



***Business Continuity Plan
Client Disclosure Document***

Introduction

The purpose of this letter is to provide you with very important information about Smith Asset Management, Inc. ("SAM") Business continuity Plan ("BCP") so that you are aware of what you need to do in the event that our firm experiences a significant business disruption ("SBD"). As a result of our ever-changing and evolving world, it has become necessary for firms in the financial services industry to take steps to ensure their preparedness to meet customer needs and resume regular business operations in a timely manner in the event of an SBD.

There are several types of SBDs varying in severity and scope that may occur on an internal or external level. An internal SBD, such as fire in our building, would only affect the firm's ability to conduct its normal business. An external SBD, such as earthquake, regional power outage, or terrorist attack, would affect the operations of several firms or the financial markets as a whole.

On April 7, 2004, the Securities and Exchange Commission ("SEC") approved the new NASD Rule 3500 Series, which requires members to establish emergency preparedness plans and procedures. Rule 3510 requires each member to create and maintain a BCP and enumerates certain requirements that each plan must address. The Rule further requires members to update their BCPs upon any material change and, at a minimum, to conduct an annual review of their BCP. Each member also must disclose to its customers how its BCP addresses the possibility of a future SBDs and how the member plans to respond to events of varying scope.

Effective February 5, 2004, SEC approved Rule 206(4)-7 under the Investment Advisers Act of 1940, which requires SEC-registered investment advisers to establish compliance programs. One of the expected components of such programs is for firms to create and maintain a BCP.

Firm Policy

Our policy is to respond to an SBD in a manner that prioritizes the immediate safety of our employees, preservation of the Firm's property, and a quick recovery in order to meet the business needs of our clients. If we determine that the SBD has been so catastrophic such that we are unable to continue our business, we will ensure that our clients have prompt access to their funds and securities.

Alternate office location

In the event that the main office becomes inoperable, the firm will shift its operations to its designated back-up facility which is reasonably distant from the main office so as to reduce the chance that it will be affected by the same SBD, yet close enough to relocate to quickly if necessary. All of the firm's employees are familiar with the back-up facility and have been provided with driving directions.

Back-up books and records

SAM maintains back-ups of all its clients' files and other internal books and records at an off-site facility. Should an SBD cause our primary records to be inaccessible or destroyed, we have procedures in place to access the back-up files and implement them promptly in order to assure the least possible impact on our clients

Third party business relationships

SAM has business relationships with several entities upon which we rely for varying services. Such entities include our clearing firm, banks, telecommunication providers, etc. we have contacted our essential third parties to access the impact that varying types of SBDs may have on the services we are provided by them. Based on that information we have been able to develop alternate plans to counter any interruptions in these services that we may experience during an SBD.

Key systems

The firm has identified the possibility of a loss of functionality of the systems relied upon for its regular business operations in the event of an SBD. We have enumerated our key systems in our BCP, identified the individual(s) responsible for them, and developed procedures to switch alternative systems should our primary systems be incapacitated. Based on the trial conversions we have run, we expect minimal down time if a situation arises which forces us to switch to our alternate systems.

Potential SBD Scenarios

In an effort to prepare for the variety of effects that different types of SBDs might have on SAM, we have outlined some SBD scenarios and the corresponding actions that the firm will need to take in order to assure that the SBD has the least possible effect on the firm and our clients. We are aware that the exact ramifications of any type of SBD cannot be predicted precisely and in the event of an SBD, we will take the time to assess the firm’s particular resulting situation and take the necessary steps as described on our BCP to handle the situation as effectively as is possible under the circumstances we encounter.

Illustration # 1 – Internal SBD

In the event that a fire consumes SAM’s main office destroying all hardware and files, after assuring the safety and well-being of our employees, the following actions will be taken:

Effect of SBD	Action to be taken
Personal computers, servers, and data storage hardware are destroyed	Acquire new computers, transport them to alternate location, and install the necessary software obtained from off-site storage facility. Contact network service provider if necessary to re-establish technological infrastructure and web services.
Books and records are destroyed	Obtain back-up books and records from off-site facility and transport them for immediate use to the alternate location.
Office is destroyed	Relocate to the alternate location and establish operations. Once business has resumed and is fully operational, start searching for a new main office location.
Telecommunications hardware is destroyed	Contact service provider to transfer existing service to the alternate location, arrange for necessary hardware and software installations.

We estimate the resumption of business and communications channels within forty-eight (48) hours of the onset of this type of SBD.

Illustration # 2 – External regional SBD

In the event that an earthquake or other natural disaster causes structural damage to our building and the buildings of some of our service providers, including our clearing firm, SAM will make the following assessments and take the following steps:

Effect of SBD	Action to be taken
Building is not structurally sound	All vital equipment and files will be transported to the alternate location and business will resume promptly. If the equipment and files are damaged beyond use, new equipment (as necessary) shall be retrieved from its off-site storage facility(s).
Clearing firm has been forced to relocate to its secondary business location	Contact the clearing firm and assess the repercussions of its relocation on its business. Determine which method will be the most effective for delivering customer orders and requests for withdrawals to the clearing firm.
Other vendors are experiencing service interruptions	Contact vendors to determine when they anticipate being fully operational and make arrangements for the continuance of service, if possible, in the meantime.

Depending on the impact of this particular type of SBD on our third-party vendors, we estimate a range of forty-eight (48) to seventy-two (72) hours for the firm to be able to resume normal business operations.

Illustration # 3 – Catastrophic SBD

In the event of an SBD on the level of the terrorist attack, major natural disaster, political crisis, or other event that is of a magnitude great enough to force the close of the markets but does not *physically* affect SAM, the firm will take the following steps:

Effect of SBD	Action to be taken
The financial markets are closed (other than normal market holidays)	Communicate the situation to clients and assure that the clearing firm will be able to process transactions when the markets re-open.
One of SAM’s banks has been significantly affected and cannot continue its business for a prolonged	Contact the bank to determine how funds may be withdrawn and transfer the funds to another account. If funds are frozen for an uncertain amount of time, assess the firm’s financial situation and pursue additional financing if necessary.

(more than seventy-two hours) period of time	
The firm's investments in the financial markets are frozen	Perform a risk assessment based on the overall status of the SBD to secede how to best preserve the firm's capital position under a variety of market re-open scenarios.
There is a possibility of further SBDs resulting from the primary SBD	Test the firm's procedures for handling an SBD that results in the firm's relocation. Assure that back-up systems, hardware, and files are ready to be utilized and can be set up quickly if needed.

It is virtually impossible to predict a recovery time for this category of SBD due to the scope and the myriad of ramifications on the financial services industry as a whole. We are confident that with the procedures we have in place we will be able to ensure the least possible impact on our clients as dictated by the circumstances.

Important Contact Information

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For Additional Information about Our BCP

Should you have any questions in relation to our BCP or this notice, please don't hesitate to contact us at (212) 812-9330.

Summary

At SAM we deeply value the relationships we have built with our clients and we strive to meet their changing needs in any business climate. It is not the intent of this document to assure our clients that there will be no impact on them whatsoever in the event that SAM is affected by an SBD. Rather, we wish to convey the fact that we have developed procedures for varying types of possible SBDs which will allow us to address the effects on our firm on a variety of levels, manage those effects, and utilize our alternate arrangements in a manner that we expect will minimize client impact. In our procedures, we stress the importance of maintaining communications with our clients through as many media as possible so that we may continue to meet their needs and transact business in as smooth a fashion as is possible under whatever circumstances may have arisen.