

**BUTTONWOOD PARTNERS, INC.**  
**ADVISORY SERVICES FOR CUSTOMERS OF OTHER BROKER-DEALERS**

Buttonwood Partners, Inc. ("BPI") is a Wisconsin corporation with its principal business office located in Madison, Wisconsin. Its phone number is 608/827-6400. The firm provides advisory services to individuals, pension and profit sharing plans, trusts and estates and corporations. It provides services to clients in several states.

BPI's investment managers provide clients with various forms of asset management and financial consulting services. Asset management services which involve the payment of one asset-based fee for both advisory services and securities transactions are described on Schedule H of BPI's Form ADV. The firm's asset management services performed for clients of other broker-dealers are described below. Approximately 95% of the firm's advisory services involves providing management services.

**Services**

BPI provides continuous asset management services on a discretionary basis to customers of other broker-dealers which have referred customers to BPI for account management services. The firm's services are available to individuals, pension and profit sharing trusts, other trusts and charitable organizations, and corporations and other entities. Under the firm's arrangement with other broker-dealers, clients usually pay the brokerage firm a "wrap fee" which covers both BPI's advisory fee and the brokerage firm's charges for processing securities transactions.

Types of Securities. Besides managing various types of securities for a client, such as exchange-listed, over-the-counter, foreign issuer, preferred stocks, annuities, mutual funds, limited partnerships, options, warrants, rights, commercial paper, certificates of deposit, bonds, municipal securities and government bonds, a portion of the securities in a client's account may be held in cash or cash equivalents, including money market and, on occasion, other mutual funds. BPI will often concentrate a client's account in a few securities it believes will perform well. Although such a strategy can result in significant returns, it also creates a portfolio with an inherently higher market risk than one with a more diversified portfolio.

Fees. BPI usually receives an annual advisory fee which ranges from 0.50% to 1.0% of assets under its management, including cash and cash equivalents, with a minimum annual fee of \$500 which can be waived at BPI's direction. The broker-dealer's representative referring the client to BPI receives a share of the wrap fee charges of the broker-dealer. The fee charged by BPI in these arrangements varies from client to client and is based on a number of factors, including the type of account, the kind of securities in the account, the dollar value of securities, projected nature of trading for the account, and the nature and scope of additional advisory services required to properly service the account. Generally, the per annum charge for fixed income accounts is 0.50%, while balanced accounts are charged 0.75% and equity accounts 1.00%. All fees due BPI are paid quarterly in advance from the wrap fee charged by the brokerage firm. In the event BPI's advisory agreement with a customer is terminated, a pro-rata refund of the prepaid advisory fee not yet earned by BPI will be made.

Clients should be aware that another adviser's or broker-dealer's fees for providing similar advisory and transaction services may be higher or lower than those of BPI and the client's broker-dealer, and that all transactions processed by any other entity, including BPI, upon instruction of the client will result in separate transaction charges to the client.

In the event a client directs BPI to place securities transaction orders with a particular broker-dealer, there can be no assurance that best price and execution will be obtained when processing customer orders because BPI may not be in a position to batch a client's order with those of other clients and will not evaluate the services and commissions of any broker-dealer other than the one selected by the client. Clients may not also benefit from research materials that may be available from other broker-dealers in return for business directed to them.

Clients should also be aware that the amount of compensation received by the broker-dealer's representative executing transactions under an asset-based fee arrangement may be more or less than other methods available. Representatives have an incentive to recommend an asset-based payment method, if the representative anticipates

there will be few transactions placed by the investment adviser in an account and a per transaction method if a large number of trades are expected.

Clients should be aware if a client's account includes a mutual fund, the client will pay two levels of advisory fees: an account management fee and an indirect fee to the managers of the funds held in their portfolios. Clients should also be aware that mutual funds are available, without participating in any of BPI's advisory service programs.

Furthermore, a brokerage firm's decision to refer advisory accounts to BPI under a wrap fee arrangement may be influenced by the number of past transactions placed by BPI through that brokerage firm since the net amount of wrap fee revenue going to the brokerage firm is reduced by the cost of each transaction placed for the customer's account. Numerous transactions result in less net revenue to the brokerage firm.

### **Analysis Strategies and Sources of Information**

BPI Portfolio Managers are inclined to use fundamental analysis when evaluating client securities and make purchases and sales based upon the results of their analysis. Managers may also consider technical market factors before deciding the appropriate action to take in a client's account. Managers will also implement various short and long-term investment strategies and may on an isolated basis use options to hedge securities positions, based upon the objectives of the client and the kinds of securities in the portfolio. To implement investment strategies, a client's account may be concentrated in just a few securities. Although such a strategy has the potential to enhance returns, lack of diversity may also create greater risk of loss.

When they deem it appropriate to do so, BPI's representatives use a variety of sources of information, including newspapers and magazines, outside research, rating services, annual reports, prospectuses and company press releases.

### **Standards of Education and Experience**

A BPI Portfolio Manager or consultant must be experienced as a securities broker or as a portfolio manager before being allowed to provide advice to clients. Each BPI Portfolio Manager must also have taken formal courses in portfolio management if the Manager has less than 10 years experience in the securities industry.

### **Education and Business Background of BPI's Professional Staff**

**Bruce E. Krueger.** Mr. Krueger was born on October 14, 1951. He graduated from The Johns Hopkins University in 1973 with a Bachelor of Arts degree in Social & Behavioral Science and, in 1976, received a Doctor of Law degree from the University of Wisconsin--Madison.

From November 1980 to April 1988, Mr. Krueger was a Registered Representative with E.F. Hutton, Inc. in Madison, Wisconsin, and from September 1984 to April 1988 he was a Portfolio Manager for the firm. He held the same positions with Shearson Lehman Hutton from April 1988 to July 1990. As a registered representative and portfolio manager, Mr. Krueger provided supervisory investment advisory services for individual and pension/profit sharing clients and executed securities transaction orders as the needs of clients required. From July 1990 to October 1990, Mr. Krueger was a Registered Representative of Mid-America Management Corporation at its Madison, Wisconsin branch office.

Mr. Krueger provides BPI's Continuous Advisory Services and Advisory Services For Customers of Other Broker-Dealers. He became a Vice President and Director of BPI during September 1994. He is also BPI's Treasurer.

**M. Allen Jacobson.** Mr. Jacobson was born on December 10, 1939. He graduated from the University of Minnesota in 1962 with a Bachelor of Science degree in Ag. Economics and from Purdue University in 1968 with a Ph.D. in Ag. Economics.

From August 1980 to August 1988, Mr. Jacobson was Assistant Branch Manager and a Registered Representative of the Milwaukee Company. From August 1988 to July 1990, he was Assistant Branch Manager and a Registered

Representative of Dain Bosworth Incorporated, and from July 1990 to October 1990, he was Branch Manager and Registered Representative of Mid-America Management Corporation.

Mr. Jacobson was President and a Director of BPI since June 1990 until April of 2006. He remains a director and provides and supervises BPI's Asset Management division.

### **Related Business Activities and Business Affiliations**

In addition to being an investment adviser, BPI is registered as a broker-dealer and, as such, effects securities transactions for clients who may or may not be investment advisory clients. Approximately 5% of Mr. Krueger's time is spent engaged in broker-dealer activities.

BPI also has a transaction clearing agreement with National Financial Services, LLC, by which National Financial processes and clears securities transactions placed by BPI's portfolio manager.

### **Interest in Client Transactions**

BPI and its employees may buy and sell securities that they recommend to advisory clients for purchase and sale. To the extent possible, the firm and its employees will process securities transactions for client accounts with or ahead of similar transactions contemplated for their own accounts.

BPI has established a Code of Ethics applicable to all persons at the firm who have access to confidential client records or to recommendations being made for client accounts. Designed to prevent conflicts of interest between the financial interests of clients and the interests of the firm's staff, the Code requires such "access persons" to obtain preapproval of certain securities transactions, to report transactions quarterly and to report all securities positions in which they have a beneficial interest at least annually. These reporting requirements allow supervisors at the firm to determine whether to allow or prohibit certain employee securities purchases and sales based on transactions made, or anticipated to be made, in the same securities for client accounts. The Code also establishes certain bookkeeping requirements relating to the new federal reporting rules. The Code is required to be reviewed annually and updated as necessary. A complete copy of the firm's Code is available upon request.

### **Conditions for Managing Accounts**

BPI charges a minimum annual fee of \$500 which can be waived at the discretion of BPI. Please refer to the "Advisory Services for Customers of Other Broker-Dealers" section.

### **Account Reviews and Reports**

Managed accounts are reviewed on a day-to-day basis as deemed necessary by Mr. Krueger who supervises less than one hundred accounts. Quarterly managed account reports prepared by BPI are not reviewed by any third party but are reviewed for accuracy by Mr. Krueger, using BPI's records, transaction and custodian reports as a basis for review.

Clients of other broker-dealers receive a quarterly report from BPI, or the client's servicing broker-dealer, identifying the securities in their portfolio and the value of those securities. Portfolio managers will review any aspect of a client's account when asked to do so.

### **Use of Discretion and Selection of Broker-Dealers**

Before receiving any advisory services from BPI and BPI's advisory representatives, clients typically designate one broker-dealer, usually the "wrap" service sponsor, to execute the securities investment transactions placed by a BPI representative. Thus, BPI usually will not exercise discretion to evaluate the services of other broker-dealers unless unusual conditions exist and the client's permission is obtained to do so. Selection of one broker-dealer for executing orders may not allow BPI to receive research from other broker-dealers in return for directed business, to batch transaction orders with those of other clients, or allow BPI to exercise discretion in evaluating the quality of

execution services and commissions of other broker-dealers. Thus, it is possible that selection of a single broker-dealer may not result in best price or execution of a client's transactions. BPI does exercise full discretion when selecting securities and the amount of securities to buy and sell when providing advisory services to clients of other broker-dealers.

As indicated above, BPI may aggregate trades for numerous clients when it believes it is in the client's best interest to do so. When the aggregated order is filled, each client in the aggregated order receives an average price. However, aggregated orders that are partially filled are not allocated to clients on a pro-rata basis. Instead, in those instances where BPI cannot fill an aggregated order fully, the partially acquired shares are allocated to each individual client listed on BPI's allocation sheet for the full amount of each client's order until no shares remain. Shares subsequently obtained to complete an aggregated order are then allocated to clients in alternating ascending/descending order until all client orders are filled. Thus, for those clients whose shares are subsequently obtained, the share price they receive may be higher or lower than the transaction share price acquired by those clients participating in the initial aggregated order. For subsequent orders outside the initial aggregated order, if the market price of the security should fall, clients would receive a better price; however, if the market price should rise, the costs would be higher than those initially incurred in the first aggregated order.

BPI will often concentrate a client's account in a few securities it believes will perform well. Although such a strategy can result in significant returns, it also creates a portfolio with an inherently higher market risk than one with a more diversified portfolio.

### **Other Compensation**

BPI frequently invests client funds in money market and, on occasion, other mutual funds. Many of these mutual funds pay continuing "12b-1" fees to broker-dealers, including the wrap fee sponsor, based upon the total amount of client funds invested in them.

### **Summary of Proxy Voting Policy and Procedures**

The following information briefly summarizes BPI's Policy and Procedures relating to how BPI votes proxies when providing advisory services to customers of other broker-dealers.

**Guiding Principles.** BPI's Policies and Procedures relating to voting proxies are designed to ensure that proxies are voted in the best interests of clients. The Policies and Procedures do not apply to those situations where the client has retained voting discretion. In those situations, BPI will cooperate with the client to ensure proxies are voted as directed by the client. In addition, BPI will abide by specific voting guidelines on certain policy issues as requested by particular clients on a case-by-case basis.

**Primary Objective.** In general, proxies will be voted in a manner designed to maximize the value of client investments. In evaluating a particular proxy proposal, BPI will take into consideration, among other things, the period of time over which the voting shares of the company are expected to be held, the size of the position, the costs involved in the proxy proposal and the existing governance documents of the affected company, as well as its management and operations. Proxy proposals that change the existing status of a company will be reviewed to evaluate the desirability of the change, and to determine the benefits to the company and its shareholders, but BPI's primary objective is always to protect and enhance the economic interests of its clients.

Generally, it is BPI's policy to vote in accordance with management's recommendations on most issues since the capability of management is one of the criteria used by BPI in selecting stocks.

**Exceptions.** When BPI believes management is acting on its own behalf, instead of on behalf of the well-being of the company and its shareholders, or when BPI believes that management is acting in a manner that is adverse to the rights of the company's shareholders, BPI will take steps to represent the interests of its clients and, as a result, may elect to vote against management's recommendations.

In situations where BPI is extremely displeased with management's performance, it may withhold votes or vote against management's slate of directors and other management proposals as a means of communicating its dissatisfaction. This occasion most often develops when BPI believes that management has displayed a consistent inability or lack of interest in moving the company toward achieving its potential and a message needs to be sent that the company's shareholders are not satisfied with the status quo.

**Other Factors BPI Considers.** BPI recognizes that the activity or inactivity of a company with respect to matters of social, political or environmental concern may have an effect upon the economic success of the company and the value of its securities. However, BPI does not consider it appropriate, or in the interests of its clients, to impose its own moral standards on others. Therefore, it normally supports management's position on matters of social, political or environmental concern, except where it believes that a different position would be in the economic interests of company shareholders.

**Conflicts.** In evaluating a proxy proposal, the Compliance Director, or the Compliance Director's designee, is responsible for considering whether there is any circumstance that may give rise to a conflict of interest on the part of BPI in connection with voting client proxies either because of a business relationship between BPI and the company or otherwise.

**Voting Procedures.** All proxy proposals are voted on an individual basis. In general, when a conflict exists, the proxy is referred to BPI's Chief Compliance Officer who, based on the advice of legal counsel, determines whether the proxy may be voted by BPI or whether it should be referred to the client (or another fiduciary of the client) for voting purposes. BPI will not refrain from voting proxies just because a conflict exists because BPI has a fiduciary duty to take action on all proxies.

Alternatively, BPI may consult directly with a client to obtain the client's consent before voting the proxies.

**How To Obtain More Information.** For additional information regarding BPI's proxy voting policies and procedures, please contact us by writing to us at 701 Deming Way Suite 100, Madison, Wisconsin 53717, or calling (608) 827-6400.

### **Other Information**

During January 2006, the Firm resolved a recordkeeping and reporting matter, without admitting or denying this matter, with the NASD by paying a fine of \$10,000 and creating new procedures. The matter related to the Firm reporting various municipal and corporate transactions late or with inaccurate execution time, not reporting two municipal transactions and not having accurate order times or time stamps on certain trades in municipal securities. These matters were caused in part because the Firm did not have certain procedures in writing relating to MSRB rule G-14. Procedures have been put in place to prevent a recurrence of these administrative oversights.