

Item 1 – Cover Page



William Harris Investors, Inc.

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This Brochure provides information about the qualifications and business practices of William Harris Investors, Inc. (“WHI” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at (312) 621-0590. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

WHI is an investment adviser registered with the SEC under the Investment Advisers Act of 1940 (“Advisers Act”). Registration as an investment adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information to help you determine to hire or retain an Adviser.

Additional information about the Firm also is available on the SEC’s Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

March 25, 2013

## **Item 2 – Material Changes**

There have been no material changes from WHI's last brochure, which was dated March 21, 2012. The Firm will provide clients with ongoing disclosure information about material changes as deemed necessary. Additionally, WHI will provide clients with a new Brochure as necessary based on material changes, without charge.

WHI's Brochure may be requested by contacting WHI's Compliance Department at (312) 621-0590. The Firm's Brochure is also available on the SEC's Investment Adviser Public Disclosure web site ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)) and on WHI's web site at [www.whi.com](http://www.whi.com), also free of charge.

Additional information about WHI is also available via the SEC's Investment Adviser Public Disclosure web site ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)). This SEC web site also provides information about any persons affiliated with the Firm who are registered as investment adviser representatives of WHI.

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#### Item 4 – Advisory Business

WHI's primary business is managing the financial affairs and assets of the Irving B. Harris family and other clients. Being predominantly a family office, most of WHI's accounts consist of individuals, trusts, corporations, partnerships, foundations and other entities which are controlled, operated or beneficially owned by members of the Harris family. WHI also serves as an investment manager for select high net worth individuals, family groups and institutional investors (including foundations and endowments) who are not related to the Harris family. Most of the assets managed by WHI are invested in private Investment Funds (defined below) managed by the Firm. WHI has been in business since the 1960's, has operated in its current form as a registered investment adviser since 1987, and is owned by certain trusts for the benefit of the descendants of Irving Harris.

WHI provides investment management services to its clients across a wide breadth of asset categories, including publicly-traded and privately held equity and fixed-income securities; funds that invest with third-party investment managers (generally in a fund-of-funds format); direct and indirect real estate investments; early-stage investments in biotechnology, health care and life sciences companies; and private equity (directly or through third-party managers). WHI also provides a wide range of related or ancillary wealth management and administrative services to many of its clients, largely members of the Harris family and other high net worth individuals. These services may include accounting; asset aggregation and reporting; budgeting; cash management; estate planning; financial education; insurance review; philanthropic planning and grant supervision; real estate services; tax compliance and preparation of filings; and trust administration. WHI also may provide accounting, administrative, and tax services to investment advisory clients and others to whom it does not render investment advisory services.

***As of December 31, 2012, WHI had total assets under management of approximately \$1.24 billion. Approximately \$1.16 billion of those assets were managed on a discretionary basis, while approximately \$76.4 million were managed on a non-discretionary basis.***

WHI's relationship with its Harris family and other clients whose assets are managed by the Firm on a discretionary basis is based on an examination of the client's overall financial picture, including assets and liabilities, investments, stage in life, estate plans, philanthropic wishes, spending plans, educational needs, employment status and business plans. WHI's Asset Allocation Committee creates asset allocation recommendations on a semi-annual basis, subject to interim adjustment. As WHI assesses a client's financial condition and needs, it invests discretionary client assets in accordance with the Firm's recommended asset allocation, subject to adjustment for the client's particular situation. To implement the asset allocation, the Firm utilizes one or more investment options, including Investment Funds, separately managed accounts and single purpose entities. WHI takes into account prudent diversification principles

when making investments and invests with a view toward achieving diversification within the objective of each client's portfolio. WHI may agree to manage a client account in accordance with specific limitations imposed by the client. An individual client investment advisory contract may be terminated by either party upon 30 days' prior written notice.

A number of individuals and entities, including some high net worth individuals, employees and institutional investors not related to the Harris family, invest directly in various WHI Investment Funds.

#### Investment Funds:

WHI has established a number of private investment funds (individually, an "Investment Fund" or, together, the "Investment Funds") as vehicles to more efficiently invest client's and certain other persons' funds and provide exposure to various asset categories. The Investment Funds are entities formed by WHI for the purpose of buying, selling, holding, and investing in securities or directly in underlying assets such as real estate. WHI or an entity controlled by WHI typically serves as general partner or managing member and provides investment advisory services to each Investment Fund. All of the Investment Funds are WHI advisory clients; investors in the Investment Funds may or may not be WHI advisory clients. The Investment Funds are organized as private investment partnerships or limited liability companies and are exempt from registration under the Investment Company Act of 1940 (the "Investment Company Act") pursuant to Section 3(c)(1) or 3(c)(7) thereunder. For Harris family and other clients whose assets are managed by WHI on a discretionary basis, the Investment Funds are intended to offer investment diversification, simplify asset management, and enhance portfolio allocation to meet individual needs. Investors in the Investment Funds also include select high net worth individuals, employees and institutional investors not related to the Harris family. A brief description of the Investment Funds advised by WHI is included in Item 7 below.

#### Separately Managed Accounts:

WHI also manages client assets in separately managed accounts. Some of these accounts were created prior to the Firm establishing the Investment Funds, and others are created to give clients exposure to investments not held in any Investment Fund, or where use of the Investment Funds may not be appropriate. In general, WHI manages these separate accounts on a discretionary basis. WHI may also invest funds for select high net worth or institutional clients not related to the Harris family on a separate account basis.

Depending on the amount of client funds available for investment, WHI may choose to invest a client's separate account assets in individual securities selected by WHI's investment managers, with third-party asset managers or in one or more pooled investment vehicles in the form of

shares of a registered investment company (open-end mutual fund, closed-end fund, exchange traded fund, unit investment trust, etc.).

#### Single Purpose Entities:

WHI has from time-to-time formed certain entities (non-security related) for a single purpose to invest (normally a controlling interest) in a specific asset, such as an apartment complex, ice arena, restaurant, golf course, or movie theater. WHI refers to these as "single purpose entities". WHI typically has taken an active role in the management and operation of the underlying business venture of these single purpose entities. Investment advice in these cases is typically directed to both the investors in such an entity and the entity itself. The investors in the WHI-sponsored single purpose entities have been Harris family clients, and to a lesser extent, WHI employees and a few unrelated investors. WHI considers these single purpose entities to be advisory clients. The Firm generally no longer uses single purpose entities as investment vehicles, although several legacy investments in single purpose entities remain.

### **Item 5 – Fees and Compensation**

#### Advisory Fees:

WHI's advisory fees (outside of the Investment Funds) are based on a percentage of assets under management and generally range from 0.5% to 1.0% per annum of the value of the applicable accounts. Because of the nature of most WHI clients, individual client fees (outside of the Investment Funds) are negotiated on an individual or group basis according to services rendered and any special circumstances attendant to the servicing of the client.

Generally, advisory fees for individual client accounts are payable quarterly, in arrears, based on the value of the account as of the last day of that calendar quarter, which may be adjusted at the discretion of WHI for material additions and withdrawals that occur during the calendar quarter. Fees on cash balances in client accounts are generally billed on an average daily balance basis. If WHI provides advisory services for less than an entire calendar quarter, its compensation is prorated for the period of the calendar quarter for which it serves as investment adviser. Fees generally are deducted from the client's assets.

As general partner or managing member of the Investment Funds, WHI provides the Investment Funds with advisory and certain administrative services. In return, WHI typically receives a fee at the annual rate of between 0.75% and 1.5% of the value of the assets of, or investor commitments to, an Investment Fund, as set forth in the Investment Fund's organizing documents. Generally, the fee is paid quarterly. With respect to certain of the Investment Funds (generally "locked" funds that do not permit investor redemptions), WHI may adjust quarter-end

values to give pro rata effect to capital called or distributed during the quarter. Certain of the Investment Funds also provide for the payment of an incentive allocation or carried interest (also known as a performance fee) to WHI. The amount of the incentive allocation or carried interest varies among the Investment Funds. Potential investors are urged to review the offering materials for each of the Investment Funds for further details. The Investment Funds utilize a third party administrator to perform certain administrative services.

Advisory clients of WHI that are investors in the Investment Funds are not charged a separate advisory fee on that portion of their investment portfolio invested in the Investment Funds (i.e., they only pay the fees as described in the offering materials associated with the particular Investment Fund).

WHI's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses payable to third parties, which shall be incurred by the client or the Investment Fund, as appropriate. Clients and Investment Funds may incur certain charges imposed by custodians, brokers, third party investment advisors and other third parties such as fees charged by managers and third party administrators, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. These charges, fees and commissions are exclusive of and in addition to WHI's fee, and WHI does not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that WHI considers in selecting or recommending broker-dealers for executing client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

#### Cash Management Services:

As a separate accommodation to its clients, and in accordance with its client agreements, WHI has arranged for its advisory clients to maintain accounts with banks, brokerage firms, or other financial institutions that provide for cash management services through money market or municipal trust portfolios. The accounts may pool client assets in WHI's name as agent for its clients or may be maintained directly in the clients' or entities' names. To facilitate these services, a client must authorize WHI to deposit a portion of his/her investment portfolio into one or more money market or municipal trust portfolios, to make withdrawals, write checks against these funds for the purposes of paying client bills or other obligations, and to effect transfers between these portfolios and the client's brokerage accounts.

In general, WHI has historically utilized client agency accounts to provide cash management and disbursement services to its family office clients. This arrangement facilitates transaction

processing, and benefits from pricing advantages on administrative services and enhanced yield due to the aggregate dollars invested. WHI separately records each individual client's cash assets, including contributions, disbursements, income and expense. Cash in an agency account is held at, and disbursements are made from, a single account at a qualified custodian, generally in the name of WHI as agent for its clients. On at least a quarterly basis, the qualified custodian provides each client whose cash is held in an agency account a statement detailing the client's cash position in the account at the beginning and end of the period covered by the statement and all transactions effected in the account by or on behalf of the client during that period.

WHI has also arranged for certain of its advisory clients that are foundations, charitable trusts, or other charitable entities established by, or used to make charitable donations at the direction of, a client to maintain certain funds of these entities in a separate account maintained in WHI's name as agent for its clients. This account may be used to make charitable donations at the direction of a client, and to accommodate client wishes, a client may have check writing authority over this account. WHI has in place various written internal control procedures over these accounts to ensure that a client has access only to those funds specific to that client's charitable entity and its activities and that the bank will not honor checks until it receives written authority from WHI (a positive pay system).

#### Ancillary Services:

WHI charges separate fees to clients for non-advisory services, including but not limited to accounting and bookkeeping; asset aggregation and reporting; asset allocation review and recommendations; cash management and liquidity planning; charitable pledge and grant supervision; estate and wealth transfer planning; financial education; financial planning and budgeting; insurance coverage review; philanthropic planning; real estate-related services; tax compliance and preparation of filings; trust administration; and other personal, business and financial services. Fees for these non-advisory services are based on several factors, including time and resources of WHI devoted to providing these services, the relative complexity of the matters involved, costs incurred by WHI in performing the services, and the fees charged by other providers for similar services. WHI generally charges for these services on an annual basis, collected quarterly, and in some instances the fees for these non-advisory services may be individually negotiated.

WHI may charge a separate one-time fee to an advisory client for an unusual transaction, such as a sale of a significant operating asset or a one-time transaction requiring significant efforts by WHI's employees. These fees are independently negotiated and structured, as applicable, in each specific circumstance.

#### Disclosure of Client Personal Information:



It is WHI's policy to exercise its best efforts not to disclose client personal information to third parties, unless deemed in the client's best interests. Personal information includes name, address, social security number, net worth, and annual income. WHI policies and practices are intended to protect the confidentiality, security, and integrity of all client personal information. WHI has systems with physical, electronic, and procedural safeguards to secure client personal information.

It is WHI's policy to disclose client personal information only when required by law or as necessary to conduct business on behalf of clients. Instances where information will be disclosed include: in preparing annual federal and state income tax returns, as well as gift, informational, and household help payroll tax returns (at a client's direction) and certain required public and non-public SEC filings; in making certain private investments; and in working with specific third party consultants and advisors on tax and estate planning matters. WHI will also disclose personal information as directed by an individual client, such as when asked to assist with obtaining a mortgage, business loan, or life insurance policy.

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

WHI has entered into performance fee or carried interest arrangements in connection with most of the Investment Funds (and certain other investment vehicles it manages). WHI structures any performance, carried interest or incentive fee arrangement subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. WHI invests a client's assets in an Investment Fund with a performance, carried interest or incentive fee arrangement only if the client is eligible for the Investment Fund based on information provided in the applicable subscription document. In measuring clients' assets for the calculation of performance-based fees, WHI generally includes realized and unrealized capital gains and losses. The performance fees, if any, for each Investment Fund are set forth in each Investment Fund's relevant documentation and are established at the time the Investment Fund is created. Such fees may, in the discretion of the relevant general partner or managing member, be partially or fully waived.

Investors in the Investment Funds with performance-based fees should be aware that these arrangements may create an incentive for WHI to make investments which may be riskier or more speculative than those which would be made under a different fee arrangement. These fee arrangements also might create an incentive to allocate discretionary client assets to Investment Funds with performance fee provisions and to favor higher fee-generating accounts over other accounts in the allocation of investment opportunities. WHI strives to ensure that discretionary investments are made solely in the clients' best interests and that all clients are treated fairly and equitably.

## **Item 7 – Types of Clients**

WHI provides discretionary and nondiscretionary investment advisory services to individuals (including high net worth individuals), trusts, estates, charitable organizations and foundations, endowments, corporations and private investment funds and other entities, many of which are controlled, operated or beneficially owned by members of the Irving B. Harris family.

WHI advises a variety of Investment Funds, including

- funds that invest generally in publicly-traded equity securities (generally long only);
- funds that invest with a variety of third-party managers generally in a fund-of-funds format (following strategies that include international equities, credit, global macro, distressed debt and event-driven);
- funds that seek opportunistic direct real estate investments, as well as certain legacy real estate funds-of-funds that invest largely in third-party managed real estate funds;
- funds that invest in a variety of fixed-income securities;
- funds that invest in early-stage biotechnology, health care and life sciences companies or in other funds pursuing similar strategies; and
- funds that invest primarily in private equity, either directly or through third-party managers in a fund-of-funds format.

Several of WHI's Investment Funds are open to new investors, while many are closed to new investors. Detailed information with respect to each Investment Fund is set forth in its Confidential Offering Memorandum. Each Investment Fund generally limits its investors to persons who are "accredited investors" as defined in Regulation D under the Securities Act. Minimum contributions for investment in each Investment Fund varies from \$250,000 to \$5,000,000, but commitments of less than those amounts may be accepted at the sole discretion of each Investment Fund's general partner or managing member.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### Methods of Analysis:

WHI's research and investment personnel review and study many types of research information and attend investment seminars, conferences, and private meetings with research analysts and company management at which they receive market and economic information relevant to WHI's management of client accounts. WHI's research and investment staff engage in numerous

methods of securities analysis. While the historical focus of WHI's evaluation has tended to be fundamental analysis of securities, the Firm's methods also include charting, technical and cyclical assessments of securities. WHI's research and investment personnel also evaluate non-marketable investments such as real estate assets and private company investments. These evaluations encompass a wide range of analytical tools and techniques, including discounted cash flow analysis, comparable property or company analysis, replacement cost analysis, and several others.

#### Investment Strategies:

The investment strategies used by WHI to implement any investment advice given to clients include long-term and short-term purchases, trading, short sales, margin transactions, and options writing and trading. For a selected small number of individual accounts, WHI may use stock index futures, interest rate caps, and other leveraged investments to hedge equity or fixed income positions, or otherwise manage client exposures.

#### Risk of Loss:

No investment is free of risk. Current and prospective WHI clients are cautioned that investments in securities involve risk of loss, including the possibility of a complete loss of the amount invested, and that they should be prepared to bear these risks. All investors should be aware of certain risk factors, which include, but are not limited to, the following:

*General Investment and Trading Risks.* All securities, commodities, derivatives and other investments risk the loss of capital. WHI believes that the investment programs and research techniques utilized by its staff will moderate these risks through a careful selection of securities, commodities, real estate assets and/or other instruments for investment. No guarantee or representation is made that the Firm's investment programs will be successful. Some investment programs implemented on behalf of the Firm's clients (including some of the Investment Funds) may utilize investment techniques such as trading options and other derivatives, margin transactions, other use of leverage, and short sales. These practices can, in certain circumstances, result in additional risks to clients whose accounts use such investments/strategies.

The Firm may invest in bonds and other fixed income securities, including "higher yielding" (and, therefore, higher risk) debt securities when it believes that these securities offer appropriate risk-adjusted trading or investment opportunities. Many of these securities may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to make timely interest and principal payments. The market values of certain of these lower rated debt securities tend to

reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. It is likely that a major economic recession could disrupt severely the market for these securities and have an adverse impact on their value. In addition, it is likely that an economic downturn could adversely affect the ability of the issuers of these securities to repay principal or pay interest thereon and increase the incidence of default for these securities.

The Firm may also invest its clients' assets in Investment Funds or single purpose entities or other vehicles that engage directly in various investment transactions, including loans, purchasing or financing of real estate, and private equity investments. These investments are subject to risk of loss, particularly where invested in a single borrower or single project, or when concentrated in a particular industry, category of asset or geographic area. Moreover, as detailed below, these investments are generally illiquid in nature.

In certain transactions for some clients, WHI may not be accurately or adequately "hedged" against all possible market fluctuations with respect to equity or fixed income positions. This can result in losses, even if the proposed hedging transaction is consummated.

The Firm attempts to assess the foregoing risk factors and others in determining the extent of the securities positions it will take and the prices it is willing to pay for these securities. However, these risks cannot be eliminated, and hedging may not be successful.

*Strategy Risk.* Strategy risk relates to the deterioration of the economic viability of an entire strategy. Strategy-specific losses can result from excessive concentration in the same investment approach or general economic events that adversely affect particular strategies (e.g., illiquidity within a given market).

*General Economic Conditions.* The success of any investment activity will be affected by general economic conditions which affect the level and volatility of prices as well as the liquidity of the markets. The prices of many securities and derivative instruments are highly volatile. The price movements of the instruments which the Firm on behalf of its clients will acquire or sell short will be influenced by, among other things, interest rates, changing supply and demand relationships, the trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events. Governments from time to time intervene, directly and by regulation, in certain markets (particularly those in currencies and interest rates), thereby disrupting strategies focusing on these sectors. Unexpected changes (in either direction) in the volatility or liquidity of the markets in which clients hold positions could cause significant losses.

The profitability of a significant portion of the Firm's investment program will depend upon its ability to correctly assess future price movements in stocks, bonds, commodities, real estate assets and other instruments. WHI may not be able to predict these price movements accurately, even during market periods which are favorable to most other managers.

Each investment strategy selected by WHI for clients will be unlikely to achieve its objectives under certain market conditions, which may prevail for substantial periods of time after the client's assets are allocated to a particular strategy.

*Securities Interests.* Securities interest trading is speculative and volatile. Securities interests traded by the Firm on behalf of its clients may involve substantial risks and may be subject to wide and sudden fluctuations in market value with resulting fluctuations in the amount of profits and losses. Securities interest prices also may be volatile. Similarly, the same factors which influence commodities interest pricing, described below, influence the securities markets.

*Commodities Interests.* Commodities interest trading is speculative and volatile. Commodities interest prices are volatile. The price movements for contracts are influenced by, among other things, changing trade, fiscal, monetary, and exchange control programs and policies of governments; domestic and foreign political and economic events and policies; changes in domestic and foreign interest rates and rates of inflation; currency devaluations and revaluations; and sentiments of the marketplace. In addition, governments from time to time intervene directly and by regulation in certain markets, often intending to influence prices directly.

*Securities and Commodities Interest Trading May Be Illiquid.* It is not always possible to execute a buy or sell order at the desired price or to close out an open position due to market illiquidity. Illiquidity can be caused by intrinsic market conditions, the interrelationship between the securities and commodities markets, or extrinsic factors like the imposition of daily price fluctuation limits.

At various times, the markets for securities interests purchased or sold by the Firm for its clients may be "thin" or illiquid, making the purchase or sale of securities interests at desired prices or in desired quantities difficult or impossible. Markets in some securities interests may be subject to "short squeezes". A short squeeze is a condition caused by an unusually large amount of a specific security being sold short. This may lead to the short sellers having to borrow the securities at an extremely high rate. A short squeeze may also induce many of the short sellers to buy the issue they are short, and thus cause the issue to rise in price relative to similar issues. In addition, certain securities may have holding period requirements or other transfer restrictions which make them illiquid.

*Short Sales.* WHI may in certain cases engage in uncovered short sales for selected clients. An uncovered short sale involves the sale of a security that the client does not own in anticipation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, WHI, on behalf of the client, must borrow the security and is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the client. When a client makes a short sale in the United States, it typically must leave the proceeds thereof with the broker and must also deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. A short sale involves the risk of a theoretically unlimited increase in the market price of the security that would result in a theoretically unlimited loss. Furthermore, if WHI has, on behalf of a client, sold short the securities offered in an exchange offer or merger and has purchased the securities of the target company, the client is exposed to the risk that, if the transaction is not consummated, it may suffer losses with respect to both its long and short positions. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

*Margin.* Some clients may be required to deposit margin in connection with their trading and investment activities. This results in certain additional risks for the clients involved. For example, should the cash or securities pledged to secure the margin accounts decline in value or should the broker or dealer increase its margin requirements on a client's positions, the client could be subject to a "margin call", pursuant to which the client must either deposit additional funds or suffer mandatory liquidation of the pledged securities and the investment position to compensate for the decline in value or increased margin requirements. In the event of a sudden precipitous drop in the value of their assets or increase in margin requirements, clients might not be able to liquidate assets quickly enough to cover margin debts or avoid liquidation of positions.

If a client is unable to satisfy any margin call by the broker, then the broker could liquidate the client's position in some or all the financial instruments that are in the client's account at the broker and cause the client potentially to incur significant losses.

*Trading of Options.* Although successful option trading requires many of the same skills as does successful securities trading, the risks involved are somewhat different. If a client buys an option (either to sell or buy a security or futures contract), the client pays a "premium" representing the market value of the option. Unless the price of the security or futures contract underlying the option changes and it becomes profitable to exercise or offset the option before it expires, the client may lose the entire amount of the premium. Conversely, if the client sells an option (either to sell or buy a security or futures contract), it is credited with the premium, but must deposit margin due to the contingent liability to deliver or accept the security or futures

contract underlying the option in the event the option is exercised. Clients who sell options are potentially subject to the entire loss which occurs in the underlying security or futures contract (less any premium received). The ability to trade in or exercise options may be restricted in the event that trading in the underlying security or futures contract becomes restricted.

The client who bought a call option assumes the risk of losing his/her entire investment in the call option. If the client who bought the call also has a short position in the underlying security, futures contract or commodity, the loss on the call will be offset in whole or in part by any gain on the short sale of the underlying security, futures contract or commodity.

*Selling (or writing) options creates additional risks.* A client who sells a call option but who also has a long position in the underlying security, futures contract or commodity is subject to the full risk of a decline in price of the security, futures contract or commodity reduced by the premium received for selling the option. In exchange for the premium received for selling a call option, the call option selling client gives up all of the potential gain resulting from an increase in the price of the underlying security, futures contract or commodity above the option strike price upon exercise or expiration of the option. A client who sells a put option but who also has a short position in the underlying security, futures contract or commodity is subject to the full risk of a rise in the price of the security, futures contract or commodity reduced by the premium received for selling the option. In exchange for the premium received for selling a put option, the put option selling client gives up all of the potential gain resulting from a decrease in the price of the underlying security, futures contract or commodity below the option strike price upon exercise or expiration of the option. The client who buys a put option assumes the risk of losing his/her entire investment in the put option. If the buyer of the put has a long position in the underlying security, futures contract or commodity, the loss on the put will be offset in whole or in part by any gain on the long sale of the underlying security, futures contract or commodity.

*Lack of Liquidity of Investments:* The markets for instruments traded by some or all of the Investment Funds may have limited or no liquidity. WHI does not intend to generally limit investments to issues of any particular minimum capitalization and may, in fact, focus upon smaller capitalization stocks when such securities appear to afford greater appreciation or depreciation potential. These stocks often have less liquidity than large capitalization issues. Lack of liquidity could disadvantage the Investment Funds both in the realization of quoted prices and in order execution. Certain of the Investment Funds invest in real estate assets or private companies for which no liquid trading market exists. Lack of liquidity would increase the risk that a Fund could be required to liquidate positions at disadvantageous prices because of its inability to raise margin collateral or other capital from other sources. The risk of market illiquidity is materially heightened by the use of leverage and the possibility that margin calls will need to be met in declining or disrupted market conditions.

## **Item 9 – Disciplinary Information**

Like other registered investment advisers, WHI is required to disclose all material facts regarding any legal or disciplinary events that would materially impact a client's evaluation of WHI or the integrity of WHI's management. No events have occurred at WHI that are applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Neither WHI nor any of its management persons is registered or has an application pending to register as a broker-dealer, futures commission merchant, commodity pool operator, commodity-trading adviser, or associated person of the foregoing.

WHI has no arrangements with a related person who is a broker-dealer, investment company, other investment adviser, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships that are material to its advisory services, the Investment Funds or its clients.

Harris Bridge Corp, Inc. ("Bridge Corp") was established in December 2007 and is wholly owned by a WHI employee that is not a member of the Irving Harris family. Bridge Corp may assist members of the Irving Harris family, WHI employees and other WHI clients by facilitating loans and providing other financial services. Bridge Corp does not render investment advice nor does it offer portfolio management services to WHI clients. WHI does not itself participate in any lending activity with any of its advisory clients; however, it guarantees borrowings of Bridge Corp.

WHI has and will continue to develop relationships with professionals who provide services it does not provide. For example, WHI regularly uses Ernst & Young, LLP as external auditor for most of its Investment Funds as well as for certain tax-related services, and McGladrey & Pullen, LLP as external auditor for several of its real estate-related Investment Funds. WHI uses SS&C Technologies, Inc. as a third party administrator for the Investment Funds. None of the above relationships, however, creates a material conflict of interest with any of WHI's Investment Funds or clients.

From time to time, WHI may receive training, information, promotional material, meals, gifts or prize drawings from vendors and others with whom it may do business. At no time will WHI accept any benefits, gifts or other arrangements that are conditioned on directing individual client transactions to a specific security, product or provider.



## **Item 11 – Code of Ethics**

WHI's officers, directors, and employees are subject to a Code of Ethics, which includes various reporting, disclosure, and approval requirements that are intended to prevent actual and potential conflicts of interest with transactions in client accounts. In general, WHI's Code of Ethics covers standards of business conduct, confidentiality of client information, personal trading requirements, insider trading, and reporting of personal securities transactions, among other things. The Code includes a prohibition on insider trading and outlines strict policies that dictate how any such information is treated. At least once a year, each WHI employee is required to acknowledge the Code of Ethics in writing and agree to be bound by it.

WHI's officers, directors, and employees are required to obtain approval before engaging in securities transactions and may not participate in personal securities transactions ahead of a transaction in the same security for a WHI client account. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of WHI will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The Code of Ethics also prohibits use of "inside" information by and restricts certain outside business activities of WHI officers, directors and employees.

The Code of Ethics requires supervised persons to submit a quarterly securities transactions report and an annual securities holdings report for review. The CCO reviews these reports in order to identify any noncompliance with its policies and procedures.

WHI does not generally effect principal transactions for client accounts. However, if in the future WHI deems it to be in its clients' best interest, it would only effect principal transactions for client accounts with approval from the affected clients. Similarly, WHI will not effect securities trades between or among clients without pre-approval.

The Firm will provide a copy of its Code of Ethics to any existing or prospective client upon request to its General Counsel, Secretary, and Chief Compliance Officer, Marc Bassewitz, at (312) 621-0590.

## **Item 12 – Brokerage Practices**

WHI has entered into brokerage relationships with Pershing, L.L.C. ("Pershing"), Goldman, Sachs & Co. ("Goldman Sachs") and National Financial Services LLC, a Fidelity Investments company ("NFS"), to provide significant brokerage services to WHI clients. WHI places transactions with Pershing, Goldman Sachs or NFS as prime broker for execution as well as clearance and settlement or, if WHI prefers, WHI may execute through other brokers or dealers and instruct them to introduce the transaction to Pershing, Goldman Sachs or NFS for clearance.

Pershing, Goldman Sachs and NFS provide a range of securities trading, settlement, securities custody, and cash management services to many of the Firm's clients, including several of the Investment Funds.

WHI's overall objective in selecting brokers and dealers to effect securities transactions for clients is to seek the best combination of price and execution. The best net price, giving effect to brokerage commission, if any, is an important factor in this decision; however, a number of other judgmental factors may also enter into this decision. These factors include: WHI's knowledge of negotiated commission rates currently available and other current transaction costs; the nature of the security being purchased or sold; the size of the transaction; the desired timing of the transaction in the market for the particular security; confidentiality; and the execution, clearance and settlement capabilities of the broker or dealer selected and others considered. WHI also considers financial condition in the selection of a broker or dealer, as well as any actual or apparent operational problems experienced by the broker or dealer. Recognizing the value of these factors, WHI may cause a client to pay a brokerage commission in excess of that which another broker might have charged for effecting the same transaction or series of transactions.

#### Research Products and Services:

In keeping with its overall objective to obtain the best combination of price and execution, WHI seeks brokers or dealers who provide it with valuable research and market information. Where more than one broker is believed to be capable of providing the best combination of price and execution with respect to a particular portfolio transaction, WHI places importance on, and often selects a broker which provides it with, research reports; subscriptions to financial publications; compilations of securities prices, earnings, dividends and similar data; invitations to analyst research conferences; or the services of economic and other consultants. In recognition of these valuable research services offered by a broker, WHI may direct brokerage transactions to that broker, usually in connection with a particular research recommendation or report, even if the brokerage commissions are greater than those charged by other brokers for the same transaction.

The brokerage commissions used to acquire these services are known as "soft dollars." Section 28(e) of the Securities Exchange Act of 1934 (the "Exchange Act") and related SEC interpretive materials provide a "safe harbor" which allows WHI to pay for research and brokerage services with soft dollars generated by client account transactions. Section 28(e) permits WHI, under certain circumstances, to cause client accounts to pay brokers and dealers a commission for effecting portfolio transactions in excess of the commission another broker or dealer would have charged to effect such transactions.

Broker-dealers typically provide a bundle of services, including research and execution. The services provided can be either proprietary (created and provided by the broker-dealer, including

tangible research products as well as access to analysts and traders) or third-party (created by a third party but provided by the broker-dealer). WHI may use soft dollars to acquire either type. It is not generally possible to place a dollar value on the special executions or on the research services WHI receives from broker-dealers effecting transactions in portfolio securities. Accordingly, WHI may pay broker-dealers commissions for effecting clients' portfolio transactions in excess of amounts other broker-dealers would have charged for effecting similar transactions if WHI determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or WHI's overall duty to its discretionary accounts.

In determining whether a service or product qualifies as research or brokerage, WHI must evaluate whether the service or product provides lawful and appropriate assistance to it in carrying out its investment decision-making responsibilities. Brokerage and research services that may be provided under Section 28(e) include: (1) furnishing advice as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; (2) furnishing analyses and reports and sponsoring seminars or conferences concerning industries, issuers, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (3) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement, and custody). Examples of services which WHI may pay for with client commissions include certain market publications and commentaries, research and data reports, economic forecasts, and similar Section 28(e) permitted services.

The receipt of research in exchange for soft dollars benefits WHI by allowing WHI, at no cost to it, to supplement its own research and analysis activities. This creates a potential conflict of interest which WHI recognizes. WHI limits its use of soft dollars to only those services which are within the safe harbor. Moreover, any research services received by WHI are in addition to, and not in lieu of, services required to be performed by WHI under its investment management agreements.

WHI will not enter into any agreement or understanding with any broker-dealer which would obligate WHI to direct a specific amount of brokerage transactions or commissions in return for such services. However, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain services and the applicable cash equivalent. For example, WHI may request a broker to provide research produced by the broker or third party and the broker providing the service will advise WHI of the amount of brokerage commissions it expects to receive to cover the cost of the product or service. WHI will then decide whether it is worthwhile to direct sufficient commissions to the broker to ensure the receipt or continued use of research products, services or recommendations. In making this decision, WHI analyzes whether the commissions paid are reasonable in relation to the value of the brokerage services

and/or research services received, viewed in terms of a particular transaction or WHI's overall duty to its discretionary accounts.

As a general matter, brokerage and research services are used to service all of WHI's discretionary accounts. However, each brokerage or research service may not be used for the benefit of every account managed by WHI, and brokerage commissions paid by one account may be used to pay for brokerage and research services that may not be used to service that account. WHI does not usually attempt to allocate the relative costs or benefits of research among client accounts because it believes that, in aggregate, the research it receives benefits clients and assists WHI in fulfilling its overall duty to its clients.

#### Qualified Pension Plans and IRAs:

WHI may manage accounts for individual retirement accounts and qualified benefit plans established for clients. Those plans are subject to the fiduciary requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). Under ERISA, a fiduciary dealing with assets of a plan may not receive consideration for its own account in a transaction involving plan assets, including investment research, except pursuant to the exemption provided by Section 28(e) of the Exchange Act. WHI may execute portfolio transactions for ERISA plan accounts with brokers providing soft dollar research and services; however, such commissions are not used to purchase non-research products or services for ERISA plan accounts. Under Section 28(e), WHI must make a reasonable and good faith determination that the commissions paid are commensurate with the value of the brokerage and research services received. Research services obtained in this fashion may also benefit other WHI clients who may not necessarily be the same clients who generated the soft-dollar credits through their brokerage transactions. For more details about WHI's soft-dollar practices, see "Research Products and Services" above.

#### Bunched Transactions:

As indicated below, WHI places orders simultaneously for multiple client accounts in the same security with the same broker. Those orders are bunched and executed at an average daily price determined by the broker. The transactions are then generally allocated by WHI to each account pursuant to the pre-determined order allocation system described in WHI's Supervisory Procedures Manual. In some instances, WHI may place a number of bunched orders for the same security on the same day, in which case orders executed at different prices may be equitably allocated in discrete lots in accordance with the allocation system described in WHI's Supervisory Procedures Manual.

### Client-Directed Brokerage Transactions:

A client may occasionally direct WHI to use a particular broker-dealer, or broker-dealers, to execute portfolio transactions for his/her account. Where a client directs the use of a particular broker-dealer or broker-dealers, WHI may not be in a position where it can freely negotiate commission rates or spreads, or select broker-dealers on the basis of best price and execution. Additionally, transactions for a client who directs brokerage may not be combined or "bunched" for execution purposes with orders for the same securities for other accounts managed by WHI. As a result, directed brokerage transactions may result in higher commissions, greater spreads, or less favorable net prices than would be the case if WHI were authorized to select brokers and dealers to execute transactions for the client's account.

### **Item 13 – Review of Accounts**

WHI's Asset Allocation Committee, comprised of members of WHI's senior management team, is primarily responsible for review of client transactions and positions. The Asset Allocation Committee meets quarterly to discuss asset allocation and semi-annually sets recommended targets for client accounts with respect to which WHI has discretionary authority. Following each quarterly meeting, certain WHI executives and employees, including some members of the Asset Allocation Committee, meet to review each such client account and determine what, if any, purchases and sales will be made in the account in light of the recommended asset allocation, client needs and available resources. Advisory accounts are also reviewed on an ongoing basis for performance, duration of investment, comparison with broad market indicia such as market indices or composites, and quality of portfolio execution. Client accounts over which WHI does not have discretionary authority are reviewed by the appropriate account executive. Accounts of clients that are investment funds managed by WHI are reviewed by the applicable portfolio manager(s) for performance and adherence to investment objectives.

WHI furnishes quarterly written reports to clients whose assets are managed on a discretionary basis showing all investment positions and the value of the client's account at the end of the quarter and all funds held for the client and cash transactions in the account during the quarter. These clients also receive written reports directly from qualified custodians (e.g., banks, brokerages) on at least a quarterly basis showing cash/investment positions, value and transactions in the client's account or in a WHI agency account (see "Cash Management Services" in Item 5 above). These clients are urged to carefully review reports received from qualified custodians and to compare those reports with reports received from WHI.

#### **Item 14 – Client Referrals and Other Compensation**

WHI does not currently have any client referral arrangements and is not provided any other compensation in connection with attracting and retaining clients that is not described in this Brochure. Additionally, WHI does not use third-party marketers to assist in its fundraising efforts.

#### **Item 15 – Custody**

WHI is considered to have custody of client funds and securities, even where it does not have physical custody of the assets, because of its ability to effect transactions in and deduct fees from client accounts. WHI uses various prime brokers, executing broker-dealers, banks and other qualified custodians to hold client cash and securities, as required by the custody rules. Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the client's investment assets. WHI urges clients to carefully review these statements and compare them to the account statements provided by WHI. WHI's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### **Item 16 – Investment Discretion**

Where a client grants investment discretion to WHI pursuant to an investment management agreement, WHI has authority to supervise and direct investments for the client's account without prior consultation with the client. Pursuant to this discretionary authority, WHI normally determines which securities or other assets are bought or sold for the account, the total amount of such purchases and sales, the brokers or dealers through which transactions will be effected, and the commission rates, if any, paid to effect the transactions. WHI's authority to trade securities may also be limited by certain federal securities and tax laws and regulations that require diversification of investments and favor the holding of investments once made.

Occasionally, WHI's authority may be limited or made subject to conditions imposed in writing by the client (e.g., where the client restricts or prohibits purchases or sales of certain securities or types of securities). Where a client does not grant to WHI investment discretion, WHI makes investment recommendations to the client as to which securities are to be purchased or sold, and the amounts to be purchased or sold. Upon approving the recommended transactions, the client may request that WHI direct the execution of purchase or sale orders to implement the recommended transactions for the client's account. In these instances, WHI may have authority to determine the brokers or dealers through which the transactions will be executed and the commission rates, if any, paid to effect the transactions.

### **Item 17 – Voting Client Securities**

WHI's proxy voting policy is based on the principle that all proxies are voted in the best long-term economic interest of the client, unless a client informs WHI that he/she wants to vote proxies himself/herself. WHI's voting policies are set forth in WHI's Supervisory Procedures Manual. For each proxy, WHI maintains all related records as required by applicable law. A client who delegates voting authority to WHI may obtain a copy of the Supervisory Procedures Manual, or a copy of the specific voting record for his or her account(s), by contacting WHI at (312) 621-0590.

### **Item 18 – Financial Information**

As a registered investment adviser, WHI is required in this Item to provide certain disclosures about its financial condition. WHI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.