account	Number of Accounts Managed	Total Assets Managed	Number of Accounts Managed for which Investment Advisory Fee is Performance-Based	Assets Managed for which Investment Advisory Fee is Performance-Based
Registered Investment Companies	1	$18 million	-	-
Other Registered Investment Companies	3	$60.4 million	-	-
Other Accounts	1	$10.8 million	1	$10.8 million

Shelton Real Estate Income Fund

Chris Pike

Type of Account	Number of Accounts Managed	Total Assets Managed	Number of Accounts Managed for which Investment Advisory Fee is Performance-Based	Assets Managed for which Investment Advisory Fee is Performance-Based
Registered Investment Companies	3	$28 million	-	-
Other Registered Investment Companies	0		-	-
Other Accounts	2	$ 1.3 million	-	-

Potential Conflicts

Individual portfolio managers may manage multiple funds. The Advisor manages potential conflicts between funds and other accounts through allocation policies and procedures, internal review processes, including, but not limited to reports and oversight by management. The Advisor has developed trade allocation systems and controls to help ensure that no one account, regardless of type, is intentionally favored at the expense of another. Allocation policies are designed to address potential conflicts in situations where two or more accounts participate in investment decisions involving the same securities.

Portfolio Manager Securities Ownership

As of March 31, 2016, Messrs. Harris and Pike held no interests in the respective Fund they manage.

Compensation of Portfolio Managers (PMs)

The compensation of the portfolio managers of the Advisor includes a base salary, cash bonus, and a package of employee benefits that are generally available to all salaried employees. Compensation is structured to emphasize the performance of each individual to increase corporate value in order to fulfill the expectations of stockholders of the Advisor. The Advisor does not have any “incentive compensation” or “deferred compensation” programs specifically designed for the portfolio managers. Compensation is not linked to the distribution of Fund shares or to the performance of any specific account or Fund. The Portfolio Manager may also participate in equity ownership of the Advisor. Each element of compensation is detailed below:

Base Salary. The portfolio managers are paid a fixed base salary that is intended to be competitive in light of the Portfolio Manager's experience and responsibilities.

Bonus. Bonus payments are based on a number of factors including the profitability of the firm and the employee's long-term contributions, Bonuses are not linked to the volume of assets managed or to measurements of relative or absolute investment returns.

Employee Benefit Program. The portfolio managers participate in benefit plans and programs available generally to all employees, which includes various insurance coverage and retirement programs, including a defined contribution pension plan.

The above information regarding compensation of the portfolio managers is current as of June 30, 2016.

Code of Ethics

The Trust and Shelton Capital Management have each adopted a Code of Ethics pursuant to Section 17(j) of the 1940 Act and Rule 17j-1 thereunder (and in the case of the advisor, Rule 204A-1 under the Investment Advisers Act of 1940, as amended) (the "Codes of Ethics"). Currently, the Code of Ethics prohibits personnel subject to the Code of Ethics from buying or selling securities for their own individual accounts if such purchase or sale represents $50,000 or 1,000 shares, whichever is greater, and if the securities at the time of such purchase or sale (i) are being considered for purchase or sale by a Fund (except the Index Funds) (ii) have been purchased or sold by a Fund within the most recent seven (7) days if such person participated in the recommendation to, or the decision by, the Fund to purchase or sell such security (except the Index Funds). Notwithstanding these prohibitions, there are limited circumstances in which personnel subject to the Code of Ethics may buy or sell securities for their own account (e.g. purchases which are part of an automatic dividend reinvestment plan). The Code of Ethics also requires personnel subject to the Code to report personal holdings to the Trust or the Manager at the time of employment, and on both an annual and a quarterly basis.

Proxy Voting Policies and Procedures

The Board of Trustees has delegated to the Advisor the authority to vote proxies of companies held in the Fund's portfolio. The Advisor has entered into a proxy service agreement with Glass Lewis and intends to apply Glass Lewis' pre-determined proxy voting guidelines when voting proxies on behalf of the Fund. The Advisor recognizes that an investment advisor is a fiduciary that owes its clients, including the Fund, a duty of utmost good faith and full and fair disclosure of all material facts. An investment advisor's duty of loyalty requires an advisor to vote proxies in a manner consistent with the best interest of its clients and precludes the advisor from subrogating the clients' interests to its own. In addition, an investment advisor voting proxies on behalf of the Fund must do so in a manner consistent with the best interests of the fund and its shareholders. The Board, in conjunction with the Advisor, seeks to balance the benefits of voting the proxies against the associated costs to the shareholders and have determined that entry into a third party proxy services agreement is in the best interest of the Fund and its shareholders. The Board will review its determination at least annually. The Advisor seeks to avoid material conflicts of interest by voting in accordance with an independent third party's pre-determined written proxy voting guidelines (the "Voting Guidelines") in an objective and consistent manner across client accounts, based on internal and external research performed by Glass Lewis without consideration of any client relationship factors. Further, the Advisor may engage a third party as an independent fiduciary, as required, to vote all proxies of the Fund, and may engage an independent fiduciary to vote proxies of other issuers at its discretion. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, 2015 is available (1) by calling the Fund at (800) 955-9988, or (2) on the SEC's website at http://www.sec.gov.

Principal Underwriter

RFS Partners, a California limited partnership, is the principal underwriter of each Fund's shares under an underwriting agreement with the Trust, pursuant to which RFS Partners agrees to act as each Fund's distribution agent. Each Fund's shares are sold to the public on a best efforts basis in a continuous offering without a sales load or other commission or compensation. RFS Partners is the general partner of Shelton Capital Management. The general partner of RFS Partners is Richard F. Shelton, Inc., a corporation that is controlled by a family trust, of which Stephen C. Rogers serves as a co-trustee. While the shares of each Fund are offered directly to the public with no sales charge, RFS Partners may, out of its own monies, compensate brokers who assist in the sale of the Fund's shares. In addition, the Advisor may, out of its own monies, make cash contributions to tax-exempt charitable organizations that invest in the Funds.

Other Services

Gemini Fund Services, LLC acts as the shareholder servicing agent for the Trust and acts as the Trust's transfer agent and fund accounting agent. In such capacities it performs many services, including portfolio and net asset valuation, bookkeeping, and shareholder record-keeping. US Bank (the "Custodian") acts as custodian of the securities and other assets of the Fund. The Custodian does not participate in decisions relating to the purchase and sale of portfolio securities. Under the custodian agreement, the Custodian (i) maintains a separate account for the Fund, (ii) holds and transfers portfolio securities on account of the Fund, (iii) accepts receipts and makes disbursements of money on behalf of the Fund, (iv) collects and receives all income and other payments and distribution on account of the Fund's securities and (v) makes periodic reports to the Board of Trustees concerning the Fund's operations. Tait, Weller & Baker, LLP (the "Auditor"), 1818 Market Street, Suite 2400, Philadelphia, PA 19103, is the independent registered public accounting firm for the Fund. The Auditor provides audit services and assistance and consultation with respect to regulatory filings with the SEC. The Auditor will also audit the books of each Fund once each year. The validity of shares of beneficial interest offered hereby has been passed on by Reed Smith LLP, 101 Second Street, 18th Floor, San Francisco, California 94105.

Policies Regarding Broker-Dealers used for Portfolio Transactions

Decisions to buy and sell securities for the Funds, assignment of their portfolio business, and negotiation of commission rates and prices are made by the Advisor. It is each Fund's policy to obtain the "best execution" available (i.e., prompt and reliable execution at the most favorable security price). If purchases made by the Funds are effected via principal transactions with one or more dealers (typically a market maker firm in the particular security or a selling group member in the case of an initial or secondary public offering) at net prices, the Funds will generally incur few or no brokerage costs. These dealers are compensated through the principal "spread," and may also charge related transaction fees. Purchases of portfolio securities from underwriters may include a commission or concession paid by the issuer to the underwriter, and purchases from dealers will include a spread between the bid and asked price.

The Advisor does not currently utilize soft dollar arrangements, but may do so in the future. However, in order to obtain additional research and brokerage services on a "soft dollar" basis, and in order to obtain other qualitative execution services that the Advisor believes are important to best execution, the Advisor may place over-the-counter ("OTC") equity transactions and/or place fixed-income transactions with specialized broker-dealers with which the Advisor has a "soft dollar" credit arrangement, and that execute such transactions on an agency basis ("Brokers"). When the Advisor uses Brokers to execute OTC equity transactions and/or fixed-income transactions on an agency basis, the Advisor takes steps to ensure that the prices obtained in such transactions are competitive with the prices that could have been obtained had the transactions been conducted on a principal basis, i.e., directly with the dealers. However, the total cost (i.e., price plus/minus commission) of executing an OTC equity transaction and/or or a fixed income transaction through a Broker on an agency basis may be less favorable than that of executing that same transaction with a dealer because the Broker will receive a commission for its services, including for the provision of research products, services or credits. The Advisor will take steps to ensure that commissions paid are reasonable in relation to, among other things: (i) the value of all the brokerage and research products and services provided by that Broker and (ii) the quality of execution provided by that Broker. Accordingly, the Advisor uses Brokers to effect OTC equity transactions and/or fixed income transactions for the Funds where the total cost is, in the Advisor's opinion, reasonable, but not necessarily the lowest total cost available.

In selecting broker-dealers and in negotiating commissions, the Advisor generally considers, among other things, the broker-dealer's reliability, the quality of its execution services on a continuing basis, the financial condition of the broker-dealer, and the research services provided, which include furnishing advice as to the value of securities, the advisability of purchasing or selling specific securities and furnishing analysis and reports concerning state and local governments, securities, and economic factors and trends, and portfolio strategy. The Advisor considers such information, which is in addition to and not in lieu of the services required to be performed by the Advisor under the Agreements, to be useful in varying degrees, but of indeterminable value.

The Funds may pay brokerage commissions in an amount higher than the lowest available rate for brokerage and research services as authorized, under certain circumstances, by the Securities Exchange Act of 1934, as amended. Where commissions paid reflect research services and information furnished in addition to execution, the Advisor believes that such services were bona fide and rendered for the benefit of its clients.

The Advisor does not currently use soft dollars but may do so in the future with respect to the Funds at its discretion, subject to oversight by the Trustees.

If purchases or sales of securities of the Funds are considered at or about the same time, transactions in such securities will be allocated among the several Funds in a manner deemed equitable to all by the Advisor, taking into account the respective sizes of the Funds, and the amount of securities to be purchased or sold. It is recognized that it is possible that in some cases this procedure could have a detrimental effect on the price or volume of the security so far as a Fund is concerned. In other cases, however, it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions or net prices will be beneficial to a Fund.

Additional Information Regarding Purchases and Redemptions of Fund Shares

The purchase price for shares of the Funds are the respective net asset value of such shares next determined after receipt and acceptance of a purchase order in proper form by the Funds' Transfer Agent. Once shares of the Fund are purchased, dividends, if any, will start being credited to the investor's account on the day following the effective date of purchase and continue through the day the shares in the account are redeemed. All checks are accepted subject to collection at full face value in U.S. funds and must be drawn in U.S. dollars on a U.S. bank. Checks drawn in U.S. funds on foreign banks will not be credited to the shareholder's account and dividends will not begin accruing until the proceeds are collected, which can take a long period of time. Payments transmitted by wire and received by the Transfer Agent prior to the close of the Fund, normally at 4:00 p.m. Eastern time (1:00 p.m. PST) on any business day are effective on the same day as received. Wire payments received by the Transfer Agent after that time will normally be effective on the next business day and such purchases will be made at the net asset value next calculated after receipt of that payment.

Shareholder Accounting

All purchases of Fund shares will be credited to the shareholder in full and fractional shares of the Fund (rounded to the nearest 1/1000 of a share) in an account maintained for the shareholder by the Transfer Agent. Share certificates will not be issued for the Fund at any time. To open an account in the name of a corporation, a resolution of that corporation's board of directors will be required. Other evidence of corporate status or the authority of account signatories may be required. The Fund reserves the right to reject any order for the purchase of shares of the Fund, in whole or in part. In addition, the offering of shares of the Fund may be suspended by the Fund at any time and resumed at any time thereafter.

Shareholder Redemptions

On holidays in which the Custodian is closed, any transactions will be processed on the following business day. Due to the relatively high cost of handling small investments, the Trust reserves the right to redeem, involuntarily, at net asset value, the shares of any shareholder whose accounts in the Fund have an aggregate value of less than $1,000, but only where the value of such accounts has been reduced by such shareholder's prior voluntary redemption of shares. In any event, before the Trust redeems such shares and sends the proceeds to the shareholder, it will notify the shareholder that the value of the shares in that shareholder's account is less than the minimum amount and allow that shareholder 30 days to make an additional investment in an amount which will increase the aggregate value of that shareholder's accounts to at least $1,000 before the redemption is processed. In an effort to discourage market timing, the Trust has adopted certain controls and procedures, including policies regarding the use of the "exchange privilege" (as described in the Prospectus). In the event that a substantial portion of the Fund's shareholders should, within a short period, elect to redeem their shares of the Fund pursuant to the exchange privilege, the Fund might have to liquidate portfolio securities it might otherwise hold and incur the additional costs related to such transactions. The exchange privilege may be terminated or suspended by the Fund upon 60-days' prior notice to shareholders.

Redemptions In-Kind

The Trust has committed itself to pay in cash all requests for redemptions by any shareholder of record, limited in amount with respect to each shareholder during any 90-day period to the lesser of $250,000 or 1% of the net asset value of the Trust at the beginning of such period. Such commitment is irrevocable without the prior approval of the SEC. In the case of requests for redemption in excess of such amounts, the Trustees reserve the right to make payments in whole or in part in securities or other assets of the Fund from which the shareholder is redeeming in case of an emergency, or if the payment of such a redemption in cash would be detrimental to the existing shareholders of the Fund or the Trist. In such circumstances, the securities distributed would be valued at the price used to compute the Fund's net asset value. Should a Fund do so, a shareholder would likely incur transaction fees in converting the securities to cash.

Determination of Net Asset Value Per Share (“NAV”)

The portfolio securities of the Funds are generally valued at the last reported sale price on the principal exchange on which they were traded. In the case of the futures contracts held by a Fund, the valuation is determined using the settle price provided by the Chicago Mercantile Exchange, the Intercontinental Exchange, Inc. ("ICE") or other applicable exchange, depending on the exchange the contract trades on, typically as of 1:15 P.M., Pacific Time. Securities held by a Fund that has no reported last sale for any day that such Fund's NAV is calculated and securities and other assets for which market quotations are readily available are valued at the latest available bid price. All other securities and assets are valued at their fair value as determined in good faith by the Pricing Committee. Regardless of the method by which a security's value would otherwise be determined, if significant events affecting the security occur after the close of the exchange on which such security is traded, the Pricing Committee may determine in good faith the fair value of such security. Securities with remaining maturities of 60 days or less are valued on the amortized cost basis unless the Trustees determines that such valuation does not reflect fair value. The Trust may also utilize a pricing service, bank, or broker-dealer experienced in such matters to perform any of the pricing functions.

Yield Disclosure and Performance Information

The Fund may from time to time quote various performance figures in advertisements and investor communications to illustrate the Fund's past performance. Performance information published by the Fund will be in compliance with rules adopted by the SEC. These rules require the use of standardized performance quotations or, alternatively, that every non-standardized performance quotation furnished by the Fund be accompanied by certain standardized performance information computed as required by the SEC. An explanation of the methods used by the Fund to compute or express performance is discussed below.

Average Annual Total Return

Total return for the Fund may be stated for any relevant period as specified in the advertisement or communication. Any statements of total return or other performance data for the Fund will be limited to or accompanied by standardized information on the Fund's average annual compounded rate of return over the most recent four calendar quarters, five years, 10 years (if applicable) or over the life of the Fund (i.e., the period from the Fund's inception of operations through the end of the most recent calendar quarter). The average annual compounded rate of return is determined by reference to a hypothetical $1,000 investment that includes capital appreciation and depreciation for the stated period and assumes reinvestment (on the reinvestment date) of all distributions at net asset value and redemption at the end of the stated period. It is calculated according to the following standardized formula:

$P (1+T)^n = ERV$
where:
P = a hypothetical initial payment of $1,000
T = average annual total returns
n = number of years
ERV = ending redeemable value of a hypothetical $1,000 investment made at the beginning of a 1-,5-, or 10- year periods at the end of a 1-,5-, or 10- year periods (or fractional portion).

Average Annual Total Return (after taxes on distributions):

The Fund computes its average annual total return after taxes on distributions by determining the average annual compounded rates of return during specified periods that equate the initial amount invested to the ending redeemable value of such investment after taxes on fund distributions:

$P (1+T)^n = ATV^D$

where:
P = a hypothetical initial payment of $1,000
T = average annual total return (after taxes on distributions).
n = number of years
ATV^D = ending value of a hypothetical $1,000 payment made at the beginning of the 1-,5-, or 10- year periods at the end of such periods, after taxes on fund distributions but not after taxes on redemptions.

Average Annual Total Return (after taxes on distributions and redemptions):

The Fund computes its average annual total return after taxes on distributions and redemptions by determining the average annual compounded rates of return during specified periods that equate the initial amount invested to the ending redeemable value of such investment after taxes on fund distributions and redemptions:

$P (1+T)^n = ATV^{DR}$

where:
P = a hypothetical initial payment of $1,000
T = average annual total return (after taxes on distributions and redemptions).
n = number of years
ATV^{DR} = ending value of a hypothetical $1,000 payment made at the beginning of the 1-,5-, or 10- year periods at the end of such periods, after taxes on fund distributions and redemptions.

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After-tax returns are calculated using the historical highest individual federal marginal income tax rates plus the new Medicare surtax which began on January 1, 2013, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor’s tax situation and may differ from those shown, and after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. Since performance will fluctuate, performance data for the Fund should not be used to compare an investment in the Fund’s shares with bank deposits, savings accounts and similar investment alternatives which often provide an agreed-upon or guaranteed fixed yield for a stated period of time. Shareholders should remember that performance is generally a function of the kind and quality of the instruments held in a portfolio, portfolio maturity, operating expenses and market conditions.

The Funds have not been in existence for a full calendar year therefore the average annual compounded rates of return, or total return, for the Funds is not available.

Comparisons

From time to time, advertisements and investor communications may compare the Fund’s performance to the performance of other investments as reported in various indices or averages, in order to enable an investor better to evaluate how an investment in a particular Fund might satisfy his investment objectives. The Fund may also publish an indication of past performance as measured by Lipper Analytical Services, Inc., Morningstar or other widely recognized independent services that monitor the performance of mutual funds. The performance analysis will include the reinvestment of dividends and capital gains distributions, but does not take any sales charges into consideration and is prepared without regard to tax consequences. Independent sources may include, among others, the American Association of Individual Investors, Weisenberger Investment Companies Services, Donoghue’s Money Fund Report, Barron's, Business Week, Financial World, Money Magazine, Forbes, and The Wall Street Journal. In assessing any comparisons of total return, an investor should keep in mind that the composition of the investments in a reported average is not identical to the Fund's portfolio, that such averages are generally unmanaged and that the items included in the calculations of such averages may not be identical to the formula used by the Fund to calculate its total return or yield. In addition, there can be no assurance that the Fund will continue its performance as compared to any such averages.

Miscellaneous Information

Shareholders of each Fund, who so request, may have their dividends paid out in cash. Dividends, if any will be paid out at least annually. In such a structure, the shares of each series would have access only to the securities held by such series and would be subject only to the liabilities of such series. Under Massachusetts law, shareholders in certain circumstances could be held personally liable for the obligations of each Fund. However, the Declaration contains an express disclaimer of shareholder liability for debts or obligations of each Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by each Fund or the trustees. The Declaration further provides for indemnification out of the assets and property of the Funds for all loss and expense of any shareholder held personally liable for the obligations of each Fund solely by reason of his or her being a shareholder. In addition, each Fund will assume the defense of any claim against a shareholder for personal liability at the request of the shareholder. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which each Fund would be unable to meet its obligations. The Trust believes that the likelihood of such circumstances is remote. The Funds are not currently available to the public.

TAX STATUS

The following discussion is a general summary of the certain United States federal income tax considerations applicable to the Funds and to an investment in a shares of a Fund. This discussion is based upon the Internal Revenue Code of 1986, as amended (the ‘‘Code’’), Treasury regulations, and administrative and judicial interpretations, each as in effect as of the date of this SAI and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. This discussion does not purport to be a complete description of the income tax considerations applicable to an investment Fund shares. For example, this discussion does not describe tax consequences that are generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under United States federal income tax laws, including shareholders subject to the alternative minimum tax or who hold Fund shares as part of a straddle or a hedge, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold a Fund's shares as capital assets (within the meaning of the Code). No Fund has sought nor will seek any ruling from the Internal Revenue Service (''IRS'') regarding the offering. This summary does not discuss any aspects of United States estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under United States federal income tax laws that could result if a Fund invested in tax-exempt securities or certain other investment assets in which the Funds do not currently intend to invest.

A ''U.S. shareholder'' generally is a beneficial owner of shares of a Fund who is for United States federal income tax purposes:

- A citizen or individual resident of the United States including an alien individual who is a lawful permanent resident of the United States or meets the ''substantial presence'' test under Section 7701(b) of the Code;
- A corporation or other entity taxable as a corporation, for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- A trust if: (i) a court in the United States has primary supervision over its administration and one or more U.S. persons have authority to control all substantial decisions of such trust, or (ii) such trust validly elects to be treated as a U.S. person for federal income tax purposes; or
- An estate, the income of which is subject to United States federal income taxation regardless of its source.

A ''non-U.S. shareholder'' is a beneficial owner of shares of a Fund who is not a U.S. shareholder.

If a partnership (including an entity treated as a partnership for United States federal income tax purposes) holds shares of a Fund, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective shareholder who is a partner of a partnership holding shares of a Fund should consult his, her or its tax advisors with respect to the purchase, ownership and disposition of such shares.

Tax matters are very complicated and the tax consequences to an investor of an investment in Fund shares will depend on the facts of his, her or its particular situation. Investors are encouraged to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

TAXATION OF THE FUNDS

Each Fund has elected or intends to elect to be treated as, and intends to qualify annually as, a regulated investment company (''RIC'') under subchapter M of the Code. If the Fund qualifies as a RIC, the Fund generally will not be subject to U.S. federal income tax on its investment company taxable income (which includes among other items, dividends, interest and realized net short-term capital gains in excess of realized net long-term capital losses) and net capital gains (the excess of realized net long-term capital gains over realized net short-term capital losses), if any, that it distributes to shareholders, provided that it distributes at least 90% of the sum of its investment company taxable income and any net tax-exempt income for such taxable year (the ''annual distribution requirement''). Each Fund intends to distribute to its shareholders, at least annually, substantially all of its investment company taxable income, net tax-exempt income and net capital gains. If the Fund does retain any investment company taxable income or net capital gains, it will be subject to tax at regular corporate rates on the amount(s) retained.

Qualification as a RIC. To qualify for the favorable U.S. federal income tax treatment generally accorded to RICs, each Fund must, among other things, (1) satisfy the annual distribution requirement each taxable year; (2) derive in each taxable year at least 90% of its gross income from:(a) dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or foreign currencies; and (b) net income derived from interests in certain ''qualified publicly traded partnerships'' (as defined in the Code) (the ''annual gross income test''); and (3) diversify its holdings so that, at the end of each quarter of each taxable year: (a) at least 50% of the value of the Fund's total assets is represented by: (i) cash and cash items, U.S. government securities, the securities of other regulated investment companies and (ii) other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of the Fund's total assets and not more than 10% of the outstanding voting securities of such issuer and (b) not more than 25% of the value of the Fund's total assets is invested in the securities (other than U.S. government securities and the securities of other regulated investment companies) of (i) any one issuer, (ii) any two or more issuers that the Fund controls and that are determined to be engaged in the same or similar trades or businesses or related trades or businesses or (iii) any one or more qualified publicly traded partnerships (the ‘‘asset-diversification tests’’).

For purposes of the asset-diversification tests, the identification of the issuer (or, in some cases, issuers) of a particular investment can depend on the terms and conditions of that investment. In some cases, identification of the issuer (or issuers) is uncertain under current law, and an adverse determination or future guidance by the IRS with respect to issuer identification for a particular type of investment may adversely affect the Fund's ability to meet the asset-diversification tests.

The Funds' intention to qualify for treatment as a RIC may negatively affect each Fund's return by limiting its ability to acquire or continue to hold positions that would otherwise be consistent with its investment strategy or by requiring it to engage in transactions it would otherwise not engage in, resulting in additional transaction costs.

Investments with Original Issue Discount. For federal income tax purposes, each Fund may be required to recognize taxable income in circumstances in which it does not receive a corresponding payment in cash. For example, if a Fund holds debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), the Fund must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by the Fund in the same taxable year. Because any original issue discount or other amounts accrued will be included in a Fund's investment company taxable income for the year of the accrual, the Fund may be required to make a distribution to its shareholders in order to satisfy the annual 90% distribution requirement discussed above, even though it will not have received any corresponding cash amount. As a result, the Fund may have difficulty meeting the annual distribution requirement necessary to obtain and maintain RIC tax treatment under the Code. The Fund may have to sell some of its investments at times and/or at prices it would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If a Fund is not able to obtain cash from other sources, it may fail to qualify for RIC tax treatment and thus become subject to corporate-level U.S. federal income tax. A Fund's ability to dispose of assets to meet its distribution requirements may be limited by (1) the illiquid nature of its portfolio and/or (2) other requirements relating to its status as a RIC, including the asset diversification tests. If a Fund disposes of assets in order to meet the annual distribution requirement, it may make such dispositions at times that, from an investment standpoint, are not advantageous.

Failure to Qualify. In certain circumstances, it may be difficult for the Funds to meet the 90% gross income test and the diversification test described above. If a Fund were to fail to meet either of these tests, or the distribution test described above, the Fund could in some cases cure such failure, including: in the case of a gross income test failure, by paying the Fund-level tax, paying interest, making additional distributions or disposing of certain assets. If the Fund were ineligible to or otherwise did not cure such failure for any year, or if the Fund were otherwise to fail to qualify as a RIC for such year, the Fund would be subject to corporate-level U.S. federal income tax on its taxable income at regular corporate rates, and all distributions from earnings and profits, including any distributions of net tax-exempt income and net long-term capital gains, would be taxable to shareholders as dividend income. Such distributions generally would be eligible for the dividends received deduction in the case of corporate shareholders and to be treated as qualified dividend income in the case of individuals and other non-corporate shareholders, provided, in both cases, that the shareholder meets certain holding period and other requirements in respect of Fund shares (as described below). In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before re-qualifying as a RIC. Thus failure to qualify as a RIC would likely materially reduce the Fund's investment return to its shareholders.

The remainder of this discussion assumes that each qualifies as a RIC.

Special Rules. Certain of each Fund's investment practices may be subject to special and complex federal income tax provisions that may, among other things, (1) treat dividends that would otherwise constitute qualified dividend income as non-qualified dividend income, (2) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (3) convert lower-taxed long-term capital gain into higher-taxed short-term capital gain or ordinary income, (4) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (5) cause a Fund to recognize income or gain without receipt of a corresponding distribution of cash, (6) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (7) adversely alter the characterization of certain complex financial transactions and (8) produce income that would not be qualifying income for purposes of the annual gross income test. Each Fund intends to monitor its transactions and may make certain tax elections to mitigate the potential adverse effect of these provisions, but there can be no assurance that any adverse effects of these provisions will be mitigated.

Investments in REITs. Any investment by a Fund in equity securities of a REIT qualifying as such under Subchapter M of the Code may result in the Fund's receipt of cash in excess of the REIT's earnings. If the Fund distributes these amounts, these distributions could constitute a return of capital to Fund shareholders for U.S. federal income tax purposes. Investments in REIT equity securities also may require a Fund to accrue and distribute income not yet received. In such an event, to generate sufficient cash to make the requisite distributions, a Fund may be required to sell assets (including when it is not advantageous to do so) that it otherwise would have continued to hold. Dividends received by the Fund from a REIT will not qualify for the corporate dividends-received deduction and generally will not constitute qualified dividend income.

Investments in REMICs and Other Mortgage-Backed Securities. Each Fund may invest directly or indirectly in residual interests in REMICs (including by investing in residual interests in CMOs with respect to which an election to be treated as a REMIC is in effect) or equity interests in taxable mortgage pools (''TMPs''). Under the Code, the portion of a Fund's income (including income allocated to the Fund from a REIT or other pass-through entity) that is attributable to a residual interest in a REMIC or an equity interest in a TMP (referred to in the Code as an ''excess inclusion'') must be allocated to shareholders of the RIC in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related interest directly. In general, excess inclusion income allocated to shareholders (1) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (2) will constitute unrelated business taxable income (''UBTI'') to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on unrelated business taxable income, see ''Tax-Exempt Shareholders'' below., (3) will require the Fund to pay a corporate tax on the excess inclusion allocated to certain ''disqualified organizations'' as defined in the Code, and may allocate the burden of such tax to those shareholders on whose behalf the tax was incurred, and (4) in the case of any non-U.S. shareholders, will not qualify for any treaty-based or other reduction in U.S. federal withholding tax.

Passive Foreign Investment Companies. If a Fund purchases shares in a ''passive foreign investment company'' (a ''PFIC''), it may be subject to federal income tax on its allocable share of a portion of any ''excess distribution'' received on, or any gain from the disposition of, such shares even if the Fund's allocable share of such income is distributed as a taxable dividend to its shareholders. Additional charges in the nature of interest generally will be imposed on the Fund in respect of deferred taxes arising from any such excess distribution or gain. If a Fund invests in a PFIC and elects to treat the PFIC as a ''qualified electing fund'' under the Code (a ''QEF''), in lieu of the foregoing requirements, the Fund will be required to include in income each year its proportionate share of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed by the QEF. Alternatively, the Fund may be able to elect to mark-to-market at the end of each taxable year its shares in a PFIC; in this case, the Fund will recognize as ordinary income its allocable share of any increase in the value of such shares, and as ordinary loss its allocable share of any decrease in such value to the extent that any such decrease does not exceed prior increases included in its income. Under either election, the Fund may be required to recognize in a year income in excess of distributions from PFICs and proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the annual distribution requirement discussed above and will be taken into account for purposes of the 4% excise tax on undistributed earnings discussed below. See ''Excise Tax on Undistributed Earnings.''

Capital Loss Carryforwards. A Fund may not deduct net capital losses (i.e., its realized capital losses in excess of its realized capital gains) against its ordinary income. Instead, subject to certain limitations, a Fund may carry its net capital losses from any taxable year forward to subsequent taxable years to offset capital gains, if any, realized during such subsequent taxable years. Provided those losses arose after 2010, the losses will be carried forward to one or more subsequent taxable years without expiration until utilized to offset future capital gains. Any such losses carried forward will retain their character as short-term or long-term. As a result, any long-term capital losses carried forward will first offset a Fund's long-term capital gains before offsetting the Fund's short-term capital gains. This may result in larger distributions of short-term gains to shareholders (taxable to individual shareholders as ordinary income) than would result if such capital loss carryforwards were treated as short-term capital losses. The Fund's available capital loss carryforwards, if any, will be set forth in its annual shareholder report for each fiscal year. Capital loss carryforwards are reduced to the extent they offset current-year net realized capital gains, whether the Fund retains or distributes such gains.

Pursuant to recently enacted legislation, net capital losses incurred in taxable years beginning after December 22, 2010 can be carried forward without expiration. Net capital losses incurred in taxable years beginning on or before December 22, 2010 can be carried forward for eight taxable years. The Funds have not been in existence for a full or partial fiscal year and therefore any capital loss carryforwards for the Funds, if applicable, are not available.

Excise Tax on Undistributed Earnings. To prevent imposition of a 4% excise tax on undistributed earnings of a RIC, each Fund must distribute during each calendar year an amount at least equal to the sum of –(1) 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year, (2) 98.2% of its realized capital gains in excess of its realized capital losses (adjusted for certain ordinary losses) for the one-year period ending on October 31 (or a later date if the Fund is eligible to elect and so elects), and (3) any ordinary income and capital gain net income for previous years that was not distributed during those years and on which the Fund paid no corporate-level U.S. federal income tax. Each Fund intends to make distributions sufficient to avoid imposition of the excise tax, although there can be no assurance that it will be able to do so.

TAXATION OF U.S. SHAREHOLDERS

Distributions. Distributions by a Fund generally are taxable to U.S. shareholders as ordinary income or capital gains. Distributions of a Fund's ''investment company taxable income'' (which is, generally, a Fund's net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. shareholders to the extent of the Fund's current or accumulated earnings and profits, whether paid in cash or reinvested in additional shares. To the extent such distributions paid by a Fund to non-corporate shareholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions (''Qualifying Dividends'') may be eligible for a maximum tax rate of 20%. Distributions of a Fund's net capital gains (which are generally a Fund's realized net long-term capital gains in excess of realized net short-term capital losses) and properly reported by the Fund as ''capital gain dividends'' will be taxable to a U.S. shareholder as long-term capital gains that are currently taxable at a maximum rate of 20% in the case of individuals, trusts or estates, regardless of the U.S. shareholder's holding period for his, her or its shares and regardless of whether paid in cash or reinvested in additional shares. A distribution of an amount in excess of the Fund's current and accumulated earnings and profits in any taxable year will be treated as a return of capital to the extent of a shareholder's tax basis in his or her shares, and thereafter as capital gain. A return of capital is not taxable, but it reduces a shareholder's basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by the shareholder of such shares.

A Fund may retain some or all of its realized net long-term capital gains in excess of realized net short-term capital losses, but designate the retained net capital gain as a ''deemed distribution.'' In that case, among other consequences, the Fund will pay tax on the retained amount, each U.S. shareholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. shareholder, and the U.S. shareholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by the Fund. Because the Fund expects to pay tax on any retained capital gains at the Fund's regular corporate tax rate, and because that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual U.S. shareholders will be treated as having paid will exceed the tax they owe on the capital gain distribution and such excess generally may be refunded or claimed as a credit against the U.S. shareholder's other U.S. federal income tax obligations. The amount of the deemed distribution net of the tax paid by the Fund on the retained capital gains will be added to the U.S. shareholder's cost basis for his, her or its shares. In order to utilize the deemed distribution approach, a Fund must provide written notice to its shareholders prior to the expiration of 60 days after the close of the relevant taxable year. A Fund cannot treat any of its investment company taxable income as a ''deemed distribution.''

As a RIC, a Fund will be subject to the alternative minimum tax (''AMT''), but any items that are treated differently for AMT purposes must be apportioned between the Fund and its shareholders and this may affect a shareholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the IRS, the Funds intend in general to apportion these items in the same proportion that dividends paid to each shareholder bear to a Fund's taxable income (determined without regard to the dividends paid deduction), unless the Fund determines that a different method for a particular item is warranted under the circumstances.

Each Fund may report certain dividends as derived from ''qualified dividend income'' which, when received by non-corporate shareholders, will be taxed at the rates applicable to long-term capital gain, provided holding period and other requirements are met at both the shareholder and Fund levels. In order for some portion of the dividends received by the Fund shareholder to be qualified dividend income that is eligible for taxation at long-term capital gain rates, the Fund must meet holding period and other requirements with respect to some portion of the dividend-paying stocks in its portfolio and the shareholder must meet holding period and other requirements with respect to the Fund's shares. A dividend will not be treated as qualified dividend income (at either the Fund or shareholder level) (1) if the dividend is received with respect to any share of stock held for fewer than 61 days during the 121-day period beginning on the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend (or, in the case of certain preferred stock, 91 days during the 181-day period beginning 90 days before such date), (2) to the extent that the recipient is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, (3) if the recipient elects to have the dividend income treated as investment income for purposes of the limitation on deductibility of investment interest, or (4) if the dividend is received from a foreign corporation that is (a) not eligible for the benefits of a comprehensive income tax treaty with the United States (with the exception of dividends paid on stock of such a foreign corporation readily tradable on an established securities market in the United States) or (b) treated as a passive foreign investment company. Dividends paid by REITs will generally not qualify as qualified dividend income. If the aggregate qualified dividends received by the Fund during a taxable year are 95% or more of its gross income (excluding net long-term capital gain over net short-term capital loss), then 100% of the Fund's dividends (other than dividends properly reported as Capital Gain Dividends) will be eligible to be treated as qualified dividend income. In general, distributions of investment income reported by the Fund as derived from qualified dividend income will be treated as qualified dividend income in the hands of a shareholder taxed as an individual, provided the shareholder meets the holding period and other requirements described above with respect to the Fund's shares.

Dividends received by corporate shareholders of a Fund may qualify for the 70% dividends-received deduction to the extent of the amount of qualifying dividends received by the Fund from domestic corporations (other than REITs) and to the extent, if any, that a portion of interest paid or accrued on certain high yield discount obligations owned by the Fund is treated as a dividend. A dividend received by a Fund will not be treated as a dividend eligible for the dividends-received deduction (1) if it has been received with respect to any share of stock that the Fund has held for less than 46 days (91 days in the case of certain preferred stock) during the 91-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend (during the 181-day period beginning 90 days before such date in the case of certain preferred stock) or (2) to the extent that the Fund is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Moreover, the dividends received deduction may otherwise be disallowed or reduced (1) if the corporate shareholder fails to satisfy the foregoing requirements with respect to its shares of the Fund or (2) by application of various provisions of the Code (for instance, the dividends-received deduction is reduced in the case of a dividend received on debt-financed portfolio stock (generally, stock acquired with borrowed funds)).

Any distribution of income that is attributable to (1) income received by a Fund in lieu of dividends with respect to securities on loan pursuant to a securities lending transaction or (2) dividend income received by a Fund on securities it temporarily purchased from a counterparty pursuant to a repurchase agreement that is treated for U.S. federal income tax purposes as a loan by the Fund, will not constitute qualified dividend income to individual shareholders and will not be eligible for the dividends-received deduction for corporate shareholders.

Dividends and distributions on Fund shares are generally subject to federal income tax as described herein to the extent they do not exceed the Fund's realized income and gains, even though such dividends and distributions may economically represent a return of a particular shareholder's investment. Such distributions are likely to occur in respect of shares purchased at a time when the Fund's NAV reflects unrealized gains or income or gains that are realized but not yet distributed. Such realized income and gains may be required to be distributed even when the Fund's NAV also reflects unrealized losses.

For purposes of determining (1) whether the annual distribution requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, a Fund may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If a Fund make such an election, the U.S. shareholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, a distribution will be treated as paid on December 31 of the current calendar year if it is declared by the Fund in October, November or December with a record date in such a month and paid by the Fund during January of the following calendar year. Such distributions will be taxable to shareholders in the calendar year in which the distributions are declared, rather than the calendar year in which the distributions are received.

Individuals with income in excess of $200,000 ($250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their ''net investment income,'' which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. shareholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income.

Each Fund or, in the case of shares purchased through a financial intermediary, the financial intermediary will report to you and the IRS annually as to the U.S. federal tax status of distributions.

Sales and Redemptions. A shareholder generally will recognize taxable gain or loss if the shareholder sells, redeems, or otherwise disposes of his, her or its Fund shares. The amount of gain or loss will be measured by the difference between such shareholder's adjusted tax basis in the shares sold, redeemed, or otherwise disposed and the amount of the proceeds received in exchange. Any gain arising from such sale, redemption, or disposition generally will be treated as long-term capital gain or loss if the shareholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale, redemption, or disposition of Fund shares held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of Fund shares may be disallowed if other shares of the same Fund are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

In general, individual U.S. shareholders currently are subject to a maximum federal income tax rate of 20% on their net capital gain (i.e., the excess of realized net long-term capital gains over realized net short-term capital losses), including any long-term capital gain derived from an investment in Fund shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Non-corporate shareholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate shareholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate shareholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

Upon the redemption or exchange of Fund shares, the Fund or, in the case of shares purchased through a financial intermediary, the financial intermediary may be required to provide a shareholder and the IRS with cost basis and certain other related tax information about the Fund shares redeemed or exchanged. See each Fund's Prospectus for more information.

Tax Shelter Reporting of Losses. If a shareholder recognizes a loss with respect to shares of $2 million or more for an individual shareholder or $10 million or more for a corporate shareholder (or a greater loss over a combination of years), the shareholder must file with the Internal Revenue Service (IRS) a disclosure statement on Form 8886. Significant penalties may be imposed upon a failure to comply with this requirement. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to shareholders of most or all regulated investment companies. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Backup Withholding. The Funds may be required to withhold federal income tax, or backup withholding from all payments to any non-corporate U.S. shareholder (1) who fails to furnish a Fund with a correct taxpayer identification number or a certificate that such shareholder is exempt from backup withholding or (2) with respect to whom the IRS notifies a Fund that such shareholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. shareholder's federal income tax liability, provided that proper information is provided to the IRS.

Tax-Exempt Shareholders. Income of a RIC that would be treated as unrelated business taxable income (''UBTI'') if earned directly by a tax-exempt entity will not generally be attributed as UBTI to a tax-exempt shareholder of the RIC. Notwithstanding this ''blocking'' effect, a tax-exempt shareholder could realize UBTI by virtue of its investment in a Fund if shares in the Fund constitute debt-financed property in the hands of the tax-exempt shareholder within the meaning of Code Section 514(b).

A tax-exempt shareholder may also recognize UBTI if a Fund recognizes ‘‘excess inclusion income’’ derived from direct or indirect investments in residual interests in REMICs or equity interests in TMPs as described above, if the amount of such income recognized by a Fund exceeds the Fund’s investment company taxable income (after taking into account deductions for dividends paid by the Fund). Tax-exempt investors are urged to consult their tax advisors concerning the consequences of investing in a Fund.

Taxation of Non-U.S. Shareholders. Whether an investment in a Fund's shares is appropriate for a non-U.S. shareholder will depend upon that person's particular circumstances. An investment in a Fund's shares by a non-U.S. shareholder may have adverse tax consequences. Non-U.S. shareholders should consult their tax advisers before investing in Fund shares. Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

General Rules Applicable to Non-U.S. Shareholders. Distributions of a Fund's investment company taxable income to non-U.S. shareholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to non-U.S. shareholders directly) will be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of the Fund's current and accumulated earnings and profits unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the non-U.S. shareholder, and, if an income tax treaty applies, attributable to a permanent establishment in the United States, the Fund will not be required to withhold federal tax if the non-U.S. shareholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a non-U.S. shareholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

In addition, with respect to certain distributions made to non-U.S. shareholders in a Fund's taxable years beginning before January 1, 2015, no withholding was required and the distributions generally were not subject to federal income tax if (1) the distributions were properly reported in a notice timely delivered to the Fund's shareholders as ''interest-related dividends'' or ''short-term capital gain dividends,'' (2) the distributions were derived from sources specified in the Code for such dividends and (3) certain other requirements were satisfied. Although this exemption has been subject to previous extensions, no assurance can be provided that this exemption will be extended for taxable years beginning on or after January 1, 2015. No assurance can be given that any of the Funds' distributions would be eligible for this exemption even if it is extended. In the case of shares held through an intermediary, the intermediary may withhold even if the Fund reports all or a portion of a payment as an interest-related or short-term capital gain dividend to shareholders. Non-U.S. shareholders should contact their intermediaries regarding the application of these rules to their accounts.

Actual or deemed distributions of a Fund's net capital gains to a non-U.S. shareholder, and gains realized by a non-U.S. shareholder upon the sale or redemption of Fund shares, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless (1) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the non-U.S. shareholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. shareholder in the United States, (2) the non-U.S. shareholder is an individual that is present in the United States for more than 183 days during the taxable year, or (3) the special rules applicable U.S. real property interests discuss below apply to the sale or redemption of the shares.

If the Fund distributes its net capital gains in the form of deemed rather than actual distributions, a non-U.S. shareholder will be entitled to a federal income tax credit or tax refund equal to the shareholder's allocable share of the tax the Fund pays on the capital gains deemed to have been distributed. In order to obtain the refund, the non-U.S. shareholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the non-U.S. shareholder would not otherwise be required to obtain a taxpayer identification number or file a federal income tax return.

For a corporate non-U.S. shareholder, distributions (both actual and deemed), and gains realized upon the sale of Fund shares that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional ''branch profits tax'' at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a non-U.S. shareholder.

Special Rules Applicable to U.S. Real Property Interests. Special rules will apply if a Fund is either a ‘‘U.S. real property holding corporation’’ (‘‘USRPHC’’) or would be a USRPHC but for the operation of certain exceptions to the definition thereof. Very generally, a USRPHC is a domestic corporation that holds USRPIs the fair market value of which equals or exceeds 50% of the sum of the fair market values of the corporation’s USRPIs, interests in real property located outside the United States, and other trade or business assets. USRPIs are generally defined as any interest in U.S. real property and any interest (other than solely as a creditor) in a USRPHC or former USRPHC.

If a Fund is a USRPHC or would be a USRPHC but for the exceptions referred to above, under a special ‘‘look-through’’ rule, any distributions by the Fund to a foreign shareholder (including, in certain cases, distributions made by the Fund in redemption of its shares) attributable to gains realized by the Fund on the disposition of USRPIs or to distributions received by the Fund from a lower-tier RIC or REIT that the Fund is required to treat as USRPI gain in its hands, generally would be subject to U.S. tax withholding. In addition, such distributions could result in the foreign shareholder being required to file a U.S. tax return and pay tax on the distributions at regular U.S. federal income tax rates. The consequences to a foreign shareholder, including the rate of such withholding and character of such distributions (e.g., as ordinary income or USRPI gain), would vary depending upon the extent of the foreign shareholder’s current and past ownership of the Fund. On and after January 1, 2015, the ‘‘look-through’’ rule described above for distributions by the Fund (which treatment applies only if the Fund is either a USRPHC or would be a USRPHC but for the operation of the exceptions referred to above) applies only to those distributions that, in turn, are attributable directly or indirectly to distributions received by the Fund from a lower-tier REIT, unless Congress enacts legislation providing otherwise.

In addition, if a Fund is a USRPHC or former USRPHC, it could be required to withhold U.S. tax on the proceeds of a share redemption by a greater-than-5% foreign shareholder, in which case such foreign shareholder generally would also be required to file U.S. tax returns and pay any additional taxes due in connection with the redemption.

Foreign shareholders of the Funds also may be subject to special wash sale rules to prevent the avoidance of the tax-filing and payment obligations discussed above through the sale and repurchase of Fund shares.

FATCA. Under the Foreign Account Tax Compliance Act, a 30% withholding tax is imposed on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the United States Treasury to report certain required information with respect to accounts held by United States persons (or held by foreign entities that have United States persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends and, after December 31, 2016, the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends paid. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder’s account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a 10% or greater U.S. owner or provides the withholding agent with identifying information on each 10% or greater U.S. owner. Depending on the status of a non-U.S. Holder and the status of the intermediaries through which they hold their units, non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their shares and proceeds from the sale of their share. Under certain circumstances, a non-U.S. shareholder might be eligible for refunds or credits of such taxes.

Certification of Non-U.S. Status. A non-U.S. shareholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the non-U.S. shareholder provides a Fund or the dividend paying agent with an IRS Form W-8BEN or IRS Form W-8BEN-E (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a non-U.S. shareholder or otherwise establishes an exemption from backup withholding.