



### **Disclosure Statement**

This brochure provides information about the qualifications and business practices of Financial Management, Inc. (FMI), an investment advisor registered with the Securities and Exchange Commission. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about FMI is available on the internet at [http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_OrgSearch.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearch.aspx). You can search this site by a unique identifying number, known as a CRD number. The CRD number for FMI is 108350.

### **Financial Management, Inc.**

P. O. Box 17590  
Little Rock, AR 72222-7590

3801 Woodland Heights Road, Suite 125  
Little Rock, AR 72212-2480

501.227.7400 FAX 501.227.9422  
800.719.2796 (toll-free)  
[contactus@fmioffice.com](mailto:contactus@fmioffice.com)  
[www.financialmanagementinc.com](http://www.financialmanagementinc.com)

## Financial Success—The Era of Uncertainty

In today's era of dynamic, worldwide change, the investor must remain properly alert and informed to maximize the benefits of his investment experience. Tax changes and other government actions are frequent today and often must be responded to by those who must manage investment outcomes. National trends like the aging of the US population cause doubts about our future financial security. International trends such as the emergence of new industrial and economic powers and the democratization of socialist nations also affect us by creating additional competition and opportunities for US products and services overseas.

While change is both inevitable and desirable, the ability to react responsively is the key to our economic growth. With broad expertise in a number of business and financial specialties, coupled with years of experience, **Financial Management, Inc. (FMI)** evaluates these changes and offers an independent, team approach to help you with the challenges of the future.

## Strategies for Achieving Your Goals

Financial Management, Inc., a Registered Investment Advisor, is a financial advisory group providing comprehensive personal and business financial planning, investment advisory and life insurance services (in conjunction with comprehensive financial planning) to individuals, professionals, executives, trusts, small businesses and corporations. FMI also provides assessment and planning services to qualified pension, profit sharing and other corporate retirement plans. While many of our services are provided totally within FMI, we also work with other firms to provide certain highly specialized services.

As an FMI client, individuals and businesses receive the objective advice of an independent advisor. When we recommend changes in a financial strategy, we take the time to make sure the client understands the potential rewards and risks and how those changes will help them achieve their goals. Most importantly, support is provided by a professional team with uncompromising ethics who believe in a client-oriented, performance-driven approach to whatever level of service is being rendered on the client's behalf.

## Strategies & Methods of Analysis

FMI develops and utilizes long-term investment strategies using state-of-the-art technologies and endeavors to provide clients with the balance of growth versus risk consistent with their individual circumstances and financial situation. Our primary investment selection and management philosophy is built upon Strategic Asset Allocation which is based upon principles of Nobel Prize-winning Modern Portfolio Theory. In addition, FMI incorporates academic research and studies in quantitative finance into the development of these strategies. FMI does not routinely

analyze individual securities. Instead, FMI recommends no-load, institutional and non-institutional mutual funds to clients. FMI considers whether individual stock and bond positions are appropriate for a client's portfolio on a case-by-case basis.

Many clients have assets in accounts such as profit sharing plans, 401(k) plans, or trusts, which the client cannot currently place under our management. We frequently advise clients, serving as managers in a non-discretionary capacity, on the investment of these funds within the current vehicle. Additionally, we will consider these funds as part of the asset allocation of the client's total financial resources where appropriate to do so.

Through financial planning, we are able to analyze and suggest alternatives for using the available resources to meet retirement or other financial goals. This analysis includes assessing the impact of current and future projected tax, as well as related issues of risk, flexibility and costs, in order to provide the greatest benefit to the client or his/her estate.

Investment strategies used to implement investment advice given to FMI clients may include long-term purchases, short-term purchases and use of margin transactions. Alternative investment strategies may be evaluated on a case-by-case basis; however, FMI works directly with the client in determining the merits of such investments based on the client's goals, objectives and risk/tolerance characteristics.

## Advanced Research Capabilities

Success in personal and business finance requires a proactive approach to stay at the leading edge of economic trends. Effective decisions require accurate information at the right time. An important part of our service is our extensive research capabilities. Through computer networks and databases, FMI has direct access to vast quantities of information on U.S. and international economics, taxation, investments, business intelligence, industry trends and technology. Sources of information FMI may use include financial newspapers and magazines, research reports prepared by others, corporate rating services, annual reports, prospectuses, filings with the U.S. Securities and Exchange Commission, financial databases, company press releases, academic research and studies in quantitative finance.

## Life Insurance Services

FMI is licensed as and operates as an insurance agency in conjunction with and as a complementary component of its financial planning and investment advisory services. Licensed insurance agents of FMI provide life insurance coverage—Permanent, Term and Universal Life—for financial planning clients desiring to implement their financial plan through the FMI agency. The agency receives standard insurance agency commissions on its traditional insurance sales activities. In such cases FMI does not

charge a management fee on the cash values that may accumulate in these policies.

## Asset Management Services

For money management, FMI recommends Charles Schwab Institutional and Fidelity Investments Institutional (hereafter referred to as “account custodian”) to serve as custodian for client accounts. Transaction fees on products obtained through the account custodians are discounted because of our business relationship with these custodians. FMI maintains a relationship with American Funds, custodian for the Virginia College Savings Plan (a 529 savings plan). FMI acts as advisor on accounts established with this 529 plan provider.

Although FMI makes recommendations to clients regarding placement of accounts with specific account custodians, clients are not compelled to place their assets with the recommended account custodian and may select a broker-dealer of their own choosing in order to implement the investment advice provided by FMI.

FMI has in place a policy addressing the due diligence to be exercised when recommending and reviewing the execution performance of account custodians. On a periodic basis, FMI conducts a review of those account custodians that we recommend to our clients. In addition to the comprehensive review of the best execution abilities of the account custodians, FMI continuously monitors and evaluates the account custodians’ execution performance by reviewing transaction fee summaries, transaction ledgers, and failed trades reports, if any. From time-to-time, quantitative performance data about account custodians is acquired from the custodian or third party evaluation services to assist the review process. In addition to other factors, FMI also examines, if feasible to do so, the relationship between the executing account custodian and the market center(s) to see what kind of incentives there may be for the executing account custodian to route trades to a particular market center. Other factors to be considered include but are not limited to: quality of overall execution; promptness of execution; phone accessibility; creditworthiness and business reputation; promptness and accuracy of oral, hard copy or electronic reports of execution; ability and willingness to correct trade errors; transaction fees charged; reliability; financial condition of the custodian; business continuity and disaster recovery capabilities; client internet accessibility to the custodian; and the market where securities trade.

FMI prohibits the use of “soft dollar” programs between itself and the account custodians recommended or suggested to clients. FMI receives no portion of any transaction fees charged by the account custodians recommended or suggested, nor does it receive any other incentives for recommending the account custodians to its clients. FMI does endeavor to negotiate the best possible terms and level of service between itself and account custodians for the direct benefit of FMI’s clients.

Account custodians provide FMI with access to institutional trading and operations services, which are typically not available to the custodians’ retail investors. These services generally are available to independent investment advisors at no charge, or at no charge as long as assets placed with the custodians exceed a minimum value. Custodians’ services include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Custodians also make available to FMI other products and services that benefit FMI but may not benefit its clients’ accounts. Some of these other products and services assist FMI in managing and administering clients’ accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of FMI fees from its clients’ accounts, and assist with back-office support, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of FMI accounts, including accounts not maintained with the custodian providing the service. Custodians may also provide FMI with other services intended to help manage and further develop its business enterprise. These services include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, account custodians make available, arrange and/or pay for these types of services to FMI by independent third-parties. Account custodians may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to FMI.

## Charles Schwab Institutional

Charles Schwab Institutional has agreed to execute trades in FMI client accounts under the terms of the following transaction fee schedule:

### Charles Schwab Institutional Transaction Fee Schedule

All “live” equity trades receive the following rate:  
\$0.04/share, \$20.00 minimum

All “electronic” equity trades receive the following rate:  
Households over \$1 million: \$9.95 flat

Households under \$1 million and using e-delivery:  
\$12.95 + \$0.015/share over 1,000 shares

Households under \$1 million and not using e-delivery:  
\$19.95 + \$0.015/share over 1,000 shares

All mutual fund trades receive the following rate:  
0.10% principal (\$20.00 minimum, \$49.00 maximum)

All corporate bonds receive the following rate:  
\$2.00/bond, \$20.00 minimum

All options received the following rates:

Automated Trades: \$ 9.95 + \$1.40 per contract  
Live Trades: \$39.95 + \$1.40 per contract

## Fidelity Investments Institutional

Fidelity Investments Institutional has agreed to execute trades in FMI client accounts under the terms of the following transaction fee schedule:

### Fidelity Investments Institutional Transaction Fee Schedule

All “manual” equity trades receive the following rate:

\$0.05/share, \$30.00 minimum

All “electronic” equity trades receive the following rate:

0-1,000 shares: \$24.95

1,000+ shares: \$0.03/share, \$24.95 minimum

All mutual fund trades receive the following rate:

\$35.00 flat fee

All corporate bonds receive the following rate:

\$2.50/bond, \$40.00 minimum

## Limited (Specific) Discretion and Trading Authority

FMI exercises limited discretion on accounts placed with portfolio custodians. In addition to whatever level of discretionary trading authority is conferred to FMI by the client, this limited discretion may include the collection of management fees directly from the client account held by the account custodian upon presentation of a bill. Each client receives a statement from FMI that summarizes the fees paid out of the account and the manner in which the fee was calculated.

As FMI does not have the discretionary authority to determine the broker dealer/custodian to be used or the commission rates to be paid, clients must direct FMI as to the broker dealer/custodian to be used for all client transactions. In directing the use of a particular broker, it should be understood that FMI will not have authority to negotiate commissions among various brokers on individual client transactions, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to other clients. FMI does periodically review commission rates charged by recommended broker dealer/custodians and seek to negotiate lower rates for its clients.

Using a variety of tools and techniques—such as questionnaires, interviews, analytical software applications—FMI works with the client to enable the client to determine his or her individual risk tolerance and to define his or her stated goals and/or objectives. Once a client is comfortable with their individual risk tolerance and perceived goals and objectives, FMI will suggest implementing an investment management strategy that is appropriate for the level of risk the client is willing to assume in light of their stated goals and objectives. Usually, the recommended strategy is implemented by investing the client’s assets according to a standard or custom model allocation. FMI exercises discretion over the client’s account placed with the account custodian(s) in the

following ways:

- Directs the account custodian to execute initial trades to conform to the assigned model allocations;
- Directs the account custodian to execute trades resulting from the periodic review, rebalance and/or optimization of the client’s portfolio;
- Directs the account custodian to execute trades in order to replenish cash reserves to cover expenses related to the client portfolio; and
- Directs the custodian to execute trades to generate cash for required minimum or other distributions requested or scheduled by the client that are disbursed directly to the client’s address of record or designated financial institution. Distributions are direct transactions between the account custodian and the client or the client’s designated financial institution.

Clients of FMI may impose reasonable restrictions on FMI’s discretionary authority over their accounts.

FMI, as a matter of policy and practice, has no authority to vote proxies on behalf of advisory clients. The firm may offer assistance as to proxy matters upon a Client’s request, but the client always retains the proxy voting responsibility.

## Business and Professional Services

In addition to general asset management services, FMI can also provide assistance to businesses and professional practices to maximize profitability and improve financial stability, including advice concerning equity securities, warrants, corporate debt securities, certificates of deposit, municipal securities, investment company securities (variable annuities and mutual fund shares), U.S. Government securities, retirement planning, estate planning, business insurance and qualified pension plans.

FMI’s business consulting activities encompass services addressing needs at all stages of the business life-cycle—Startup; Operations and Financial Stability; Succession and Transition; and Merger and Acquisition. From time-to-time, FMI is engaged to perform *due diligence and suitability reviews* of private-placement investment offerings. When completing such an engagement, FMI performs numerous activities such as: reading and reviewing all documents related to the offering (Operating Agreements, Appraisals, Private-Placement Offering Memorandum, Management Agreements, Subscription Agreements, Mortgage and/or Loan Agreements, Financial Projections, etc.); meeting with and interviewing key persons associated with the offering (Partners, Project Managers, Accountants, etc.); making site visits, if applicable, to verify the authenticity of the project and to make comparisons of the project with other, or previously completed, projects; and memorializing the due diligence review in a report that include FMI’s thoughts on

the suitability of the offering, or lack thereof, for certain investors.

## **Trust Company Services**

FMI uses the services of Charles Schwab Institutional, Fidelity Investments Institutional, and other companies selected by our clients to provide personal and retirement trust services. FMI also works with independent trust companies and bank trust departments. FMI is able to operate within the special constraints and conditions characteristic of most trust accounts.

## **Personal Services**

Our members, with expertise in areas that are essential in meeting the personal needs of individuals and businesses, can help solve virtually any personal, business or family financial problem. Frequently, resolution requires special analysis by our internal analysts and other professionals. FMI frequently works with other professional advisors who are working with our clients—attorneys, CPAs, trust companies and insurance agents—in order to help the client accomplish their goals and address their financial needs using a holistic approach.

## **Our Team**

With many years of total experience in financial planning and asset management, each of the principals and associates at Financial Management, Inc. has already made his or her mark within their given specialty. Each endeavors to maintain a highly respected reputation among their peers for professionalism, competence and personal integrity.

Our advisors have been interviewed as financial experts for television, radio, newspapers and magazines, and have been retained by attorneys as expert witnesses in litigation dealing with financial planning and investments. We have taught seminars at universities, medical and dental schools, corporations and professional group gatherings in several states.

## **Personal Backgrounds**

### **Harold F. Grubbs, RFC, AIF®**

President and majority Principal of Financial Management, Inc., Harold has specialized in strategic financial planning for over twenty-six years, advising individual and corporate clients about their financial goals. He has concentrated in comprehensive financial planning, asset allocation and portfolio management, retirement planning, estate planning, risk management design and analysis. He emphasizes personalized service and enjoys helping clients make informed decisions based on proven academic research rather than the noise of the financial marketplace. Harold entered the financial services industry in 1982. Prior to 1982, he was a manager and marketing specialist with a Fortune 100 company. Harold joined FMI in 1986. Previously, he was vice president of a regional financial

services firm, and from 1986 to 1993 was a managing executive for one of the nation's largest financial services firms. He has past associations with four Broker Dealers--Equity Capital Corporation (1993-1995), Royal Alliance Associates (1989-1993), HFG Investment Group, LLC (2002-2003) and The Leaders Group, Inc. (1997-2002; 2003-2004). Harold is a member of the board of directors of Earth Science Laboratories, Inc., a privately-held company located in Bella Vista, Arkansas (1992-present) and managing member of Brush Mountain Enterprises, a non-investment restaurant management services partnership (2008-present). He was a manager and investment advisor for an affiliated registered investment advisory firm, Pinnacle Asset Management, LLC (2000-2005). Harold was formerly president of Financial Planning Resources, Inc. (1982-2001) who merged with Financial Management, Inc. in 2001. He is a Registered Financial Consultant. Harold is an Accredited Investment Fiduciary® in association with the Center for Fiduciary Studies in Pittsburgh, PA (2004-present). In addition, he is a member of the Financial Planning Association, the International Association of Registered Financial Consultants and the Investment Management Consultants Association. Harold attended the University of Southern Mississippi, Millsaps College, and Mississippi College. (Born: 1952)

### **Susan G. Rogers, CPA, AIF®**

Vice President and Principal of Financial Management, Inc., Susan joined the Company in August 2000. She has past broker dealer associations with HFG Investment Group, LLC of Little Rock, Arkansas (2002-2003) and with The Leaders Group, Inc., of Littleton, Colorado (2001-2002; 2003-2004). She is an Investment Advisor Representative for FMI. Susan is an Accredited Investment Fiduciary® in association with the Center for Fiduciary Studies in Pittsburgh, PA (2003-present). She was financial and operations specialist and an investment advisor for an affiliated registered investment advisory firm, Pinnacle Asset Management, LLC (2000-2005). She was formerly affiliated with Financial Planning Resources, Inc. (2000-2001) who merged with Financial Management, Inc. in 2001. Prior to joining FMI, she served as a CPA operating her own consulting business (1998-1999) and as an employee of various public accounting firms located in Little Rock, Arkansas. She received her certification upon passing the May 1994, national CPA exam. She is a Magna Cum Laude graduate of the University of Arkansas at Little Rock where she earned a Bachelor of Sciences Degree in Accounting (1994). She is a member of the American Institute of Certified Public Accountants, Arkansas Society of Certified Public Accountants, Financial Planning Association, National Society of Compliance Professionals and Investment Management Consultants Association. She is a member of Beta Gamma Sigma, the Honor Society for AACSB Accredited Business Programs, the national honor societies of Phi Kappa Phi and Golden Key. (Born: 1957)

## **John B. Robinson, III, M.S., CQF, CFP®**

John founded a financial planning and portfolio management firm in Dallas, Texas, in 1981. Upon leaving the Dallas firm in 1986, he joined Financial Management, Inc. Prior to 1986, John was an oil and gas explorationist, researcher and branch manager for Texas Instruments, Inc. John was also a director and officer of Culturally Designed Communities of South Florida, Inc., a privately-owned land development company (2002-2004), and Culturally Designed Communities, Inc. (1995-2003). He is a director and officer of Global Trade Development Corporation, a privately-owned economic development company (2004-present). He is a past director of the Dallas Society/Institute for Certified Financial Planners, and is a member of the CFA Institute and the Professional Risk Managers International Association. John specializes in investment portfolio research and management, and management and financial consulting for businesses. John is a program manager for the University of Arkansas for Medical Sciences in Little Rock, Arkansas (1996-present) and has also been an Adjunct Professor in the MBA program at Webster University and an instructor with UALR's Graduate Institute of Technology. John received a B. S. degree in Physics from Louisiana Tech University in 1971, and an M.S. degree in Management (Operations Research and Finance) from the University of Texas at Dallas in 1981. He earned the Certified Financial Planner® designation in 1984, and the Certificate in Quantitative Finance in 2005. (Born: 1949)

### **Fees, Compensation and Other Costs**

FMI endeavors to provide services on a fee-only basis to the greatest degree possible. Management fees are determined using hourly rates, retainers, or percent of assets under management. Most of our investment recommendations focus on low-cost, institutional and non-institutional, no-load and no-transaction-fee (NTF) products in which FMI receives no commissions. In some instances, particularly when investing in some mutual funds or money market funds, additional costs may be incurred (i.e. mutual and money market fund internal expense ratio costs incurred in the management of the fund and charged by the fund family). FMI endeavors to avoid the use of funds subject to 12(b)-1 fees; however, FMI will consider the use of a fund subject to these fees only if the fund is a "no-load", "waived load" and/or "NTF" fund.

Harold F. Grubbs is also a licensed insurance agent of the FMI insurance agency. He may on a case-by-case basis, recommend commissionable, traditional life insurance products—Whole, Term and Universal Life—to our clients. Commissions on insurance products are paid directly to FMI. FMI does not charge any management fees on cash values that may accumulate in traditional insurance policies.

Clients are invited to shop their policies among other insurance agencies and are not compelled to obtain their insurance products from FMI.

FMI may recommend in certain circumstances that a client invest in a variable annuity product. In such cases, FMI recommends only no-load variable annuities. FMI does not receive any commission-based compensation on no-load variable annuities but rather assesses a management fee on such accounts based on FMI's standard fee schedule.

For continuing advisory agreements, fees are based on the client's investment objective and the amount of assets under management and will correspond to the following table. Fees for advisory services are assessed on a quarterly basis and are payable in advance.

Management fees for new client accounts are pro-rated based on the number of days remaining in the current quarter when the account is established. Interim deposits and/or withdrawals of \$25,000 or more for existing client accounts will result in an adjustment (additions for deposits; reductions for withdrawals) to the management fee for the quarter in which the activity occurred. The adjustment will be reflected on the invoice prepared at the next regular billing cycle. In the event of account closure or client termination, refunds, if any, will be based on the termination provisions stated herein.

<b>Portfolio Value</b>	<b>Rate for Annual Fee Calculation</b>
First \$ 250,000	2.00% of Value
Next \$ 250,001 to \$ 500,000	1.00% of Value
Next \$ 500,001 to \$1,000,000	0.80% of Value
Next \$1,000,001 to \$2,000,000	0.60% of Value
Next \$2,000,001 to \$5,000,000	0.40% of Value
Next \$5,000,000 or more	Negotiable

Initial consultations to assess client needs and objectives are generally at no charge. Some clients prefer to be charged on a pure time basis. In those cases, fees for future consultations are billed at a rate of \$150 per hour, payable at the time services are rendered. For consultations involving detailed analysis requiring extensive computer support and outside research, the client will be billed for the additional costs. Clients are contacted for approval prior to incurring additional expenses.

FMI provides business consulting, individual financial planning and pension plan review services on an hourly basis. Financial planning services may also be provided in conjunction with investment advisory services.

FMI's minimums for its service offerings are as follows:

#### Investment Advisory Services:

\$2,000 minimum annual fee OR  
\$100,000 minimum in assets under management

#### Consultation and Planning Services:

\$250 per hour –  
\$1,500 minimum per engagement,  
plus expenses

AIF<sup>®</sup> Plan Review Services:

\$250 per hour –  
\$1,500 minimum per engagement,  
plus expenses

In some business consulting engagements, the scope of the services to be provided may be broad enough to achieve some *economies of scale*. In such cases, FMI may use a tiered “project fee schedule” to calculate the fee(s) for the consulting services to be rendered. When multiple engagements of a similar nature are to be performed for the same consulting client, FMI may suggest the “project fee schedule” as an alternative to billing services at a straight hourly rate. FMI’s project fee schedule is tiered as follows:

<u>PROJECT(S) VALUE</u>	<u>ENGAGEMENT FEE</u>
FIRST \$ 3,000,000	0.70% of Value
NEXT \$ 3,000,001 to \$ 5,250,000	0.65% of Value
NEXT \$ 5,250,001 to \$ 7,500,000	0.60% of Value
NEXT \$ 7,500,001 to \$10,000,000	0.55% of Value
VALUE ABOVE \$10,000,001	0.30% of Value

A contract between FMI and a client may be terminated at any time upon the client’s or FMI’s 30-day, written notice. If the client terminates the contract, all unearned fees, less an administrative charge of \$50 per hour, not to exceed \$150, for copying, mailing and transferring account information, will be refunded to the client or reimbursed to the client’s accounts. In the event FMI terminates the contract, all unearned fees will be refunded or reimbursed on a pro-rata basis.

In the event a client does not receive this disclosure brochure at least 48 hours before entering into a contract, the client may exercise the right to void the contract within five (5) business days of the contract date. Any and all prepaid fees will be refunded in this event.

### **Potential for Conflict of Interest**

All relationships in which money is exchanged for products or services hold the potential for conflicts of interest on the part of the provider. At traditional investment brokerage and insurance companies, brokers and agents are compensated on how much product is sold, rather than on how well they helped their customers. This produces a conflict—to create profits for the firm or for the client. In some cases, the private objectives of an advisory or brokerage firm may outweigh their customer’s best interests.

To reduce this conflict of interest, FMI attempts to implement plans using no-load products when available. Clients will be informed when they are not available. When a principal of FMI, who is also an insurance agent through the FMI agency, receives commissions for the sale of a product, disclosure to the client is mandatory, and the client will be given the choice of purchasing traditional insurance products from an unaffiliated company, if desired.

## Outside Affiliations

Certain Principals of FMI have other, non-investment related associations that are described more fully in the preceding biographies.

## Solicitor Fees

The Company receives a trailing solicitor fee from SEI Investments for a previously managed retirement plan. The trailing fee will continue as long as the plan remains with SEI Investments.

## Participation in Client Transactions

FMI advisors may also purchase and sell securities recommended to their clients for their own accounts. The sizes of these transactions are small in relation to the total market for each security and are not believed to materially affect the market for that security. In addition, the securities involved in such transactions are generally mutual funds which trade based on the NAV (Net Asset Value) at the end of each trading day. Advisors of FMI will not simultaneously engage in purchasing or selling individual securities (stocks and/or bonds) for their own accounts if such securities are being traded for clients. The advisors are required to disclose any securities transactions on a regular basis to the company. Employees and advisors of FMI are required to file Quarterly Personal Securities Holdings Reports with the firm's President or his duly appointed delegate. Reports are reviewed by the firm's President or his duly appointed delegate following each quarter end. It should also be noted that the securities that may be bought or sold by advisors of FMI will be publicly traded securities and will not be of sufficient quantity to affect the market for the securities. All securities recommended to clients will be based on sound advice, considering the investment objectives of the client, and will never be based on positions held (or anticipated to be held) by associated persons of FMI. All client transactions will be placed ahead of transactions for associated persons. Employee and associated person trades will never be placed ahead of client orders on any trading day.

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, FMI adopted a Code of Ethics on December 15, 2004. This Code establishes rules of conduct for all employees of FMI and is designed to, among other things, govern personal securities trading activities in the accounts of employees. The Code is based on the principle that FMI and its employees owe a fiduciary duty to FMI's clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the firm and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility. FMI will provide a complete copy of the firm's Code of Ethics upon request.

## Educational and Business Standards

As a minimum standard, FMI requires that principals and advisory representatives of the Company have an undergraduate degree from an accredited college or university or extensive financial experience or have attained recognized professional designations or degrees of Accredited Investment Fiduciary® (AIF®), Certified Financial Planner® (CFP®), Chartered Financial Consultant (ChFC), Certified Public Accountant (CPA), Chartered Financial Analyst (CFA), Registered Financial Consultant (RFC), MS, MBA, or JD.

## Other Advisors

If a client already has trusted legal and tax advisors, we want to meet with these individuals to discuss the client's needs and our recommendations relevant to those needs. Our goal is to work with other professionals as a team and as a catalyst to facilitate the coordination required to achieve the client's goals and objectives.

## Reviews and Reports

Informal market and portfolio holding reviews are conducted by FMI advisors on a continuing basis by matching client data with economic and investment performance data from a variety of sources, including financial databases. Formal reviews are conducted with the client on a quarterly, semi-annual or annual basis, depending on the client's preferences, fee structure, or service class. The principle of management by exception is used and exception conditions, such as changes in a client's objectives or financial circumstances or sudden changes in the economic climate generate the need for a non-periodic review.

The Principals and advisors of FMI perform reviews. The average number of client portfolios managed on a retainer basis by each FMI advisor is approximately 125. During each formal review, the advisor presents the client with a written summary of their current portfolio, recommendations for modification of the portfolio, and the underlying reasons for the recommendations.

A detailed report is provided to each client at the end of each reporting period. Reporting periods vary for clients based on need and fee structure. The report includes internal rates of return, after fees and trading costs, for each component of the client's portfolio, as well as the total portfolio. Interim reports may be provided on an ad hoc basis, as per the client's specific request. Advisory clients are encouraged to update their risk suitability statements annually.

While understanding that "one size" does not fit all, FMI attempts to balance client service with client need using internal client classifications. These classifications serve as "guidelines" that assist the staff of FMI in providing for client needs effectively, efficiently and consistently. FMI has observed over recent years that the guidelines, as



established, are appropriate for most clients. We recognize the uniqueness of our individual clients and modify our client service approach, as necessary, to achieve the proper level of service for each client. Our “guideline” classifications are based on client group (household) values of assets under management which we believe is the best approach for initial recognition of client service needs. FMI also makes use of these classifications to conduct *self-analysis*; we frequently (quarterly) analyze our business performance and activities in order that we may continue providing our best to our clients and our company. The classifications currently applied by FMI are as follows:

<u>Level</u> <u>Frequency</u>	<u>Values</u>	<u>Services</u> <u>(Minimum Recommended)</u>
A5	< \$100,001	Annual (Yearend) Portfolio Reports (Portfolio Accounting) Annual (Yearend) Portfolio Supplemental Tax Reports Annual Portfolio Rebalance/Reallocation Annual Advisor/Client Conference *****
A4	≥ \$100,001 & < \$250,001	Semi-Annual (Mid-Year and Yearend) Portfolio Reports Annual (Yearend) Portfolio Supplemental Tax Reports Semi-Annual Portfolio Rebalance/ Reallocation Semi-Annual Advisor/Client Conference *****
A3	≥ \$250,001 & < \$500,001	Quarterly Portfolio Reports Annual (Yearend) Portfolio Supplemental Tax Reports Quarterly Portfolio Rebalance/ Reallocation Semi-Annual Advisor/Client Conference *****
A2	≥ \$500,001 & > \$1,000,001	Quarterly Portfolio Reports Annual (Yearend) Portfolio Supplemental Tax Reports Quarterly Portfolio Rebalance/ Reallocation Quarterly Advisor/Client Conference *****
A1	≥ \$1,000,001	Same as A2 *****
ERISA	All Values	Quarterly Portfolio Reports Monthly Investment of Contributions Quarterly Portfolio Rebalance/ Reallocation Annual Advisor 404(c) Meetings w/Participants Annual Advisor/Trustee Conference *****

Account custodians such as Charles Schwab, Fidelity, and American Funds (529 Plans Only), do not differentiate among clients based on account values except for determination of transaction fee charges (See “Schwab Institutional Transaction Fee Schedule”).