

# FMSI

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## *Advisers*

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OCTOBER 31, 2013

This Brochure provides information about the qualifications and business practices of First Midwest Securities, Inc. which conducts its investment advisory activities as FMSI Advisers. If you have any questions about this Brochure, please contact Marion A. Kashan, Chief Compliance Officer via email at [mkashan@myFMSI.com](mailto:mkashan@myFMSI.com) or Jason Rives, Deputy Chief Compliance Officer via email at [jrives@myFMSI.com](mailto:jrives@myFMSI.com) or at (309) 820-7444.

FMSI Advisers is registered with the U.S. Securities and Exchange Commission (SEC) as a registered investment adviser and has also notice filed in various states in which services are offered. Registration of an Investment Adviser or its Investment Advisor Representatives does not imply any level of skill or training. The oral and written communications of an Adviser provides you with information to help you determine whether or not to hire or continue to retain an Adviser.

Additional information about FMSI Advisers, CRD Number 21786, is also available on the U.S. Securities and Exchange Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

<p><i>The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission or any state securities authority.</i></p>
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## ITEM 2 – MATERIAL CHANGES

This Brochure dated October 31, 2013 is amended and prepared pursuant to the SEC's requirements and rules effective July 28, 2010. This Brochure contains material changes in content from our previous disclosure document dated July 5, 2013 and provides new updated information in plain simple English.

- Item #13 – Quality of Executions has been added to disclose our best execution practices.
- Item #21 – Conflicts of Interest: Language has been removed regarding Principal Transactions as FMSI-IA no longer effects transactions in a principal capacity.
- Item #25 – Customer Information Protection (CIP) added to the Brochure.
- Item #27 – FMSI Advisers Identity Theft Program was adopted by the Board of Directors on October 7, 2013. These Procedures have been added to this Brochure.
- Item #28 – Securities Investor Protection Corporation information has been added to the Brochure.
- Item #29 – Privacy Policy has been updated as of August 2013.

This Brochure is required to be delivered to you 48 hours before or at the time you hire us, as well as offered OR delivered to our existing clients on an annual basis, but not later than 120 days after the close of our fiscal year-end.

When there are material changes in our business activities or key personnel, this Brochure will be updated and automatically delivered to you; if there are only minor changes and no material changes to this Brochure, we will offer it to you annually. The annual offer or delivery upon your request is free of charge.

If you misplace this Brochure, contact us at (309) 820-7444 and another will be provided at no cost. In addition to our Brochure posting on the SEC's website, clients may also retrieve a copy of our Brochure from our website at <http://www.myFMSI.com/legal.html>

Additional information about FMSI Advisers and persons affiliated with the Firm is available on the SEC's website – [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## ITEM 4 – ADVISORY BUSINESS

FMSI Advisers (FMSI-IA) registered with the SEC in 2011 and notice files with various state jurisdictions where it conducts its business activities as a registered investment adviser.

The principal shareholder and a privately held subsidiary controlling 75% or more of FMSI-IA is The Investment Company, Inc., a holding corporation. The Firm is privately owned by both current and past members of senior staff.

FMSI-IA offers the following advisory services:

- Investment Supervisory Services (ISS) Individual Portfolio Management
- Manager of Managers Program Model Portfolio Management
- Manager Selection Programs Model Portfolio Management
- Financial Planning
- Advisory Referral Services

Information about these services and programs are listed below and are also disclosed in each adviser's brochure or other disclosure document – similar to this Brochure.

You should review the adviser's brochure or other disclosure document for a full description of the available programs, services offered, and the fees charged for those services before signing any paperwork or contractual agreements. The Investment Advisor Representative (IAR) is always available to meet with you to review the account on a regular basis, or as needed by you.

Neither FMSI-IA nor its IARs have custody of your funds or securities. Your funds and securities are carried with and held by a qualified custodian at all times and is discussed more fully under Item 16 – Custody.

All investments involve some degree of risk, some more than others. Keeping that in mind, recommendations will only be provided that are suitable based on the information you provide us which includes, but is not limited to your investment objective, risk tolerance, time horizon, and liquidity needs.

It is imperative that you define and understand your risk tolerance as well as your ability to handle decreases in an investment's or an account's value. The use of Margin or Options will also increase the level of market risk to your account.

### Investment Supervisory Services (ISS) - Individual Portfolio Management

We provide continuous advice to you regarding the investment of funds based on your individual needs. Through personal discussions, we help you define your Investment Profile which includes your goals, investment objectives, risk tolerance, and time horizon and other qualifiers based on your personal circumstances and experience. From your Investment Profile, we create and manage your account. In addition to our data gathering process, we also review and discuss your prior investment history, family composition, and other variables to help determine and define your current needs and objectives, as well as future needs and objectives for the managed account(s).

You determine how your accounts will be managed. You can grant us discretionary or non-discretionary authority. When you grant us discretion, we do not consult with you prior to making investment decisions or necessary changes on behalf of the managed account; if the account is managed on a non-discretionary basis, we consult with you to obtain your authorization prior to implementing investment decisions.

When we supervise the account's performance, we are guided by the Investment Objective selected by you, which can be preservation of capital, income, growth and income, growth, aggressive growth, as well as tax considerations that you tell us about.

You may also request reasonable restrictions you might want or need such as investing in certain securities, types of securities, or industry sectors. If we believe we can reasonably monitor these restrictions, we will implement them on the account. In some cases, we may not be able to implement a requested restriction, but we might mutually find alternatives that serve your needs.

Our investment recommendations and strategies are not limited to any specific product or service and will generally include advice regarding the following types of securities or products:

- Exchange-listed securities
- Securities traded over-the-counter
- Warrants
- Fixed Income securities
- Corporate debt securities (other than commercial paper)
- Certificates of Deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Interests in partnerships investing in real estate\*
- Interests in partnerships investing in oil and gas interests\*

\*While advice may be provided on interests in partnerships investing in real estate or oil and gas programs, these products require a more in-depth review to determine if they are suitable for custody and investment management in a managed account. At our sole discretion, we will conduct suitability reviews to determine accredited investor status, the date of purchase, program term, portfolio diversification and other investment objectives of the account before these investment types can be approved for purchase or custody in a managed account.

IARs are also Registered Representatives (RR) of First Midwest Securities, Inc. (FMSI), the affiliated broker-dealer of FMSI-IA. RRs may only sell products that are approved by First Midwest Securities, Inc. These same individuals may also be licensed Life Agents with First Midwest Insurance Services, Inc. (FMIS), the affiliated life insurance agency of FMSI-IA. Life Agents may only sell issuer products that are available under an active selling agreement and

active Life Agent appointment. This presents a conflict of interest and is more fully explained in Item 21 – Conflicts of Interest.

#### Manager of Managers Program – Model Portfolio Management

We offer investment advisory management services through our Manager of Managers Program where we conduct manager searches of unaffiliated registered investment advisers who provide an asset allocation strategy that is based on your individual needs, goals, objectives and particular circumstances. This asset allocation strategy is created from your Investment Profile. Under this program, you give us discretion to hire or terminate the asset manager or managers and/or to move your account to a different program.

Using your Investment Profile, we determine which registered investment advisers' (adviser or asset manager) portfolio management style is appropriate for you. Other factors that we consider in making this determination and recommendation include the account size, experience, and the investment philosophy of the selected asset manager, and your opinions and experiences.

After the most appropriate asset manager(s) are identified and you decide to engage a specific asset manager, we will provide your selected manager(s) with your application containing your Investment Profile and required signature(s). The asset manager will review, create, and manage your portfolio based on the Investment Profile.

On an ongoing basis, we will monitor the performance of the asset manager(s). If we determine that a particular asset manager is not providing sufficient management services to you, or is not managing your portfolio in a manner consistent with your Investment Profile, under the discretion granted to us, we may move your portfolio to a different asset manager and/or program sponsor. In some cases, this may trigger a taxable event.

At least annually and more frequently if desired by you, your IAR will meet with you to review and update the account's Investment Profile information. If there are any material changes in your personal and/or financial situation before or after the annual meeting, you should notify your IAR or FMSI-IA immediately to determine whether a review and/or revision of the Investment Profile is necessary.

#### Manager Selection Programs – Model Portfolio Management

We also offer advisory management services through the Manager Selection Programs (Programs). Through personal discussions with you regarding your goals, investment objectives, risk tolerance and your particular circumstances, we will develop your asset allocation strategy. This asset allocation strategy is created from your Investment Profile.

Based on the Investment Profile, we will then perform management searches of unaffiliated registered investment advisers to identify which portfolio management style is appropriate for you. Other factors that we consider in making this determination and recommendation include the account size, experience, and the investment philosophy of the selected asset manager, and your opinions and preferences.

Once we determine the most suitable investment adviser's portfolio management style for you, we will provide the selected adviser with your application containing your Investment Profile

and required signature(s). The adviser will create and manage your portfolio based on your individual needs and the Investment Profile.

We will monitor the performance of the selected adviser(s). If we determine that a particular selected adviser is not providing sufficient management services to you, or is not managing your portfolio in a manner consistent with the Investment Profile, we may suggest that you contract with a different adviser and/or program sponsor.

Under this scenario, we will assist you in selecting an adviser and/or program; however, any move to a new adviser and/or program is solely at your discretion. In some cases, this may trigger a taxable event and you are encouraged to consult with your tax advisor before making a change.

### Financial Planning

Financial Planning is a comprehensive evaluation of your current and future financial status and utilizes current known variables to predict future cash flows, asset values, and withdrawal plans. Through the financial planning process, all questions, information and analyses are considered as they impact and are impacted by your entire financial and life situation. When you purchase this service, your IAR develops and delivers a written report which provides a detailed financial plan designed to assist you in achieving your financial goals and objectives.

Not every IAR offers financial planning services; however, if you are already working with a financial planner, your IAR should be a part of your valued financial team and work with your financial planner and tax advisor. In general, based on your needs and budget, the financial plan can address one, a combination of, or all of the following areas:

- *Personal*: We review family financial records, budgeting, personal liability, estate information and financial goals.
- *Tax & Cash Flow*: We analyze your income tax, spending patterns, and planning for past, current and future years; then we illustrate the impact of various investments on your current income tax and future tax liability.
- *Investments*: We analyze investment alternatives and their effect on your portfolio.
- *Insurance/Capital Needs Analysis*: We review existing policies to determine proper coverage for life, health, disability, long-term care, liability, home and automobile.
- *Retirement*: We analyze current strategies and investment plans to you achieve your retirement goals.
- *Death & Disability*: We review your cash needs at death, income needs of surviving dependents, estate planning and disability income.
- *Estate*: We will assist you in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review of estate tax, powers of attorney, asset protection plans, nursing homes, Medicaid and elder law.

Your IAR will gather required information through in-depth personal interviews with you. The information gathered may include, and is not limited to the current financial status, tax status, future goals, return objectives, and your attitude towards risk. Your IAR carefully reviews documents you supply, including a questionnaire that is completed by you. Your IAR then prepares a written report – the Financial Plan.

IARs may also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning. Neither FMSI-IA nor IARs provide tax and/or legal advice or services. We believe it is important that your professionals – IAR/Adviser, Tax Advisor or CPA, and Attorney work in concert to maximize your wealth potential and minimize the liabilities to the best interests and benefits available to you.

Typically your IAR will deliver your Financial Plan within six (6) months from the contract date, provided that all information needed to prepare the Financial Plan has been promptly provided.

While Financial Planning recommendations are not limited to a specific product or service, all recommendations are of a generic nature. If you elect to implement the Financial Plan through your IAR – your IAR who is also a RR of FMSI will research and recommend specific products that are outlined in the Financial Plan. Your IAR, in their capacity as an RR, will affect the buy (purchase) transactions for the products recommended in the Financial Plan and receive normal and customary compensation in the form of “commission income.” The same is applicable for an IAR who may also be a licensed Life Agent and affects the buy (purchase) transaction for fixed insurance product recommendations. This presents a conflict of interest and is more fully explained in Item 21 – Conflicts of Interest.

#### Advisory Referral Services

FMSI-IA and its IARs also act as a solicitor on behalf of unaffiliated registered investment advisers. During the consultation with you, factors that IARs rely upon in order to recommend an investment advisers’ portfolio management service or program that is suitable includes, but is not limited to your individual circumstances and needs, investment objective, account size, risk tolerance, and investment experience.

As a solicitor IARs meet with you on a regular basis or as determined by you to review the account. When necessary, your IAR may suggest rebalancing of the portfolio to more effectively address your stated goals. You may then direct the adviser to make any or all of the recommended changes.

The recommendations suggested by FMSI-IA IARs are their own, and are neither recommended nor approved by any unaffiliated registered investment advisers.

At the time of conducting advisory solicitation activities, FMSI-IA will ensure that all federal and/or state specific requirements governing solicitation activities are met and comply with the Investment Advisers Act of 1940 (Advisers Act), Rule 206(4)-3 – Cash Payment for Client Solicitations.

#### Amount of Managed Assets

As of December 31, 2012, FMSI-IA was actively managing \$108,577,206.00 of client assets on a discretionary basis, and \$52,383,514.00 of client assets on a non-discretionary basis.

Additionally, FMSI-IA has active agreements with the following unaffiliated registered investment advisers:

- BTS Asset Management
- Niemann Capital Management
- Manning & Napier
- Foxhall Capital Management
- Schreiner Capital Management
- Lockwood Advisors
- Donaldson Capital Management
- SFE Investment Counsel, Inc.



## ITEM 5 – FEES AND COMPENSATION

### Investment Supervisory Services (ISS) - Individual Portfolio Management

The annual fee for ISS Individual Portfolio Management is based upon and charged as a percentage of assets under management and range from 0.50% to 3.00%.

<u>Assets Under Management</u>	<u>Annual Percentage Fee</u>	
	<u>Discretionary</u>	<u>Non-Discretionary</u>
\$0.00 - \$250,000.00	3.00	2.50
\$250,000.01 - \$500,000.00	2.50	2.00
\$500,000.01 - \$750,000.00	2.00	1.50
\$750,000.00 - \$1,000,000.00	1.50	1.00
\$1,000,000.01 and over	1.00	0.50

### Investment Supervisory Services (ISS) - Model Portfolio Management (Manager of Managers Program and Manager Selection Programs)

The annual fee for ISS Model Portfolio Management is based upon and charged as a percentage of assets under management and range from 0.50% to 3.00%.

<u>Assets Under Management</u>	<u>Annual Percentage Fee</u>	
	<u>Discretionary</u>	<u>Non-Discretionary</u>
\$0.00 - \$250,000.00	3.00	2.50
\$250,000.01 - \$500,000.00	2.50	2.00
\$500,000.01 - \$750,000.00	2.00	1.50
\$750,000.00 - \$1,000,000.00	1.50	1.00
\$1,000,000.01 and over	1.00	0.50

Both the ISS Individual and Model Portfolio Management services require a minimum primary account size of \$25,000.00 of assets under management. The minimum account size may be negotiable under certain circumstances where FMSI-IA, in its sole discretion, may accept related accounts not meeting the minimum account size if investment management services are in the best interests of the client.

*Note:* Computed annual fees are based on investment amounts and fee schedules. Actual bill amounts may vary if multiple accounts are linked to achieve higher billing breakpoints. Annual minimum fees may increase the basis point charge.

*Limited Negotiability of Advisory Fees:* FMSI-IA retains the discretion to accept your accounts and to also negotiate alternative fees on a client-by-client basis. Your facts, circumstances, and needs are considered in determining a negotiated fee schedule. Factors considered include the complexity of your accounts, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, and other factors. The specific annual fee schedule is identified in the agreement between your IAR/Adviser and you.

At our sole discretion, we may offer discounts to family members and friends of associated persons of FMSI or FMSI-IA that are not available to our retail customers.

*Automatic Account Fee Debiting:* The annual fee assessed on your managed account is automatically debited by and paid to FMSI-IA by the qualified custodian. The fee debited will be shown on your brokerage and/or managed account statements. The calculation of the annual fee will be shown on your FMSI-IA quarterly performance report.

#### Fee Calculation

The annual fee paid each quarter is calculated in advance or arrears as follows:

*Account Value X Annual Percentage Fee ÷ by total annual calendar days X actual calendar days in the quarter*

*EXAMPLE = \$25,000 X 1.50% ÷ 365 X 90 = Quarterly Fee*

#### Financial Planning

Financial planning fees are based on the nature of the services provided and the complexity of your circumstances. All fees are agreed upon prior to entering into an agreement.

#### Hourly Fees

Financial planning fees may be billed on an hourly basis, ranging from \$100.00 to \$300.00 per hour. The length of time it may take to prepare a Plan will depend on your personal situation. However, under no circumstances does FMSI-IA require or solicit payment of fees in excess of \$1,200.00 more than six (6) months in advance of services rendered. Your IAR will provide an estimate for the total hours at the start of the advisory relationship. You will be billed quarterly in arrears based on actual hours accrued.

#### Fixed Fees

IARs may also charge a fixed fee for account management, if it is determined to be in your best interest and it does not exceed the annual percentage fee for the assets under management range.

Financial planning fees may be billed on a fixed fee basis, ranging from \$300.00 to \$1,500.00 per Plan. Both the Planner and you will agree upon a specific price at the time of entering into an agreement.

Generally, a retainer may be payable upon completion of the initial fact-finding meeting with you; however, advance payment will never exceed \$1,200.00 for work that will not be completed within six months. The balance of the agreed upon fee is due upon completion and at delivery of your Plan.

*Financial Planning Fee Offset:* FMSI-IA reserves the discretion to reduce or waive the hourly fee and/or the minimum fixed fee if a financial planning client chooses to engage us for Portfolio Management Services.

### **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

FMSI-IA may enter into a performance fee arrangement with certain sophisticated clients who have the capacity to bear the additional risks associated with this arrangement. Performance-based fees are defined as fees based on a share of capital gains or capital appreciation of the assets of a client portfolio and are measured against a specific index or watermark

(performance exceeding a starting balance). Separate disclosure and contracts are utilized for “qualified clients” who participate in a performance-based fee arrangement.

Pursuant to paragraph (d) of Rule 205-3 of the Advisers Act, a qualified client, desiring to participate in a performance-based fee must meet the \$1 million in managed assets and \$2 million net worth (excluding the primary residence value and amount of secured debts) tests of the Rule.

## ITEM 7 – TYPES OF CLIENTS

FMSI-IA through our IARs provide investment advisory services to:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above, and
- State or municipal government entities.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

FMSI-IA and our IARs utilize one or a combination of the following methods of analysis in formulating investment advice and/or managing your assets:

Capital Asset Pricing Model (“CAPM”). A model that describes the relationship between risk and expected return and that is used in the pricing of risky securities. The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the risk-free (rf) rate in the formula and compensates the investors for placing money in any investment over a period of time. The other half of the formula represents risk and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market over a period of time and to the market premium ( $R_m - r_f$ ). The CAPM says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. If this expected return does not meet or beat the required return, then the investment should not be undertaken. The security market line plots the results of the CAPM for all different risks (betas).

Using the CAPM model and the following assumptions, we can compute the expected return of a stock in this CAPM example: if the risk-free rate is 3%, the beta (risk measure) of the stock is 2 and the expected market return over the period is 10%, the stock is expected to return 17% ( $3\% + 2(10\% - 3\%)$ ).

Discounted Cash Flow. In finance, discounted cash flow (DCF) analysis is a method of valuing a project, company, or asset using the concepts of the time value of money. All future cash flows are estimated and discounted to give their present values (PVs) — the sum of all future cash flows, both incoming and outgoing, is the net present value (NPV), which is taken as the value or price of the cash flows in question.

Using DCF analysis to compute the NPV takes as input cash flows and a discount rate and gives as output a price; the opposite process — taking cash flows and a price and inferring a discount rate, is called the yield.

Discounted cash flow analysis is widely used in investment finance, real estate development, and corporate financial management.

*Charting Analysis.* We utilize charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long a trend may last and when the trend might reverse.

*Fundamental Analysis.* We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be the time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating a stock.

*Technical Analysis.* We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company which presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

*Cyclical Analysis.* In this type of analysis, we measure the movements of a particular stock against the overall market in an attempt to predict the price movement of the security.

*Quantitative Analysis.* We use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data. A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

*Qualitative Analysis.* We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement and predict changes to share price based on that data. A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

*Asset Allocation.* Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to your investment goals and risk tolerance. A risk of asset allocation is that you might not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for your goals.

*Mutual Fund and/or Exchange-Traded Fund (ETF) Analysis.* We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic

conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in other fund(s) in your portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy. A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by you may purchase the same security, increasing the risk to you if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for your portfolio.

*Third-Party Money Manager (TPM) Analysis.* We examine the experience, expertise, investment philosophies, and past performance of unaffiliated TPMs in an attempt to determine if the TPM has demonstrated an ability to invest over a period of time and in different economic conditions. We monitor the TPM's underlying holdings, strategies, concentrations and leverage as part of our overall periodic risk assessment. Additionally, as part of our due-diligence process, we survey the TPM's compliance and business enterprise risks. A risk of investing with a TPM who has been successful in the past is that the TPMs may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a TPM's portfolio, there is also a risk that a TPM may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for our clients. Moreover, as we do not control the TPM's daily business and compliance operations, we may be unaware of the lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

*Risks for all forms of analysis.* Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

### *Investment Strategies*

We use the following strategy(ies) in managing your accounts, provided that such strategy(ies) are appropriate to your needs and are consistent with your investment objectives, risk tolerance, and time horizon among other considerations:

*Long-Term Purchases.* We purchase securities with the idea of holding them in your account for a year or longer. Typically we employ this strategy when:

- We believe the securities are currently undervalued, and/or
- We want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable. Moreover, if our

predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Short-Term Purchases.** When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time period (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase. A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

**Trading.** We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

**Short Sales.** We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares at a future date and at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, your account realizes the profit.

**Margin Transactions.** We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings. It is important that you fully read and understand the risks involved in trading securities on margin before signing a Margin application or effecting a margin transaction. The use of margin carries a high level of risk and is not suitable for all investors. *You can lose more funds than deposited in a margin account. A decline in the securities value purchased on margin may require you to deposit additional funds to avoid a forced sale of the securities in your account.*

**Option Writing.** We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset. The two types of options are Calls and Puts:

- A Call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a Call if we have determined that the stock will increase substantially before the option expires.
- A Put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a Put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing or to hedge a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We use covered calls, in which we sell an option on a security the account owns – is long the security. In this strategy, you receive income for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We use a spreading strategy, in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

The use of Option Writing carries a high level of risk and is not suitable for all investors. Certain requirements must be met to trade options. You should read and understand the Options Disclosure Document before executing an Options application or effecting an options transaction.

*Risk of Loss.* Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help us understand your tolerance for risk. Defining and understanding your risk tolerance is essential if you wish to utilize Margin and/or Option Writing, which individually or combined, increases the account's market level of risk.

## ITEM 9 – DISCIPLINARY INFORMATION

In June 2012, First Midwest Securities, Inc., without admitting or denying the findings, executed an Acceptance Waiver and Consent (AWC) and was fined \$75,000 for failing to establish and maintain a supervisory system and ensure supervisory procedures reasonably designed to review the suitability of equity transactions and to detect and prevent excessive trading. The Firm did not utilize exception reports but instead used manual reviews to identify turnover and commission to equity ratio in customer accounts. The manual reviews did not address cost to equity ratios in accounts. The transactions in question were not related to investment advisory activities. The Firm implemented corrective action and complied with all requirements of the AWC. The transactions in question were not related to investment advisory accounts.

In September 2011, First Midwest Securities, Inc., without admitting or denying the findings, executed an Acceptance Waiver and Consent (AWC) and was fined \$150,000 for handling fee violations of which \$10,000 pertained to 5 municipal bond trades for markups/markdowns and procedures and ordered to pay \$1,121 plus interest in restitution to affected clients. The Firm implemented corrective action and complied with all requirements within 90 days of the acceptance of the AWC. The transactions in question were not related to investment advisory accounts.

In December 2011, First Midwest Securities, Inc. without admitting or denying the findings, executed an Acceptance Waiver and Consent (AWC) and was fined \$5,000 for failing to report to TRACE 89 S1 transactions within 15 minutes of the time of execution. The transactions in question were not related to investment advisory accounts.

In January 2010, First Midwest Securities, Inc., without admitting or denying the findings, was fined \$10,000.00 and required to pay \$1,320.57 plus interest, in restitution to parties that were involved in certain corporate bond transactions for which the Firm did not have a reasonable supervisory system in place to ensure the clients received fair prices. First Midwest Securities, Inc. has updated its' procedures to ensure customers receive fair prices on corporate bond transactions. The transactions in question were not related to investment advisory accounts.

In September 2008, First Midwest Securities, Inc., without admitting or denying the findings, was fined \$100,000.00 by the Pennsylvania Securities Commission for failure to reasonably supervise two agents in violation of the Pennsylvania Securities Act of 1972. First Midwest Securities, Inc. has since updated its' procedures to ensure reasonable supervision of agents. The two agents and the activities in question were not related to investment advisory accounts.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A list of our affiliated entities, including our broker-dealer, FMSI, is specifically disclosed in Section 7.A. on Schedule D of Form ADV Part 1, which can be accessed by following the directions provided on the cover page of this Brochure.

Most of our management personnel and associated persons (except for clerical personnel) are also:

- Registered Representatives with our affiliated broker-dealer; and/or
- Licensed Life Agents of our affiliated entity and/or an unaffiliated insurance agency; and/or Management personnel, through the holding corporation, own and operate the affiliated broker-dealer and affiliated insurance agency.

In addition to investment advisory services, financial planning services, and offering the services (solicitor) of a third-party money manager in our capacity as a registered investment adviser, FMSI-IA's affiliated entities include its parent company, The Investment Company, Inc., a holding corporation; First Midwest Securities, Inc., a FINRA-member registered broker-dealer, and First Midwest Insurance Services, Inc., an insurance agency registered with the Illinois Department of Insurance. These entities, other than the parent company, are actively engaged in securities and mutual fund transactions, and variable, health, long-term care, and fixed insurance products, respectively.

The principal executive officers of FMSI are responsible for managing the holding corporation, the broker-dealer and insurance agency and may spend a majority of their time engaged in these other related business activities.

## ITEM 11 – CODE OF ETHICS

Rule 204A-1 of the Advisers Act requires all investment advisers registered with the SEC to adopt codes of ethics that set forth standards of conduct and require compliance with federal securities laws. FMSI-IA has adopted and implemented a Code of Ethics (Code) which sets forth high ethical standards of business conduct, including compliance with applicable federal securities laws, required of all of its associated persons. A full and complete copy of our Code is



available on our website at [www.myFMSI.com](http://www.myFMSI.com) or you may contact us at (309) 820-7444 and a copy will be provided to you at no cost.

The Code's intent is to reflect the fiduciary principles that govern our conduct Firm-wide in providing investment advice to advisory clients. The Code consists of an outline of policies regarding several key areas identified below as well as published in the FMSI-IA Compliance Manual and is part of the investment adviser compliance program.

This Code applies to all Supervised Persons of FMSI-IA. The Advisers Act defines Supervised Person to mean any partner, officer, director (or other person occupying a similar status or performing similar functions), or employee of an investment adviser, or other person who provides investment advice on behalf of the investment adviser and is subject to the supervision and control of the investment adviser. Key elements of our Code include:

- Standards of Conduct and Compliance with Laws, Rules and Regulations
- Protection of Material Nonpublic Information
- Personal Securities Trading and Access Persons
- Consequences for failure to Comply with Reporting Certain Conduct
- Recordkeeping.

FMSI-IA and our Supervised Persons owe a duty of loyalty, fairness and good faith towards you, our clients, and have an obligation to adhere not only to the specific provisions of the Code but to the general principals and spirit that guide the Code. Violations of our Code by any Supervised Person will be dealt with quickly and accordingly with respect to the violation, which may be as minor as a documented reprimand or as severe as termination for cause with a regulatory reporting disclosure, depending upon the violation.

Below are some of our expectations of conduct required by Supervised Persons:

- To always place your interests before and above their own.
- To always deal with you from an integrity-based perspective.
- To safeguard your personal nonpublic information with the greatest respect and confidentiality.
- To not trade personal accounts in any manner that would knowingly disadvantage your accounts.
- To hold ourselves and our associates responsible and accountable for knowing and abiding by our Code.
- To uphold our public reputation so you can be proud to have a relationship with us.

## ITEM 12 – BROKERAGE PRACTICES

FMSI-IA requires that you provide us with written authority to determine the broker-dealer to use and the commission costs that will be charged to you for these directed brokerage transactions. You must include any limitations on the written discretionary authority. You may change or amend these limitations as required by providing us written notice.

FMSI-IA will initiate block trades where possible and when advantageous to you. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple

client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block.

Block trading may allow us to execute equity trades in a timely, more equitable manner, at an average share price. FMSI-IA will typically aggregate trades among clients whose accounts can be traded at a given broker, and generally will rotate or vary the order of brokers through which it places trades for clients on any particular day. FMSI-IA's block trading policy and procedures are as follows:

- 1) Transactions for your account may not be aggregated for execution if the practice is prohibited by or inconsistent with your advisory agreement or our Firm's order allocation policy.
- 2) The portfolio manager must determine that the purchase or sale of the particular security involved is appropriate for you and consistent with your investment objective and with any investment guidelines or restrictions applicable to your account.
- 3) The portfolio manager must reasonably believe that the order aggregation will benefit, and will enable FMSI-IA to seek best execution for each client participating in the aggregated order. This requires a good faith judgment at the time the order is placed for execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a 20-20 hindsight perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price; which may not always be achieved.
- 4) Prior to entry of an aggregated order, an order record must be completed which identifies each client account participating in the order and the proposed allocation of the order upon completion to those clients.
- 5) If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial order record of allocation. However, adjustments to this pro rata allocation may be made to participating client accounts in accordance with the initial order record of allocation. Furthermore, adjustments to this pro rata allocation may be made to avoid having odd amounts of securities held in any client account, or to avoid excessive ticket charges in smaller accounts.
- 6) Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of securities traded for each client.
- 7) If the order will be allocated in a manner other than that stated in the initial statement of allocation, a written explanation of the change must be provided to and approved by FMSI-IA's Chief Compliance Officer no later than the morning following the execution of the aggregate trade.

- 8) FMSI's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- 9) Funds and securities for aggregated orders are clearly identified on FMSI's records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.
- 10) No client or account will be favored over another. FMSI participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., (TD Ameritrade), an unaffiliated SEC-registered broker-dealer and FINRA and SIPC member. TD Ameritrade offers services to independent investment advisers which include custody of securities, trade execution, clearance and settlement of transactions. FMSI-IA receives soft-dollar benefits from TD Ameritrade through our participation in the program.

FMSI-IA participates in TD Ameritrade's Institutional Customer Program and we may recommend TD Ameritrade to our clients for custody and brokerage services. There is no direct link between our Firm's participation in the program and the investment advice we give to our clients, although we receive economic benefits through our participation in the program that are typically not available to TD Ameritrade retail investors.

These benefits include the following products and services (provided without cost or at a discount): duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving adviser participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain Institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to FMSI-IA by third party vendors. TD Ameritrade may also pay for business consulting and professional services received by FMSI-IA's related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for FMSI-IA's personnel to attend conferences or meetings relating to the program or to TD Ameritrade's adviser custody and brokerage services generally.

Some of the products and services made available by TD Ameritrade through the program may benefit FMSI-IA, but may not benefit our client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits received by FMSI-IA through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

You should be aware, however, that the receipt of economic benefits by FMSI or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our recommendation of TD Ameritrade for custody and brokerage services.

## ITEM 13 – QUALITY OF EXECUTIONS

Pursuant to the requirements of the SEC, FMSI-IA discloses information regarding the quality of its executions and the varying venues to which orders are routed via its website: [www.myFMSI.com](http://www.myFMSI.com). For an explanation of how to read the order execution data, please refer to the SEC's website: [www.sec.gov](http://www.sec.gov).

## ITEM 14 – REVIEW OF ACCOUNTS

Investment Supervisory Services (ISS) - Individual Portfolio Management Reviews: While the underlying securities within Individual Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of your stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as your individual circumstances, or market conditions or events, and political or economic environments. Account reviews are conducted by the IAR and FMSI-IA's Compliance Department.

In addition to the monthly statements and confirmations of transactions that you receive from the qualified custodian, FMSI-IA provides quarterly reports summarizing account performance, balances and holdings. You should carefully review these reports and notify your IAR or FMSI-IA of any discrepancies.

Manager Selection Programs – Model Portfolio Management Reviews: The performance of the registered investment adviser(s) selected to manage your portfolio within our Manager of Managers Program is continually monitored by FMSI-IA. Furthermore, accounts within this program are formally reviewed at least quarterly. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market conditions or events, and political or economic environments. These accounts are reviewed by the IAR and FMSI-IA's Compliance Department.

In addition to the monthly statements and confirmations of transactions that you receive from the qualified custodian, the asset manager(s) selected by FMSI-IA to manage your portfolio(s) within our Manager of Managers Program provides you with written quarterly performance reports. Unless otherwise contracted for, FMSI-IA does not provide reports.

Selection and Monitoring of Third Party Money Managers (TPM) Reviews: If you engage a TPM, please refer to the unaffiliated registered investment adviser's Firm Brochure (or other disclosure document used in lieu of the Brochure) for information regarding the nature and frequency of reviews provided by the TPM. FMSI-IA does not provide a quarterly report; the TPM provides a quarterly report for the managed account.

The accounts are reviewed on a quarterly basis by the IAR and FMSI-IA's Compliance Department.

Financial Planning Services Reviews: Reviews may occur at different stages depending on the nature and terms of the specific engagement. Typically no formal review will be conducted after delivery of your Financial Plan unless you specifically requested and contracted Plan reviews into your Financial Planning Agreement.

## ITEM 15 – CLIENT REFERRALS AND OTHER COMPENSATION

FMSI-IA may engage Solicitors or pay any related or non-related persons for referring potential clients to our Firm.

We act as a Solicitor for other independent and unaffiliated registered investment advisers when we make a recommendation to you for their advisory or management service. If you contract with the recommended adviser, FMSI-IA and the IAR will receive a portion of the management fee charged to you.

FMSI-IA does not allow related persons to directly accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to you. FMSI-IA as previously disclosed in Item 12 – Brokerage Practices, does receive economic benefits from TD Ameritrade and other third party vendors that we believe are beneficial to all of our clients.

## ITEM 16 – CUSTODY

FMSI-IA client funds and securities are held directly with a qualified custodian, as defined under the Advisers Act, Rule 206(4)-2. The qualified custodian's contact information is listed on your account statement. You may also receive from an unaffiliated registered investment adviser or FMSI-IA separate reports which may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. We encourage you to review both the custodian's account statement and the advisers' reports and report any discrepancies to your IAR or FMSI-IA promptly.

Custodial account statements may be delivered to you on a monthly and/or quarterly basis depending upon the account activity. If an adviser provides a separate report to you, it is generally on a quarterly basis. Each account statement or separate report will include all transactions and activity for the applicable time period.

It is important for you to carefully review the custodial statement to verify the accuracy of account information, review of transactions and other activity in the account, including the fee calculation and fee debit, among other things. Any discrepancies should be promptly reported to your IAR or FMSI-IA.

## ITEM 17 – INVESTMENT DISCRETION

FMSI-IA receives written discretionary authority from you at the beginning of the advisory relationship to select the securities and amounts or number of shares to be bought or sold without your prior consent.

In all cases however such discretion is to be exercised in a manner consistent with the stated Investment Profile, investment policies, investment objectives, limitations and restrictions for the particular account.

Your investment guidelines and restrictions must be provided to FMSI-IA in writing.

## ITEM 18 – VOTING CLIENT SECURITIES (PROXY BALLOTS)

As a matter of Firm policy and practice, FMSI-IA and our IARs do not have any authority to and do not vote proxies on your behalf. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolio. IARs may provide advice to you regarding your voting of proxies.

You are encouraged to vote and ask general questions directly to the issuer related to the proxy content. Proxy voting is an important right of shareholders and reasonable care and diligence must be undertaken to ensure that such rights are properly and timely exercised.

For a copy of our Proxy Voting Policy and Procedure or for assistance regarding proxy issues, please contact us at (309) 820-7444 or in writing to our address listed on the title page.

## ITEM 19 – FINANCIAL INFORMATION

Registered investment advisers are required to provide you with certain financial information or disclosures about their financial condition. FMSI-IA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to you, and has not been the subject of a bankruptcy proceeding.

## ITEM 20 – HANDLING OF TRADE ERRORS

FMSI-IA has implemented procedures designed to prevent trade errors; however trade errors in client accounts cannot always be avoided. Consistent with our fiduciary duty, the Firm corrects trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction.

In all situations where the client does not cause the trade error, any loss resulting from the trade error will be absorbed by the client's IAR or the Firm. If the error is caused by the Custodian, the Custodian will be responsible for correcting the error. All costs for correction of trade errors are absorbed by the IAR, the Firm or the Custodian.

If the correction of the error results in a gain, the Custodian will deposit gains in the Firm's trade error account carried with the Custodian. FMSI-IA retains the gain to minimize and offset its administrative time and expense against losses the Firm may incur as a result of other trading errors. Clients will not receive any gains generated as a result of the error correction.

If circumstances permit, related trade errors resulting in both gains and losses in an account may be netted by the Firm.

## ITEM 21 – CONFLICTS OF INTEREST

In allowing certain business activities and practices, FMSI-IA understands and has implemented various policies and procedures to mitigate actual or potential conflicts of interest. We believe that in the best interests of our clients, requiring specific disclosures and transparency of potentially conflicting activities strengthens our advisory relationship with you.

As part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts:

- We have adopted and implemented the Code of Ethics.
- Associated persons must receive prior approval and ongoing reviews of any outside employment activities to properly address potential conflicts of interests.
- If we approve the opening of an outside brokerage account due to special circumstances, we require written disclosure of these outside brokerage accounts, as well as those for immediate family members, or accounts where the Supervised Person has a beneficial interest, including account statements and trade confirmations; we require annual updates of existing account ownership and regularly review trading activities associated with outside brokerage accounts;
- Neither FMSI-IA nor any related person is a general partner in any partnership in which clients are solicited to invest.
- All entities and associated persons may own shares or units in the same securities as clients.
- An advisory client may also be a broker-dealer client, and/or an insurance agency client of the same IAR/RR/Life Agent and affiliated entities.
  - The Supervised Person and affiliated entities will share in earned commissions, trails, bonuses, and other forms of compensation for these services engaged by the advisory client. Some fees may be offset and are negotiated on an individual basis at the discretion of each entity. Commissions, trails, bonuses and fees payable are disclosed in each products prospectus or other offering document.
  - Clients are not obligated to purchase recommended investment products from associated persons or affiliated companies.
- We educate our IARs regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.
- As previously disclosed, we recommend the services of various registered investment advisers to our clients and in exchange for this recommendation we receive a referral fee from the selected investment adviser. The fee received is a percentage of the overall fee charged by the investment adviser and does not increase the advisory fee paid by the client. We do not charge the client any fees for these referrals. We will not recommend advisers that we do not have an effective agreement. We are aware of the special considerations required under Rule 206(4)-3, Cash Payment for Client Solicitations of the Advisers Act, and as such, all appropriate disclosure shall be made and all applicable Federal and State laws will be observed.

You should be aware that the receipt of additional compensation by FMSI-IA and its management persons or IARs creates a conflict of interest that may impair the objectivity of our Firm and supervised persons when making advisory recommendations. FMSI-IA endeavors at all times to put your interests first as part of our fiduciary duty as a registered investment adviser. We take the following steps to address this conflict:

- We disclose to you the existence of all known material conflicts of interest, including the potential for us or our IARs to earn compensation from the referral of clients to other registered investment advisers;
- We disclose to you in a separate disclosure document the compensation we receive in exchange for the client's referral to the selected investment adviser;

- We conduct initial and periodic due diligence on the selected investment advisers to ensure that the advisers we recommend to our clients remain suitable and in good standing; and
- We educate our IARs regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

You are not obligated to implement a Financial Plan through their IAR. You may, at your sole discretion, implement your Financial Plan through other financial institutions. However, when you elect to implement your Financial Plan and purchase the recommended products through the IAR who is a registered representative (RR) or licensed Life Agent of the affiliated entities, a conflict of interest is created because one professional, in multiple capacities could earn income from three (3) different sources from your purchases. As an example, you could pay (1) a fee for advisory services; (2) a commission for the purchase of a stock, bond, mutual fund, etc., and (3) a commission for the purchase of a variable annuity or a fixed insurance product such as a fixed annuity or life insurance policy.

If you elect to purchase investment products through your IAR/RR or Life Agent, the purchase presents a conflict of interest by presenting an incentive for the IAR/RR or Life Agent to recommend investment products based on the compensation to be received rather than on your needs or to potentially recommend products and riders at a higher commission schedule. IARs/RRs and Life Agents will disclose to you at the time of a product purchase the amount of commission compensation to be earned when you purchase various investment products. This conflict of interest is directly related to the dual or multiple relationships created and potential income revenue to the IAR, RR, and Life Agent from a single client.

IARs, RRs, and Life Agents are generally the same individual. Each is also associated with the registered investment adviser, affiliated broker-dealer and affiliated life insurance agency. In these relationships, it is important for you to understand that your IAR is only permitted to represent, recommend, and establish advisory accounts with an approved investment adviser service or program; RRs are only permitted to represent, recommend, and effect investment product transactions of approved fund sponsors and issuers of the broker-dealer; and Life Agents are only permitted to represent, recommend, and effect insurance-related product transactions of approved insurance companies and issuers. Not only does the IAR/RR and Life Agent receive compensation; each entity also receives their proportionate share for the sales activities of the IAR/RR and Life Agent. Bear in mind, these business activities restrictions are in place in order for FMSI-IA and the affiliated entities to supervise, capture, and maintain compliance with their regulatory books and records requirements.

## ITEM 22 – BUSINESS CONTINUITY PLAN SUMMARY

### **FMSI-IA's Business Continuity Planning**

FMSI-IA's Business Continuity Plan discusses how we will respond to events that significantly disrupt our business (fire, flood, terrorist attack). Since the timing and impact of a Significant Business Disruption (SBD) is unpredictable, we will have to be flexible in responding to actual events as they occur. With that in mind, we are providing you with this information on our business continuity plan. For more specific information, please refer to our website: [www.myFMSI.com](http://www.myFMSI.com).



Our Custodians (Pershing Advisor Solutions, TD Ameritrade and Pershing, LLC) back up our important records in a geographically separate area. While every emergency situation poses unique problems based on external factors, such as time of day and the severity of the disruption, we have been advised by our Custodians that its objective is to restore its own operations and be able to complete existing transactions and accept new transactions and payments. Your orders and requests for funds and securities could be delayed during this period.

### **Varying Disruptions**

Significant business disruptions can vary in their scope, such as only our Firm, a single building housing our Firm, the business district where our Firm is located, the city where we are located, or the whole region. Within each of these areas, the severity of the disruption can also vary from minimal to severe. In a disruption to only our Firm or a building housing our Firm, we will transfer our operations to our alternate location when needed and expect to recover and resume business within one day. In a disruption affecting our business district, city, or region, we will transfer our operations to a site outside of the affected area, and recover and resume business within one day. In either situation, we plan to continue in business, transferring operations to our Custodians if necessary, and notify clients through our web site [www.myFMSI.com](http://www.myFMSI.com) or our client emergency number, (800) 662-8452. If the significant business disruption is so severe that it prevents us from remaining in business, we will assure our client's prompt access to their funds and securities.

**FOR MORE INFORMATION** – Please contact us at [info@myFMSI.com](mailto:info@myFMSI.com) with questions about our business continuity planning.

## **ITEM 23 – INVESTOR COMPLAINT REGISTRATION**

You may contact FMSI-IA for any matter, including the filing of a complaint by contacting the office of the Chief Compliance Officer, FMSI Advisers, 207 W. Jefferson Street, Suite 102, Bloomington, IL 61701 or via telephone at (309) 820-7444.

## **ITEM 24 – GENERAL INFORMATION**

*Termination of the Advisory Relationship:* You may terminate your advisory agreement, by providing written notice, without penalty within five (5) business days of execution of the advisory agreement. If the advisory agreement is terminated after five (5) business days, you will receive a pro rata refund, after the date on which notice is received minus monies utilized to establish your account, services provided, and of any prepaid quarterly fees based upon the number of days remaining in the quarter. Thereafter, the advisory relationship may be terminated by either party upon a thirty (30) day written notice to each other. Any prepaid, unearned fees will be promptly refunded on a pro rata basis according to the number of days remaining in the billing period.

*Mutual Fund Fees:* Fees and expenses charged by Mutual Funds (Funds) and/or ETFs to the shareholders are separate from the fees charged by FMSI-IA. Fund and ETF fees and expenses are described in each fund's prospectus and generally include a management fee, other fund expenses, and a possible distribution fee. Funds and ETFs may also impose initial purchase as

well as deferred sales charges. You could invest directly in a Fund without our services. In that case, you would not receive the services provided by our Firm which are designed, among other things, to assist you in determining which Funds are most appropriate to your financial condition and objectives. Accordingly, you should review both the fees charged by the Funds and FMSI-IA to fully understand the total amount of fees to be paid by you and to thereby evaluate the advisory services being provided.

*Wrap Fee Programs and Separately Managed Account Fees:* If you participate in separately managed account programs, you may be charged various program fees in addition to the advisory fee charged by FMSI-IA. Such fees may include the investment advisory fees of other unaffiliated investment advisers, which may also include a wrap fee arrangement. In a wrap fee arrangement, you pay a single fee for advisory, brokerage and custodial services. Portfolio transactions may be executed without a commission charge in a wrap fee arrangement. In evaluating such an arrangement, you should also consider that, depending upon the level of the wrap fee charged, the number and frequency of transactions, custodial charges, and other factors, a wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. We will review with you any separate program fees that may be charged to you.

*Additional Fees and Expenses:* In addition to our advisory fees, you are responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent unaffiliated investment manager effects transactions for your account(s). Please refer to Item 12 - Brokerage Practices in this Brochure for additional information. Additionally, in certain client relationships, IARs may, at their discretion, establish fee credit arrangements with select clients who are either (1) high net worth individuals with substantial assets under management, and/or (2) clients with multiple accounts, and/or (3) IARs who continue to honor pre-established fee credit arrangements established prior to joining FMSI-IA. Client fee credit arrangements must be disclosed, and in writing, at the time of executing an FMSI-IA Advisory Agreement.

*Grandfathering of Minimum Account Requirements:* Pre-existing advisory clients are subject to FMSI-IA's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our minimum account requirements may differ among clients.

*ERISA Accounts:* FMSI-IA is a fiduciary to advisory clients that are employee benefit plans or qualified retirement accounts pursuant to the Employee Retirement Income and Securities Act (ERISA), and regulations under the Internal Revenue Code of 1986 (the Code), respectively. As such, FMSI-IA is subject to specific duties and obligations under ERISA and the Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, FMSI-IA may only charge fees for investment advice about products for which our Firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, if these fees are received, they are used to offset FMSI-IA's advisory fees.

*Advisory Fees in General:* You should note that similar advisory services may or may not be available at the same fee level from other unaffiliated registered investment advisers. Advisory

clients may pay more or less for the same services offered by FMSI-IA or other unaffiliated registered investment advisers.

*Limited Prepayment of Fees:* Under no circumstances does FMSI-IA require or solicit payment of fees in excess of \$1,200.00 more than six months in advance of services rendered.

*Compliance Plan and Shared Disclosures:* FMSI-IA has adopted and implemented its Compliance written policies and procedures pursuant to Rule 206(4)-7 of the Investment Advisers Act of 1940 and has adopted and shares multiple disclosures and various written supervisory procedures that are applicable to it as well as its affiliated entities.

These shared disclosures include its Privacy Policy Statement and practices, Business Continuity Plan and Summary, Customer Identification Program, Identity Theft Protection Program and Anti-Money Laundering Program to name a few.

## ITEM 25 - CUSTOMER IDENTIFICATION PROGRAM (CIP) NOTICE:

### **Important Information You Need to Know about Opening a New Account.**

To help the government fight the funding of terrorism and money laundering activities, federal law requires financial institutions to obtain, verify and record information that identifies each person who opens an account.

The next paragraphs will answer some questions about our FMSI-IA's Customer Identification Program.

### **What types of information will I need to provide?**

When you open an account, FMSI-IA is required to collect certain information from you which may include, but not be limited to your name, date of birth, address and Identification Number:

- U.S. Citizen: Taxpayer identification (Social Security number or employer identification number).
- Non-U.S. Citizen: Taxpayer identification number, passport number, country of issuance, alien identification card number or government issued identification showing nationality, residence, and a photograph of you.

You may also need to show your driver's license or other identifying documents.

A corporation, partnership, trust or other legal entity may need to provide other information, such as principal place of business, local office, employer identification number, certified articles of incorporation, government issued business license, a partnership agreement, or a trust agreement.

U.S. Department of the Treasury, Securities and Exchange Commission ("SEC"), FINRA, and New York Stock Exchange rules already require you to provide most of this information. These rules also may require you to provide additional information, investment experience and objectives, and risk tolerance.

**What happens if I don't provide the information requested or my identity cannot be verified?**  
FMSI-IA may not be able to open an account or carry out transactions for you. If FMSI-IA has already opened an account for you, we may have to close it. We thank you for your patience and hope that you will support the financial industry's efforts to deny terrorists and money launderers access to America's financial system.

## ITEM 26 – ANTI-MONEY LAUNDERING (AML) DISCLOSURE

The USA PATRIOT Act, implemented in October 2003, is designed to detect, deter, and punish terrorists in the United States and abroad. The Act imposes new anti-money laundering requirements on brokerage firms and financial institutions. FMSI-IA has adopted and implemented its AML program. To help clients understand these efforts, we want to provide clients with some information about money laundering and our steps to implement the USA PATRIOT Act.

### **What is money laundering?**

Money laundering is the process of disguising illegally obtained money so that the funds appear to come from legitimate sources or activities. Money laundering occurs in connection with a wide variety of crimes, including illegal arms sales, drug trafficking, robbery, fraud, racketeering, securities fraud and terrorism.

### **What are we required to do to eliminate money laundering?**

Under the rules required by the USA PATRIOT Act, our Firm has designated an AML Compliance Officer, set up employee training, arranges for independent audits, co-ordinates activities with our Custodians, and established policies and procedures to detect and report suspicious transactions and ensure compliance with the laws. As part of our required program, clients will be asked to provide various identification documents. Until clients provide the information or documents and until their identity has been verified, the account may not be able to be opened or transactions effected through us, our Custodians, or other financial institutions we engage on our client's behalf.

We thank our clients for their cooperation and hope that they continue to support us in our efforts to deny terrorists groups' access to America's financial systems.

## ITEM 27 – FMSI ADVISERS IDENTITY THEFT PREVENTION PROGRAM

Under the Federal Trade Commission's (FTC's) FACT Act (also referred to as the Red Flags Rule), financial institutions with "covered accounts" are required to establish an Identity Theft Prevention Program (ITPP) to prevent, detect, and act on the theft of customers' identity. "Covered accounts" include accounts for individuals (vs. institutions) and accounts where credit is extended. Because FMSI-IA has individuals as customers or it offers credit to customers, FMSI is subject to the FACT Act requirements. This section describes FMSI-IA's methods of identifying red flags and responding to them.

FMSI-IA has established an ITPP which incorporates the Customer Identification Program as a tool for recognizing identity theft. Related policies and procedures include the responsibilities of all employees (and designated supervisors, in particular).

## Red Flags

The ITPP is based on identifying "red flags" that indicate identity theft may have occurred. Periodically, FMSI-IA will review accounts to identify irregularities in your advisory account. Regulators have identified red flags as potential indicators of identity theft. All of the red flags may not apply to FMSI-IA because of the nature of its business and types of customers. The following section identifies red flags, how they are detected, and potential action when red flags are identified.

### Identifying And Responding To Red Flags

The following chart identifies identity theft red flags and potential responses which depend on the nature and seriousness of the red flags. This list is not intended to be an exhaustive or mandatory list of items but provides guidelines for where risks may appear. Some areas may not be relevant to FMSI-IA's business at a particular time.

<u>Red Flag</u>
1. A fraud or active duty alert is included on a consumer credit report.
2. A notice of credit freeze is given in response to a request for a consumer credit report.
3. A notice of address or other discrepancy is provided by a consumer credit reporting agency.
4. A consumer credit report shows a pattern inconsistent with the person's history, such as a big increase in the volume of inquiries or use of credit, especially on new accounts; an unusual number of recently established credit relationships; or an account closed because of an abuse of account privileges.
5. Identification presented looks altered or forged.
6. The identification presenter does not look like the identification's photograph or physical description.
7. Information on the identification differs from what the identification presenter is saying.
8. Information on the identification does not match other information our firm has on file for the presenter, like the original account application, signature card or a recent check.
9. The application looks like it has been altered, forged or torn up and reassembled.
10. Inconsistencies exist between the information presented and other things we know about the presenter or can find out by checking readily available external sources, such as an address that does not match a consumer credit report, or the Social Security Number (SSN) has not been issued or is listed on the Social Security Administration's (SSA's) Death Master File.
11. Inconsistencies exist in the information that the customer gives us, such as a date of birth that does not fall within the number range on the SSA's issuance tables.
12. Personal identifying information presented has been used on an account our firm knows was fraudulent.
13. Personal identifying information presented suggests fraud, such as an address that is fictitious, a mail drop, or a prison; or a phone number is invalid, or is for a pager or answering service.
14. The SSN presented was used by someone else opening an account or other customers.
15. The address or telephone number presented has been used by many other people opening accounts or other customers.
16. A person who omits required information on an application or other form does not provide it when told it is incomplete.
17. Inconsistencies exist between what is presented and what our firm has on file.

18. A person making an account application or seeking access cannot provide authenticating information beyond what would be found in a wallet or consumer credit report, or cannot answer a challenge question.
19. Soon after FMSI-IA gets a change of address request for an account, we are asked to add additional access means (such as debit cards or checks) or authorized users for the account.
20. A new account exhibits fraud patterns, such as where a first payment is not made or only the first payment is made, or the use of credit for cash advances and securities easily converted into cash.
21. An account develops new patterns of activity, such as nonpayment inconsistent with prior history, a material increase in credit use, or a material change in spending or electronic fund transfers.
22. An account that is inactive for a long time is suddenly used again.
23. Mail FMSI-IA sends to a customer is returned repeatedly as undeliverable even though the account remains active.
24. We learn that a customer is not getting his or her paper account statements.
25. We are notified that there are unauthorized charges or transactions to the account.
26. An outside agency, law enforcement, a clearing firm, or other source notifies FMSI Advisers that an account has been opened or used fraudulently.
27. FMSI-IA is notified of potential unauthorized access to customer personal information due to data loss from an outside provider or a breach of an outside provider's data.
28. Notice from a customer of the loss of information (e.g., loss of wallet, birth certificate, etc.).

### **When Identity Theft Occurs...**

If an unauthorized person has gained or attempted entry to your account, FMSI Advisers will take the following actions, depending on the nature and scope of the intrusion.

- Contact you using CIP information currently on file, describe what has been found, and verify with you that there has been an attempted or actual identity theft
- Monitor, limit, or temporarily suspend activity in the account
- If applicable, we will change passwords, security codes or other ways to limit access to any threatened account.
- Close the account and reopen with a new account number
- Notify clearing firm, if applicable
- Contact the SEC, FINRA, and state regulators
- If appropriate, contact law enforcement such as the FBI or the U.S. Postal Inspector, if mail is involved
- Determine whether a Suspicious Activity Report (SAR) should be filed

In addition, you will be advised to go to the FTC Identity Theft Web Site, (<http://www.ftc.gov/bcp/edu/microsites/idtheft>). You will also be given directions to contact the FTC's Identity Theft Hotline (877-438-4338); or to write the Identity Theft Clearinghouse (FTC, 6000 Pennsylvania Avenue, NW, Washington, D.C. 20580).

We will give you the following information to assist you with your claim:

- Firm information (Firm name, CRD number, contact name and telephone number)
- Dates and times of activity
- Securities involved (name and symbol)
- Details of trades or unexecuted orders
- Details of wire transfer activity

#### ITEM 28 – SECURITIES INVESTOR PROTECTION CORPORATION:

First Midwest Securities, Inc. (“FMSI”) is a member of the Securities Investor Protection Corporation (“SIPC”). For more information on SIPC, please contact SIPC directly at (202) 371-8300 or you can visit SIPC online at [www.sipc.org](http://www.sipc.org).

# FMSI First Midwest Securities, Inc. Privacy Notice

Revised 08/13

FACTS	WHAT DOES FMSI DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do with your personal information.
What?	The type of personal information we collect and share depends on the product or service you have with us. This information can include: <ul style="list-style-type: none"> <li>▪ Social Security number and employment information</li> <li>▪ Transaction history and wire transfer instructions</li> <li>▪ Income and account balances</li> </ul>
How?	All financial companies need to share customer's personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customer's personal information; the reasons First Midwest Securities, Inc. chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does FMSI share?	Can you limit this sharing?
<b>For our everyday business purposes-</b> Such as to process your transactions, report on transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus.	Yes	No
<b>For our marketing purposes-</b> To offer our products and services to you.	Yes	Yes
<b>For joint marketing with other financial companies</b>	No	No
<b>For our affiliates' everyday business purposes-</b> Information about your transactions and experiences.	Yes	No
<b>For our affiliates' everyday business purposes-</b> Information about your creditworthiness.	Yes	Yes
<b>For nonaffiliates to market to you-</b> Only if your Rep/Advisor leaves First Midwest Securities, Inc. or one of its affiliates for another firm, retires, or sells his or her book of business.	Yes	Yes

<b>To limit our sharing</b>	<ul style="list-style-type: none"> <li>▪ Call (800) 662-8452</li> <li>▪ Email us: <a href="mailto:privacy@myFMSI.com">privacy@myFMSI.com</a></li> </ul> Please note: If you are a new customer, we can begin sharing your information 30 days from the date we sent this notice. When you are no longer our customer, we continue to share your information as described in this notice. However, you can contact us at any time to limit our sharing.
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<b>Questions?</b>	Call (800) 662-8452 or go to <a href="http://www.myFMSI.com">www.myFMSI.com</a>
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<b>Who is providing this notice?</b>	First Midwest Securities, Inc.
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<b>What we do</b>	
How FMSI protects my personal information?	<p>To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.</p> <p>We train our employees in the proper handling of personal information. We require companies that help provide our services to you to protect the confidentiality of personal information they receive.</p>
How FMSI collects my personal information?	<p>We collect your personal information, for example, when you:</p> <ul style="list-style-type: none"> <li>■ Open an account      ■ Make deposits or withdrawals from your account</li> <li>■ Apply for insurance      ■ Tell us about your investment or retirement portfolio</li> <li>■ Seek advice about your investments</li> </ul> <p>We also collect your personal information from others such as credit bureaus, affiliates, or other companies.</p>
Why can't I limit all sharing?	<p>Federal law gives you the right to limit only:</p> <ul style="list-style-type: none"> <li>■ Sharing for affiliates' everyday business purposes - information about your creditworthiness.</li> <li>■ Affiliates from using your information to market to you.</li> <li>■ Sharing for nonaffiliates to market to you.</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing. See below for more on your rights under state law.</p>
What happens when I limit sharing for an account I hold jointly with someone else?	Your choices will apply to everyone on your account - unless you tell us otherwise.

<b>Definitions</b>	
Affiliates	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>■ Our affiliates include the following companies: FMSI Advisers, First Midwest Insurance Services, Inc., and The Investment Company, Inc.</li> </ul>
Nonaffiliates	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>■ Nonaffiliates we share with can include Pershing LLC, Pershing Advisor Solutions (PAS), Bank of New York Mellon Corporation, TD Ameritrade, EAI Information Systems, ORION, Microsoft Exchange, Global Relay, Mavidea Technology Group, and Knight BondPoint.</li> <li>■ Nonaffiliates can also include your financial advisor's new Broker/Dealer or Investment Adviser firm if your financial advisor chooses to leave FMSI, retires, or sells his or her book of business.</li> </ul>
Joint marketing	<p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>■ None</li> </ul>

<b>Other Important Information</b>
<p><b>Information for Vermont and California Customers</b></p> <p>In response to a Vermont regulation, if we disclose personal information about you to nonaffiliated third parties with whom we have joint marketing agreements, we will only disclose your name, address, other contact information, and information about our transactions or experiences with you.</p> <p>In response to a California law, we automatically treat accounts with California billing addresses as if you do not want to disclose personal information about you to nonaffiliated third parties except as permitted by the applicable California law. We will also limit the sharing of personal information about you with our affiliates to comply with all California privacy laws that apply to us.</p>

