

Supplement Dated November 1, 2000
To the Classes A, B and C Prospectus and Statement of Additional Information of

SM&R EQUITY FUNDS
dated May 1, 2000

ELIMINATION OF CLASS C, CLASS J AND CLASS Y:

On the front page of the Class A, Class B, Class C prospectus, in the table of contents, on pages 1, 2, 3, 5, 6, 7, 8, 9, 10, 12, 23, 24, 25, 28, 35 and on the inside back page of the wrapper/cover, there are references to other classes of shares, specifically Class C, Class J and/or Class Y of these Funds. **Effective November 1, 2000, Class C, Class J and Class Y shares are no longer available for sale in the SM&R Growth Fund, Inc., SM&R Equity Income Fund, Inc. and SM&R Balanced Fund, Inc. or any other funds managed by Securities Management and Research, Inc. ("SM&R").**

On the front page and on pages 1, 17, 18, 21, 24, 25 and 26 of the Statement of Additional Information ("SAI") dated May 1, 2000, there are references made with respect to Class C, Class J and/or Class Y shares. **Effective November 1, 2000, Class C, Class J and Class Y shares are no longer available for sale in the SM&R Growth Fund, Inc., SM&R Equity Income Fund, Inc. and SM&R Balanced Fund, Inc.**



SM&R Equity Funds

Investment Strategies for a Changing World

Class A, Class B, Class C Funds

SM&R Growth Fund, Inc.

SM&R Equity Income Fund, Inc.

SM&R Balanced Fund, Inc.

Prospectus, May 1, 2000

The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

An investment in the Funds is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

(All classes may not be available in all states)

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Why Reading This Prospectus is Important To You

This prospectus explains the investment objectives, risks and strategies of each of the SM&R Equity Funds. Reading the prospectus will help you to decide which SM&R Equity Fund, if any, is the right investment for you. We suggest that you keep this prospectus for future reference.

**Fund Facts
You May Find
Helpful**

Classes of Shares
Offered in this
Prospectus:
Class A-Fund #121
Class B-Fund #221
Class C-Fund #321

Investment Adviser:
Securities
Management and
Research, Inc.

Portfolio Managers:
Gordon D. Dixon
Andre J. Hodlewsky

Portfolio Turnover:
16.13% Class A
16.13% Class B
16.13% Class C

Dividend Payment
Schedule:
Semi-Annually

INVESTMENT OBJECTIVE

The Growth Fund seeks to achieve capital appreciation.

PRINCIPAL INVESTMENT STRATEGIES

The Growth Fund normally invests at least 85% of its total assets in common stock. In selecting stocks, Securities Management and Research, Inc. (“SM&R”), the Growth Fund’s investment advisor:

- chooses stocks of financially sound companies that have a proven ability to make and sustain a profit over time
- places an emphasis on companies with growth potential.

The Growth Fund generally purchases a higher proportion of stocks (relative to their market weight) from those sectors of the market with higher growth prospects, referred to as “overweighting.” Examples of sectors with higher growth prospects currently include technology, healthcare, and consumer staples. On the other hand, the portfolio generally purchases a smaller proportion of stocks (relative to their market weight) from sectors of the market with below average growth characteristics (for example, utilities and basic materials), referred to as “underweighting.”

PRINCIPAL RISK FACTORS

The Growth Fund is subject to the risks common to all mutual funds that invest in equity securities, and you could lose money investing in this fund. The principal risks of investing in the Growth Fund are as follows:

- the market value of the fund’s securities could decline (market risk).
- SM&R’s investment decisions (such as sector overweighting and underweighting and individual stock selection) could fail to achieve the desired results (investment style or management risk).
- growth stocks can have relatively wide price swings as a result of the high valuations they carry (growth stock risk).
- interest rates could increase which can cause the value of a debt security to decline (interest rate risk).
- issuers of debt obligations could default or be unable to pay amounts due (credit risk).

WHO MAY WANT TO INVEST IN THE FUND

This fund may be appropriate if you:

- have long-term investment goals (ten years or more)
- are willing to accept higher short-term risk
- want to diversify your portfolio

WHO MAY NOT WANT TO INVEST IN THE FUND

This fund may **NOT** be appropriate:

- if you are investing with a shorter time horizon (less than ten years)
- if you are uncomfortable with an investment that will go up and down in value
- as your complete portfolio

**Fund Facts
You May Find
Helpful**

Classes of Shares
Offered in this

Prospectus:

Class A-Fund #122

Class B-Fund #222

Class C-Fund #322

Investment Adviser:
Securities
Management and
Research, Inc.

Portfolio Managers:
Gordon D. Dixon
Andrew R. Duncan

Portfolio Turnover:
9.81% Class A
9.81% Class B
9.81% Class C

Dividend Payment
Schedule:
Quarterly

INVESTMENT OBJECTIVE

The Equity Income Fund seeks current income with a secondary objective of long-term capital appreciation.

PRINCIPAL INVESTMENT STRATEGIES

Securities Management and Research, Inc. (“SM&R”), the fund’s investment advisor, normally invests at least 75% of the Equity Income Fund’s assets in common stocks. This fund may also invest in preferred stocks and investment grade debt securities (such as publicly traded corporate bonds, debentures, notes, commercial paper, repurchase agreements, and certificates of deposit). In selecting common and preferred stocks, the fund focuses on companies with consistent and increasing dividend payment histories and future earnings potential sufficient to continue such dividend payments. This fund’s goal is to maintain a portfolio dividend yield (before fees and expenses) at least 50% greater than that of the S&P 500 Index.

The Equity Income Fund generally purchases a higher proportion of stocks (relative to their market weight) from those sectors of the market with greater dividend prospects, referred to as “overweighting.” Examples of sectors with greater dividend prospects currently include financial companies like banks, insurance companies, and real estate investment trusts. On the other hand, the fund generally purchases a smaller proportion of stocks (relative to their market weight) from sectors of the market with below average dividend yields (such as technology and consumer staples), referred to as “underweighting.”

PRINCIPAL RISK FACTORS

The Equity Income Fund is subject to the risks common to all mutual funds that invest in equity securities and you could lose money investing in this fund. The principal risks of investing in the Equity Income Fund are as follows:

- the market value of the fund’s securities could decline (market risk).
- SM&R’s investment decisions (such as sector overweighting and underweighting and individual stock selection) could fail to achieve the desired results (investment style or management risk).
- growth stocks can have relatively wide price swings as a result of the high valuations they carry (growth stock risk).
- interest rates could increase which can cause the value of debt securities to decline (interest rate risk).
- issuers of debt obligations could default or be unable to pay amounts due (credit risk).

WHO MAY WANT TO INVEST IN THE FUND

This fund may be appropriate if you:

- have medium-term investment goals (five years or more)
- are comfortable with moderate to aggressive risk
- are looking for a fund with both growth and income components
- are seeking to participate in the equity market
- are willing to accept higher short-term risk

WHO MAY NOT WANT TO INVEST IN THE FUND

This fund may **NOT** be appropriate if you:

- are investing with a shorter-time horizon (less than five years)
- are investing for maximum return
- require a high degree of stability of your principal

**Fund Facts
You May Find
Helpful**

Classes of Shares
Offered in this

Prospectus:

Class A-Fund #123

Class B-Fund #223

Class C-Fund #323

Investment Adviser:
Securities
Management and
Research, Inc.

Portfolio Managers:
Gordon D. Dixon
Andrew R. Duncan

Portfolio Turnover:
18.01% Class A
18.01% Class B
18.01% Class C

Dividend Payment
Schedule:
Quarterly

INVESTMENT OBJECTIVE

The Balanced Fund seeks to conserve principal, produce current income, and achieve long-term capital appreciation.

PRINCIPAL INVESTMENT STRATEGIES

Securities Management and Research, Inc. (“SM&R”), the Balanced Fund’s investment advisor, uses a “balanced” approach by investing part of the assets in common stocks and the remainder in a combination of U.S. Government bonds, investment-grade corporate bonds, collateralized mortgage obligations, mortgage-backed securities, convertible bonds, cash, and money market instruments. The balance of stocks to bonds and money market instruments changes in response to changing economic conditions. This flexibility may help to reduce price volatility.

SM&R will generally select stocks on certain growth and value considerations. A growth stock would include a company whose price/earnings ratio is attractive relative to the underlying earnings growth rate. An example of a value stock would be one where the stock price appears undervalued in relation to earnings, projected cash flow, or asset value per share.

The stocks in this fund are diversified and are selected based upon two models. One model is based on profitability measurements and the other model is based on the corporation’s return on invested cash. The bonds, meanwhile, may serve as a stabilizing force during times of eroding stock market value, as well as provide a fixed income payment stream. The fund invests at least 25% of assets in fixed income securities, all of which are rated BBB or better (investment grade).

The fixed income portion of the fund will generally invest in medium and long-term securities. The average maturity for the fixed income portion generally is expected to be in the six to fifteen year range (some securities may have a longer or shorter duration). The average portfolio maturity may be shorter when management anticipates that interest rates will increase, and longer when management anticipates interest rates will decrease.

PRINCIPAL RISK FACTORS

The Balanced Fund is subject to the risks common to all mutual funds that invest in equity securities and you could lose money investing in this fund. The principal risks of investing in the Balance Fund are as follows:

- the market value of the fund’s securities could decline (market risk).
- SM&R’s investment decisions (such as determining the ratio of stock to bonds and individual stock selection) could fail to achieve the desired results (investment style or management risk).
- growth stocks can have relatively wide price swings as a result of the high valuations they carry (growth stock risk).
- interest rates could increase which can cause the value of debt securities to decline (interest rate risk).
- issuers of debt obligations could default or be unable to pay amounts due (credit risk).
- the fund could be unable to find a buyer for its securities (liquidity risk).
- the income you receive from the portfolio is based primarily on interest rates, which can vary widely over the short- and long-term. If interest rates drop, your income from the portfolio may drop as well (income risk).
- Interest rates could fall enough to prompt an unexpected number of people to refinance (or prepay) their mortgages before their maturity (call risk).

WHO MAY WANT TO INVEST IN THE FUND

This fund may be appropriate if you:

- are seeking conservation of the purchasing power of your capital, but also want to participate in equity investments
- are looking for a more conservative alternative to a growth-oriented portfolio
- want a well-diversified and relatively stable investment allocation
- need a core investment

WHO MAY NOT WANT TO INVEST IN THE FUND

This fund may **NOT** be appropriate if you:

- are investing for a maximum return over a long time horizon
- require a high degree of stability of your principal

ADDITIONAL EXPLANATION OF RISK FACTORS

Common Risk Factors for All of SM&R's Mutual Funds

Please remember that mutual fund shares are:

- Not guaranteed to achieve their investment goal
- Not insured, endorsed or guaranteed by the FDIC, a bank or any government agency
- Subject to investment risks, including possible loss of your original investment

Like most investments, your investment in an SM&R Mutual Fund could fluctuate in value over time and could result in a loss of money.

Risk Factors Specific to the SM&R Equity Funds

IMPORTANT

The following factors may affect the value of your investment in one or more of the SM&R Equity Funds.

As indicated above, each of the three funds is subject to the following types of risks to varying degrees.

Credit Risk.

The risk that the issuer of a security, or a party to a contract, will default or otherwise not honor a financial obligation.

This risk applies to all of the funds, but may have a greater impact on the Balanced and Equity Income Funds.

Interest Rate Risk.

The risk of declines in market value of an income-bearing investment due to changes in prevailing interest rates. With fixed-rate securities, a rise in interest rates typically causes a decline in market values, while a fall in interest rates typically causes an increase in market values. *This risk applies to all of the funds, but may have a greater impact on the Balanced and Equity Income Funds.*

Liquidity Risk.

The risk that certain securities or other investments may be difficult or impossible to sell at the time the fund would like to sell them or at the price the fund values them. The fund may have to sell at a lower price, sell other securities instead, or forego an investment opportunity, any of which could have a negative effect on fund management or performance. *This risk applies only to the Balanced Fund.*

Investment Style or Management Risk.

The risk that a strategy used by a fund's management may fail to produce the intended result because:

- management fails to properly implement the selected investment strategy; or
- the securities that fit the fund's investment style do worse than securities that fit other investment styles. *This risk is common to all mutual funds and applies to all of the funds.*

Market Risk.

The risk that the market value of a security may move down, sometimes rapidly and unpredictably. The fluctuations may cause a security to be worth less than the price originally paid for it, or less than it was worth at an earlier time. Market risk may affect a single issuer, industry, sector of the economy, or the market as a whole. *This risk is common to all stocks and bonds and the mutual funds that invest in them and applies to all of the funds.*

Call Risk.

Call risk is the risk that an unexpected fall in prevailing interest rates will shorten the life of an outstanding obligation by increasing the actual or expected number of prepayments, thereby reducing the obligation's value. *Call risk applies to the Balanced Fund.*

PERFORMANCE

PERFORMANCE

The bar charts and average annual total return tables shown below provide some indication of the risks of investing in the funds and the difference in returns by:

- showing performance for each year since inception and
- showing how average annual returns compare to those of a broad measure of market performance.

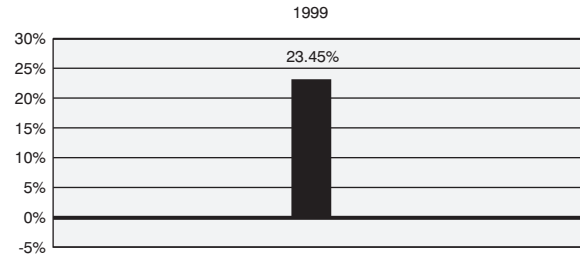
Past performance is not necessarily an indication of how the funds will perform in the future.

These bar charts include the effects of Fund expenses, but not sales charges and account fees. The returns shown would be lower if such sales charges were included.

Growth Fund

Total Return from Class A Shares (%)

For Period 1/1/99-12/31/99



	Quarter Ended	Total Return
Best Quarter:	Dec. 31, 1999	18.25%
Worst Quarter:	Sept. 30, 1999	(5.56)%

The next table lists the Growth Fund's average annual total return by class since inception (1/1/99), including sales charges. This table is intended to provide you with some indication of the risks of investing in the Fund. At the bottom of the table you can compare this performance with the S&P 500® and Lipper Growth Fund Index. The S&P 500® is the Standard & Poor's Composite Index of 500 Stocks, a widely recognized, unmanaged index of common stock prices. Standard & Poor's, S&P, and S&P 500® are registered trademarks of Standard & Poor's Corporation. The Lipper Growth Fund Index is a widely recognized, equally weighted performance index (adjusted for capital gains distributions and income dividends) of the 30 largest open-end funds which invest in companies whose long term earnings are expected to grow significantly faster than the earnings of the stock represented in the major unmanaged stock indices. Comparative data for this index will no longer be available from Lipper effective December, 2000. A new comparative index will be selected at that time.

Average Annual Total Returns

(for the period ended 12/31/99)

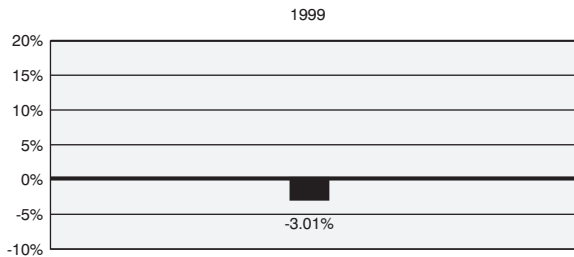
	Since Inception
Class A	17.27%
Class B	15.93%
Class C	23.83%
S&P 500®	21.03%
Lipper Growth Fund Index	50.93%

PERFORMANCE

Equity Income Fund

Total Return for Class A Shares (%)

(for period 1/1/99-12/31/99)



	Quarter Ended	Total Return
Best Quarter:	June 30, 1999	9.03%
Worst Quarter:	Sept. 30, 1999	(8.98)%

The next table lists the Equity Income Fund's average annual total return by class since inception (1/1/99), including sales charges. This table is intended to provide you with some indication of the risks of investing in the Fund. At the bottom of the table you can compare this performance with the S&P 500® and the Lipper Equity Income Fund Index. The S&P 500® is the Standard & Poor's Composite Index of 500 Stocks, a widely recognized, unmanaged index of common stock prices. Standard & Poor's, S&P, and S&P 500® are registered trademarks of Standard & Poor's Corporation. The Lipper Equity Income Fund Index is a widely recognized, equally weighted performance index (adjusted for capital gains distributions and income dividends) of the 10 largest open-end funds which seek relatively high current income and growth of income through investing 60% or more of their portfolio in equities.

Average Annual Total Returns

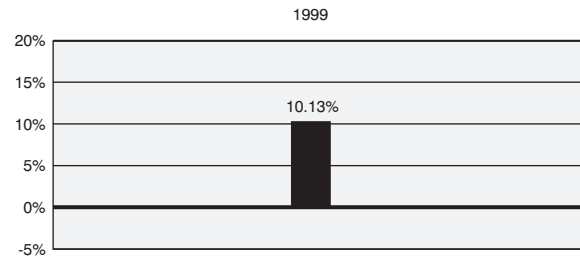
(for the period ended 12/31/99)

	Since Inception
Class A	(7.84)%
Class B	(9.60)%
Class C	(5.25)%
S&P 500®	21.03%
Lipper Equity Income Fund Index	4.20%

Balanced Fund

Total Return for Class A Shares (%)

(for period 1/1/99-12/31/99)



	Quarter Ended	Total Return
Best Quarter:	Dec. 31, 1999	10.01%
Worst Quarter:	Sept. 30, 1999	(2.76)%

The next table lists the Balanced Fund's average annual total return by class since inception (1/1/99), including sales charges. This table is intended to provide you with some indication of the risks of investing in the Fund. At the bottom of the table you can compare this performance with the Lehman Brothers Intermediate Government/Corporate Index and the Lipper Balanced Fund Index. The Lehman Brothers Intermediate Government/Corporate Index is an unmanaged index generally representative of the performance of the bond market as a whole. The Lipper Balanced Fund Index is a widely recognized, equally weighted performance index (adjusted for capital gains distributions and income dividends) of the 30 largest open-end funds whose primary objective is to conserve principal by maintaining a balanced portfolio of stocks and bonds. The stock/bond ratio typically ranges around 60%/40%.

Average Annual Total Returns

(for the period ended 12/31/99)

	Since Inception
Class A	4.64%
Class B	5.97%
Class C	7.39%
Lehman Brothers Intermediate Government/Corporate Index	0.38%
Lipper Balanced Fund Index	8.96%

EXPENSES OF THE FUNDS

FEES AND EXPENSES OF THE FUNDS

This table describes the fees and expenses that you may pay if you buy and hold shares of the funds.

Shareholder Fees

(fees paid directly from your investment)

	Growth, Equity Income, and Balanced Fund		
	Class A	Class B	Class C
Maximum Sales Charge (Total)			2.00%
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price)	5.00% ⁽¹⁾	None	1.00%
Maximum Deferred Sales Charge (as a percentage of the lesser of the offering price or redemption value) ⁽²⁾	⁽³⁾	5.00% ⁽⁴⁾	1.00% ⁽⁵⁾
Maximum Sales Charge Imposed on Reinvested Dividends and other Distributions (as a percentage of offering price)	None	None	None
Redemption Fees	(2)	(2)	(2)
Exchange Fees	None	None	None
Other Expenses	(9)	(9)	(9)

Annual Fund Operating Expenses⁽⁶⁾

(expenses that are deducted from fund assets)

	Growth Fund		
	Class A	Class B	Class C
Management Fees	0.53%	0.53%	0.53%
Distribution and/or Service (12b-1) Fees	0.25%	0.75%	1.00%
Other Expenses ⁽⁷⁾	0.73%	0.73%	0.73%
Total Annual Fund Operating Expenses ⁽⁸⁾	<u>1.51%</u>	<u>2.01%</u>	<u>2.26%</u>
Net Expenses	1.51%	2.01%	2.26%

	Equity Income Fund		
	Class A	Class B	Class C
Management Fees	0.73%	0.73%	0.73%
Distribution and/or Service (12b-1) Fees	0.25%	0.75%	1.00%
Other Expenses ⁽⁷⁾	0.53%	0.53%	0.53%
Total Annual Fund Operating Expenses ⁽⁸⁾	<u>1.51%</u>	<u>2.01%</u>	<u>2.26%</u>
Net Expenses	1.51%	2.01%	2.26%

	Balanced Fund		
	Class A	Class B	Class C
Management Fees	0.74%	0.74%	0.74%
Distribution and/or Service (12b-1) Fees	0.25%	0.75%	1.00%
Other Expenses ⁽⁷⁾	0.52%	0.52%	0.52%
Total Annual Fund Operating Expenses ⁽⁸⁾	<u>1.51%</u>	<u>2.01%</u>	<u>2.26%</u>
Net Expenses	1.51%	2.01%	2.26%

Footnotes to Fees and Expenses

- (1) You pay a sales charge of 5.00% on initial investments in Class A shares of less than \$50,000. You pay a reduced sales charge at certain breakpoints, as follows: 4.50% on initial investments of at least \$50,000 but less than \$100,000; 3.50% on initial investments of at least \$100,000 but less than \$250,000; 2.50% on initial investments of at least \$250,000 but less than \$500,000; 1.50% on initial investments of at least \$500,000 but less than \$1 million; and zero on initial investments of \$1 million or more.
- (2) You pay an \$10.00 transaction fee for each expedited wire redemption.
- (3) Purchases of \$1 million or more of Class A shares may be made without an initial sales charge. Redemptions of such shares within the first thirteen months after purchase, however, will be subject to a contingent deferred sales charge of 1.00%.
- (4) The maximum 5.00% contingent deferred sales charge on Class B shares applies to redemptions during the first year after purchase. The charge declines to 4.00% during the second year, 3.00% during the third year, 2.00% during the fourth year, 1.00% during the fifth year, and zero during the sixth year and thereafter.
- (5) A contingent deferred sales charge of 1.00% only applies to redemptions of Class C shares during the first thirteen months after purchase.
- (6) The "Management Fee" and "Other Expenses" shown for the funds are for the year ended December 31, 1999.
- (7) "Other Expenses" include the 0.25% Administrative Service Fee.
- (8) The Fee Table does not reflect any fees waived or expenses assumed either contractually or voluntarily by the funds' manager, Securities Management and Research, Inc. ("SM&R"). Pursuant to the Administrative Service Agreement, SM&R will pay (or reimburse) each fund for regular operating expenses in excess of 1.25% per year of such fund's average daily net assets. Regular operating expenses include the advisory fee and administrative fee, but do not include the 12b-1 fee or class-specific expenses.
- (9) You pay a \$7.50 per account annual custodian fee for the tax deferred accounts.

EXPENSES OF THE FUNDS

Expenses

The tables below show the total expenses you would pay on a \$10,000 investment over one, three-, five-, and ten-year periods. These examples are intended to help you compare the cost of investing in the funds with the cost of investing in other mutual funds and are for illustration only. These examples also assume that your investment has a 5% return each year, that you reinvest all of your dividends and that the funds' operating expenses remain the same. **Your actual costs may be higher or lower than shown.**

Examples of Fund Expenses:

Growth Fund

	Assuming Redemption at End of Period			Assuming No Redemption at End of Period	
	Class A	Class B	Class C	Class B	Class C
1 Year	\$ 646	\$ 704	\$ 427	\$ 204	\$ 327
3 years	953	930	799	630	799
5 years	1,283	1,183	1,298	1,083	1,298
10 years	2,211	2,209	2,669	2,209	2,669

Equity Income Fund

	Assuming Redemption at End of Period			Assuming No Redemption at End of Period	
	Class A	Class B	Class C	Class B	Class C
1 Year	\$ 646	\$ 704	\$ 427	\$ 204	\$ 327
3 years	953	930	799	630	799
5 years	1,283	1,183	1,298	1,083	1,298
10 years	2,211	2,209	2,669	2,209	2,669

Balanced Fund

	Assuming Redemption at End of Period			Assuming No Redemption at End of Period	
	Class A	Class B	Class C	Class B	Class C
1 Year	\$ 646	\$ 704	\$ 427	\$ 204	\$ 327
3 years	953	930	799	630	799
5 years	1,283	1,183	1,298	1,083	1,298
10 years	2,211	2,209	2,669	2,209	2,669

CHOOSING A SHARE CLASS THAT BEST SUITS YOU

The SM&R Growth Fund, Inc., SM&R Equity Income Fund, Inc., and the SM&R Balanced Fund, Inc., (“we”, or “SM&R Equity Funds” or the “Fund” or “Funds”) offer three classes of shares in this Prospectus. Such classes are called Class A, Class B, and Class C each with its own cost structure. Each class allows you to choose the class that best suits your circumstances and preferences. Your representative can help you decide.

The Funds offer other classes through other prospectuses. The other classes can only be bought by specified types of investors or through certain distribution channels. *For more information on the other classes of shares or to request a prospectus for another class, call Investor Services at (800) 231-4639.*

You may select from among the following three classes of shares:

Class A (Front-End Load)	Class B (Back-End Load)	Class C (Level Load)
<ul style="list-style-type: none"> •Front-end sales charges, as described below. There are several ways to reduce these charges, also described below. 	<ul style="list-style-type: none"> •No front-end sales charge; all your money goes to work for you right away. 	<ul style="list-style-type: none"> •Lower front-end sales charge than Class A shares, as described below.
<ul style="list-style-type: none"> •Lower annual expenses than Class B or Class C shares. 	<ul style="list-style-type: none"> •Higher annual expenses than Class A shares. 	<ul style="list-style-type: none"> •Higher annual expenses than Class A and Class B shares.
<ul style="list-style-type: none"> •A deferred sales charge on shares you sell within thirteen months of purchase as described below. 	<ul style="list-style-type: none"> •A deferred sales charge on shares you sell within three years of purchase, as described below. 	<ul style="list-style-type: none"> •A deferred sales charge on shares you sell within thirteen months of purchase, as described below.
<ul style="list-style-type: none"> •12b-1 fee of 0.25% of average net assets. 	<ul style="list-style-type: none"> •12b-1 fee of 0.75% of average net assets. 	<ul style="list-style-type: none"> •12b-1 fee of 1.00% of average net assets.
	<ul style="list-style-type: none"> •Automatic conversion to Class A shares after eight years, thus reducing future annual expenses. 	<ul style="list-style-type: none"> •Does not convert to Class A shares.
	<ul style="list-style-type: none"> •Purchase amounts limited to amounts less than \$500,000. 	
<ul style="list-style-type: none"> •Generally more appropriate for long-term investors. 	<ul style="list-style-type: none"> •Generally appropriate for investors who may be averse to an up-front sales charge and are willing to pay a back-end sales charge and a higher 12b-1 fee for the first eight years. 	<ul style="list-style-type: none"> •Generally more appropriate for short-term investors.

(All classes may not be available in all states)

For expenses of Class A, B, and C shares, see the Fees and Expenses of the Funds earlier in this prospectus.

SALES CHARGE REDUCTIONS AND WAIVERS

CLASS A SALES CHARGES

If you select Class A shares you pay a “front-end” sales charge of up to 5%. The sales charge is a percentage of the offering price, as shown in the following table:

Amount of Investment	Sales Charge as a % of Offering Price	Sales Charge as a % of Net Amount Invested
Less than \$50,000	5.00%	5.3%
\$50,000 but less than \$100,000	4.5%	4.7%
\$100,000 but less than \$250,000	3.5%	3.6%
\$250,000 but less than \$500,000	2.5%	2.6%
\$500,000 but less than \$1,000,000	1.5%	1.5%
\$1,000,000 and over	See below	None

Investments of \$1 million or more.

If you invest \$1 million or more in Class A shares, you do not pay any “front-end” sales charge. However, you will pay a contingent deferred sales charge (CDSC) of 1.00% of the offering price if you redeem shares purchased without a “front-end” sales charge, within 13 months after you bought them. The CDSC will be calculated in the same manner as for Class B shares, as described below.

CLASS B SALES CHARGES

Class B shares are sold at net asset value, without any initial sales charge. However, there is a CDSC on shares you sell within five years of buying them. The CDSC shown in the following table is a percentage of the offering price:

Years Since Purchase	Contingent Deferred Sales Charge (as a % of the lesser of the offering price or redemption fee)
Year 1	5.00%
Year 2	4.00%
Year 3	3.00%
Year 4	2.00%
Year 5	1.00%
Year 6+	None

Computing CDSC

If the net asset value of shares being redeemed has increased since you bought them, we do not impose a

CDSC on the increase in net asset value. We do not impose a CDSC on shares bought with reinvested dividends or capital gain distributions.

We will minimize any applicable CDSC by assuming that an investor —

- (i) first redeems Class B shares bought through reinvested dividends and capital gains distributions, and
- (ii) next redeems Class B shares held the longest.

If the value of shares being redeemed has increased since you bought them, we do not impose any CDSC on such increase in value. We do not impose any CDSC on shares you buy with reinvested dividends or capital gain distributions. We will minimize any applicable CDSC by assuming that an investor (i) first redeems Class B shares bought through reinvested dividends and capital gains distributions, and (ii) next redeems Class B shares held the longest.

CLASS C SALES CHARGES

Class C shares are sold at the net asset value plus a “front-end” sales charge of 1.00% of the offering price. A contingent deferred sales charge of 1.00% also applies on redemptions of Class C shares during the first thirteen months after purchase.

REDUCING YOUR CLASS A SALES CHARGE

You can reduce your sales charge on purchases of Class A of the Funds, through one or more of the following programs. You have the sole responsibility of notifying SM&R that you intend to qualify under one of these categories.

Discounts Through Concurrent Purchases.

To qualify for a reduced sales charge on Class A shares, you may combine concurrent purchases of Class A shares of funds managed by Securities Management and Research, Inc. (“SM&R”) on which you paid a front-end sales charge. Investors that are eligible to combine concurrent purchases to qualify for a reduced sales charge include:

- (1) Any individual;
- (2) Any individual, his or her spouse, and trusts or custodial accounts for their minor children;

SALES CHARGE REDUCTIONS AND WAIVERS

- (3) A trustee or fiduciary of a single trust estate or single fiduciary account;
- (4) Tax-exempt organizations specified in Sections 501(c)(3) or (13) of the Internal Revenue Code, or employees' trusts, pension, profit-sharing, or other employee benefit plans qualified under Section 401 of the Internal Revenue Code; and
- (5) Employees (or employers on behalf of employees) under any employee benefit plan not qualified under Section 401 of the Internal Revenue Code.

Purchases in connection with employee benefit plans not qualified under Section 401 of the Internal Revenue Code will qualify for the above quantity discounts only if the fund will realize economies of scale in sales effort and sales related expenses as a result of the employer's or the plan's bearing the expense of any payroll deduction plan, making the fund's prospectus available to individual investors or employees, forwarding investments by such employees to the funds, and the like.

Discounts Through A Right of Accumulation.

If you already own Class A or Class T shares of a fund managed by SM&R, on which you paid a front-end sales charge, you may be able to receive a discount when you buy additional shares. The current net asset value of the shares you already own may be "accumulated"—i.e., combined together with the dollar amount being invested—to achieve quantities eligible for discount.

Letter of Intent.

You may qualify for a reduced sales charge on purchases of Class A shares of funds managed by SM&R by completing the Letter of Intent section of the account application. Under a Letter of Intent, an investor expresses an intention to purchase, within 13 months of the initial investment, a specified amount of Class A shares of funds managed by SM&R which, if made concurrently, would qualify for a reduced sales charge. Upon execution of the Letter of Intent, the investor must make a minimum initial investment equal to ten percent (10%) of the amount necessary to qualify for the applicable reduced sales charge. To assure that the full applicable sales charge will be paid if the intended purchase is not completed, five percent

(5%) of the total intended purchase amount will be held in escrow in shares registered in the investor's name. Shares held in escrow under a Letter of Intent are not eligible for the exchange privilege until the Letter of Intent is completed or canceled. A Letter of Intent does not represent a binding obligation on the part of the investor to purchase or the funds to sell the full amount of shares specified.

Eligible Net Asset Value Purchasers

If you qualify under one of the categories below, you may purchase Class A shares without a "front-end" sales charge (at net asset value) to:

- (a) persons purchasing shares for a federal or state sponsored post-secondary education funding program;
- (b) persons who have received a distribution from a pension, profit-sharing, or other benefit plan, to the extent such distribution represents the proceeds of a redemption of shares of any fund managed by SM&R (other than the Money Market and Primary Funds);
- (c) policyholders of American National subsidiaries that have entered into a net asset value agreement with SM&R;
- (d) members of any non-profit business, trade, professional, charitable, civic or similar associations and clubs with an active membership of at least 100 persons;
- (e) registered representatives and employees of dealers who have entered into mutual fund sales or distribution agreements with SM&R and members of the immediate family (including spouse, children, parents and parents of spouse) provided that purchases at net asset value are permitted by the policies of the dealer; and
- (f) any other persons that have been determined by the Board of Directors (or by the distributor based on guidelines established by the Board) to have acquired shares under circumstances not involving any sales expense to the Funds.

The Funds may terminate or change the terms of any waiver of sales charges at any time.

SALES CHARGE REDUCTIONS AND WAIVERS

CLASS B WAIVERS OF CONTINGENT DEFERRED SALES CHARGES

The CDSC will be waived on the following redemptions of Class B shares:

- (1) **12% Free Amount.** We waive the CDSC on redemptions pursuant to a systematic withdrawal plan of up to 12% of account value per year. We apply this 12% waiver on a per fund basis to the account value determined at the time you elect a systematic withdrawal plan. (Remember that the CDSC does not apply to appreciation and reinvested dividends. Redemptions from appreciation and reinvested dividends, which occur first, do not count toward the 12% free amount.)
- (2) **Death or Disability.** We waive the CDSC on redemptions of Class B shares following the shareholder's death or disability, so long as:
 - (a) the disability began after the shares were purchased;
 - (b) SM&R is notified of such death or disability at the time of the redemption request and receives satisfactory evidence of such death or disability;
 - (c) the redemptions are made within one year following death or initial determination of disability; and
 - (d) the shares were held at the time of death or initial determination of disability.

For purposes of this waiver, the death or disability must meet the definition in Section 72(m)(7) of the Internal Revenue Code (the "Code"). If the shares are held in a joint account, then all registered joint owners must be dead or disabled.
- (3) **Minimum Required Distributions.** We waive the CDSC on redemptions of Class B shares in connection with certain distributions from four types of qualified retirement plans: IRAs, custodial accounts maintained pursuant to Code Section 403(b), deferred compensation plans qualified under Code 457 and plans qualified under Code Section 401. To qualify for the waiver, the redemptions must result from one of the following:
 - (a) required minimum distributions to plan participants or beneficiaries who are age 70½

or older to the extent it does not exceed 12% annually of the participant's or beneficiary's account value;

- (b) tax-free rollovers or transfers of assets to another IRA, Section 403(b) plan, Section 457 plan or Section 401 plan invested in Class B shares of one or more funds managed by SM&R;
 - (c) tax-free returns of excess contributions or returns of excess deferral amounts; and
 - (d) distributions upon the death or disability (as defined in the Code) of the participant or beneficiary.
- (4) **Small Accounts.** We waive the CDSC on redemptions by the funds of small accounts (accounts with a value less than \$500).
 - (5) **SM&R Investments.** We waive the CDSC on redemptions of shares owned by SM&R or any of its affiliates.

DISTRIBUTION AND SHAREHOLDER SERVICE (12B-1) FEE

Classes A, B, and C pay SM&R, the Funds principal underwriter, a distribution and/or shareholder servicing (12b-1) fee. *Because distribution and/or shareholder servicing (12b-1) fees are paid out of fund assets on an ongoing basis, the fees may, over time, increase the cost of an investment in a fund and cost investors more than other types of sales loads.*

These fees are computed as an annual percentage of the average daily net assets of each class of shares of a fund, as follows:

Class	Distribution Fee	Service Fee	Total 12b-1 Fee
Class A Shares (Front-End Load)	0.25%	-0-	0.25%
Class B Shares (Back-End Load (CDSC))	0.50%	0.25%	0.75%
Class C Shares (Level Load)	0.75%	0.25%	1.00%

The distribution fee is for services that are primarily intended to result in or are primarily attributable to the distribution of the Class A, B, and C shares. The service fee is for providing ongoing servicing to shareholders of the Class B and C shares. These fees compensate SM&R, or enable SM&R to compensate other persons (including distributors of the shares), for providing such services.

Each Fund pursues its own investment objective through various investment policies and techniques.

Only the principal investment strategies of each Fund and the principal types of securities each Fund plans to purchase are described below.

More investment information is in the Statement of Additional Information. These policies and techniques are not fundamental and may be changed by the Board of Directors without shareholder approval.

Changes in a Fund's holdings, a Fund's performance, and the contribution of various investments are discussed in the shareholder reports sent to you.

- ***SM&R has considerable leeway in choosing investment strategies and selecting securities it believes will help the Funds achieve their objectives.***

Because of the market risks inherent in any investment, the Funds may not achieve their investment objectives. In addition, effective management of each Fund is subject to general economic conditions and to the ability and investment techniques of management. The net asset value of each Fund's shares will vary and the redemption value of shares may be either higher or lower than the shareholder's cost. Since each Fund has a different investment objective, each will have different investment results and incur different market, financial, and other risks.

During unfavorable market conditions, each Fund may, but is not required to, make temporary investments that are not consistent with a Fund's investment objectives and principal strategies. Such defensive measures may include increasing cash, investing more assets in bonds or money market instruments, and where permitted by the individual Fund discussions that follow, investing in derivatives or other instruments. If a Fund takes such defensive measures, it may not achieve its investment objectives.

A Fund may trade actively and frequently to achieve its investment objective. A high turnover rate may increase transaction costs, affecting the Fund's performance over time. A high turnover rate may also result in higher capital gains distributions, increasing your tax liability.

SM&R Growth Fund, Inc.

The Growth Fund considers its portfolio investments and the composition of its total portfolio from the viewpoint of potential capital appreciation. The Growth Fund adjusts this composition from time to time in light of current conditions. Under normal conditions, the Growth Fund invests at least 85% of its total assets in common stocks.

The Growth Fund invests in the stocks of financially sound companies that have a proven ability to make and sustain a profit over time. Management places an emphasis on companies with growth potential. The Growth Fund does not employ exotic investment strategies, such as using options and futures.

We identify candidate stock investments based on (1) low equity valuation (price) and (2) improving earnings. Then, we evaluate each candidate stock on a fundamental basis by examining past financial performance, managerial skill and foresight, and relative valuation to industry peers and the market as a whole. We utilize this combination of disciplines and human judgement to drive our stock selection process. We believe in evaluating each company's prospects as opposed to relying on broad forecasts of industry prospects. We do not attempt to time economic, market, style or capitalization cycles. Diversification, or weighting of individual economic sectors, is also dictated by a combination of disciplines and human judgement to varying degrees. We believe in never having less than half or more than double the market weighting in any one sector. The Growth Fund limits cash to 15% of its assets unless circumstances dictate otherwise.

Because of the Growth Fund's goal of seeking long-term capital growth, certain sectors of the market will have greater weight in the Growth Fund's portfolio while other sectors of the market will have lower representation. For example, the Growth Fund generally overweights the technology sector, which represents approximately 15% to 20% of the Standard & Poor's 500 Index, in the portfolio relative to its market weight. This overweighting reflects the higher growth prospects of technology companies relative to the average company in the market. At varying times, we may also overweight other sectors of the market providing above average growth prospects, like healthcare and consumer staples.

Conversely, the Growth Fund generally underrepresents certain sectors of the market in its portfolio that tend to have below average growth characteristics, like utilities, basic materials, and communications services. As a result of such strategic overweighting and underweighting, the Growth Fund's performance may differ substantially from broad market indexes like the S&P 500 and tend to incur more price volatility than these indexes.

The Growth Fund may invest in convertible preferred stocks rated at least "B" by Standard and Poor's Corporation ("S&P") or at least "b" by Moody's Investors Service, Inc. ("Moody's") preferred stock ratings, and convertible debentures and notes rated at least "B" by S&P and Moody's corporate bond ratings. Investments in convertible securities having these ratings may involve greater risks than convertible securities having higher ratings.

The proportion of assets invested in any particular type of security can be expected to vary, depending on SM&R's appraisal of market and economic conditions. Common stocks and convertible securities purchased will be of companies that SM&R believes will provide an opportunity for capital appreciation. On a temporary basis, the Growth Fund may invest in commercial paper which at the date of such investment, is rated in one of the two top categories by one or more of the nationally recognized statistical rating organizations, in certificates of deposit in domestic banks and savings institutions having at least \$1 billion of total assets, and in repurchase agreements.

SM&R Equity Income Fund, Inc.

The Equity Income Fund considers its portfolio investments and the composition of its total portfolio not only from the viewpoint of present and potential yield, but also from the viewpoint of potential capital appreciation. We adjust this composition of portfolio investments from time to time to best accomplish the Equity Income Fund's investment objectives under current conditions. In pursuit of its objectives, the Equity Income Fund will invest in common stocks, preferred stocks, and marketable debt securities selected in accordance with its investment objectives. Common and preferred stocks purchased will generally be of companies

with consistent and increasing dividend payment histories that SM&R believes will have further earnings potential sufficient to continue such dividend payments. Debt securities include publicly traded corporate bonds, debentures, notes, commercial paper, repurchase agreements, and certificates of deposit in domestic banks and savings institutions having at least \$1 billion of total assets. The proportion of assets invested in any particular type of security can be expected to vary, depending on SM&R's appraisal of market and economic conditions. Under normal conditions, the Equity Income Fund will invest at least 75% of its assets in equity securities rather than debt securities.

We view common stocks, as well as investments in preferred stocks and bonds convertible into common stock, from their potential for capital appreciation in addition to their current and potential income yield. Our goal is to maintain a portfolio dividend yield (before fees and expenses) at least 50% greater than that of the S&P 500 Index.

We identify candidate stock investments based on (1) low equity valuation (price) and (2) improving earnings. Then, we evaluate each candidate stock on a fundamental basis by examining past financial performance, managerial skill and foresight, and relative valuation to industry peers and the market as a whole. We utilize this combination of disciplines and human judgement to drive our stock selection process. We believe in evaluating each company's prospects as opposed to relying on broad forecasts of industry prospects. We do not attempt to time economic, market, style or capitalization cycles. Diversification, or weighting of individual sectors, is also dictated by a combination of disciplines and human judgement to varying degrees. We believe in never having less than half or more than double the market weighting in any one sector. Cash is limited to 15% of the fund unless circumstances dictate otherwise.

Certain sectors of the market will have greater weight in the Equity Income Fund's portfolio while other sectors of the market will have lower representation. For example, the Equity Income Fund generally overweights the finance sector in its portfolio relative to that sector's market weight. This reflects the greater dividend prospects of financial

companies like banks, insurance companies, and real estate investment trusts as compared to the average company in the market. At varying times, we may also overweight other sectors of the market that provide above average dividend prospects, like utilities and energy.

Conversely, the Equity Income Fund generally underrepresents certain sectors of the market tending to have below average dividend yields, like technology, consumer staples, and healthcare. As a result of such strategic overweighting and underweighting, the Equity Income Fund's performance may differ substantially from broad market indexes like the S&P 500.

Corporate debt obligations purchased by the Equity Income Fund will consist only of obligations rated either Baa or better by Moody's or BBB or better by S&P. Bonds which are rated Baa by Moody's are considered as medium grade obligations, that is, they are neither highly protected nor poorly secured. Bonds rated BBB by S&P are regarded as having an adequate capacity to pay interest and repay principal. Commercial paper and notes will consist only of direct obligations of corporations whose bonds and/or debentures are rated as set forth above.

SM&R Balanced Fund, Inc.

The Balanced Fund uses a "balanced" approach by investing part of its assets in stocks of well-known companies and the remainder in a combination of high-grade bonds, bonds convertible into the common stock of the issuing corporations, and money market instruments. We change the ratio of stocks to bonds in response to changing economic conditions. This flexibility helps to reduce price volatility.

The Balanced Fund's goal is relative stability of principal through a balance of stocks, bonds, and cash. The stocks serve to capture the benefits that ownership in corporate America brings. The bonds, meanwhile, can serve as a stabilizing force during times of eroding stock market value, as well as provide a fixed income payment stream into the portfolio.

We identify candidate stock investments based on (1) low equity valuation (price) and (2) improving

earnings. Then we evaluate each candidate stock on a fundamental basis by examining past financial performance, managerial skill and foresight, and relative valuation to industry peers and the market as a whole. We utilize this combination of disciplines and human judgement to drive our stock selection process. We believe in evaluating each company's prospects as opposed to relying on broad forecasts of industry prospects. We do not attempt to time economic, market, style or capitalization cycles. Diversification, or weighting of individual sectors, is also dictated by a combination of disciplines and human judgement to varying degrees. We believe in never having less than half or more than double the market weighting in any one sector. Cash is limited to 15% of the portfolio unless circumstances dictate otherwise.

The Balanced Fund will only purchase corporate bonds rated either Baa or better by Moody's or BBB or better by S&P. Bonds which are rated Baa by Moody's are considered as medium grade obligations, that is, they are neither highly protected nor poorly secured. Bonds rated BBB by S&P are regarded as having an adequate capacity to pay interest and repay principal. Commercial paper and notes will consist only of direct obligations of corporations whose bonds and/or debentures are rated as set forth above. The Balanced Fund may also invest in repurchase agreements. This balanced investment policy is intended to reduce risk and to obtain results in keeping with the Balanced Fund's objectives.

The Balanced Fund will invest in fixed-income securities and equity securities as described above. However, the Balanced Fund will sometimes be more heavily invested in equity securities and at other times it will be more heavily invested in fixed-income securities, depending on management's appraisal of market and economic conditions. SM&R believes that a fund that is wholly invested in fixed-income securities carries a large interest rate risk. Interest rate risk is the uncertainty about losses due to changes in the rate of interest on debt instruments. The major interest rate risk for investors, however, is not in the interest rate itself, but in the change in the market price of bonds that results from changes in the prevailing interest rate. Higher

INVESTMENT OBJECTIVES, POLICIES AND RISKS

interest rates would mean lower bond prices and lower net asset value for the Balanced Fund's shareholders assuming no change in its current investment objective and portfolio. Diversifying the Balanced Fund's portfolio with investments such as commercial paper, convertible securities, and common stocks may reduce the decline in value attributable to the increase in interest rate and resulting decrease in the market value of bonds and may reduce the interest rate risk. However, stock prices also fluctuate in response to a number of factors, including changes in general level of interest rates, economic and political developments, and other factors which impact individual companies or specific types of companies. Such market risks cannot be avoided but can be limited through a program of diversification and a careful and consistent evaluation of trends in the capital market and fundamental analysis of individual equity holdings.

SM&R, through an ongoing program of asset allocation, will determine the appropriate level of equity and debt holdings consistent with SM&R's outlook and evaluation of trends in the economy and the financial markets. The Balanced Fund determines its level of commitment to common stocks and specific common stock investments as a result of this process. For example, within an environment of rising inflation, common stocks historically have preserved their value better than bonds; therefore, inclusion of common stocks could tend to conserve principal better than a portfolio consisting entirely of bonds and other debt obligations. In addition, within an environment of accelerating growth in the economy, common stocks historically have conserved their value better than bonds in part due to a rise in interest rates that occurs coincidentally with accelerating growth and profitability of the companies.

OTHER RISK FACTORS

The following discussion relates to all three Funds. The Fund summaries located at the beginning of this prospectus identifies some specific risks applicable to each individual Fund.

General. There is no assurance that a Fund will achieve its goals. Generally, if the securities owned by a Fund increase in value, the value of the shares of the fund which you own will increase. Similarly, if the securities owned by a Fund decrease in value, the value of your shares will also go down. In this way, you participate in any change in the value of the securities owned by a Fund.

The risk inherent in investing in any fund is a risk common to any security. That is, the value of a Fund's shares will fluctuate in response to changes in economic conditions, interest rates and the market's perception of the underlying portfolio securities held by that Fund. Each Fund's share value depends on general economic and securities market conditions, the investment decisions of its management, and numerous other factors. All of these factors are inherently uncertain and, in some cases, unforeseeable.

Any of the Funds could lose money if the stock markets in general go down or if the particular stocks purchased by a Fund go down in value. In addition, the Funds could lose money if prevailing interest rates increase or if the debt securities purchased by a Fund are downgraded or defaulted upon.

Stock Investment Risks. Because each Fund invests a substantial portion of its assets in stocks, the value of each Fund's portfolio will be affected by changes in the stock markets. At times, the stock markets can be volatile and stock prices can change substantially. This market risk will affect each Fund's net asset value per share, which will fluctuate as the values of each Fund's portfolio securities change. Stock prices do not always change uniformly or at the same time and the various stock markets do not always move in the same direction at the same time. Other factors specific to a particular company also affect that company's stock price (for example, poor earnings, loss of major customers, or major litigation). The Funds cannot always predict the factors

that will affect a stock's price. The Funds, however, do attempt to limit market risk by diversifying their investments.

For the Growth Fund and the Equity Income Fund, the portfolio managers decide to overweight or underweight certain industry sectors and to purchase individual stocks based on their assessment of the future growth or income prospects of an industry sector or particular stock. If certain industries or investments do not perform as a Fund expects (*i.e.*, do not grow in value or produce dividend income as expected), that fund could underperform its peers or lose money.

The Growth Fund is generally considered more aggressive than the Equity Income and Balanced Funds because it invests for capital appreciation in common stocks, emphasizing "growth" stocks that tend to be more volatile than other investments. Investors in the Growth Fund should expect greater fluctuations in share price, yield, and total return than with less aggressive funds.

Debt Securities Risks. Debt securities are subject to changes in their values due to changes in prevailing interest rates. When prevailing interest rates fall, the values of already-issued debt securities generally rise. Accordingly, if interest rates go down after a security is purchased, such security might be valued and/or sold at a price greater than its cost. On the other hand, when prevailing interest rates rise, the values of already-issued debt securities generally fall. Accordingly, if interest rates increase after a security is purchased, such security might be valued and/or sold at a price less than its cost. The magnitude of these fluctuations will generally be greater for longer-term debt securities than shorter-term debt securities.

The Funds could lose money if any bonds they own are downgraded in credit rating or go into default. In general, lower-rated bonds, such as junk bonds, have higher credit risks. The Growth Fund is the only Fund permitted to invest in junk bonds. Junk bonds have additional risks, including limitations on a fund's ability to re-sell the lower-rated debt securities and less readily available market quotations for such securities. If there are not readily available market quotations for a debt security, its

OTHER RISK FACTORS

value is determined largely by the investment manager's judgment. When and if the debt security is sold, the investment manager may find that its estimation of the debt security's value is substantially different than the actual price at which it can be sold. Moreover, substantial redemptions of Fund shares could require a Fund to sell portfolio securities at a time when a sale might not be favorable.

Smaller Company Risks. Smaller companies in which each of the Funds may invest may involve greater risks than large established companies. Such smaller companies may have limited product lines, markets, financial resources, and management

depth. Their securities may trade less frequently and in more limited volume than the securities of larger or more established companies. Smaller companies may also be more vulnerable than larger companies to adverse business or market developments. As a result, the prices of smaller companies may fluctuate to a greater degree than the prices of securities of larger companies.

Other Risks. Each investor will be subject to all the risks normally attendant to business operations, changes in general economic conditions, governmental rules and fiscal policies, acts of God, and other factors beyond the control of the Funds' management.

THE FUNDS AND THEIR MANAGEMENT

INVESTMENT ADVISER

Each Fund's Board of Directors has delegated to Securities Management and Research, Inc. ("SM&R"), the Fund's investment adviser, the management of the Fund's day-to-day business and affairs. In addition, SM&R invests the Funds' assets, provides administrative services, and serves as transfer agent, custodian, dividend paying agent, and underwriter. While the use of this combined Prospectus subjects each Fund to possible liability as the result of statements or omissions regarding another Fund, the Board of Directors of each Fund considers the benefits to the respective Fund of using a combined Prospectus to outweigh the risk.

SM&R is a wholly-owned subsidiary of American National Insurance Company ("American National"). SM&R was incorporated in 1964 and has managed mutual funds since 1966. SM&R also serves as investment adviser to other clients including banks, employee benefit plans, other investment companies, banks, foundations and endowment funds.

Advisory Agreements

Growth Fund. We deduct an investment advisory fee from the value of the shares each day. We calculate this fee for the Growth Fund at the annual rate as follows:

On the Portion of the Fund's Average Daily Net Assets	Basic Advisory Fee Annual Rate
Not exceeding \$100,000,000	0.750%
Exceeding \$100,000,000 but not exceeding \$200,000,000	0.625%
Exceeding \$200,000,000 but not exceeding \$300,000,000	0.500%
Exceeding \$300,000,000	0.400%

We adjust the basic advisory fee rate by comparing the fund's investment performance during the previous thirty-six (36) months with the investment performance of the Lipper Growth Fund Index (the "Lipper Index") published by Lipper Analytical Services, Inc. over the same period. Specifically, we adjust the basic advisory fee each month by adding to or subtracting from such rate, when appropriate, the applicable performance adjustment amount percentage shown in the table below. The resulting advisory fee rate is then applied to the average daily net asset

value of the fund for the succeeding month. The advisory fee for such month will be one-twelfthth ($\frac{1}{12}$ th) of the resulting dollar figure.

Performance Compared To Lipper Index	Performance Adjustment Amount
0.10% to 0.99% above	+0.02%
1.00% to 1.99% above	+0.04%
2.00% to 2.99% above	+0.06%
3.00% to 3.99% above	+0.08%
4.00% to 4.99% above	+0.10%
5.00% to 5.99% above	+0.12%
6.00% to 6.99% above	+0.14%
7.00% to 7.99% above	+0.16%
8.00% to 8.99% above	+0.18%
9.00% and above	+0.20%
0.10% to 0.99% below	-0.02%
1.00% to 1.99% below	-0.04%
2.00% to 2.99% below	-0.06%
3.00% to 3.99% below	-0.08%
4.00% to 4.99% below	-0.10%
5.00% to 5.99% below	-0.12%
6.00% to 6.99% below	-0.14%
7.00% to 7.99% below	-0.16%
8.00% to 8.99% below	-0.18%
9.00% and below	-0.20%

See "INVESTMENT ADVISORY AND OTHER SERVICES" in the Funds' Statement of Additional Information for a more detailed description of the method used in calculating the performance adjustment. See Appendix B for a description of these ratings.

Equity Income and Balanced Funds. We deduct an investment advisory fee from the value of the shares each day. We calculate this fee for the Equity Income and Balanced Funds at the annual rate as follows:

On the Portion of the Fund's Average Daily Net Assets	Basic Advisory Fee Annual Rate
Not exceeding \$100,000,000	0.750%
Exceeding \$100,000,000 but not exceeding \$200,000,000	0.625%
Exceeding \$200,000,000 but not exceeding \$300,000,000	0.500%
Exceeding \$300,000,000	0.400%

SM&R received total advisory fees from the Growth, Equity Income, and Balanced Funds for the fiscal year ended December 31, 1999 of 0.53%, 0.73%, and 0.74%,

THE FUNDS AND THEIR MANAGEMENT

respectively, of each fund's average daily net assets. Each fund's advisory fees may be higher than the fees paid by other mutual funds, but each fund believes its fees are comparable to those paid by funds with the same or similar investment objective.

Administrative Services

Pursuant to an Administrative Service Agreement with each fund, SM&R provides all non-investment related management, executive, administrative, transfer agent, and operational services to the funds. Under these agreements, SM&R receives an administrative service fee from each fund at the annual rate of average daily net asset values as follows:

On the Portion of the Fund's Average Daily Net Assets	Administrative Service Fee Annual Rate
Not exceeding \$100,000,000	0.25%
Exceeding \$100,000,000 but not exceeding \$200,000,000	0.20%
Exceeding \$200,000,000 but not exceeding \$300,000,000	0.15%
Exceeding \$300,000,000	0.10%

In these agreements, SM&R has agreed to pay (or to reimburse each fund for) each fund's regular operating expenses in excess of 1.25% per year of such fund's average daily net assets. Regular operating expenses include the advisory fee and administrative service fee, if any, paid to SM&R, but do not include 12b-1 fees, class-specific expenses, interest, taxes, commissions, and other expenses incidental to portfolio transactions.

SM&R received total administrative service fees of 0.25% for the Growth Fund; 0.25% for the Equity Income Fund; and 0.25% for the Balanced Fund for the fiscal year ended December 31, 1999 of each Fund's average daily net assets.

PORTFOLIO MANAGEMENT

SM&R's portfolio management team uses a disciplined, team approach in providing investment advisory services to the funds. While the following individual is primarily responsible for the day-to-day portfolio management of the funds, all accounts are reviewed on a regular basis by SM&R's Investment Committee to ensure that they are being invested in accordance with investment policies.

Gordon D. Dixon, Director, Senior Vice President, Chief Investment Officer of Securities Management and Research, Inc., Vice President, Co-Manager. Mr. Dixon joined Securities Management and Research, Inc. in 1993. Mr. Dixon serves as Co-Manager of the SM&R Growth Fund, SM&R Equity Income Fund and the SM&R Balanced Fund. He was previously Portfolio Manager of the SM&R Growth Fund, SM&R Equity Income Fund and SM&R Balanced Fund. Mr. Dixon also serves as Vice President of the American National Investment Accounts, Inc., Portfolio Manager for its American National ("A.N.") Government Bond Portfolio and the A. N. High Yield Bond Portfolio, Co-Manager of its A. N. Growth Portfolio, A. N. Equity Income Portfolio, A. N. Balanced Portfolio and A. N. International Stock Portfolio. He also serves as Portfolio Manager of the SM&R Investments, Inc.—SM&R Government Bond Fund and SM&R Tax Free Fund. He graduated from the University of South Dakota with a B.A. in Finance and Accounting and from Northwestern University in 1972 with an M.B.A in Finance and Accounting. Mr. Dixon began his investment career in 1972 as an Administrative and Research Manager with Penmark Investments. In 1979 he began working for American Airlines in the management of the \$600 million American Airlines Pension Portfolio, of which approximately \$100 million was equities. In 1984 he was employed by C&S/Sovran Bank in Atlanta, Georgia as Director of Equity Strategy where he had responsibility for all research, equity trading and quantitative services groups as well as investment policy input of a portfolio of approximately \$7 billion, of which \$3.5 billion was equities.

Andrew R. Duncan, Sr. Securities Analyst

Portfolio Manager. Mr. Duncan joined SM&R's staff in 1997 as Sr. Securities Analyst/Portfolio Manager. Mr. Duncan serves as Portfolio Manager of the SM&R Equity Income Fund, SM&R Balanced Fund, the American National Investment Accounts, Inc.—American National ("A.N.") Equity Income Portfolio, A. N. Balanced Portfolio, and the A. N. International Stock Portfolio. He graduated from West Virginia University in 1995 with a BS/BA degree in Finance and from Texas A&M University in 1996 with an MS in Finance.

Andre J. Hodlewsky, Securities Analyst/Portfolio Manager. Mr. Hodlewsky joined SM&R in 1998 as Securities Analyst. Mr. Hodlewsky serves as Portfolio Manager of the SM&R Growth Fund, Inc. and the American National Investment Accounts, Inc.— American National (“A.N.”) Growth Portfolio and A. N. Small-Cap/Mid-Cap Portfolio. He graduated from the University of Wisconsin in 1990 with a BA

in Graphic Design and Industrial Design and from the University of Wisconsin in 1999 with an MBA in Marketing and Finance. Prior to joining SM&R’s staff, he held a position at Rockwell from 1995 to 1997 in their Internet and Multi-Media Design Group and Mandel Company in Milwaukee, Wisconsin, from 1993 to 1995 in the Prepress Technology Division.

FINANCIAL HIGHLIGHTS

Understanding the Financial Highlights

The condensed financial information on the following pages reflect all of the fees and expenses imposed by each of the Funds which contributed to the changes in the share price of each Fund during the period. It also shows the changes in share price for this period in comparison to changes over the last five fiscal years or less, if the fund is not five years old.

On a per-share basis, the table includes as appropriate

- share price at the beginning of the period
- investment income and capital gains or losses
- distributions of income and capital gains paid to shareholders
- share price at the end of the period

The table also includes some key statistics for the period as appropriate

- Total Return — the overall percentage of return of the fund, assuming the reinvestment of all distributions
- Expense Ratio — operating expenses as a percentage of average net assets
- Net Income Ratio — net investment income as a percentage of average net assets
- Portfolio Turnover — the percentage of the fund's buying and selling activity

The Financial Highlights have been audited by the Funds independent auditors, Tait, Weller & Baker. Their Independent Auditor's Report is included in the fund's annual report for the year ended December 31, 1999, which is incorporated by reference into the Statement of Additional Information and is available upon request.

FINANCIAL HIGHLIGHTS

GROWTH FUND

The following financial highlights table is intended to help you understand the Growth Fund's financial performance since inception. Certain information reflects financial results for a single share outstanding throughout the period shown. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the Growth Fund (assuming reinvestment of all dividends and distributions) since the addition of multiple classes of shares,

but do not reflect any sales loads that would be imposed on the purchase or sale of any shares. This information is derived from the financial statements of the Growth Fund, Class A, B, and C Shares, which for the year ended December 31, 1999 has been audited by Tait, Weller & Baker. The independent auditor's report, along with the Growth Fund's financial statements, are incorporated by reference into the Statement of Additional Information, which is available upon request.

	<u>Class A Shares</u> Period from January 1, 1999 to December 31, 1999	<u>Class B Shares</u> Period from January 1, 1999 to December 31, 1999	<u>Class C Shares</u> Period from January 1, 1999 to December 31, 1999
Net Asset Value, Beginning of Year	\$ 5.69	\$ 5.69	\$ 5.69
Investment income—net	0.01	0.00	0.00
Net realized and unrealized gain (loss) on investments	1.30	1.24	1.49
Total from Investment Operations	1.31	1.24	1.49
Less Distributions from			
Investment income—net	—	—	—
Capital gains	(0.27)	(0.27)	(0.27)
Total Distributions	(0.27)	(0.27)	(0.27)
Net Asset Value, End of Year	<u>\$ 6.73</u>	<u>\$ 6.66</u>	<u>\$ 6.91</u>
Total Return	23.45%	22.04%	26.44%
Ratios (in percentages)/Supplemental Data			
Net Assets, end of year (000's omitted)	\$3,776	\$1,547	\$134
Ratio of expenses to average net assets	1.51%	2.01%	2.26%
Ratio of net investment income to average net assets	(0.19)%	(0.69)%	(0.94)%
Portfolio turnover rate	16.13%	16.13%	16.13%

FINANCIAL HIGHLIGHTS

EQUITY INCOME FUND

The following financial highlights table is intended to help you understand the Equity Income Fund's financial performance since inception. Certain information reflects financial results for a single Equity Income Fund share outstanding throughout the period shown. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the Equity Income Fund (assuming reinvestment of all dividends and distributions) since the addition of multiple classes of shares, but do not

reflect any sales loads that would be imposed on the purchase or sale of any shares. This information is derived from the financial statements of the Equity Income Fund, Class A, B and C Shares, which for the year ended December 31, 1999 has been audited by Tait, Weller & Baker. The independent auditor's report, along with the Equity Income Fund's financial statements, are incorporated by reference into the Statement of Additional Information, which is available upon request.

	<u>Class A Shares</u> Period from January 1, 1999 to December 31, 1999	<u>Class B Shares</u> Period from January 1, 1999 to December 31, 1999	<u>Class C Shares</u> Period from January 1, 1999 to December 31, 1999
Net Asset Value, Beginning of Year	\$28.02	\$28.02	\$28.02
Investment income—net	0.58	0.47	0.38
Net realized and unrealized gain (loss) on investments	(1.47)	(1.88)	(1.36)
Total from Investment Operations	(0.89)	(1.41)	(0.98)
Less Distributions from			
Investment income—net	(0.58)	(0.47)	(0.38)
Capital gains	(1.76)	(1.76)	(1.76)
Total Distributions	(2.34)	(2.23)	(2.14)
Net Asset Value, End of Year	<u>\$24.79</u>	<u>\$24.38</u>	<u>\$24.90</u>
Total Return	(3.01)%	(4.86)%	(3.32)%
Ratios (in percentages)/Supplemental Data			
Net Assets, end of year (000's omitted)	\$4,802	\$4,343	\$275
Ratio of expenses to average net assets	1.51%	2.01%	2.26%
Ratio of net investment income to average net assets	1.53%	1.03%	0.78%
Portfolio turnover rate	9.81%	9.81%	9.81%

FINANCIAL HIGHLIGHTS

BALANCED FUND

The following financial highlights table is intended to help you understand the Balanced Fund's financial performance since inception. Certain information reflects financial results for a single Balanced Fund share outstanding throughout the period shown. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the Balanced Fund (assuming reinvestment of all dividends and distributions) since the addition of

multiple classes of shares, but do not reflect any sales loads that would be imposed on the purchase or sale of any shares. This information is derived from the financial statements of the Balanced Fund, Class A, B and C Shares, which for the year ended December 31, 1999 has been audited by Tait, Weller & Baker. The independent auditor's report, along with the Balanced Fund's financial statements, are incorporated by reference into the Statement of Additional Information, which is available upon request.

	<u>Class A Shares</u> Period from January 1, 1999 to December 31, 1999	<u>Class B Shares</u> Period from January 1, 1999 to December 31, 1999	<u>Class C Shares</u> Period from January 1, 1999 to December 31, 1999
Net Asset Value, Beginning of Year	\$19.63	\$19.63	\$19.63
Investment income—net	0.47	0.40	0.41
Net realized and unrealized gain (loss) on investments	1.47	1.81	1.42
Total from Investment Operations	1.94	2.21	1.83
Less Distributions from			
Investment income—net	(0.47)	(0.40)	(0.41)
Capital gains	(0.80)	(0.80)	(0.80)
Total Distributions	(1.27)	(1.20)	(1.21)
Net Asset Value, End of Year	<u>\$20.30</u>	<u>\$20.64</u>	<u>\$20.25</u>
Total Return	10.13%	11.52%	9.58%
Ratios (in percentages)/Supplemental Data			
Net Assets, end of year (000's omitted)	\$1,777	\$1,119	\$8
Ratio of expenses to average net assets	1.51%	2.01%	2.26%
Ratio of net investment income to average net assets	1.87%	1.36%	1.13%
Portfolio turnover rate	18.01%	18.01%	18.01%

SHAREHOLDER'S GUIDE TO INVESTING WITH SM&R'S MUTUAL FUNDS

Important Shareholder Facts and Information

This section of the Prospectus is provided to help you become familiar with the types of accounts and services available in the SM&R Equity Funds. It explains the various services available to you and features you can establish as part of your account in the "Funds" as well as account policies and fees that may apply to your account.

SM&R's WEB SITE: www.smrinvest.com

BUSINESS HOURS:

8:00 a.m. to 4:30 p.m. Central Time
each day the New York Stock Exchange is
open for trading ("regular trading day")

24-hour access to account information. See
"Voice Response Unit" under "Other Services"
in this guide.

MAILING ADDRESS:

Securities Management and Research, Inc.
P.O. Box 58969
Houston, Texas 77258-8969

OVERNIGHT MAILING ADDRESS AND STREET ADDRESS:

Securities Management and Research, Inc.
2450 South Shore Boulevard, Suite 400
League City, Texas 77573

IMPORTANT PHONE NUMBERS:

Investor Hotline/Voice Response:
1-877-239-2049
Investor Services Department:
1-800-231-4639

FAX NUMBERS:

Transfer Agency:
1-281-538-4983

WIRING INSTRUCTIONS:

Moody National Bank of Galveston
ABA #113100091
Securities Management and Research, Inc.
#035 868 9
Name of Class and Fund (e.g. Class A of the
Government Bond Fund)
Fund Account Number (number appears on
your confirmation statement)
Your Name (e.g., Mary Smith)

THIRD PARTY CHECKS

To prevent fraud, SM&R will not accept checks
made payable to third parties to open new
accounts. Tax-deferred rollover checks, properly
endorsed, will be accepted.

MINIMUM INVESTMENT AMOUNTS:

	Initial Investment	Additional Investment
Regular Accounts	\$ 100	\$ 20
Automatic Investment Plan	\$ 100	\$ 20
Retirement Plans	\$ 100	\$ 20

The Funds' low investment minimums make
investing easy. Once you decide on a fund, an
investment amount, and a share class simply talk to
your representative or broker-dealer, or fill out an
application and send in your investment.

The Funds reserve the right to change the amount
of these minimums from time to time or to waive
them in whole or in part for certain types of
accounts.

CERTIFICATES

Share certificates are not issued by the Funds. Your
purchases are maintained on the records of the
Funds in book shares. This provides you with easy
access to your shares. You have the same rights of
share ownership as you would if certificates had
been issued.

SPECIAL FEES:

- Tax-deferred: \$7.50 per account custodian
fee deducted annually
- Wiring fee: \$10.00 for wire redemption
proceeds under \$10,000

SIGNATURE GUARANTEE REQUIREMENTS:

Required on all redemptions in amounts of \$50,000
or more. Other requirements apply and are
discussed later in this guide.

TELEPHONE SERVICES:

SM&R will automatically establish a telephone
redemption/exchange option for all non-qualified
and non-tax deferred accounts, unless you instruct
us not to do so. These services are not available to
participants of post-secondary education programs.
Refer to "Telephone Services" later in this guide.

Please keep in mind that account policies (including fees), services and features may be modified or discontinued without shareholder approval or prior notice. During times of economic turmoil or market volatility, severe weather, or natural disaster you may not be able to reach SM&R by telephone to institute a redemption or exchange.

TYPES OF ACCOUNTS AVAILABLE

Below is a brief explanation of the different accounts available in the Funds.

Individual or Joint Ownership

Individual accounts are owned by one person.
Joint accounts have two or more owners.

A Uniform Gift or Transfer to Minor (UGMA or UTMA)

An UGMA/UTMA account is a custodial account managed for the benefit of a minor. To open an UGMA or UTMA account, you must include the minor's Social Security number on the application.

Trust

An established trust can open an account. The names of each trustee, the name of the trust and the date of the trust agreement must be included on the application.

Business Accounts

Corporations, partnerships, and sole proprietorships may also open an account. The application must be signed by an authorized officer of the corporation or a general partner or owner of the business.

Tax-Deferred Accounts

If you are eligible, you may set up one or more tax-deferred accounts. A tax-deferred account allows you to shelter your investment income and capital gains from current income taxes, while saving for retirement. A contribution to certain types of these plans may also be tax deductible. Tax-deferred accounts include retirement plans described below and the Education IRA. Distributions from these plans are generally subject to income tax and may be subject to an additional tax if withdrawn prior to age 59½ or used for a non-qualifying purpose. Information concerning IRAs and TSAs, and the forms necessary to adopt such plans, can be obtained by contacting your registered representative, your broker-dealer, or by calling SM&R. **Investors should consult their tax adviser or legal counsel before selecting a tax-deferred account.**

Securities Management and Research, Inc. serves as custodian for the tax-deferred accounts offered by the funds. You will be charged an annual account maintenance fee of \$7.50 for each tax-deferred

account you have. The fee will be automatically deducted from your account (usually in the last quarter). The custodian reserves the right to change the amount of this fee or to waive it in whole or in part for certain types of accounts.

Traditional Individual Retirement Accounts

Traditional IRAs allow most individuals with earned income to contribute up to the lesser of \$2000 or 100% of compensation annually.

Roth Individual Retirement Accounts

Roth IRAs allow most individuals with earned income to contribute up to the lesser of \$2000 or 100% of compensation annually.

Education IRA

This plan allows individuals, subject to certain income limitations, to contribute up to \$500 annually per child under the age of 18.

Simplified Employee Pension Plan

This plan allows small business owners (including sole proprietors) to make tax-deductible contributions for themselves and any eligible employee(s). A SEP requires an IRA (a SEP-IRA) to be set up for each SEP participant.

SIMPLE

This plan allows employee pre-tax contributions up to \$6,000 annually and may be matched by the employer up to a maximum of 3% of employees' compensations.

Profit Sharing or Money Purchase Pension Plan

These plans are open to corporations, partnerships and sole proprietors to benefit their employees and themselves.

Section 403(b)(7) Plan

Employees of educational organizations or other qualifying, tax-exempt organizations may be eligible to participate in a Section 403(b)(7) Plan.

PRICING OF FUND SHARES

General (How Shares are Priced). Each Fund's offering price is calculated once each day the New York Stock Exchange (the "Exchange") is open for regular trading. The offering price equals a Fund's net asset value plus the sales charge, if any, computed at the rate set forth in the applicable tables for the classes. (See "Sales Charge Reductions

and Waivers in the Prospectus.”) You may purchase shares of the SM&R Primary Fund and SM&R Money Market Fund without a sales charge. Accordingly, the offering price for shares of these funds is net asset value. Although the legal rights of the Class A, B, and C shares are substantially identical, the different expenses borne by each class will result in different net asset values and dividends. The net asset value of the Class B and C shares generally will be lower than the Class A shares as a result of differences in service and distribution (12b-1) fees charged.

A Note on Pricing. Each Fund's investments will be priced at their market value when market quotations are readily available. When these quotations are not readily available, investments will be priced at their fair value, calculated according to procedures adopted by the Funds' Board of Directors. The Funds also may use fair value pricing if the value of a security held by the Fund is materially affected by events occurring after the close of regular trading of the primary markets or exchanges on which the security is traded. In these situations, prices used by the Fund to calculate its net asset value may differ from quoted or published prices for the underlying securities.

Share Price — Effective Date of Purchases and Redemptions. Each Fund's share price, called its net asset value, or NAV, is calculated once each day at the close of regular trading (currently 3:00 p.m. Central Time). NAV is not calculated on holidays or other days the Exchange is closed. In the event the Exchange closes early on a particular day, we will determine the net asset value of the Funds as of such earlier closing time. Below is the method used by the Funds to calculate the NAV on any given day.

$$\text{Net Asset Value} = \frac{\text{Total Assets} - \text{Liabilities}}{\text{Number of Shares Outstanding}}$$

Knowing the daily net asset value is useful to you as a shareholder because it indicates the current value of your investment. Each Fund's NAV, multiplied by the number of shares you own, gives you the dollar amount you would have received had you sold all of your shares back to the Fund that day, less any applicable transaction fee or redemption charge. The price you pay or receive for shares of a Fund depends, in part, on the day and time you make your purchase or redemption. Purchases and redemptions will be executed on each day the Exchange is open for regular trading at the next NAV determined that day if:

- SM&R receives your request in good order prior to the close of the regular trading day;
- a securities dealer having a dealer contract with SM&R receives your order prior to the close of the regular trading day and reports your order to SM&R prior to SM&R's close of business (currently 4:30 p.m. Central Time) on the same day; or
- SM&R is advised of bank wire purchases received by Moody National Bank before 3 p.m. Central Time.

If we receive your order after the close of the regular trading day or on any day that the Exchange is closed, we will execute your purchase or redemption at the price determined on the next regular trading day. In unusual circumstances, the Funds may temporarily suspend the processing of sale requests, or may postpone payment of proceeds for up to three business days or longer, as allowed by federal securities laws.

SHAREHOLDER'S GUIDE TO INVESTING WITH SM&R'S MUTUAL FUNDS

HOW TO PURCHASE SHARES

You should refer to the first page of this Shareholder's Guide "Important Shareholder Facts and Information" for the appropriate addresses and telephone numbers.

METHOD	OPENING AN ACCOUNT	ADDING TO AN ACCOUNT
<p>By Mail or through a Registered Representative</p>	<ul style="list-style-type: none"> • Determine the Fund and the Class in which you want to invest. • Complete and sign the account application • Make the check payable to SM&R. • Mail the application and your check to SM&R at the address on the first page of this guide. • Or deliver the information to your representative (provided he or she has a broker-dealer arrangement with SM&R). 	<ul style="list-style-type: none"> • Make your check payable to SM&R. • Use the investment slip on your confirmation, or • Write a note specifying: <ul style="list-style-type: none"> — Your account number — The Fund name — Share class — The name(s) in which the account is registered. • Mail to the address indicated on the cover page of this guide.
<p>By Phone Wire</p>	<ul style="list-style-type: none"> • Call Investors Services to obtain a reference number (call by noon, Central Time, if you want wired funds to be credited that day). Instruct your bank to wire or transfer your purchase (your bank may charge a wiring fee) using the information on the first page of this guide. • Complete the account application and mail to the appropriate address. • Wires received before 3:00 p.m. Central Time on regular trading days will receive that day's closing price (if not, you will receive the next trading day's closing price). 	<ul style="list-style-type: none"> • Call Investors Services at the number on the first page of this guide, on any business day. • You can send your investment either by: <ul style="list-style-type: none"> — Federal Funds Wire (offers immediate access to funds), or — Electronic transfer via ACH which avoids wiring fees, if your bank account is set up on file
<p>By Exchange</p>	<ul style="list-style-type: none"> • You can make an additional investment by exchange from an existing Fund in the SM&R Mutual Funds to an existing account by calling Investor Services. • You can only exchange shares in the same class with identical registrations. • There is no sales charge or redemption fee when exchanging funds within the SM&R Mutual Funds. • Orders placed before 3 p.m. Central Time on regular trading days will receive that day's closing price (if not, you will receive the next regular trading day's closing price). • Exchanges are limited to three per calendar quarter, and twelve per calendar year. • Exchanges between accounts that do not have identical ownership registration must be made in writing. • Be sure you read the prospectus for the Fund into which you are exchanging. <p>Key Point: An exchange represents the sale of shares of one Fund and the purchase of shares of another Fund. This transaction may produce a taxable gain or loss in a non-tax deferred account.</p>	
<p>Automatic Investment Plan through the Automated Clearing House (ACH)</p>	<ul style="list-style-type: none"> • You can transfer money automatically from your bank account into your Fund account on a monthly basis. • Initial investment minimum is \$100 if you invest at least \$20 per month with this service. • To enroll, check off the box on the account application and provide: <ol style="list-style-type: none"> 1. Your bank account information, 2. The amount and date of your monthly investment, and 3. A voided check. 	<ul style="list-style-type: none"> • To establish automatic investing for an existing account, call Investor Services for an application. • The minimum is \$20.

SHAREHOLDER'S GUIDE TO INVESTING WITH SM&R'S MUTUAL FUNDS

HOW TO REDEEM SHARES

You have several convenient ways for you to redeem your shares in any of the SM&R Equity Funds. Redemptions will be at net asset value, less any applicable CDSC, which is determined on the date your request is received by SM&R in good order.

METHODS	REQUIREMENTS
Call Us	<ul style="list-style-type: none"> • Call Investor Service during normal business hours on any business day. • This service is only available for those accounts which are non-qualified and non-tax deferred: <ol style="list-style-type: none"> 1. The amount requested is \$500 or more per account 2. The amount is less than \$50,000 in aggregate 3. The proceeds are to be mailed to the address of record or electronically transferred to the bank account indicated on your fund account. 4. There has been no change of address for either you or your bank for 30 days 5. Telephone services have not been declined. 6. The security procedures discussed on page 9 of this guide have been met. 7. There are no outstanding certificate shares on the account. • All authorized requests received before 3:00 p.m. Central Time on regular trading days will be processed at that day's closing price. Requests received after 3:00 p.m. will be processed the following regular trading day. • We can either: <ul style="list-style-type: none"> — wire the proceeds the next business day into your bank account of record (service charges may apply) — electronically transmit the proceeds to your bank account of record via the ACH service — mail you a check • All telephone calls are recorded for your protection. We are not responsible for acting on telephone orders we believe to be genuine. (Refer to "Security Procedures" later in this guide) • See exceptions below for requests that must be made in writing. • A \$10.00 fee is charged for redemptions by wire under \$10,000. • To redeem from a tax-deferred account, call Investor Services for a special withdrawal form.
Write Us	<ul style="list-style-type: none"> • You can mail a redemption request to the appropriate address listed on the first page of this guide. • Your letter of instruction must: <ul style="list-style-type: none"> — list your account number and the fund name — indicate the number of shares or dollar value you wish to redeem — be signed by the registered owner(s) — include any outstanding share certificates issued prior to January 1, 1999 — include special withdrawal forms for tax deferred accounts • Refer to "Signature Guarantee" below for requests that must be signature guaranteed.
Fax Us	<p>You may fax your request for redemption from a non-qualified and non-tax deferred account, if your request meets requirements stated in 2-7 under "Call Us" above. Your fax requests must be received by SM&R before 3:00 p.m. Central Time on regular trading days to receive that day's price.</p>
Sell Your Shares in Person	<p>You may also redeem your shares by coming to SM&R's home office, and deliver your request in person prior to 3:00 p.m. Central Time on regular trading days to receive that day's price.</p>
Systematic Withdrawal Plan (SWP)	<p>You can withdraw money automatically from your Fund account on a monthly, quarterly, semi-annual, and annual basis — without redemption fees — on or about the 20th of the month and if:</p> <ul style="list-style-type: none"> • Your account value is \$5,000 or more • You complete the relevant section of the application • The withdrawal can be mailed to you at your address of record, or deposited directly to your bank account via ACH <p>The minimum withdrawal is \$50 per month. The maximum amount is 1% of your account per month or 12% annually. To obtain proper forms, contact Investor Services. See "Important Facts About Redeeming" later in this guide for more information.</p>

SHAREHOLDER'S GUIDE TO INVESTING WITH SM&R'S MUTUAL FUNDS

Payment of Redemption Proceeds

Normally, redemption proceeds of shares you purchased by wire, certified check, money order, or other immediately available funds will be mailed no later than the 7th calendar day following receipt of your redemption request. Redemptions of shares recently purchased by a personal check or ACH (discussed later in this guide) transfer will generally be delayed for up to ten (10) business days to allow the check or transfer to clear.

We reserve the right to redeem "in kind" by paying you the proceeds of a redemption in securities rather than in cash.

Signature Requirements Based on Account Type

<i>Individual or Joint Tenants</i>	Written instructions must be signed by each shareholder, exactly as the names appear in the account registration.
<i>UGMA or UTMA</i>	Written instructions must be signed by the custodian in his/her capacity as it appears in the account registration until the minor reaches the age of majority as defined by the state in which the UGMA or UTMA was established.
<i>Sole Proprietor, General Partner</i>	Written instructions must be signed by an authorized individual in his/her capacity as it appears on the account registration.
<i>Corporation, Association</i>	Written instructions must be signed by the person(s) authorized to act on the account. In addition, a certified copy of the corporate resolution authorizing the signer to act must accompany the request.
<i>Trust</i>	Written instructions must be signed by the trustee(s). If the name of the current trustee(s) does not appear on the account application, a current certificate of incumbency dated within 60 days must also be submitted.
<i>IRA or TSA (Includes all types of IRAs)</i>	A special withdrawal form must be signed by the account owner, and you may obtain this form by contacting Investor Services at the number on the first page of this guide. If you do not want federal income tax withheld from your redemption, you must state that you elect not to have such withholding apply. In addition, your instructions must state whether the distribution is normal (after age 59½) or premature (before age 59½) and, if premature, whether any exceptions such as death or disability apply with regard to the 10% additional tax on early distributions. In addition, TSA's will have a 20% mandatory withholding tax applied to all distributions if the account owner is under 70½.
<i>Executors of Shareholder Estates</i>	Written instructions must be signed by the executor. A copy of the order appointing the executor, certified within the past 12 months must accompany the letter of instructions. A signature guarantee must be provided as discussed below.

Signature Guarantee

To protect you and the Funds against fraud, certain redemption requests must be made in writing with your signature guaranteed. A signature guarantee can be obtained at most banks and securities dealers. A notary public is not authorized to provide a signature guarantee.

The following circumstances require a signature guarantee:

- Redemptions from one or more of the Funds total \$50,000 or more
- You want the proceeds sent to an address other than the address currently appearing on your account
- You want the proceeds sent to a bank account not listed on your account
- You want the proceeds payable to anyone other than the registered owner(s) of the account
- Either your address or the address of your bank account has been changed within 30 days
- The account is registered in the name of a fiduciary, corporation or any other organization. In these cases, additional documentation is required:
 - Corporate accounts: certified copy of corporate resolution
 - Fiduciary accounts: copy of the power of attorney or other governing document
- The Funds or their transfer agent believe a signature guarantee would protect against claims based on transfer instructions

Important Facts About Redeeming

Systematic Withdrawal Plan. It may not be advisable for shareholders to maintain a Withdrawal Account while concurrently purchasing shares of the Fund because of the sales charge or CDSC (as applicable) involved in additional purchases. See "Class B Waivers of Contingent Deferred Sales Charges" in this prospectus for a discussion of the CDSC waivers available. You should carefully consider such purchases and contact your representative regarding their advisability. While you are participating in a Systematic Withdrawal Plan dividends and capital gains distributions will automatically be reinvested in additional shares at net asset value. As with other redemptions, a withdrawal is a sale for federal income tax purposes. The Systematic Withdrawal Plan will automatically terminate if all shares are liquidated or withdrawn from the account. No account covered by a Letter of Intent can be changed to a Systematic Withdrawal Plan until such time as the Letter of Intent is fulfilled or terminated, nor can an account under a Systematic Withdrawal Plan be placed under a Letter of Intent. Retirement Plan Accounts are subject to special withdrawal requirements. Call Investor Services for assistance.

Reinvestment Privilege. Within ninety (90) days of a redemption (60 days for tax-deferred plans) of

Who Can Provide A Signature Guarantee:

- Commercial Bank
- Trust Company
- Savings Association
- Credit Union
- Member of Medallion Program
- Member of a U.S. Stock Exchange
- Authorized SM&R Representatives

Notary Public Not Acceptable

Class A or Class T shares of a Fund, a shareholder may reinvest all or part of the proceeds in the same class of the same Fund from which the redemption was processed at the net asset value next computed after receipt of the proceeds to be reinvested by SM&R. **The shareholder must ask the transfer agent for this privilege at the time of reinvestment.** Prior to reinvestment of redemption proceeds, a shareholder is encouraged to consult with his or her accountant or tax advisor to determine any possible tax ramifications of such a transaction. Each Fund managed by SM&R may amend, suspend, or cease offering this privilege at any time as to shares redeemed after the date of the amendment, suspension, or cessation. For further information about the "Systematic Withdrawal Plan" and "Reinvestment Privilege," contact your registered representative, your broker-dealer or SM&R.

"Good Order" means the request for redemption must include:

- (1) your letter of instruction or a stock assignment specifying the fund, account number, and number of shares or dollar amount to be redeemed. The letter of instruction and stock powers must be signed and executed exactly as the fund shares are registered and any

outstanding share certificates returned. It is suggested that certificates be returned by certified mail for your protection;

- (2) any required signature guarantees (see "Signature Guarantees" above); and
- (3) other supporting legal documents, if required, in the case of estates, trusts, guardianships, divorce, custodianships, corporations, partnerships, pension or profit sharing plans, retirement plans and other organizations.

Please keep in mind that it is your responsibility to ensure that all requests are submitted to the Fund's transfer agent in good order for processing.

Texas Optional Retirement Program. You may not redeem shares in any account established under the Texas Optional Retirement Program, unless SM&R receives satisfactory evidence from the state that one of the following conditions exist:

- (1) death of the employee;
- (2) termination of service with the employer; or
- (3) retirement of employee.

Redemption of Small Accounts. The Funds reserve the right to redeem shares in any account (which will be promptly paid to the shareholder) if, due to your redemptions, the value of the account falls below \$500. You will be notified that the value of your account is less than the required minimum indicated above and allowed at least 60 days to make an additional investment to increase the value of your account above the required minimum. The Funds may, from time to time, change such required minimum investment.

Transactions through Processing Organizations

You may also purchase or sell shares of the Funds through a broker-dealer, bank or other financial institution, or an organization that provides record-keeping and consulting services to 401(k) plans or other employee benefit plans (a "Processing Organization"). Processing Organizations may charge you a fee for this service and may require different minimum initial and subsequent investments than the Funds. Processing Organizations may also impose other charges or restrictions different from those applicable to shareholders who invest in the Funds directly. If you utilize a Processing Organization the Funds are

not responsible for failure of any Processing Organization to carry out its obligations to its customers. **You may not be considered the shareholder of record of your shares. Therefore, you may not be able to utilize services available only to shareholders of the Funds. You should keep this in mind when establishing an account in any fund.**

Other Services

In addition to the plans described under "Sales Charge Reductions and Waivers," that permit you to reduce the initial sales charge assessed on Class A shares or the CDSC on Class B shares, the Funds offer other services and plans described below. At this time, there is no charge to you for these services. The Funds may impose fees for such services in the future. Be aware, however, that if you elect to participate in the electronic transfers (ACH) plan described below, you should check with your financial institution for any additional charges imposed by them for this service. For additional information on these plans and services you should contact your registered representative, broker-dealer or SM&R. Before beginning any of the plans or services described below you should consult a tax advisor.

Electronic Transfers (ACH). The electronic transfer option allows you to move money between your account(s) and your bank, savings and loan, or credit union account using Automated Clearing House ("ACH") network. To arrange for electronic transfers, complete the relevant Special Investor Services section of the account application at the time you open your account and specify the type of service or services desired. Attach a voided, pre-printed check or deposit slip from your bank, savings and loan, or credit union account. **Your financial institution must be a member of the Automated Clearing House (ACH) network for you to take advantage of this service.**

Telephone Services. You can only use telephone services for transaction amounts of \$500 or more. Through this service, you will be able to purchase additional shares for an existing SM&R mutual fund account by ACH. You may also use the telephone services to redeem and exchange shares on those accounts for which you have an executed account application on file. For example, we permit

exchanges by telephone from a joint account only to another joint account registered in the identical names. There may be additional restrictions on telephone transactions by joint account owners. If you initially choose not to have this option and wish to establish it at a later date, it would be necessary for you to complete the required form requesting this option. Contact your registered representative for more information. **Please note that the telephone redemption option is not available for qualified and tax-deferred accounts.**

While telephone redemption is easy and convenient, this account feature involves risk of loss from unauthorized or fraudulent transactions. SM&R will take reasonable precautions to protect your account from fraud. You should do the same by keeping your account information private, and by immediately reviewing any account statements that we send to you. Make sure to contact SM&R's Investors Services Department immediately about any transaction you believe to be unauthorized.

Security Procedures

Telephone Transactions

The Funds have implemented the following security procedures intended to protect your account from losses resulting from unauthorized or fraudulent telephone instructions: The caller must know:

- (i) the name of the fund or funds;
- (ii) all digits of the account number;
- (iii) the exact name and address used in the registration(s); and
- (iv) the Social Security or Employer Identification Number listed on the account(s).

Anyone with the required account information indicated above (including your broker) can request a telephone transaction in your account. All calls are recorded and/or monitored for verification, record keeping and quality-assurance purposes. Requested proceeds will be forwarded only to an address or bank account designated on the account at the time of the transaction.

Voice Response Units

The Funds now have available to shareholders a means by which they can access account information, fund prices, and take advantage of other

features 24-hours a day. To obtain account information you will be required to know your fund number, account number, and your PIN number. As indicated under "Telephone Services" above, you should keep your account information private. We also suggest that you change your PIN number periodically and not provide the number to anyone.

Neither the Funds nor SM&R will be responsible for the authenticity of transaction instructions received by telephone or through the voice response unit that comply with the current security procedures and other requirements. SM&R believes that such security procedures and other requirements are reasonable.

During times of economic turmoil or market volatility, severe weather, or natural disaster you may not be able to reach SM&R by telephone to institute a redemption or exchange.

For additional restrictions refer to "Exchange Privilege" below.

Automatic Dividend Investment. Your dividends and distributions may be paid in cash or invested in any SM&R Mutual Fund at net asset value. Unless you specify otherwise, your dividends and distributions will automatically be reinvested in the same SM&R Mutual Fund. You may invest your dividends and distributions (1) into another SM&R Mutual Fund in the same class of shares; or (2) from Class A shares into SM&R Money Market Fund, or vice versa.

You must comply with the following requirements to invest your dividends and distributions in shares of another SM&R Mutual Fund:

- (1) Your account balance (a) in the SM&R Mutual Fund paying the dividend must be at least \$5,000; and (b) the SM&R Mutual Fund receiving the dividend must have an account balance of at least \$500.
- (2) Both accounts must have identical registration information, that is they cannot be in different names; and
- (3) You must have elected, in writing, to reinvest dividends into another SM&R Mutual Fund.

Automatic Investment Plan. Through this plan, a specified amount is electronically transferred (via

SHAREHOLDER'S GUIDE TO INVESTING WITH SM&R'S MUTUAL FUNDS

ACH) from your bank account and invested monthly, bi-monthly, quarterly, or annually into the designated fund(s) at the applicable offering price determined on the date of the electronic transfer.

Group Systematic Investment Plan. SM&R can establish a Group Systematic Investment Plan with an employer having 5 or more participants under a single payroll deduction arrangement. Under this investment plan there is a minimum investment of \$20 per individual. Any such plan may be terminated by SM&R or the shareholder at any time upon sixty (60) days written notice. However, all other investment amount minimums apply. Contact SM&R for further information regarding these plans.

Exchange Privilege. As an investor in the Funds, you may be permitted to exchange shares that you own for shares of other mutual funds managed by SM&R without the payment of an exchange fee, subject to certain conditions. **Exchanges between a fund and another fund managed by SM&R are available only in states where the applicable funds are registered and the exchange may be legally made. You should contact SM&R to determine whether a fund is registered in a particular state and whether an exchange is permitted.**

We reserve the right to terminate or change the terms of any exchange privilege at any time.

You may exchange Class A, Class B, or Class C shares that you own in the Funds, without an exchange fee or sales charge, for shares of the corresponding class of another fund managed by SM&R. You also may exchange your Class A or Class B shares for shares of the SM&R Investments, Inc.—Primary or Money Market Funds, subject to two conditions:

- any applicable CDSC period has expired on the shares you wish to exchange (*i.e.*, 13 months in the case of Class A share purchases of \$1 million or more and 6 years in the case of Class B share purchases), and
- you meet any minimum investment requirement for the shares you wish to acquire.

You cannot exchange Class C shares for shares of the Money Market Fund or Primary Fund.

We waive any sales charges on Class A and Class T shares acquired through an exchange if you previously paid a sales charge on amounts invested in those shares. For example, assume you purchase Class A shares of an Equity Income Fund. You then exchange your Class A shares for shares of the Money Market Fund. Later, you re-exchange those shares of the Money Market Fund for Class A shares of the Tax Free Fund. We would not impose any sales charge upon the re-exchange into Class A shares of the Tax Free Fund because you previously paid a sales charge on amounts invested in those shares. In other words, we will never impose a front-end sales charge on the same investment twice.

Shares of any fund managed by SM&R held in escrow under a Letter of Intent are not eligible for the exchange privilege. Such shares will not be released from escrow until the balance invested during the period specified in the Letter of Intent equals or exceeds the amount required to be invested under the Letter of Intent or the shareholder requests, in writing, that the Letter of Intent be canceled and pays any adjustments in sales charge. After release from escrow, shares may be exchanged, provided all other applicable conditions are met.

You may request an exchange by telephone or in writing. In order to exchange shares, the following requirements must be met:

- (a) the exchange must be made between accounts that are registered in the same name, address and, if applicable, taxpayer identification number;
- (b) the shares of the Fund acquired through exchange must be qualified for sale in the state in which you reside;
- (c) the dollar amount of a written exchange must meet the minimum investment requirement applicable to the shares of the fund that you would acquire through the exchange;
- (d) the minimum dollar amount of a telephone exchange is \$500;

- (e) SM&R must have received full payment for the shares being exchanged;
- (f) your account must have been coded to reflect your certified taxpayer identification number, or, if applicable, an appropriate Internal Revenue Service Form W-8 (certificate of foreign status) or Form W-9 (certifying exempt status);
- (g) any shares that you wish to exchange must have been held for at least ten (10) business days; and
- (h) you have received a prospectus for the fund shares you receive in the exchange.

The exchange privilege is not an option or right to purchase shares but is permitted under the respective policies of the participating funds, and may be modified or discontinued by the participating funds or by SM&R at any time. **Any gain or loss realized on an exchange or re-exchange may be recognized for federal and state income tax purposes. You should consult your tax advisor for the tax treatment and effect of exchanges.**

Automatic Conversions. Class B shares convert automatically to the appropriate number of Class A

shares of equal dollar value after the investor has owned the Class B shares for eight (8) years. Dividends and other distributions paid to an investor in the form of additional Class B shares also convert to Class A shares on a pro-rata basis. The conversion benefits shareholders because Class A shares are subject to a lower ongoing 12b-1 fee. If an investor exchanges Class B shares of a fund for Class B shares of another fund managed by SM&R, the purchase date of the original investment will be used to determine the appropriate conversion date.

Abusive Trading Practices. Excessive, short-term (market-timing) or other abusive trading practices may disrupt portfolio management strategies and harm fund performance. To minimize harm to the Fund and its shareholders, we reserve the right to reject any purchase order (including exchanges) from any investor we believe has a history of abusive trading or whose trading, in our judgement, has been or may be disruptive to a fund. In making this judgement, we may consider trading done in multiple accounts under common ownership or control.

SHAREHOLDER'S GUIDE TO INVESTING WITH SM&R'S MUTUAL FUNDS

Distributions and Taxability. To avoid taxation of the Funds, the IRS Code requires each Fund to distribute net income and any capital gains realized on its investments annually. A Fund's income from dividends and interest and any net realized short-term gains are paid to shareholders as ordinary income dividends. Net realized long-term gains are paid to shareholders as capital gains distributions.

Dividends you receive from the Funds, whether reinvested or taken as cash, are generally considered taxable. Some dividends paid in January may be taxable as if they had been paid the previous December. The Form 1099 that is mailed to you every January details your dividends and their federal tax category, although you should verify your tax liability with your tax professional.

Distribution Schedule. The following schedule of distributions is provided to let you know when you can expect to receive a distribution from the SM&R Mutual Funds you own. These distributions, under normal circumstances and if earned, will be declared and paid in the months indicated in the following chart.

	Dividends Declared	Capital Gains Paid
SM&R Growth Fund	June and December	December
SM&R Equity Income Fund	March, June, September, December	December
SM&R Balanced Fund	March, June, September, December	December

Distributions Effect on NAV. In order to be entitled to a dividend, an investor must have acquired shares of a fund prior to the close of business on the distribution record date. A shareholder should be cautioned, however, before purchasing shares of a fund immediately prior to a distribution. Dividends and distributions paid by the Funds have the effect of reducing net asset value per share on the record date by the amount of the payment. Therefore, a dividend or distribution of

record shortly after the purchase of shares by a shareholder represents, in substance, a return of capital.

Dividend Reinvestments. Dividends and capital gains will be automatically reinvested at net asset value in additional shares of the Fund unless SM&R is instructed otherwise in writing. Distributions not reinvested are paid by check or transmitted to your bank account through an ACH transaction, if elected. If the Postal Service cannot deliver your check, or if your check remains uncashed for six months, the Funds reserve the right to reinvest your distribution check in your account at the net asset value on the business day of the reinvestment and to reinvest all future distributions in shares of the applicable Fund(s). Dividends on capital gains declared in December to shareholders of record in December and paid the following January will be taxable to shareholders as if received in December. This is a convenient way to accumulate additional shares and maintain or increase the shareholder's earning base. Of course, any shares so acquired remain at market risk.

Shareholders have the right to change their election with respect to the receipt of distributions by notifying SM&R in writing, but any such change will be effective only as to distributions for which the record date is seven or more business day after SM&R has received the shareholder's written request.

Backup Withholding. Backup withholding for federal income tax may be applied, where required by current IRS requirements, at the rate of 31% from taxable dividends, distributions, and redemption proceeds (including exchanges) if you fail to furnish the funds with a correct and properly certified Social Security or Employer Identification Number when you sign your application, or if you underreport your income to the Internal Revenue Service.

Taxability of Redemptions and Exchanges. You should consult with a tax advisor concerning the tax effect on the redemption or exchange of such shares. Any time you sell or exchange shares, it is considered a taxable event for you. Depending on the purchase price and the sale price of the shares

you sell or exchange, you may have a gain or a loss on the transaction. You are responsible for any tax liabilities generated by your transactions.

Rights Reserved by the Company. The Company, acting through its transfer agent, reserves the right:

- to waive, lower, or raise investment minimums;
- to accept initial purchases by telephone from a registered representative;
- to refuse any purchase order;
- to cancel or rescind any purchase or exchange at any time prior to receipt by the shareholder of written confirmation or, if later, within five (5) business days of the transaction;
- to freeze an account and suspend account services when notice has been received of a

dispute involving the account owners or other parties or there is reason to believe a fraudulent transaction may occur, or has occurred;

- to restrict or refuse the use of faxed redemptions where there is a question as to the validity of the request or proper documents have not been received;
- to not act on instructions believed not to be genuine;
- to eliminate duplicate mailings of fund material to shareholders who reside at the same address; or
- to otherwise modify the conditions of purchase and any services at any time.

APPENDIX A

(Description of Ratings Used in all Prospectuses)

BOND RATINGS

Description of Standard & Poor's Corporation's long-term bond (bonds that extend longer than one year) rating:

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

Obligations rated "BB," "B," "CCC," "CC," and "C" are regarded as having significant speculative characteristics. "BB" indicates the least degree of speculation and "C" the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

- BB** An obligation rated "BB" is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
- B** An obligation rated "B" is more vulnerable to nonpayment than obligations rated "BB", but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

Description of Moody's Investor's Service, Inc.'s long-term bond (bonds that extend longer than one year) ratings:

- Aaa** Bonds which are rated "Aaa" are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt-edge". Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.
- Aa** Bonds which are rated "Aa" are judged to be of high quality by all standards. Together with the Aaa group, they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities, fluctuation of protective elements may be of greater amplitude, or there may be other elements present which make the long-term risks appear somewhat larger than the Aaa securities.
- A** Bonds which are rated "A" possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.
- Baa** Bonds which are rated "Baa" are considered as medium-grade obligations, *i.e.*, they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

APPENDIX A

(Description of Ratings Used in all Prospectuses)

- Ba** Bonds which are rated “Ba” are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
- B** Bonds which are rated “B” generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

PREFERRED STOCK RATING

Description of Standard & Poor’s Corporation’s preferred stock rating:

- AAA** This is the highest rating that may be assigned by Standard & Poor’s to a preferred stock issue and indicates an extremely strong capacity to pay the preferred stock obligations.
- AA** A preferred stock issue rated “AA” also qualifies as a high-quality, fixed-income security. The capacity to pay preferred stock obligations is very strong, although not as overwhelmingly as for issues rated “AAA.”
- A** An issue rated “A” is backed by a sound capacity to pay the preferred stock obligations, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.
- BBB** An issue rated “BBB” is regarded as backed by an adequate capacity to pay the preferred stock obligations. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to make payments for a preferred stock in this category than for issues in the “A” category.
- BB** Preferred stock rated “BB,” “B,” and “CCC” are regarded, on balance, as predominantly speculative with respect to the issuer’s capacity to pay preferred stock obligations. “BB” indicates the lowest degree of speculation
- CCC** and “CCC” the highest. While such issues will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

Description of Moody’s Investors Service, Inc.’s preferred stock rating:

- aaa** An issue which is rated “aaa” is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.
- aa** An issue which is rated “aa” is considered a high grade preferred stock. This rating indicates that there is a reasonable assurance the earnings and asset protection will remain relatively well maintained in the foreseeable future.
- a** An issue which is rated “a” is considered to be an upper-medium grade preferred stock. While risks are judged to be somewhat greater than in the “aaa” and “aa” classification, earnings and asset protection are, nevertheless, expected to be maintained at adequate levels.
- baa** An issue which is rated “baa” is considered to be a medium-grade preferred stock, neither highly protected nor poorly secured. Earnings and asset protection appear adequate at present but may be questionable over any great length of time.
- ba** An issue which is rated “ba” is considered to have speculative elements and its future cannot be considered well assured. Earnings and asset protection may be very moderate and not well safeguarded during adverse periods. Uncertainty of position characterizes preferred stocks in this class.

APPENDIX A

(Description of Ratings Used in all Prospectuses)

- b** An issue which is rated “b” generally lacks the characteristics of a desirable investment. Assurance of dividend payments and maintenance of other terms of the issue over any long period of time may be small.

FEDERAL FUNDS

As used in this Prospectus and in the Funds’ Statement of Additional Information, “Federal Funds” means a commercial bank’s deposits in a Federal Reserve Bank which can be transferred from one member bank’s account to that of another member bank on the same day. Federal Funds are considered to be immediately available funds.

FOR MORE INFORMATION ABOUT THE FUNDS

The following documents contain more information about the funds and are available free upon request:

Statement of Additional Information (SAI)

The SAI contains additional information about all aspects of the funds. A current SAI has been filed with the Securities and Exchange Commission and is incorporated herein by reference.

Annual and Semi-Annual Reports

The funds' annual and semi-annual reports provide additional information about the funds' investments. The annual report for the fiscal year ended December 31, 1999 will contain a discussion of the market conditions and investment strategies that significantly affected each fund's performance during the last fiscal year.

Requesting Documents

You may request a free copy of the SAI and these reports, make shareholder inquiries, or request further information about the funds either by contacting your broker or by contacting the funds at:

Securities Management and Research, Inc.

P.O. Box 58969

Houston, Texas 77258-8969

Telephone: 1-800-231-4639 (Toll Free) or

1-281-334-2469 (Collect)

Public Information.

You can review and copy information about the funds, including the SAI, at the Securities and Exchange Commission's Public Reference Room in Washington D.C. You may obtain information on the operation of the public reference room by calling the Commission at 1-800-SEC-0330. Reports and other information about the funds also are available on the Commission's Internet site at <http://www.sec.gov>. You may obtain copies of this information, upon payment of a duplicating fee, by writing the Public Reference Section of the Securities and Exchange Commission, Washington, D.C. 20549-6009.

**SM&R Growth
Fund, Inc.**

**SM&R Equity
Income
Fund, Inc.**

**SM&R Balanced
Fund, Inc.**

Investment Company
File Nos. 811-00623
811-01916
811-02818