

# SECURITIES AND EXCHANGE COMMISSION

## FORM 497

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### FILER

#### **BRAZOS MUTUAL FUNDS**

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PROSPECTUS

December 31, 1997

INVESTMENT OBJECTIVES

Brazos Mutual Funds (the "Fund") is an open-end, management investment company known as a "mutual fund." The Fund consists of multiple series of shares (known as "Portfolios") each of which has different investment objectives and investment policies. The BRAZOS/JMIC Micro Cap Growth Portfolio currently offers only one class of shares. The securities offered in this Prospectus are shares of one diversified, no-load Portfolio managed by John McStay Investment Counsel.

BRAZOS/JMIC Micro Cap Growth Portfolio. The objective of the BRAZOS/JMIC Micro Cap Growth Portfolio (the "Portfolio") is to provide maximum capital appreciation, consistent with reasonable risk to principal. The Portfolio seeks to achieve its objective principally through investment in micro capitalization companies.

There can be no assurance that the Portfolio will meet its stated objective.

ABOUT THIS PROSPECTUS

Keep this Prospectus for future reference. It contains information you should know before you invest. A "Statement of Additional Information" ("SAI") containing additional information about the Fund has been filed with the Securities and Exchange Commission. Such Statement is dated December 31, 1997 and has been incorporated by reference into this Prospectus. For a free copy of the SAI write to the Fund or call the Fund's Administrator at the telephone number above.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

FUND EXPENSES

The following table illustrates expenses and fees a shareholder of the Portfolio will incur. Additional transaction fees may be charged if a broker-dealer or other financial intermediary deals with the Fund on your behalf. Please see "Purchase of Shares" for further information.

Shareholder Transaction Expenses

Sales Load Imposed on Purchases.....	NONE
Sales Load Imposed on Reinvested Dividends.....	NONE
Deferred Sales Load.....	NONE
Redemption Fees.....	NONE
Exchange Fees.....	NONE

The table below shows the expenses an investor in the Portfolio would bear directly or indirectly. The expenses and fees listed are based on estimates of the Portfolio's operating costs to be incurred during the fiscal period ending November 30, 1998.

Annual Fund Operating Expenses  
(As a Percentage of Average Net Assets)

Investment Advisory Fees (After Fee Waivers).....	1.10%
Administrative Fees.....	0.13%
12b-1 Fees.....	NONE
Other Expenses.....	0.37%
Total Operating Expenses (After Fee Waivers).....	1.60%*

The fees set forth above are estimated amounts for its first year of operations assuming average daily net assets of \$40 million.

\* The Adviser has voluntarily agreed to waive a portion of its advisory fees and to assume expenses otherwise payable by the Portfolio (if necessary) in order to keep the expense ratio from exceeding 1.60% of its average daily net assets. Without the fee waiver, the annual investment advisory fee would be 1.20% of average net assets. Absent the fee waiver, the Portfolio's total annual operating expenses are estimated to be 1.70% of average daily net assets. The Fund will not reimburse the Adviser for any advisory fees that are waived or Portfolio expenses that the Adviser may bear on behalf of a Portfolio.

The following example shows the expenses that a shareholder would pay on a \$1,000 investment over various time periods assuming (1) a 5% annual rate of return and (2) redemption at the end of each time period. The Portfolio charges a \$12.00 redemption fee for wire redemptions.

	1 Year	3 Years
BRAZOS/JMIC Micro Cap Growth Portfolio.....	\$16	\$50

This example should not be considered a representation of past or future expenses or performance. Actual expenses may be greater or lesser than those shown.

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#### PROSPECTUS SUMMARY

##### INVESTMENT ADVISER

John McStay Investment Counsel (the "Adviser"), an investment counseling firm founded in 1983, is the investment adviser to the Portfolio. The Adviser currently manages approximately \$3 billion in assets for institutional clients and high net worth individuals. See "INVESTMENT ADVISER."

##### PURCHASE OF SHARES

Shares of the Portfolio are offered through Rodney Square Distributors, Inc. (the "Distributor" or "RSD"). The shares are available to investors at net asset value without a sales commission. Shares can be purchased by sending investments directly to the Fund. The minimum initial investment is \$10,000. The minimum for subsequent investments is \$1,000. Certain exceptions to the initial or minimum investment amounts may be made by Fund officers. See "PURCHASE OF SHARES."

##### DIVIDENDS AND DISTRIBUTIONS

The Portfolio will distribute substantially all of its net investment income and long-term capital gains at least annually, and may distribute net investment income and other capital gains during interim periods when the management of the Portfolio determines that it is in the interests of the Portfolio and the shareholders to do so. It is not anticipated that distributions will be made more frequently than quarterly. Distributions will automatically be reinvested in Portfolio shares unless an investor elects to receive cash distributions. See "DIVIDENDS, CAPITAL GAINS DISTRIBUTIONS AND TAXES."

##### REDEMPTIONS AND EXCHANGES

Shares of the Portfolio may be redeemed without cost at any time, at the net asset value of the Portfolio next determined after receipt of the redemption request. The redemption price may be more or less than the purchase price. See "REDEMPTION OF SHARES."

##### ADMINISTRATIVE SERVICES

Rodney Square Management Corporation (the "Administrator" or "Rodney

Square"), is responsible for performing and overseeing administration, fund accounting, dividend disbursing and transfer agent services for the Fund. Rodney Square has entered into an agreement with PFPC Inc. ("PFPC") pursuant to which PFPC will acquire the fund administration business of Rodney Square. Effective January 5, 1998, the services previously provided to the Fund by Rodney Square will be provided by PFPC. Telephone, mail and wire instructions contained in this prospectus shall remain as stated herein until further notice. See "ADMINISTRATIVE SERVICES."

#### RISK FACTORS

Prospective investors should consider the following: (1) the micro cap companies in which the Portfolio will invest are more vulnerable to financial and other risks than larger companies and the

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securities of such micro cap companies may involve a higher degree of risk and price volatility than investments in the general equity markets. (2) The Portfolio may invest a portion of its assets in derivatives including futures contracts and options. (See "FUTURES CONTRACTS AND OPTIONS.") (3) The Portfolio may invest in securities of foreign issuers, which may be subject to additional risks. (See "FOREIGN SECURITIES.") (4) High rates of Portfolio Turnover may result in additional cost and the realization of capital gains, a portion of which may be short-term or mid-term gains. (See "PORTFOLIO TURNOVER") (5) The Portfolio may use various investment practices, including investing in repurchase agreements, when issued, forward delivery and delayed settlement securities. (See "OTHER INVESTMENT POLICIES.").

#### INVESTMENT OBJECTIVE

The objective of the Portfolio is to provide maximum capital appreciation, consistent with reasonable risk to principal. The Portfolio seeks to achieve its objective by investing primarily in micro capitalization ("Micro Cap") companies. The Portfolio attempts to limit the risk of decline in the value of its securities by following a stock selection process that emphasizes the use of traditional fundamental security analysis and valuation methods as described under "Investment Policies".

#### INVESTMENT POLICIES

The Portfolio will invest (under normal circumstances) at least 65% of its total assets in equity securities of a diverse spectrum of companies which, at the time of purchase, have market capitalizations that would place them in the smallest 10% of market capitalizations for domestic companies as measured by the Wilshire 5000 Index (currently approximately \$600 million). The remaining 35% of the Portfolio's total assets may be invested in equity securities of companies which have market capitalizations at the time of purchase that are larger than the market capitalizations of such micro cap companies. The equity securities in which the Portfolio will invest consist of common stocks and securities convertible into common stocks, including convertible preferred stocks and convertible bonds, and ADRs.

The Adviser selects companies based on their potential for strong growth in revenue, earnings and cash flow, strong management, leading products or services and potential for improvement. The list of potential investments is further filtered by the use of traditional fundamental security analysis and valuation methods including, but not limited to, analysis of relative returns on capital and equity, reward to risk ratios and earnings per share growth rates relative to price earnings ratios. The Adviser believes that many companies with smaller capitalizations have greater potential than their larger counterparts to deliver above-average revenue and earnings growth rates that may not yet have been recognized by investors.

Micro cap companies may offer greater opportunities for capital appreciation than larger companies, but investments in such companies may involve certain special risks. Such companies may have limited product lines, markets or financial resources and may be dependent on a limited management group. While the markets in securities of micro cap companies have grown rapidly in recent years, such securities may trade less frequently and in smaller volume than more widely held securities. The values of these securities may fluctuate more sharply than those of other securities, and the Portfolio may experience

some difficulty in establishing or closing out positions in these securities at prevailing market prices. There may be less publicly available information about the issuers of these securities or less market interest in such securities than in the case of larger companies, and it may take a longer period of time for the prices of such

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securities to reflect the full value of their issuer's underlying earnings potential or assets. Additionally, some securities of micro cap companies may be thinly traded. Consequently, the ability of the Portfolio to dispose of such securities may be greatly limited, and the Portfolio may have to continue to hold such securities during periods when the Adviser would otherwise have sold the security.

The Adviser expects that a majority of investments in the Portfolio will be in U.S. based companies, however shares of foreign based companies may be purchased if they meet the Portfolio's investment criteria. Under normal circumstances, investments in foreign based companies will comprise no more than 25% of total portfolio assets. The Portfolio may invest up to 20% of its assets at the time of purchase in securities of companies that have (with predecessors) a continuous operating history of less than 3 years. Such investments may be characterized as potentially possessing higher business risks as well as greater stock market risks and price volatility. Such companies may face special risks that their products or services may not prove to be commercially successful.

It is anticipated that cash reserves will represent a relatively small percentage of total portfolio assets (less than 10% under most circumstances). In unusual circumstances, or for temporary defensive purposes when market or economic conditions warrant, the Portfolio may invest all or a portion of its assets in short-term investments, cash and cash equivalents. When the Portfolio is in a defensive position, it may not be pursuing its investment objective.

#### OTHER INVESTMENT POLICIES

##### SHORT-TERM INVESTMENTS

Occasionally, the Portfolio may invest a portion of its assets in the following money market instruments, consistent with the Portfolio's investment policies.

- (1) Time deposits, certificates of deposit (including marketable variable rate certificates of deposit) and bankers' acceptances issued by a commercial bank or savings and loan association.

Time deposits are nonnegotiable deposits maintained in a banking institution for a specified period of time (not longer than seven days) at a stated interest rate. Time deposits maturing from two business days through seven calendar days will not exceed 10% of the total assets of a Portfolio under most circumstances.

Certificates of deposit are negotiable short-term obligations issued by commercial banks or savings and loan associations collateralized by funds deposited in the issuing institution. Variable rate certificates of deposit are certificates of deposit on which the interest rate is periodically adjusted prior to their stated maturity based upon a specified market rate. A bankers' acceptance is a time draft drawn on a commercial bank by a borrower, usually in connection with an international commercial transaction.

The Portfolio will not invest in any security issued by a commercial bank unless (i) the bank has total assets of at least \$1 billion, or the equivalent in other currencies, (ii) in the case of U.S. banks, it is a member of the Federal Deposit Insurance Corporation, and (iii) in the case of foreign branches of U.S.

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banks, the security is, in the opinion of the Adviser, of an investment quality comparable to other debt securities which may be purchased by the Portfolio;

- (2) Commercial paper rated A-1 or A-2 by S&P or Prime-1 or Prime-2 by Moody's or, if not rated, issued by a corporation having an

outstanding unsecured debt issue rated A or better by Moody's or by S&P;

- (3) Short-term corporate obligations rated A or better by Moody's or by S&P;
- (4) U.S. Government obligations including, bills, notes, bonds and other debt securities issued by the U.S. Treasury. These are direct obligations of the U.S. Treasury, supported by the full faith and credit pledge of the U.S. Government and differ mainly in interest rates, maturities and dates of issue;
- (5) U.S. Government agency securities issued or guaranteed by U.S. Government sponsored instrumentalities and Federal agencies; and
- (6) Repurchase agreements collateralized by securities listed above.

#### REPURCHASE AGREEMENTS

The Portfolio may invest in repurchase agreements collateralized by U.S. Government securities. In addition, the Portfolio may invest in repurchase agreements collateralized by certificates of deposit, and certain bankers' acceptances and other securities outlined above under "Short-Term Investments." In a repurchase agreement, a Portfolio buys a security and simultaneously commits to sell that security back at an agreed upon price plus an agreed upon market rate of interest. Under a repurchase agreement, the seller will be required to maintain the value of the securities subject to the agreement at not less than the repurchase price if such securities mature in one year or less, or 101% of the repurchase price if such securities mature in more than one year.

The use of repurchase agreements involves certain risks. While the Fund's management acknowledges these risks, it is expected that they can be controlled through stringent security selection criteria and careful monitoring procedures.

#### LENDING OF SECURITIES

The Portfolio may lend its investment securities to qualified institutional investors as a means of earning income. The Portfolio will not loan securities to the extent that greater than one-third of its assets at fair market value would be committed to loans. During the term of a loan, the Portfolio is subject to a gain or loss depending on any increase or decrease in the market price of the securities loaned. Lending of securities is subject to review by the Fund's Board of Trustees. All relevant facts and circumstances, including the creditworthiness of the broker, dealer or institution, will be considered in making decisions about securities lending.

An investment company may pay reasonable negotiated fees in connection with loaned securities so long as such fees are set forth in a written contract and approved by its Board of Trustees. The Portfolio

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will continue to retain any voting rights with respect to loaned securities. If a material event occurs affecting an investment on a loan, the loan must be called and the securities voted.

#### WHEN-ISSUED, FORWARD DELIVERY AND DELAYED SETTLEMENT SECURITIES

The Portfolio may purchase and sell securities on a "when-issued," "delayed settlement" or "forward delivery" basis. "When-issued" or "forward delivery" refers to securities whose terms and indenture are available, and for which a market exists, but which are not available for immediate delivery. When-issued and forward delivery transactions may be expected to occur a month or more before delivery is due. Delayed settlement is a term used to describe settlement of a securities transaction in the secondary market which will occur sometime in the future. No payment or delivery is made by a Portfolio until it receives payment or delivery from the other party to any of the above transactions. The Portfolio will maintain a separate account of cash, U.S. Government securities, other high grade debt obligations or other liquid securities at least equal to the value of purchase commitments until payment is made. Such segregated securities will either mature or, if necessary, be sold on or before the settlement date. Typically, no income accrues on securities purchased on a delayed delivery basis prior to the time delivery is made, although the

Portfolio may earn income on securities it has deposited in a segregated account.

The Portfolio may engage in when-issued transactions to obtain what is considered to be an advantageous price and yield at the time of the transaction. When the Portfolio engages in when-issued or forward delivery transactions, it does so to acquire securities consistent with its investment objective and policies and not for the purpose of investment leverage.

#### PORTFOLIO TURNOVER

It is expected that the annual portfolio turnover rate for the Portfolio will not exceed 300%. In addition to Portfolio trading costs, higher rates of portfolio turnover may result in the realization of capital gains, a portion of which may be short-term or mid-term gains. See "DIVIDENDS, CAPITAL GAINS DISTRIBUTIONS AND TAXES" for information on taxation.

#### INVESTMENT COMPANIES

The Portfolio reserves the right to invest up to 10% of its total assets, calculated at the time of investment, in securities of other open-end or closed-end investment companies. No more than 5% of the investing Portfolio's total assets may be invested in securities of any one investment company nor may it acquire more than 3% of the voting securities of any investment company. The Portfolio will indirectly bear its proportionate share of any management fees paid by an investment company in which it invests in addition to the advisory fee paid by the Portfolio.

#### FOREIGN INVESTMENTS

It is expected that generally, the Portfolio will invest in common stocks of companies listed on foreign stock exchanges, but it may also invest in stocks traded in the over-the-counter market. Common stocks for this purpose also include securities having common stock characteristics such as rights and warrants to purchase common stocks. The Portfolio may also invest in foreign equity securities in the form of American Depositary Receipts (ADRs) and other similar global instruments. ADRs (sponsored or

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unsponsored) are receipts typically issued by a U.S. bank or trust company evidencing ownership of the underlying foreign securities. Most ADRs are traded on a U.S. stock exchange. Issuers of unsponsored ADRs are not contractually obligated to disclose material information in the U.S. and, therefore, there may not be a correlation between such information and the market value of the unsponsored ADR.

Investing in foreign companies may involve additional risks and considerations which are not typically associated with investing in U.S. companies. Since stocks of foreign companies are normally denominated in foreign currencies, the Portfolio may be affected favorably or unfavorably by changes in currency rates and in exchange control regulations, and may incur costs in connection with conversions between various currencies. Some countries may withhold portions of dividends and interest at the source. Under the Internal Revenue Code, foreign exchange gains and losses are treated as ordinary gain or loss.

As non-U.S. companies are not generally subject to uniform accounting, auditing and financial reporting standards and practices comparable to those applicable to U.S. companies, comparable information may not be readily available about certain foreign companies. Securities of some non-U.S. companies may be less liquid and more volatile than securities of comparable U.S. companies. In addition, in certain foreign countries, there is the possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments which could affect U.S. investments in those countries.

#### FUTURES CONTRACTS AND OPTIONS

In order to remain fully invested and to reduce transaction costs, the Portfolio may invest in appropriate futures contracts and options (also known as derivatives). Because transaction costs associated with futures and options may be lower than the costs of investing in stocks and bonds directly, it is expected that use of index futures and options to facilitate cash flows may

reduce a Portfolio's overall transaction costs. The Portfolio may enter into futures contracts provided that not more than 5% of the Portfolio's assets are required as margin deposit to secure obligations under such contracts.

Futures and options can be volatile and involve various degrees and types of risk. If the Portfolio judges market conditions incorrectly or employs a strategy that does not correlate well with its investments, use of futures and options contracts could result in a loss. The Portfolio could also suffer losses if it is unable to liquidate its position due to an illiquid secondary market. In the opinion of the Trustees of the Fund, the risk that the Portfolio will be unable to close out a futures position or options contract will be minimized by only entering into futures contracts or options transactions traded on national exchanges and for which there appears to be a liquid secondary market.

#### SHORT SALES

The Portfolio may engage in short sales of securities. In a short sale, the Portfolio sells stock which it does not own, making delivery with securities "borrowed" from a broker. The Portfolio is then obligated to replace the security borrowed by purchasing it at the market price at the time of replacement. This price may or may not be less than the price at which the security was sold by the Portfolio. Until the security is replaced, the Portfolio is required to pay to the lender any dividends or interest which accrue during the period of the loan. In order to borrow the security, the Portfolio may also have to pay a premium which would increase the cost of the security sold. The proceeds of the short sale will be retained by the broker, to the extent necessary to meet margin requirements, until the short position is closed out.

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The Portfolio also must deposit in a segregated account an amount of cash or liquid assets equal to the difference between (a) the market value of the securities short at the time they were sold short and (b) the value of the collateral deposited with the broker in connection with the short sale (not including the proceeds from the short sale). While the short position is open, the Portfolio must maintain daily the segregated account at such a level that (1) the amount deposited in it plus the amount deposited with the broker as collateral equals the current market value of the securities sold short and (2) the amount deposited in it plus the amount deposited with the broker as collateral is not less than the market value of the securities at the time they were sold short.

The Portfolio 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 date on which the Portfolio replaces the borrowed security. The Portfolio will 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 will be increased by any interest the Portfolio may be required to pay in connection with the short sale. The dollar amount of short sales at any one time (not including short sales against the box) may not exceed 25% of the net assets of the Portfolio.

A short sale is "against-the-box" if at all times when the short position is open the Portfolio owns an equal amount of the securities or securities convertible into, or exchangeable without further consideration for, securities of the same issue as the securities sold short. A short sale may result in the recognition of gain with respect to a security for Federal income tax purposes under certain rules which treat certain short sales of the same or substantially identical positions with respect to such a security as a constructive sale at the time a short position is entered into by the Portfolio. See, "DIVIDENDS, CAPITAL GAINS DISTRIBUTIONS AND TAXES."

#### RESTRICTED SECURITIES

The Portfolio may purchase restricted securities that are not registered for sale to the general public but which are eligible for resale to qualified institutional investors under Rule 144A of the Securities Act of 1933. Under the supervision of the Fund's Board of Trustees, the Adviser determines the liquidity of such investments by considering all relevant factors. Provided that a dealer or institutional trading market in such securities exists, these restricted securities are not treated as illiquid securities for purposes of a Portfolio's investment limitations. A Portfolio will invest no more than 15% of its net assets in illiquid securities. The prices realized from the sales of these securities could be less than those originally paid by the Portfolio or



less than what would be considered the fair value of such securities.

Except as specified above and as described under "INVESTMENT LIMITATIONS," the foregoing investment policies are not fundamental and the Trustees may change such policies without an affirmative vote of a majority of the outstanding voting securities of a Portfolio, as defined in the 1940 Act.

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#### INVESTMENT LIMITATIONS

The Portfolio will not:

- (a) with respect to 75% of its assets, invest more than 5% of its total assets at the time of purchase in the securities of any single issuer (other than obligations issued or guaranteed as to principal and interest by the government of the U.S. or any agency or instrumentality thereof);
- (b) with respect to 75% of its assets, purchase more than 10% of any class of the outstanding voting securities of any issuer;
- (c) acquire any securities of companies within one industry if, as a result of such acquisition, more than 25% of the value of the Portfolio's total assets would be invested in securities of companies within such industry; provided, however, that there shall be no limitation on the purchase of obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or instruments issued by U.S. banks when the Portfolio adopts a temporary defensive position;
- (d) make loans except (i) by purchasing bonds, debentures or similar obligations which are publicly distributed, and (ii) by lending its portfolio securities to banks, brokers, dealers and other financial institutions so long as such loans are not inconsistent with the 1940 Act or the rules and regulations or interpretations of the SEC thereunder;
- (e) borrow, except from banks and as a temporary measure for extraordinary or emergency purposes and then, in no event, in excess of 33 1/3% of the Portfolio's gross assets valued at the lower of market or cost, and the Portfolio may not purchase additional securities when borrowings exceed 5% of total gross assets; or
- (f) pledge, mortgage or hypothecate any of its assets to an extent greater than 33 1/3% of its total assets at fair market value.

The investment limitations described here and certain of the investment limitations described in the SAI are fundamental policies and may be changed only with the approval of the holders of a majority of the outstanding shares of the Portfolio of the Fund. If a percentage limitation on investment or utilization of assets as set forth above is adhered to at the time an investment is made, a later change in percentage resulting from changes in the value or total cost of the Portfolio's assets will not be considered a violation of the restriction.

#### PURCHASE OF SHARES

Shares of the Portfolio may be purchased without sales commission, at the net asset value per share next determined after an order, including payment in the manner described herein, is received by the Fund. (See "VALUATION OF SHARES.") The minimum initial investment required is \$10,000. Certain exceptions may be made by the officers of the Fund.

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#### INITIAL INVESTMENTS

BY MAIL

- o Complete and sign an Account Registration Form and mail it together with a check, drawn on a U.S. bank, made payable to Brazos Mutual Funds, to:

Brazos Mutual Funds  
c/o Rodney Square Management Corporation  
P.O. Box 8987  
Wilmington, DE 19899

A purchase order sent by overnight mail should be sent to:

1105 North Market Street, 3rd Floor  
Wilmington, DE 19801

- o Payment for the purchase of shares received by mail will be credited to your account at the net asset value per share of the Portfolio next determined after receipt. Payment does not need to be converted into Federal Funds (moneys credited to the Fund's Custodian Bank by a Federal Reserve Bank) before the Fund will accept it for investment. Make certain that you specify the Portfolio in which you wish to invest on the Account Registration Form.

BY WIRE

- o First, telephone Rodney Square between the hours of 9:00 a.m. and 4:00 p.m. Eastern time at 1-800-426-9157 and provide the account name, address, telephone number, social security or taxpayer identification number, Portfolio selected, amount being wired and the name of the bank wiring the funds. An account number will then be provided to you. Next,
- o instruct your bank to wire the specified amount to:

RODNEY SQUARE MANAGEMENT CORPORATION  
C/O WILMINGTON TRUST COMPANY  
WILMINGTON, DE  
ABA #0311-0009-2

ATTENTION: Brazos Mutual Funds  
REF: PORTFOLIO NAME \_\_\_\_\_  
DDA Acct. #2731-2721

FURTHER CREDIT [SHAREHOLDER NAME AND ACCOUNT NUMBER]

- o Forward a completed Account Registration Form to the Fund at the address shown on the form. Federal Funds purchases will be accepted only on a day on which both the New York Stock Exchange and the Custodian Bank are open for business.

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ADDITIONAL INVESTMENTS

Additional investments can be made at any time. The minimum additional investment is \$1,000. Shares can be purchased at net asset value by mailing a check to the Fund c/o Rodney Square at the address above (payable to "Brazos Mutual Funds") or by wiring money to the Fund using the instructions outlined above. When making additional investments, be sure that: the account name and number is identified on the check or wire and the Portfolio to be purchased is specified.

Prior to wiring additional investments, notify the Fund by calling the number on the cover of this prospectus. Mail orders should include, the "Invest by Mail" stub which accompanies any Fund confirmation statement.

OTHER PURCHASE INFORMATION

Investments received by 4 p.m. ET (the close of the New York Stock Exchange ("NYSE")) will be invested at the price calculated after the NYSE closes that day. Orders received after 4 p.m. ET will receive the price calculated on the next business day. The Fund reserves the right, in its sole discretion, to suspend the offering of shares of the Portfolio or reject purchase orders when, in the judgment of management, such suspension or rejection is in the best interest of the Fund. Purchases of shares will be made in full and fractional shares of the Portfolio calculated to three decimal places. Certificates for

fractional shares will not be issued. Certificates for whole shares will not be issued except at the written request of the shareholder.

Shares of the Portfolio may be purchased by customers of broker-dealers or other financial intermediaries ("Service Agents") which deal with the Fund on behalf of their customers. Service Agents may impose additional or different conditions on the purchase or redemption of Portfolio shares and may charge transaction or other account fees. Each Service Agent is responsible for transmitting to its customers a schedule of any such fees and information regarding any additional or different purchase and redemption conditions. Shareholders who are customers of Service Agents should consult their Service Agent for information regarding these fees and conditions. Amounts paid to Service Agents may include transaction fees and/or service fees paid by the Fund from the Fund assets attributable to the Service Agent, and which would not be imposed if shares of the Portfolio were purchased directly from the Fund or the Distributor. The Service Agents may provide shareholder services to their customers that are not available to a shareholder dealing directly with the Fund. A salesperson and any other person entitled to receive compensation for selling or servicing Portfolio shares may receive different compensation with respect to one particular class of shares over another in the Fund.

Service Agents, or if applicable, their designee, that have entered into agreements with the Fund or its agent may enter confirmed purchase or redemption orders on behalf of clients and customers, with payment to follow no later than the Portfolio's pricing on the following business day. If payment is not received by the Fund's Transfer Agent by such time, the Service Agent could be held liable for resulting fees or losses. A Portfolio may be deemed to have received a purchase or redemption order when a Service Agent, or, if applicable, its authorized designee, accepts the order. Orders received by the fund in proper form will be priced at the Portfolio's net asset value next computed after they are accepted by the Service Agent or its authorized designee. Service Agents are responsible to their customers and the Fund

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for timely transmission of all subscription and redemption requests, investment information, documentation and money.

#### IN-KIND PURCHASES

If accepted by the Fund, shares of the Portfolio may be purchased in exchange for securities which are eligible for acquisition by the Portfolio, as described in this Prospectus. Securities to be exchanged which are accepted by the Fund will be valued as set forth under "VALUATION OF SHARES" at the time of the next determination of net asset value after such acceptance. Shares issued by a Portfolio in exchange for securities will be issued at net asset value determined as of the same time. All dividends, interest, subscription, or other rights pertaining to such securities shall become the property of the Portfolio and must be delivered to the Fund by the investor upon receipt from the issuer. Securities acquired through an in-kind purchase will be acquired for investment and not for immediate resale.

The Fund will not accept securities in exchange for shares of a Portfolio unless:

- o at the time of the exchange, such securities are eligible to be included in the Portfolio and current market quotations are readily available for such securities;
- o the investor represents and agrees that all securities offered to be exchanged are not subject to any restrictions upon their sale by the Portfolio under the Securities Act of 1933, or otherwise; and
- o the value of any such securities (except U.S. Government securities) being exchanged together with other securities of the same issuer owned by the Portfolio will not exceed 5% of the net assets of the Portfolio immediately after the action.

Investors who are subject to Federal taxation upon exchange may realize a gain or loss for Federal income tax purposes depending upon the cost of

securities or local currency exchanged. Investors interested in such exchanges should contact the Adviser.

#### REDEMPTION OF SHARES

Shares of the Portfolio may be redeemed by mail or telephone, at any time, without cost, at the net asset value of the Portfolio next determined after receipt of the redemption request. Shareholders are charged a \$12.00 fee for redemptions by wire. Otherwise, there is no charge for redemptions. Any redemption may be more or less than the purchase price of your shares depending on the market value of the investment securities held by the Portfolio.

#### BY MAIL

The Portfolio will redeem its shares at the net asset value next determined on the date the request is received in "good order." Address requests for redemption to the Fund c/o Rodney Square Management Corporation, P.O. Box 8987, Wilmington, DE 19899. A request to redeem shares must include:

- o share certificates, if issued;

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- o a letter of instruction or a stock assignment specifying the number of shares or dollar amount to be redeemed, signed by all registered owners of the shares in the exact names in which they are registered;
- o any required signature guarantees (see "SIGNATURE GUARANTEES"); and
- o any other necessary legal documents, if required, in the case of estates, trusts, guardianships, custodianships, corporations, pension and profit sharing plans and other organizations.

Shareholders who are uncertain of requirements for redemption should contact Rodney Square at 1-800-426-9157.

#### BY TELEPHONE

In order to make a redemption request by telephone, you must:

- o establish the telephone redemption privilege (and if desired, the wire redemption privilege) by completing appropriate sections of the Account Registration Form; and
- o call the Fund and instruct that the redemption proceeds be mailed to you or wired to your bank.

The following tasks cannot be accomplished by telephone:

- o changing the name of the commercial bank or the account designated to receive redemption proceeds (this can be accomplished only by a written request signed by each shareholder, with each signature guaranteed);
- o redemption of certificated shares by telephone.

The Fund and the Fund's Transfer Agent will employ reasonable procedures to confirm that instructions communicated by telephone are genuine, and they may be liable for any losses if they fail to do so. These procedures include requiring the investor to provide certain personal identification at the time an account is opened, as well as prior to effecting each transaction requested by telephone. In addition, all telephone transaction requests will be recorded and investors may be required to provide additional telecopied written instructions of such transaction requests. The Fund or Transfer Agent may be liable for any losses due to unauthorized or fraudulent telephone instructions if the Fund or Transfer Agent does not employ the procedures described above. Neither the Fund nor the Transfer Agent will be responsible for any loss, liability, cost or expense for following instructions received by telephone that it reasonably believes to be genuine.

Please contact Rodney Square at 1-800-426-9157 for further details.

#### SIGNATURE GUARANTEES

Signature guarantees are required for the following redemptions:

- o redemptions where the proceeds are to be sent to someone other than the registered shareowner(s);
- o redemptions where the proceeds are to be sent to someplace other than the registered address; or
- o share transfer requests.

The purpose of signature guarantees is to verify the identity of the party who has authorized a redemption. Signature guarantees will be accepted from any eligible guarantor institution which participates in a signature guarantee program. Eligible guarantor institutions include banks, brokers, dealers, credit unions, national securities exchanges, registered securities associations, clearing agencies and savings associations. Broker-dealers guaranteeing signatures must be a member of a clearing corporation or maintain net capital of at least \$100,000. Credit unions must be authorized to issue signature guarantees.

#### OTHER REDEMPTION INFORMATION

Normally, the Fund will make payment for all shares redeemed under proper procedures within one business day of and no more than seven days after receipt of the request. The Fund may suspend the right of redemption or postpone the date, as permitted by the SEC, including under emergency circumstances and at times when the NYSE is closed.

If the Fund's Board of Trustees determines that it would be detrimental to the best interests of remaining shareholders of the Fund to make payment wholly or partly in cash, the Fund may pay the redemption proceeds in whole or in part by a distribution in-kind of liquid securities held by a Portfolio in lieu of cash in conformity with applicable rules of the SEC. Investors may incur brokerage charges on the sale of portfolio securities so received in payment of redemptions.

#### SHAREHOLDER SERVICES

#### EXCHANGE PRIVILEGE

Shares of the Portfolio may be exchanged for shares of any other Portfolio included in the Brazos Mutual Funds. Exchange requests should be made by writing to the Fund c/o Rodney Square Management Corporation, P.O. Box 8987, Wilmington, DE 19899 or calling 1-800-426-9157 between the hours of 9:00 a.m. and 4:00 p.m. Eastern time.

Any exchange will be based on the net asset values of the shares involved. There is no sales commission or charge of any kind for an exchange. Before making an exchange into a Portfolio, a shareholder should read its Prospectus and consider the investment objectives of the Portfolio to be purchased. Contact Rodney Square at 1-800-426-9157 for a copy of the Prospectus for the Portfolio(s). Exchanges can only be made with Portfolios that are qualified for sale in a shareholder's state of residence.

Exchange requests may be made either by mail or telephone. Telephone exchanges will be accepted only if the certificates for the shares to be exchanged have not been issued to the shareholder and if the registration of the two accounts will be identical. Requests for exchanges with other Portfolios received prior to 4 p.m. (ET) will be processed as of the close of business on the same day. Requests received after that time will be processed on the next business day. The Board of Trustees may limit frequency and amount of exchanges permitted. For additional information regarding responsibility for the authenticity of telephoned instructions, see "REDEMPTION OF SHARES BY TELEPHONE" above. An

exchange into another Portfolio of the Fund is a sale of shares and may result in a capital gain or loss for income tax purposes. The Fund may modify or terminate the exchange privilege at any time.

#### TRANSFER OF REGISTRATION

You may transfer the registration of any of your Fund shares to another person by writing to the Fund at the above address. As in the case of redemptions, the written request must be received in good order before any transfer can be made. (See "REDEMPTION OF SHARES" for a definition of "good order.")

#### RETIREMENT PLANS

Shares of the Fund are available for use in certain tax-deferred plans (such as Individual Retirement Accounts ("IRAs"), defined contribution, 401(k) and 403(b)(7) plans).

##### Individual Retirement Accounts

Application forms and brochures for IRAs can be obtained from Rodney Square by calling 1-800-426-9157.

Wilmington Trust Company ("WTC") makes available its services as an IRA custodian for each shareholder account that is established as an IRA. For these services, WTC receives an annual fee of \$10.00 per account, which fee is paid directly to WTC by the IRA shareholder. If the fee is not paid by the date due, shares of the Fund owned by the IRA will be redeemed automatically for purposes of making the payment. In addition, a \$10 fee is charged to shareholders transferring out of a Fund IRA.

#### VALUATION OF SHARES

The net asset value of the Portfolio is determined by dividing the sum of the total market value of the Portfolio's investments and other assets, less any liabilities, by the total number of shares outstanding. Net asset value per share of the Portfolio is determined as of the close of the NYSE on each day that the NYSE is open for business.

The Portfolio uses the last quoted trading price as the market value for equity securities. For listed securities, the Fund uses the price quoted by the exchange on which the security is primarily traded. Unlisted securities and listed securities which have not been traded on the valuation date or for which market quotations are not readily available are valued at the average between the last price asked and the last price bid. For valuation purposes, quotations of foreign securities in a foreign currency are converted

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to U.S. dollar equivalents based upon the latest available bid price of such currencies against U.S. dollars quoted by any major bank or by a broker.

Bonds and other fixed income securities are valued according to the broadest and most representative market which will ordinarily be the over-the-counter market. Net asset value includes interest on fixed income securities, which is accrued daily. Bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service when such prices are believed to reflect the fair market value of such securities. Securities purchased with remaining maturities of 60 days or less are valued at amortized cost when the Board of Trustees determines that amortized cost reflects fair value.

The value of other assets and securities for which no quotations are readily available (including restricted securities) is determined in good faith at fair value using methods determined by the Trustees.

#### PERFORMANCE CALCULATIONS

The Portfolio may advertise or quote total return data. Total return is calculated on an average annual total return basis, and may also be calculated on an aggregate total return basis, for various periods. Average annual total return reflects the average annual percentage change in value of an investment in a Portfolio over a period. Aggregate total return reflects the total

percentage change in value over a period. Both methods assume dividends and capital gains distributions are reinvested in Portfolio shares.

The Portfolio's performance may be compared to data prepared by independent services which monitor the performance of investment companies, data reported in financial and industry publications, and various indices, all as further described in the Portfolio's SAI.

The Portfolio will provide information about past performance together with a comparison to an appropriate index in its Annual Report to Shareholders. Following the end of the Portfolio's fiscal year, a free copy of the Portfolio's Annual Report to Shareholders will be available upon request by writing or calling the Fund at the address or phone number on the cover of this Prospectus.

#### DIVIDENDS, CAPITAL GAINS DISTRIBUTIONS AND TAXES

##### DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS

The Portfolio will distribute annually to shareholders substantially all of its net investment income, together with any net realized long-term capital gains. The Portfolio may distribute net investment income and other capital gains during interim periods when the management of the Portfolio determines that it is in the best interests of the Portfolio and the shareholders to do so. It is not anticipated that distributions of net investment income and other capital gains will be made more often than quarterly. Dividends paid shortly after the purchase of shares by an investor, although in effect a return of capital, are taxable to shareholders. The Portfolio's dividends and capital gains distributions will be reinvested automatically in additional shares of the Portfolio unless the Fund is notified in writing that the shareholder elects to receive distributions in cash.

If a shareholder has elected to receive dividends and/or capital gain distributions in cash and the postal or other delivery service is unable to deliver checks to the shareholder's address of record, such

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shareholder's distribution option will automatically be converted to having all dividend and other distributions reinvested in additional shares. No interest will accrue on amounts represented by uncashed distribution or redemption checks.

##### FEDERAL TAXES

The Portfolio has qualified, and intends to continue to qualify, as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Code"). As such, the Portfolio will not be subject to federal income tax, or any excise tax, to the extent its earnings are distributed as provided by the Code. The Portfolio intends to distribute substantially all of its net investment income.

The Portfolio may engage in certain transactions, such as short sales, or invest in certain instruments, such as futures contracts, which may result in constructive sales of appreciated positions in securities for Federal income tax purposes. A constructive sale generally occurs when the Portfolio has entered into a short sale of the same or substantially identical securities or if it enters into a futures or forward contract to deliver the same or substantially identical securities and in certain other circumstances. If a constructive sale occurs, the Portfolio will recognize either ordinary income or capital gain depending on the length of time which it held the security which was constructively sold.

Dividends paid by the Portfolio from net investment income and short-term capital gains, either in cash or reinvested in shares, will be taxable to shareholders as ordinary income. Dividends paid from the Portfolio will generally qualify in part for the 70% dividends-received deductions for corporations, but the portion of the dividends so qualified depends on the aggregate qualifying dividend income received by the Portfolio from domestic (U.S.) sources.

Distributions paid by the Portfolio from long-term capital gains, either in

cash or, additional shares of the Portfolio are taxable to shareholders subject to income tax as long-term capital gains regardless of the length of time the shareholder has owned shares in the Portfolio. Also, for those shareholders subject to tax, if purchases of shares in the Portfolio are made shortly before the record date for a capital gains distribution or a dividend, a portion of the investment will be returned as a taxable distribution. Shareholders are notified annually by the Fund as to the Federal Income tax status of dividends and distributions paid by the Portfolio. Dividends and distributions may also be subject to state and local taxes. Dividends declared in October, November, or December to shareholders of record in such month and paid in January of the following year will be deemed to have been paid by the Portfolio and received by the shareholders or December 31.

Redemptions of shares in the Portfolio are taxable events for Federal income tax purposes.

The Portfolio is required to withhold 31% of taxable dividends, capital gains distributions, and redemptions paid to shareholders who have not complied with IRS taxpayer identification regulations. You may avoid this withholding requirement by certifying on the account registration form your proper Taxpayer Identification Number and by certifying that you are not subject to backup withholding.

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#### STATE AND LOCAL TAXES

Shareholders may also be subject to state and local taxes on distributions and redemptions. Shareholders should consult with their tax advisers regarding the tax status of distributions in their state and locality.

#### INVESTMENT ADVISER

John McStay Investment Counsel is a limited partnership formed in 1983 and located at 5949 Sherry Lane, Suite 1560, Dallas, Texas 75225. The Adviser provides investment management services to institutions and individuals. The Adviser currently has approximately \$3 billion in assets under management. John D. McStay may be deemed to control the Adviser as a result of ownership of a majority interest in John McStay & Associates ("JMA"), the general partner of the Adviser. JMA owns a majority interest in the Adviser.

An investment policy committee is responsible for the day-to-day management of the Portfolio's investments.

Under an Investment Advisory Agreement with the Fund, dated as of November 14, 1997, the Adviser manages the investment and reinvestment of the assets of the Portfolio. The Adviser must adhere to the stated investment objectives and policies of the Portfolio, and is subject to the control and supervision of the Fund's Board of Trustees.

As compensation for its services as an Adviser, the Portfolio pays the Adviser an annual fee, in monthly installments, of 1.20% of the Portfolio's average daily net assets for the month.

The Adviser has voluntarily agreed to keep operating expenses from exceeding 1.60% of average daily net assets. The Fund will not reimburse the Adviser for any advisory fees that are waived or Portfolio expenses that the Adviser may bear on behalf of a Portfolio.

The Adviser may compensate its affiliated companies for referring investors to the Portfolios. The Adviser, or any of its affiliates, may, at its own expense, compensate a Service Agent or other person for marketing, shareholder servicing, record-keeping and/or other services performed with respect to the Fund or a Portfolio. Payments made for any of these purposes may be made from the paying entity's revenues, its profits or any other source available to it. When such service arrangements are in effect, they are made generally available to all qualified service providers.

#### ADMINISTRATIVE SERVICES



Rodney Square Management Corporation, 1100 N. Market Street, Wilmington, DE 19890-0001, serves as Administrator, Transfer Agent and Dividend Paying Agent of the Fund and also provides accounting services to the Fund. Rodney Square has entered into an agreement with PFPC Inc. ("PFPC") pursuant to which PFPC will acquire the fund administration business of Rodney Square. Effective January 5, 1998, the services previously provided to the Fund by Rodney Square will be provided by PFPC. Telephone, mail and wire instructions contained in this prospectus shall remain as stated herein until further notice.

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PFPC, located at 400 Bellevue Parkway, Wilmington, Delaware 19809, is an indirect wholly-owned subsidiary of PNC Bank Corp., a multi-bank holding company. PFPC will provide administrative services identical to the services previously provided by Rodney Square, under the same terms and conditions and for the same fee.

As Administrator, Rodney Square supplies office facilities, non-investment related statistical and research data, stationery and office supplies, executive and administrative services, internal auditing and regulatory compliance services. Rodney Square also assists in the preparation of reports to shareholders, prepares proxy statements, updates prospectuses and makes filings with the Securities and Exchange Commission and state securities authorities. Rodney Square performs certain budgeting and financial reporting and compliance monitoring activities. For the services provided as Administrator, Rodney Square receives an annual fee from the Fund equal to the greater of: (1) a minimum annual fee of \$32,500 for each of the first two single-class Portfolios plus \$15,000 for any additional Portfolio, or second or additional class of a Portfolio; or (2) an asset-based fee, equal to a percentage of the average daily net assets of the Fund, on a Fund-wide basis, according to the following schedule:

0.15% of the first \$50 million in assets; plus  
0.10% of assets between \$50 million and \$200 million; plus  
0.07% of assets in excess of \$200 million.

The Administrator's fee shall be payable monthly, as soon as practicable after the last day of each month, based on the Fund's average daily net assets as determined at the close of business on each business day throughout the month. Rodney Square also serves as Transfer Agent and Dividend Paying Agent of the Fund.

Rodney Square also serves as an Accounting Agent to the Fund. As Accounting Agent, Rodney Square determines the Fund's net asset value per share and provides accounting services to the Fund pursuant to an Accounting Services Agreement with the Fund.

#### DISTRIBUTOR

Rodney Square Distributors, Inc., 1100 N. Market Street, Wilmington, DE 19899, has been engaged pursuant to a distribution agreement dated December 31, 1996, to assist in securing purchasers for shares of the Fund. RSD also directly, or through its affiliates, provides investor support services. RSD will receive no compensation for distribution of shares of the Fund, except for reimbursement of out-of-pocket expenses.

Banking laws limit deposit-taking institutions and certain of their affiliates from underwriting or distributing securities. RSD is an affiliate of WTC, the Fund's custodian bank for its domestic assets. RSD believes that it may perform the services contemplated by its agreement with the Fund without violation of applicable banking laws or regulations. If RSD were prohibited from performing these services, it is expected that the Board of Trustees would consider entering into agreements with other entities. It is not expected that shareholders would suffer any adverse financial consequences as a result of such an occurrence.

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## PORTFOLIO TRANSACTIONS

The Investment Advisory Agreement authorizes the Adviser to select the brokers or dealers that will execute the purchases and sales of investment securities for the Portfolio. The Agreement directs the Adviser to use its best efforts to obtain the best available price and most favorable execution for all transactions of the Portfolio. The Adviser may buy and sell securities for the account of the portfolio through the Adviser's affiliated broker-dealer. In such instances, the affiliated broker-dealer will complete transactions pursuant to procedures designed to ensure that charges for the transactions do not exceed usual and customary levels obtainable from other, unaffiliated broker-dealers. Such transactions and the procedures are supervised by the Fund's Board of Trustees. It is understood that the affiliated broker-dealer will not be utilized in situations where, in the Adviser's judgment, the brokerage services of another security firm would be in the best interest of the Portfolio. If consistent with the interests of the Portfolio, the Adviser may select brokers on the basis of research, statistical and pricing services these brokers provide to the Portfolio. Information and research received from such brokers will be in addition to, and not in lieu of, the services required to be performed by the Adviser under the Investment Advisory Agreement. Such brokers may be paid a higher commission than that which another qualified broker would have charged for effecting the same transaction, provided that such commissions are paid in compliance with the Securities Exchange Act of 1934, as amended, and that the Adviser determines in good faith that the commission is reasonable in terms either of the transaction or the overall responsibility of the Adviser to the Portfolio and the Adviser's other clients. Although not a typical practice, the Adviser may place portfolio orders with qualified broker-dealers who refer clients to the Adviser. If a purchase or sale of securities is consistent with the investment policies of a Portfolio and one or more other clients served by the Adviser is considered at or about the same time, transactions in such securities will be allocated among the Portfolio and clients in a manner deemed fair and reasonable by the Adviser. Although there is no specified formula for allocating such transactions, the allocations are subject to periodic review by the Fund's Trustees.

## GENERAL INFORMATION

### DESCRIPTION OF SHARES AND VOTING RIGHTS

The Fund was organized as a Delaware Business Trust on October 24, 1996. The Trustees have the power to designate one or more series of shares of beneficial interest and to classify or reclassify any unissued shares without further action by shareholders. At its discretion, The Board of Trustees may create additional Portfolios and classes of shares.

The shares of each Portfolio are fully paid and nonassessable, have no preference as to conversion, exchange, dividends, retirement or other features and have no pre-emptive rights. They have noncumulative voting rights, which means that the holders of more than 50% of the shares voting for the election of Trustees can elect 100% of the Trustees. A shareholder is entitled to one vote for each full share held (and a fractional vote for each fractional share held), then standing in his name on the books of the Fund.

Annual meetings will not be held except as required by the 1940 Act and other applicable laws. The Fund has undertaken that its Trustees will call a meeting of shareholders if such a meeting is requested

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in writing by the holders of not less than 10% of the outstanding shares of the Fund. The Fund will assist shareholder communications in such matters.

### CUSTODIAN

Wilmington Trust Company, Rodney Square North, 1100 North Market Street, Wilmington, DE 19890-0001, serves as Custodian of the Fund's assets.

### INDEPENDENT ACCOUNTANTS

Coopers & Lybrand L.L.P., 2400 Eleven Penn Center, Philadelphia, PA 19103,

is the independent accountants for the Fund.

REPORTS

Shareholders receive unaudited semi-annual financial statements and annual financial statements audited by Coopers & Lybrand L.L.P.

SHAREHOLDER INQUIRIES

Shareholder inquiries may be made by contacting the Fund c/o Rodney Square Management Corporation, P.O. Box 8987, Wilmington, DE 19899, or by calling the telephone number listed on the cover of this Prospectus.

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PROSPECTUS  
Dated December 31, 1997

Investment Adviser  
JOHN MCSTAY INVESTMENT COUNSEL  
5949 Sherry Lane  
Suite 1560  
Dallas, TX 75225

RODNEY SQUARE DISTRIBUTORS, INC.

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No person has been authorized to give any information or to make any representations not contained in this Prospectus, or in the Fund's Statement of Additional Information, in connection with the offering made by this Prospectus and, if given or made, such information or its representations must not be relied upon as having been authorized by the Fund. This Prospectus does not constitute an offering by the Fund in any jurisdiction in which such offering may not lawfully be made.

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PART B

BRAZOS/JMIC MICRO CAP GROWTH PORTFOLIO

STATEMENT OF ADDITIONAL INFORMATION

December 31, 1997

This Statement is not a Prospectus but should be read in conjunction with the Prospectus of the Brazos Mutual Funds (the "Fund") for the BRAZOS/JMIC Micro Cap Growth Portfolio Shares dated December 31, 1997. To obtain the Prospectus, please call Rodney Square Management Corporation at 1-800-426- 9157.

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INVESTMENT OBJECTIVE AND POLICIES

The following policies supplement the investment objective and policies of the BRAZOS/JMIC Micro Cap Growth Portfolio as set forth in the Prospectus for the Portfolio:

SECURITIES LENDING

The Portfolio may lend its investment securities to qualified institutional investors who need to borrow securities in order to complete certain transactions, such as covering short sales, avoiding failures to deliver securities or completing arbitrage operations. By lending its investment securities, the Portfolio attempts to increase its income through the receipt of interest on the loan. Any gain or loss in the market price of the securities loaned that might occur during the term of the loan would be for the account of the Portfolio. The Portfolio may lend its investment securities to qualified brokers, dealers, domestic and foreign banks or other financial institutions, so long as the terms, the structure and the aggregate amount of such loans are not inconsistent with the Investment Company Act of 1940, as amended, (the "1940 Act") or the Rules and Regulations or interpretations of the Securities and Exchange Commission (the "Commission") thereunder, which currently require that (a) the borrower pledge and maintain with the Portfolio collateral consisting of cash, an irrevocable letter of credit issued by a domestic U.S. bank or securities issued or guaranteed by the United States Government having a value at all times not less than 100% of the value of the securities loaned, (b) the borrower add to such collateral whenever the price of the securities loaned rises (i.e., the borrower "marks to the market" on a daily basis), (c) the loan be made subject to termination by the Portfolio at any time, and (d) the Portfolio receives reasonable interest on the loan (which may include the Portfolio investing any cash collateral in interest bearing short-term investments). All relevant facts and circumstances, including the creditworthiness of the broker, dealer or institution, will be considered in making decisions with respect to the lending of securities, subject to review by

the Board of Trustees.

At the present time, the Staff of the Commission does not object if an investment company pays reasonable negotiated fees in connection with loaned securities so long as such fees are set forth in a written contract and approved by the investment company's Board of Trustees. The Portfolio will continue to retain any voting rights with respect to the loaned securities. If a material event occurs affecting an investment on a loan, the loan must be called and the securities voted.

#### HEDGING STRATEGIES

The Portfolio may engage in various portfolio strategies to hedge against adverse movements in the equity markets. The Portfolio may write (i.e., sell) covered call options on its portfolio securities, purchase put and call options on securities and engage in transactions in related options on futures. Each of these portfolio strategies is described below.

#### FUTURES CONTRACTS

The Portfolio may enter into futures contracts. Futures contracts provide for the future sale by one party and purchase by another party of a specified amount of a specific security at a specified future time and at a specified price. Futures contracts which are standardized as to maturity date and underlying financial instrument are traded on national futures exchanges. Futures exchanges and trading are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission ("CFTC"), a U.S. Government agency.

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

Futures traders are required to make a good faith margin deposit in cash or acceptable securities with a broker or custodian to initiate and maintain open positions in futures contracts. A margin deposit is intended to assure completion of the contract (delivery or acceptance of the underlying security) if it is not terminated prior to the specified delivery date. Minimal initial margin requirements are established by the futures exchange and may be changed. Brokers may establish deposit requirements which are higher than the exchange minimums. Futures contracts are customarily purchased and sold on margin that may range upward from less than 5% of the value of the contract being traded. After a futures contract position is opened, the value of the contract is marked to market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional "variation" margin will be required. Conversely, change in the contract value may reduce the required margin, resulting in a repayment of excess margin to the contract holder. Variation margin payments are made to and from the futures broker for as long as the contract remains open. The Portfolio expects to earn interest income on its margin deposits.

Traders in futures contracts may be broadly classified as either "hedgers" or "speculators". Hedgers use the futures markets primarily to offset unfavorable changes in the value of securities otherwise held for investment purposes or expected to be acquired by them. Speculators are less inclined to own the securities underlying the futures contracts which they trade and use futures contracts with the expectation of realizing profits from a fluctuation in interest rates.

Regulations of the CFTC applicable to the Fund require that all of its futures transactions constitute bona fide straddles positions or that the Fund's commodity futures and option positions be for other purposes, to the extent that the aggregate initial margins and premiums required to establish such non-hedging positions do not exceed five percent of the liquidation value of the Portfolio. The Portfolio will only sell futures contracts to protect securities it owns against price declines or purchase contracts to protect against an increase in the price of securities it intends to purchase. As evidence of this hedging interest, the Portfolio expects that approximately 75% of its futures contracts purchases will be "completed", that is, equivalent amounts of related securities will have been purchased or will be purchased by the Portfolio on the

settlement date of the futures contracts.

Although techniques other than the sale and purchase of futures contracts could be used to control the Portfolios exposure to market fluctuations, the use of futures contracts may be a more effective means of hedging this exposure. While the Portfolio will incur commission expenses in both opening and closing out futures positions, these costs are lower than transaction costs incurred in the purchase and sale of the underlying securities.

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#### RESTRICTIONS ON THE USE OF FUTURES CONTRACTS

The Portfolio will not enter into futures contract transactions to the extent that, immediately thereafter, the sum of its initial margin deposits on open contracts exceeds 5% of the market value of its total assets. In addition, the Portfolio will not enter into futures contracts to the extent that its outstanding obligations to purchase securities under these contracts would exceed 20% of its total assets.

#### RISK FACTORS IN FUTURES TRANSACTIONS

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

The risk of loss in trading futures contracts in some strategies can be substantial due both to the low margin deposits required and the extremely high degree of leverage involved in futures pricing. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss (as well as gain) to the investor. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a subsequent 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out. A 15% decrease would result in a loss equal to 150% of the original margin deposit if the contract were closed out. Thus, a purchase or sale of a futures contract may result in excess of the amount invested in the contract. However, because the futures strategies of the Portfolio are engaged in only for hedging purposes, the Adviser does not believe that the Portfolio is subject to the risks of loss frequently associated with futures transactions. The Portfolio would presumably have sustained comparable losses if, instead of the futures contract, it had invested in the underlying financial instrument and sold it after the decline.

Utilization of futures transactions by the Portfolio does involve the risk of imperfect or no correlation where the securities underlying the futures contracts have different maturities than the portfolio securities being hedged. It is also possible that the Portfolio could lose money on futures contracts and also experience a decline in value of portfolio securities. There is also the risk of loss by the Portfolio of margin deposits in the event of bankruptcy of a broker with whom the Portfolio has an open position in a futures contract or related option.

Most futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and, therefore, does not limit potential losses because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading

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days with little or no trading thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

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

The investment by the Portfolio in futures contracts and options on futures contracts is subject to many complex and special tax rules. The treatment by the Portfolio of certain futures and forward contracts is generally governed by Section 1256 of the Internal Revenue Code of 1986, as amended (the "Code"). These "Section 1256" positions generally include listed options on futures contracts, regulated futures contracts and certain foreign currency contracts and options thereon.

Absent a tax election to the contrary, each such Section 1256 position held by the Portfolio will be marked-to-market (i.e., treated as if it were sold for fair market value) on the last business day of the Portfolio's fiscal year, and all gain or loss associated with fiscal year transactions and marked-to-market positions at fiscal year end (except certain currency gain or loss covered by Section 988 of the Code) will generally be treated as 60% long-term capital gain or loss and 40% short-term capital gain or loss. The effect of Section 1256 mark-to-market rules may be to accelerate income or to convert what otherwise would have been long-term capital gains into short-term capital gains or short-term capital losses into long-term capital losses within the Portfolio. The acceleration of income on Section 1256 positions may require the Portfolio to accrue taxable income without the corresponding receipt of cash. In order to generate cash to satisfy the distribution requirements of the Code, the Portfolio may be required to dispose of portfolio securities that it otherwise would have continued to hold or to use cash flows from other sources such as the sale of the Portfolio's shares. In these ways, any or all of these rules may affect both the amount, character and timing of income distributed to shareholders by the Portfolio.

#### OPTIONS

The Portfolio may purchase and sell put and call options on securities and futures contracts for hedging purposes. Investments in options involve some of the same considerations that are involved in connection with investments in futures contracts (e.g., the existence of a liquid secondary market). In addition, the purchase of an option also entails the risk that changes in the value of the underlying security or contract will not be fully reflected in the value of the option purchased. Depending on the pricing of the option compared to either the futures contract on which it is based or the price of the securities being hedged, an option may or may not be less risky than ownership of the futures contract or such securities. In general, the market prices of options can be expected to be more volatile than the market prices on the underlying futures contract or securities.

#### WRITING COVERED CALL OPTIONS

The principal reason for writing call options is to attempt to realize, through the receipt of premiums, a greater return than would be realized on securities alone. By writing covered call options, the Portfolio gives up the opportunity, while the option is in effect, to profit from any price increase in the

underlying security above the option exercise price. In addition, the Portfolio's ability to sell the underlying security will be limited while the option is in effect unless the Portfolio effects a closing purchase transaction. A closing purchase transaction cancels out the Portfolio's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a partial hedge against the price of the underlying security declining. The Portfolio writes only covered options, which means that so long as the Portfolio

is obligated as the writer of the option it will, in a segregated account with its custodian, maintain cash, U.S. government securities, other high grade liquid debt securities or other liquid securities denominated in U.S. dollars with a value equal to or greater than the exercise price of the underlying securities.

#### PURCHASING OPTIONS

The amount of any appreciation in the value of the underlying security subject to a put will be partially offset by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss from a sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Portfolio's position as purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased. In certain circumstances, the Portfolio may purchase call options on securities held in its investment portfolio on which it has written call options or on securities which it intends to purchase.

#### SHORT SALES

The Portfolio may seek to hedge investments or realize additional gains through short sales. The Portfolio may make short sales, which are transactions in which the Portfolio sells a security it does not own, in anticipation of a decline in the market value of the security. To complete such a transaction, the Portfolio must borrow the security to make delivery to the buyer. The Portfolio 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 Portfolio. Until the security is replaced, the Portfolio is required to repay the lender any dividends or interest that accrue during the period of the loan. To borrow the security, the Portfolio 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, to the extent necessary to meet margin requirements, until the short position is closed out. The Portfolio also will incur transaction costs in effecting short sales.

The Portfolio 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 Portfolio replaces the borrowed security. The Portfolio will 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 Portfolio may be required to pay in connection with a short sale.

No securities will be sold short if, after effect is given to any such short sale, the total market value of all securities sold short would exceed 25% of the value of the Portfolio's net equity. The Portfolio similarly will limit its short sales of the securities of any single issuer if the market value of the securities that have been sold short by the Portfolio would exceed the two percent (2%) of the value of the Portfolio's net equity or if such securities would constitute more than two percent (2%) of any class of the issuer's securities.

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Whenever the Portfolio engages in short sales, its custodian segregates an amount of cash or U.S. Government securities or other high-grade liquid debt securities equal to the difference between (a) the market value of the securities sold short at the time they were sold short and (b) any cash or U.S. Government securities required to be deposited with the broker in connection with the short sale (not including the proceeds from the short sale). The segregated assets are marked to market daily, provided that at no time will the amount deposited in it plus the amount deposited with the broker be less than the market value of the securities at the time they were sold short.

In addition, the Portfolio may make short sales "against the box," i.e. when a security identical to one owned by the Portfolio is borrowed and sold short. If the Portfolio enters into a short sale against the box, it is required to segregate securities equivalent in kind and amount to the securities sold short (or securities convertible or exchangeable into such securities) and is required to hold such securities while the short sale is outstanding. The Portfolio will incur transaction costs, in connection with opening, maintaining, and closing short sales against the box. A short sale may result in the recognition of gain with respect to a security for Federal income tax purposes under certain rules which treat certain short sales of the same or substantially



identical positions with respect to such a security as a constructive sale at the time a short position is entered into by the Portfolio. See, "DIVIDENDS, CAPITAL GAINS DISTRIBUTIONS AND TAXES."

#### PURCHASE OF SHARES

Shares of the Portfolio may be purchased without sales commission at the net asset value per share next determined after an order is received in proper form by the Fund. The minimum initial investment required for the Portfolio is \$10,000 with certain exceptions as may be determined from time to time by the officers of the Fund. An order received in proper form prior to the 4:00 p.m. close of the New York Stock Exchange (the "NYSE") will be executed at the price computed on the date of receipt; and an order received not in proper form or after the 4:00 p.m. close of the NYSE will be executed at the price computed on the next day the NYSE is open after proper receipt. The NYSE will be closed on the following days: New Year's Day; Martin Luther King, Jr.'s Birthday; Presidents' Day; Good Friday; Memorial Day; Independence Day; Labor Day; Thanksgiving Day and Christmas Day.

The Portfolio reserves the right in its sole discretion (1) to suspend the offering of its shares, (2) to reject purchase orders when in the judgment of management such rejection is in the best interests of the Fund, and (3) to reduce or waive the minimum for initial and subsequent investment for certain fiduciary accounts such as employee benefit plans or under circumstances where certain economies can be achieved in sales of the Portfolio's shares.

#### REDEMPTION OF SHARES

The Portfolio may suspend redemption privileges or postpone the date of payment (1) during any period that the Exchange is closed or trading on the Exchange is restricted as determined by the Commission, (2) during any period when an emergency exists as defined by the rules of the Commission as a result of which it is not reasonably practicable for the Portfolio to dispose of securities owned by it or to fairly determine the value of its assets, and (3) for such other periods as the Commission may permit. The Fund has made an election with the Commission to pay in cash all redemptions requested by any shareholder of record limited in amount during any 90-day period to the lesser of \$250,000 or 1% of the

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net assets of the Fund at the beginning of such period. Such commitment is irrevocable without the prior approval of the Commission. Redemptions in excess of the above limits may be paid, in whole or in part, in investment securities or in cash as the Board of Trustees may deem advisable; however, payment will be made wholly in cash unless the Board of Trustees believe that economic or market conditions exist which would make such a practice detrimental to the best interests of the Fund. If redemptions are paid in investment securities, such securities will be valued as set forth in the Prospectus under "How Share Prices are Determined," and a redeeming shareholder would normally incur brokerage expenses if those securities were converted to cash.

No charge is made by the Portfolio for redemptions. Any redemption may be more or less than the shareholder's initial cost depending on the market value of the securities held by the Portfolio.

#### SIGNATURE GUARANTEES

To protect your account, the Fund and Rodney Square Management Corporation (the "Administrator") from fraud, signature guarantees are required for certain redemptions. Signature guarantees are required for (1) redemptions where the proceeds are to be sent to someone other than the registered shareowner(s) or the registered address or (2) share transfer requests. The purpose of signature guarantees is to verify the identity of the party who has authorized a redemption.

Signatures must be guaranteed by an "eligible guarantor institution" as defined in Rule 17Ad-15 under the Securities Exchange Act of 1934. Eligible guarantor institutions include banks, brokers, dealers, credit unions, national securities exchanges, registered securities associations, clearing agencies and savings associations. A complete definition of eligible guarantor institution is available from the Administrator. Broker-dealers guaranteeing signatures must be a member of a clearing corporation or maintain net capital of at least \$100,000. Credit unions must be authorized to issue signature guarantees. Signature guarantees will be accepted from any eligible guarantor institution which

participates in a signature guarantee program.

The signature guarantee must appear either: (1) on the written request for redemption; (2) on a separate instrument for assignment ("stock power") which should specify the total number of shares to be redeemed; or (3) on all stock certificates tendered for redemption and, if shares held by the Fund are also being redeemed, on the letter or stock power.

#### SHAREHOLDER SERVICES

The following supplements the shareholder services information set forth in the BRAZOS/JMIC Micro Cap Growth Portfolio's Prospectus:

##### EXCHANGE PRIVILEGE

Shares of the BRAZOS/JMIC Micro Cap Growth Portfolio may be exchanged for shares of any Portfolio included within the Brazos Mutual Funds. Exchange requests should be made by calling 1-800-426-9157 or by writing to Brazos Mutual Funds, c/o Rodney Square Management Corporation, 1100 North Market Street, Wilmington, DE 19890. The exchange privilege is only available with respect to Portfolios that are registered for sale in the shareholder's state of residence.

Any such exchange will be based on the respective net asset values of the shares involved. There is no sales commission or charge of any kind. Before making an exchange into a Portfolio, a shareholder

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should read its Prospectus and consider the investment objectives of the Portfolio to be purchased. You may obtain a Prospectus for the Portfolio(s) you are interested in by calling the Administrator at 1-800-426-9157.

Exchange requests may be made either by mail or telephone. Telephone exchanges will be accepted only if the certificates for the shares to be exchanged are held by the Fund for the account of the shareholder and the registration of the two accounts will be identical. Requests for exchanges received prior to 4:00 p.m. (Eastern Time) will be processed as of the close of business on the same day. Requests received after 4:00 p.m. will be processed on the next business day. Neither the Fund nor the Administrator will be responsible for the authenticity of the exchange instructions received by telephone. Exchanges may also be subject to limitations as to amounts or frequency, and to other restrictions established by the Board of Trustees to assure that such exchanges do not disadvantage the Fund and its shareholders.

For Federal income tax purposes an exchange between Portfolios is a taxable event, and, accordingly, a capital gain or loss may be realized. In a revenue ruling relating to circumstances similar to the Fund's, an exchange between series of a Fund was also deemed to be a taxable event. It is likely, therefore, that a capital gain or loss would be realized on an exchange between Portfolios; you may want to consult your tax adviser for further information in this regard. The exchange privilege may be modified or terminated at any time.

##### TRANSFER OF SHARES

Shareholders may transfer shares of the Portfolio to another person by making a written request to the Fund. The request should clearly identify the account and number of shares to be transferred, and include the signature of all registered owners and all stock certificates, if any, which are subject to the transfer. The signature on the letter of request, the stock certificate or any stock power must be guaranteed in the same manner as described under "Redemption of Shares." As in the case of redemptions, the written request must be received in good order before any transfer can be made.

#### INVESTMENT LIMITATIONS

The following limitations supplement those set forth in the Prospectus. Whenever an investment limitation sets forth a percentage limitation on investment or utilization of assets, such limitation shall be determined immediately after and as a result of the Portfolio's acquisition of such security or other asset. Accordingly, any later increase or decrease resulting from a change in values, net assets or other circumstances will not be considered when determining whether the investment complies with the Portfolio's investment limitations. Investment limitations (1), (2), (3) and (4) are classified as fundamental. The Portfolio's fundamental investment limitations cannot be changed without approval by a "majority of the outstanding shares" (as

defined in the 1940 Act) of the Portfolio. The Portfolio will not:

- (1) invest in physical commodities or contracts on physical commodities;
- (2) purchase or sell real estate or real estate limited partnerships, although it may purchase and sell securities of companies which deal in real estate and may purchase and sell securities which are secured by interests in real estate;

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- (3) make loans except (i) by purchasing debt securities in accordance with its investment objectives and (ii) by lending its portfolio securities to banks, brokers, dealers and other financial institutions so long as such loans are not inconsistent with the 1940 Act or the rules and regulations or interpretations of the Commission thereunder;
- (4) underwrite the securities of other issuers;
- (5) invest in futures and/or options on futures unless (i) not more than 5% of the Portfolio's assets are required as deposit to secure obligations under such futures and/or options on futures contracts, provided, however, that in the case of an option that is in-the-money at the time of purchase, the in-the-money amount may be excluded in computing such 5%; and (ii) not more than 20% of the Portfolio's assets are invested in futures and options;
- (6) purchase on margin except as specified in (5) above;
- (7) invest more than an aggregate of 15% of the net assets of the Portfolio, determined at the time of investment, in securities subject to legal or contractual restrictions on resale or securities for which there are no readily available markets;
- (8) issue senior securities, as defined in the 1940 Act, except that this restriction shall not be deemed to prohibit the Portfolio from (i) making any permitted borrowings, mortgages or pledges, or (ii) entering into options, futures or repurchase transactions.

#### MANAGEMENT OF THE FUND

##### TRUSTEES AND OFFICERS

The Officers of the Fund manage its day-to-day operations and are responsible to the Fund's Board of Trustees. The Trustees set broad policies for the Fund and elect its Officers. The following is a list of the Trustees and Officers of the Fund and a brief statement of their present positions and principal occupations during the past five years:

\*Dan L. Hockenbrough  
5949 Sherry Lane, Suite 1560  
Dallas, Texas 75225  
Age 37

Trustee, President and Chief Financial Officer of the Fund; Since August 1996, Business Manager of John McStay Investment Counsel. Formerly, Chief Financial Officer of Waugh Enterprises, Inc. from November 1995 until August 1996; Assistant Controller of Hicks, Muse, Tate & Furst Incorporated from December 1992 to November 1995; and Senior Associate at Coopers & Lybrand prior to December 1992.

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John H. Massey  
4004 Windsor Avenue  
Dallas, Texas 75205  
Age 57

Trustee of the Fund; Private Investor and a Director of The Paragon Group, Inc., Chancellor Broadcasting, Inc., Bank of the Southwest, Columbine JDS Systems, Inc. and FSW Holdings, Inc. Until 1996, Chairman of the Board and Chief Executive Officer of Life Partners

Group, Inc.

David M. Reichert  
7415 Stonecrest Drive  
Dallas, Texas 75240  
Age 57

Trustee of the Fund; Private Investor;  
formerly Senior Vice President of Moffet  
Capital Management, an investment  
counseling firm, from January 1995 until  
June 1996 and Senior Vice President and  
Portfolio Manager of American Capital  
Asset Management, a mutual fund  
management company, from April 1989 to  
July 1994.

\*Tricia A. Hundley  
5949 Sherry Lane, Suite 1560  
Dallas, Texas 75225  
Age 46

Vice President, Secretary and Compliance  
Officer of the Fund; Partner of John  
McStay Investment Counsel since 1987.

\*Loren J. Soetenga  
5949 Sherry Lane, Suite 1560  
Dallas, Texas 75225  
Age 29

Vice President and Treasurer of the  
Fund; Principal of John McStay  
Investment Counsel. Formerly, Partner of  
Chronos Management, Inc. until 1996.

\*This person is deemed to be an "interested person" of the Fund as that term is defined in the 1940 Act.

REMUNERATION OF TRUSTEES AND OFFICERS

The Fund pays each Trustee, who is not also an officer or affiliated person, a \$500 quarterly retainer fee per active Portfolio which currently amounts to \$1,500 per quarter. In addition, each unaffiliated Trustee receives a \$500 meeting fee which is aggregated for all the Trustees and allocated proportionately among the Portfolios of the Fund, and reimbursement for travel and other expenses incurred while attending Board meetings. Trustees who are also officers or affiliated persons receive no remuneration for their service as Trustees. The Fund's officers and employees are paid by either the Adviser or the Administrator and receive no compensation from the Fund. The following table shows aggregate compensation paid to each of the Fund's Trustees for the fiscal year ended November 30, 1997.

COMPENSATION TABLE

<TABLE>

<CAPTION>

(1) Name of Person Position	(2) Aggregate Compensation From Registrant	(3) Pension or Retirement Benefits Accrued as Part of Fund Expenses	(4) Estimated Annual Benefits Upon Retirement	(5) Total Compensation from Registrant and Fund Complex Paid to Trustees
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<S>	<C>	<C>	<C>	<C>
Dan L. Hockenbrough Director	-0-	-0-	-0-	-0-
John H. Massey Director	\$6,000	-0-	-0-	\$6,000
David M. Reichert Director	\$6,000	-0-	-0-	\$6,000

</TABLE>

PRINCIPAL HOLDERS OF SECURITIES

As of December 31, 1997, the following persons or organizations held of record 5% or more of the shares of the Portfolio: John McStay Investment Counsel. The Adviser, as the initial investor in the Fund, owns 100% of the

shares issued by the Portfolio.

#### INVESTMENT ADVISER

##### ADVISORY FEES

As compensation for services rendered by John McStay Investment Counsel (the "Adviser") under the Investment Advisory Agreement, the Portfolio pays the Adviser an annual fee in monthly installments, calculated by applying the following annual percentage rates to the Portfolio's average daily net assets for the month:

BRAZOS/JMIC Micro Cap Growth Portfolio.....	1.20%
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##### ADMINISTRATION FEES

In addition to the fees received for its services as Administrator to the Fund, as set forth in the Prospectus under "ADMINISTRATIVE SERVICES," Rodney Square receives fees from the Fund for providing transfer agency, accounting and dividend disbursing services. Such fees are included in the calculation of "Other Expenses" which appears under the caption heading "FUND EXPENSES" in the Prospectus. Rodney Square has entered into an agreement with PFPC Inc. pursuant to which PFPC will acquire the mutual fund administration business of Rodney Square. Effective January 5, 1998, the services previously provided to the Fund by Rodney Square will be provided by PFPC under the same terms and for the same fee.

#### PORTFOLIO TRANSACTIONS

The Investment Advisory Agreement authorizes the Adviser to select the brokers or dealers that will execute the purchases and sales of investment securities for the Portfolio and directs the Adviser to use its best efforts to obtain the best execution with respect to all transactions for the Portfolio. The Adviser may, however, consistent with the interests of the Portfolio, select brokers on the basis of the research, statistical and pricing services they provide to the Portfolio. Information and research received from such brokers

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will be in addition to, and not in lieu of, the services required to be performed by the Adviser under the Investment Advisory Agreement. A commission paid to such brokers may be higher than that which another qualified broker would have charged for effecting the same transaction, provided that such commissions are paid in compliance with the Securities Exchange Act of 1934, as amended, and that the Adviser determines in good faith that such commission is reasonable in terms either of the transaction or the overall responsibility of the Adviser to the Portfolio and the Adviser's other clients.

It is not the Fund's practice to allocate brokerage or principal business on the basis of sales of shares which may be made through broker-dealer firms. However, the Adviser may place portfolio orders with qualified broker-dealers who recommend the Portfolio or who act as agents in the purchase of shares of the Portfolio for their clients.

Some securities considered for investment by the Portfolio may also be appropriate for other clients served by the Adviser. If purchases or sales of securities consistent with the investment policies of the Portfolio and one or more of these other clients served by the Adviser is considered at or about the same time, transactions in such securities will be allocated among the Portfolio and clients in a manner deemed fair and reasonable by the Adviser. Although there is no specified formula for allocating such transactions, the various allocation methods used by the Adviser, and the results of such allocations, are subject to periodic review by the Fund's Board of Trustees.

#### PERFORMANCE CALCULATIONS

##### PERFORMANCE

The Portfolio may from time to time quote various performance figures to illustrate past performance. Performance quotations by investment companies are subject to rules adopted by the Commission, which 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 Commission. Current yield and average annual compounded total return quotations used by the Fund are based on the standardized methods of computing performance mandated by the Commission. An explanation of those and other methods used to compute or express performance follows.

#### YIELD

Current yield reflects the income per share earned by the Portfolio's investment. The current yield of the Portfolio is determined by dividing the net investment income per share earned during a 30-day base period by the maximum offering price per share on the last day of the period and annualizing the result. Expenses accrued for the period include any fees charged to all shareholders during the base period.

This figure is obtained using the following formula:

$$\text{Yield} = 2 \left[ \frac{(a-b+1)^6}{cd} - 1 \right]$$

where:

- a = dividends and interest earned during the period
- b = expenses accrued for the period (net of reimbursements)

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c = the average daily number of shares outstanding during the period that were entitled to receive income distributions

d = the maximum offering price per share on the last day of the period.

#### TOTAL RETURN

The average annual total return of the Portfolio is determined by finding the average annual compounded rates of return over 1, 5 and 10 year periods that would equate an initial hypothetical \$1,000 investment to its ending redeemable value. The calculation assumes that all dividends and distributions are reinvested when paid. The quotation assumes the amount was completely redeemed at the end of each 1, 5 and 10 year period and the deduction of all applicable Fund expenses on an annual basis.

These figures will be calculated according to the following formula:

$$P(1+T)^n = \text{ERV}$$

where:

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

#### COMPARISONS

To help investors better evaluate how an investment in the Portfolio might satisfy their investment objective, advertisements regarding the Fund may discuss various measures of Fund performance as reported by various financial publications. Advertisements may also compare performance (as calculated above) to performance as reported by other investments, indices and averages. The following publications, indices and averages may be used:

- (1) Dow Jones Composite Average or its component averages - an unmanaged index composed of 30 blue-chip industrial corporation stocks (Dow Jones Industrial Average), 15 utilities company stocks and 20 transportation stocks. Comparisons of performance assume reinvestment of dividends.
- (2) Standard & Poor's 500 Stock Index or its component indices - an

unmanaged index composed of 400 industrial stocks, 40 financial stocks, 40 utilities stocks and 20 transportation stocks. Comparisons of performance assume reinvestment of dividend.

- (3) Standard & Poor's MidCap 400 Index - an unmanaged index measuring the performance of non-S&P 500 stocks in the mid-range sector of the U.S. stock market.
- (4) The New York Stock Exchange composite or component indices - unmanaged indices of all industrial, utilities, transportation and finance stocks listed on the New York Stock Exchange.

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- (5) Wilshire 5000 Equity Index or its component indices - represents the return on the market value of all common equity securities for which daily pricing is available. Comparisons of performance assume reinvestment of dividends.
- (6) Lipper - Mutual Fund Performance Analysis and Lipper - Fixed Income Fund Performance Analysis - measure total return and average current yield for the mutual fund industry. Rank individual mutual fund performance over specified time periods, assuming reinvestment of all distributions, exclusive of any applicable sales charges.
- (7) Morgan Stanley Capital International EAFE Index and World Index - respectively, arithmetic, market value-weighted averages of the performance of over 900 securities listed on the stock exchanges of countries in Europe, Australia and the Far East, and over 1,400 securities listed on the stock exchanges of these continents, including North America.
- (8) Goldman Sachs 100 Convertible Bond Index - currently includes 67 bonds and 33 preferred. The original list of names was generated by screening for convertible issues of 100 million or greater in market capitalization. The index is priced monthly.
- (9) Salomon Brothers GNMA Index - includes pools of mortgages originated by private lenders and guaranteed by the mortgage pools of the Government National Mortgage Association.
- (10) Salomon Brothers High Grade Corporate Bond Index - consists of publicly issued, non-convertible corporate bonds rated AA or AAA. It is a value-weighted, total return index, including approximately 800 issues with maturities of 12 years or greater.
- (11) Salomon Brothers Broad Investment Grade Bond - is a market-weighted index that contains approximately 4,700 individually priced investment grade corporate bonds rated BBB or better, U.S. Treasury/agency issues and mortgage pass through securities.
- (12) Lehman Brothers Long-Term Treasury Bond - is composed of all bonds covered by the Lehman Brothers Treasury Bond Index with maturities of 10 years or greater.
- (13) NASDAQ Industrial Index - is composed of more than 3,000 industrial issues. It is a value-weighted index calculated on price change only and does not include income.
- (14) Value Line - composed of over 1,600 stocks in the Value Line Investment Survey.
- (15) Russell 2000 - composed of the 2,000 smallest stocks in the Russell 3000, a market value-weighted index of the 3,000 largest U.S. publicly-traded companies.
- (16) Russell 2000 Growth - measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
- (17) Russell 2000 Value - measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

- (18) Russell 2500 - composed of the 2,500 smallest stocks in the Russell 3000, a market value-weighted index of the 3,000 largest U.S. publicly-traded companies.
- (19) Composite Indices - 60% Standard & Poor's 500 Stock Index, 30% Lehman Brothers Long-Term Treasury Bond and 10% U.S. Treasury Bills; 70% Standard & Poor's 500 Stock Index and 30% NASDAQ Industrial Index; 35% Standard & Poor's 500 Stock Index and 65% Salomon Brothers High Grade Bond Index; all stocks on the NASDAQ system exclusive of those traded on an exchange, and 65% Standard & Poor's 500 Stock Index and 35% Salomon Brothers High Grade Bond Index.
- (20) CDA Mutual Fund Report published by CDA Investment Technologies, Inc. - analyzes price, current yield, risk, total return and average rate of return (average compounded growth rate) over specified time periods for the mutual fund industry.
- (21) Mutual Fund Source Book published by Morningstar, Inc. - analyzes price, yield, risk and total return for equity funds.
- (22) Financial publications: Business Week, Changing Times, Financial World, Forbes, Fortune, Money, Barron's, Consumer's Digest, Financial Times, Global Investor, Wall Street Journal and Weisenberger Investment Companies Service - publications that rate fund performance over specified time periods.
- (23) Consumer Price Index (or Cost of Living Index), published by the U.S. Bureau of Labor Statistics - a statistical measure of change over time in the price of goods and services in major expenditure groups.
- (24) Stocks, Bonds, Bills and Inflation, published by Ibbotson Associates - historical measure of yield, price and total return for common and small company stock, long-term government bonds, U.S. Treasury bills and inflation.
- (25) Savings and Loan Historical Interest Rates - as published by the U.S. Savings & Loan League Fact Book.
- (26) Lehman Brothers Government/Corporate Index - is a combination of the Government and Corporate Bond Indices. The Government Index includes public obligations of the U.S. Treasury, issues of Government agencies, and corporate debt backed by the U.S. Government. The Corporate Bond Index includes fixed-rate nonconvertible corporate debt. Also included are Yankee Bonds and nonconvertible debt issued by or guaranteed by foreign or international governments and agencies. All issues are investment grade (BBB) or higher, with maturities of at least one year and an outstanding par value of at least \$100 million for U.S. Government issues and \$25 million for others. Any security downgraded during the month is held in the index until month-end and then removed. All returns are market value weighted inclusive of accrued income.
- (27) Lehman Brothers Intermediate Government/Corporate Index is an unmanaged index composed of a combination of the Government and Corporate Bond Indices. All issues are

investment grade (BBB) or higher, with maturities of one to ten years and an outstanding par value of at least \$100 million for U.S. Government issues and \$25 million for others. The Government Index includes public obligations of the U.S. Treasury, issues of Government agencies, and corporate debt backed by the U.S. Government. The Corporate Bond Index includes fixed-rate nonconvertible corporate debt. Also included are Yankee Bonds and nonconvertible debt issued by or guaranteed by foreign or international governments and agencies. Any security downgraded during the month is held in the index until month-end and then removed. All returns are market value weighted



inclusive of accrued income.

- (28) Historical data supplied by the research departments of First Boston Corporation; the J.P. Morgan companies; Salomon Brothers; Merrill Lynch, Pierce, Fenner & Smith; Lehman Brothers, Inc.; and Bloomberg L.P.

In assessing such comparisons of performance, an investor should keep in mind that the composition of the investments in the reported indices and averages is not identical to the composition of investments in the Portfolio, that the 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 Portfolio to calculate its performance. In addition, there can be no assurance that the Portfolio will continue this performance as compared to such other averages.

#### GENERAL INFORMATION

##### DESCRIPTION OF SHARES AND VOTING RIGHTS

The Fund was organized as a Delaware business trust on October 24, 1996. The Fund's principal office is located at 5949 Sherry Lane, Dallas, Texas 75225; however, all investor correspondence should be directed to the Fund c/o Rodney Square Management Corporation, P.O. Box 8987, Wilmington, DE 19899. The Fund's Agreement and Declaration of Trust permits the Fund to issue an unlimited number of shares of beneficial interest, without par value. The Trustees have the power to designate one or more series ("Portfolios") or classes of shares of beneficial interest without further action by shareholders.

On each matter submitted to a vote of the shareholders, each holder of a share shall be entitled to one vote for each whole share and a fractional vote for each fractional share standing in his or her name on the books of the Fund.

In the event of liquidation of the Fund, the holders of the shares of each Portfolio or any class thereof that has been established and designated shall be entitled to receive, when and as declared by the Trustees, the excess of the assets belonging to that Portfolio, or in the case of a class, belonging to that Portfolio and allocable to that class, over the liabilities belonging to that Portfolio or class. The assets so distributable to the holders of shares of any particular Portfolio or class thereof shall be distributed to the holders in proportion to the number of shares of that Portfolio or class thereof held by them and recorded on the books of the Fund. The liquidation of any Portfolio or class thereof may be authorized at any time by vote of a majority of the Trustees then in office.

Shareholders have no pre-emptive or other rights to subscribe to any additional shares or other securities issued by the Fund or any Portfolio, except as the Trustees in their sole discretion shall have determined by resolution.

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##### DIVIDENDS, CAPITAL GAINS DISTRIBUTIONS AND TAXES

The Fund's policy is to distribute at least annually, substantially all of the Portfolio's net investment income, if any, together with any net realized capital gains in the amount and at the times that will avoid both income (including capital gains) taxes incurred and the imposition of the Federal excise tax on undistributed income and capital gains. The Fund may distribute the Portfolio's net investment income at interim periods. The amounts of any income dividends or capital gains distributions cannot be predicted. See discussion under "Dividends, Capital Gains Distributions and Taxes" in the Prospectus.

Any dividend or distribution paid shortly after the purchase of shares of the Portfolio by an investor may have the effect of reducing the per share net asset value of the Portfolio by the per share amount of the dividend or distribution. Furthermore, such dividends or distributions, although in effect a return of capital, are subject to income taxes as set forth in the Prospectus.

As set forth in the Prospectus, unless the shareholder elects otherwise in writing, all dividend and capital gains distributions are automatically received in additional shares of the respective Portfolio of the Fund at net asset value (as of the business day following the record date). This will remain in effect until the Fund is notified by the shareholder in writing at least three days

prior to the record date that either the Income Option (income dividends in cash and capital gains distributions in additional shares at net asset value) or the Cash Option (both income dividends and capital gains distributions in cash) has been elected. An account statement is sent to shareholders whenever an income dividend or capital gains distribution is paid.

If a shareholder has elected to receive dividends and/or capital gain distributions in cash and the postal or other delivery service is unable to deliver checks to the shareholder's address of record, such shareholder's distribution option will automatically be converted to having all dividend and other distributions reinvested in additional shares. No interest will accrue on amounts represented by uncashed distribution or redemption checks.

Each Portfolio of the Fund will be treated as a separate entity (and hence as a separate "regulated investment company") for Federal tax purposes. Any net capital gains recognized by the Portfolio will be distributed to its investors without need to offset (for Federal income tax purposes) such gains against any net capital losses of another Portfolio.

In order for the Portfolio to continue to qualify for Federal income tax treatment as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Code"), at least 90% of the Portfolio's gross income for a taxable year must be derived from certain qualifying income, i.e., dividends, interest, income derived from loans of securities and gains from the sale or other disposition of stock, securities or foreign currencies, or other related income, including gains from options, futures and forward contracts, derived with respect to its business investing in stock, securities or currencies. Any net gain realized from the closing out of futures contracts will, therefore, generally be qualifying income for purposes of the 90% requirement.

Except for transactions the Portfolio has identified as hedging transactions, the Portfolio is required for Federal income tax purposes to recognize as income for the taxable year its net unrealized gains and losses on forward currency and futures contracts as of the end of the taxable year as well as those actually realized during the year. In most cases, any such gain or loss recognized with respect to a regulated

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futures contract is considered to be 60% long-term capital gain or loss and 40% short-term capital gain or loss without regard to the holding period of the contract. Recognized gain or loss attributable to a foreign currency forward contract is treated as 100% ordinary income. Furthermore, foreign currency futures contracts which are intended to hedge against a change in the value of securities held by the Portfolio may affect the holding period of such securities and, consequently, the nature of the gain or loss on such securities upon disposition.

The Portfolio may be subject to foreign withholding taxes on income or gains recognized with respect to its investment in certain foreign securities. If the Portfolio purchases shares in certain foreign investment entities, called "passive foreign investment companies" ("PFIC"), the Portfolio may be subject to U.S. Federal income tax and a related interest charge on a portion of any "excess distribution" or gain from the disposition of such shares, even if such income is distributed as a taxable dividend by the Portfolio to its shareholders. If more than 50% of the total assets of the Portfolio are invested in securities of foreign corporations, the Portfolio may elect to pass-through to its shareholders their pro rata share of foreign income taxes paid by the Portfolio. If this election is made, shareholders will be required to include in their gross income their pro rata share of the foreign taxes paid by the Portfolio. However, shareholders will be entitled to deduct (as an itemized deduction in the case of individuals) their share of such foreign taxes in computing their taxable income or to claim a credit for such taxes against their U.S. Federal income tax, subject to certain limitation under the Code. Finally, the Portfolio may recognize gain or loss on transactions in foreign currencies as a by-product of its investment in foreign securities.

The Portfolio will distribute to shareholders annually any net capital gains which have been recognized for Federal income tax purposes (including unrealized gains at the end of the Portfolio's taxable year) on futures transactions. Such distribution will be combined with distributions of capital gains realized on the Portfolio's other investments, and shareholders will be advised on the nature of the payment.

## CODE OF ETHICS

The Fund has adopted a Code of Ethics which restricts, to a certain extent, personal transactions by access persons of the Fund and imposes certain disclosure and reporting obligations.

## FINANCIAL STATEMENTS

The Financial Statements for the Portfolio and selected per share data and ratios and notes to the Financial Statements relating to corresponding periods will be contained in this Statement of Additional Information.