

## Item 1 – Cover Page



# Form ADV Part 2A Brochure

September 8, 2022

**This Brochure provides information about the qualifications and business practices of Financial Management, Inc., (“FMI”). If you have any questions about the contents of this Brochure, please contact us at 501-227-7400 or toll-free at 800-719-2796. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Financial Management, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for FMI is 108350.**

**Financial Management, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.**

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## **Item 2 – Material Changes**

This Item of the Brochure discusses specific material changes that have been made to the Brochure since the last annual update in March 2022. Below is a summary of those changes:

- Item 19 – Requirements for State-Registered Advisers

This section of the brochure was removed as FMI is transitioning its registration with the State of Arkansas to the Securities and Exchange Commission.

We will provide you with a Summary of Material Changes made to this brochure annually at no cost. You may receive an updated copy of this brochure at any time by contacting us at 501-227-7400.

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## **Item 4 – Advisory Business**

### **About Our Firm**

Financial Management Inc. (“FMI”) is a registered investment adviser that provides investment management and financial advisory services to individual and institutional investors to help them achieve their financial needs and goals. FMI has been a registered investment adviser since 1982.

FMI is a wholly owned subsidiary of Crews Core Holding Company, which is a wholly owned subsidiary of First Security Bancorp.

Our firm takes pride in providing personalized service to our clients and acknowledges that it is held to a fiduciary standard of care.

### **Types of Advisory Services We Offer**

FMI offers a variety of investment advisory services to individuals, high net worth individuals, retirement plans, non-profit organizations and foundations, and businesses/corporations. These services include:

- Asset and wealth management
- Financial planning and consulting
- Fiduciary and non-fiduciary services for plan sponsors

We work with our clients to determine their investment objectives and risk profile and develop and execute a customized investment plan based on their individual needs and goals. FMI will utilize the financial information provided by the client to analyze and develop strategies and solutions to assist the client in meeting their financial goals. When we recommend changes to a financial strategy, we take time to make sure the client understands the potential rewards and risks and how those changes can help them achieve their goals. Most importantly, support is provided by a professional team who believe in a client-oriented, performance-driven approach to whatever level of service is being rendered on the client’s behalf.

Prior to FMI rendering any of the foregoing services, clients are required to enter into one or more written advisory agreements with FMI setting forth the relevant terms and conditions of the advisory relationship.

### **Asset and Wealth Management Services**

FMI manages our clients’ portfolios on a discretionary and non-discretionary basis. Our asset management services are tailored to the needs of our clients and are based on a comprehensive

understanding of each client's current situation, past experiences, and future goals. With this acquired knowledge we create, analyze, strategize, and implement goal-oriented investment solutions. These solutions become our clients' investment policy. This policy and our matched strategies are designed to be risk appropriate, cost effective and tax efficient.

Our portfolio management services generally include a broad range of comprehensive financial planning and/or consulting services, as well as discretionary and non-discretionary management of investment portfolios.

Client assets are primarily allocated among individual equity and debt securities, exchange-traded funds ("ETFs") and mutual funds in accordance with the client's stated investment objective and risk/volatility parameters. We may also recommend clients allocate a certain portion of their assets to alternative investments. Where appropriate, FMI may also provide advice about many types of legacy positions or other investments held in client portfolios. Clients may also engage FMI to manage and/or advise on certain investment products that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, FMI will direct or make recommendations on a discretionary basis for the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or custodian for the plan trustee or administrator and clients retain responsibility for effecting trades in these accounts.

FMI consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. You should promptly notify us if there are changes in your financial situation or if you wish to place any limitations on the management of your account. You may impose reasonable restrictions or mandates on the management of your account if FMI determines, in our sole discretion, the conditions will not materially impact the performance of a management strategy or prove overly burdensome to the firm's management efforts.

Through our wealth management services, we analyze and suggest alternatives for using available resources to meet retirement or other financial goals. Our analysis may include assessing the impact of current and future projected tax, as well as related issues of risk, flexibility and costs, in order to seek the greatest benefit to the client or his/her estate. FMI will act solely in our capacity as a registered investment adviser and does not provide any legal, accounting or tax advice. You should seek the counsel of a qualified accountant and/or attorney when necessary. As part of our advisory services, we may assist clients with tax loss harvesting and will work with the client's tax specialist to answer any questions related to the client's portfolio. Any incidental tax discussions on topics, such as required minimum distributions, retirement plan contributions, etc. should be verified with your tax advisor.

To the extent a client's assets are invested in a particular fund, those funds will have their own investment practices, which are described in each fund's prospectus or offering or other disclosure documents. In addition, selected funds typically have discretion to determine the type, and amount, of securities to be purchased or sold for the portion of the assets managed by the fund.

## **Consulting Services**

### **Consulting Services for Individuals**

FMI offers different types of consulting services to help our clients identify, prioritize and work towards their goals and objectives. Our consulting services give our clients the ability to receive a broad range of financial advice and services, including specific security recommendations, for the duration of the advisory agreement.

Our process starts with an extensive review of a client's family situation, which includes assets and liabilities as well as estate, tax, and insurance needs. We then employ a risk tolerance and risk capacity-focused simulation to get a detailed cash flow analysis and proposed asset allocation.

Certain financial planning services are rendered in conjunction with investment management services as part of a comprehensive portfolio management engagement. In performing these services, FMI is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.), and is expressly authorized to rely on such information. FMI may recommend clients engage the firm for additional related services, or we may recommend other professionals to implement our recommendations. These additional services by FMI or another professional are provided at an additional cost to you, which is based on the nature, extent, complexity, and other characteristics of the services. This creates a conflict of interest because we will have an incentive to recommend additional services based on the compensation to be received, rather than solely based on your needs, and in some cases, based on the prospect of cross-referrals of advisory clients from the other professional or his or her firm. Implementation of financial planning recommendations is entirely at your discretion. You have complete freedom in selecting a financial adviser to assist you with implementing the recommendations made in your financial plan and are under no obligation to act on the advice of FMI. Financial planning recommendations are of a generic nature and are not limited to any specific product or service offered by a broker dealer or insurance company. Should you choose to implement the recommendations contained in the plan, FMI suggests you work closely with your attorney, accountant and/or insurance agent.

FMI will act solely in our capacity as a registered investment adviser and does not provide any legal, accounting or tax advice. You should seek the counsel of a qualified accountant and/or attorney when necessary. As part of our advisory services, we may assist clients with tax loss harvesting and will work with the client's tax specialist to answer any questions related to the client's portfolio. Any

incidental tax discussions on topics, such as required minimum distributions, retirement plan contributions, etc. should be verified with your tax advisor.

### Business and Professional Consulting Services

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

FMI's business consulting services address needs at all stages of the business life-cycle—Startup; Operations and Financial Stability; and Succession and Transition.

### **Fiduciary and Non-Fiduciary Services for Plan Sponsors**

Retirement plan sponsors may retain our firm to provide advisory and consulting services for plan assets. Fiduciary services available to plan sponsors include:

- Reviewing and assisting in the establishment of investment policies and objectives on behalf of the plan
- Assistance with development of an Investment Policy Statement
- Recommending core investments to be offered to plan participants for selection by the plan sponsor
- Recommending investment managers, within the meaning of ERISA Section 3(38), on behalf of the plan, to be offered as investment options for plan participants
- Monitoring of the plan's investments or investment managers in accordance with the plan's Investment Policy Statement or other relevant guidelines
- Developing and managing model portfolios as investment options for plan participants, as investment manager, within the meaning of ERISA Section 3(38), on behalf of the plan

Non-fiduciary consulting services available to plan sponsors include:

- Educating plan participants on investment options available within the plan
- Preparation of periodic performance reports for the plan's investments
- Assistance with monitoring the reasonableness of the fees and expenses of the plan's investments or investment managers in accordance with the plan's Investment Policy Statement or other relevant guidelines

- Benchmarking existing plan service providers to industry peers, and where appropriate, conducting a search for new providers for the plan sponsor's consideration and providing our recommendation

## **Amount of Assets We Manage**

As of December 31, 2021, Financial Management Inc. managed \$102,638,551 on a discretionary basis, \$583,799 on a nondiscretionary basis and advised on \$18,591,659 of self-directed retirement account assets. We provide additional asset consulting services to \$90,658,953 of assets, which are not considered regulatory assets under management.

## **Item 5 – Fees and Compensation**

### **How We Are Compensated for Our Advisory Services**

Our fees vary among the different types of advisory services we offer and may be negotiated at our sole discretion. The specific fees and manner in which fees are charged and calculated are described in your investment advisory agreement. You should carefully review the investment advisory agreement prior to signing it.

Fees for our advisory services may be higher than fees charged by other advisers who offer similar services. You may be charged different fees than similarly situated clients for the same services. You should carefully review this brochure to understand the fees and other sources of compensation that exist among our services prior to entering into an investment advisory contract with our firm.

### **Asset and Wealth Management Services**

FMI offers investment and wealth management services for an annual fee based on the amount of assets under the firm's management. Fees are generally billed in advance each calendar quarter based on the market value of the assets under management/advisement on the last day of the previous calendar quarter as valued by independent third party sources or fair market value in the absence of market value. Client account balances on which FMI calculates fees may vary from account custodial statements based on independent asset valuations and other accounting variances, including mechanisms for including accrued interest in account statements or timing of reporting.

Advisory fees are calculated based on a graduated schedule or a flat rate of up to 2% annually. For fees based on a graduated schedule, the following table represents the advisory fee for asset management services:



<b>Portfolio Value</b>	<b>Maximum Rate for Annual Fee Calculation</b>
First \$250,000	2.00% of Value
Next \$250,000	1.00% of Value
Next \$500,000	0.80% of Value
Next \$1,000,000	0.60% of Value
Next \$2,000,000	0.40% of Value
Over \$4,000,000	0.20% of Value

Fees may be based on cumulative household assets under management. However, certain ERISA rules prevent householding corporate plans with personal assets for fee reductions. You should refer to your advisory agreement for your specific fee rate(s).

### **Consulting Services**

Fees for consulting services are billed at a fixed or hourly rate or based on assets under advisement and are billed in advance. Our hourly rate is generally \$300 an hour and range up to \$20,000.

Fees for consulting services are due and payable as incurred. While financial planning and consulting services are available on a stand-alone basis, certain services may also be rendered in conjunction with asset and wealth management services at no additional cost as part of a comprehensive portfolio management engagement.

Factors we consider when determining our consulting fees include, but are not limited to:

- The amount of time we expect to spend completing the services and providing related advice;
- The complexity of your goals, issues and/or needs;
- The extensiveness and complexity of the data needed regarding your personal financial information;
- Your net worth or the value of your investment accounts and/or other assets that are the subject of the consulting services; and/or

- Special circumstances related to life changes, marital status, health or special income needs, or growth or decline of a personal business.

You may engage FMI for additional investment management services to assist with implementing one or more financial planning or consulting recommendations. You will incur additional fees if you retain our firm for such services. You have complete freedom in selecting an investment adviser to assist you in implementing any recommendations by FMI and are under no obligation to act upon the advice we provide.

For consulting services, the investment advisory agreement between FMI and the client will continue in effect until terminated by either party upon 30-days written notice.

### **Fiduciary and Non-Fiduciary Services for Plan Sponsors**

Fees for retirement plan sponsors are negotiable. Fees are based upon the value of the plan assets that are the subject of the consulting services and are generally payable in advance on a quarterly basis.

### **Payment of Fees**

Clients can authorize FMI to instruct the account custodian to directly debit fees from the client's account or may pay fees directly from the invoices sent to them from FMI. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee.

Fees for our advisory services generally require you to pay investment advisory fees in advance of receiving services. Any pre-paid, unearned fees will be promptly refunded. Advisory fees are prorated for additions and withdrawals of more than \$25,000 to or from an account throughout the quarter (additions for deposits; reductions for withdrawals). If invoices are provided to the client, the adjustment will be reflected on the invoice prepared at the next regular billing cycle.

- For asset management and fiduciary and non-fiduciary consulting services, refunds are calculated by taking the total advisory fee billed for the calendar quarter, dividing that amount by the number of days in the calendar quarter and multiplying that amount by the number of days services were not provided during the calendar quarter.
- For consulting services, refunds are calculated based on the value of the services that were completed prior to termination of the advisory agreement.

### **Other Types of Fees and Expenses You May Incur**

Clients may incur certain charges imposed by custodians, brokers, third-party investments and other third parties, such as custodial fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Decisions to

reallocate your account assets may result in you incurring a redemption fee imposed by one or more mutual funds held in your account. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to FMI's fee. FMI shall not receive any portion of these commissions, fees, and costs, including any distribution or "12b-1" fees paid by the mutual funds in which your account assets are invested. A client could invest in mutual funds directly, without the services of FMI. In that case, the client would not receive the services provided by FMI, which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate for each client's financial condition and objectives.

### **Other Types of Compensation We Receive**

Certain Supervised Persons of FMI are licensed insurance agents and receive commissions for the sale of fixed insurance products, and in some instances, ongoing compensation called trail commissions. This compensation gives these financial professionals an incentive to recommend insurance products in addition to advisory services. We address this conflict of interest by upholding our fiduciary duty to provide investment advice that is in your best interest and disclosing the conflict to you before or at the time you enter into an investment advisory contract with our firm.

Clients are advised that the fees paid to FMI for investment advisory services are separate and distinct from any fees and compensation earned, whether directly or indirectly, in connection with the sale of fixed insurance. You have the option to purchase insurance that your investment adviser representative recommends through other agents that are not affiliated with FMI.

FMI has contracted with Charles Schwab & Co, Inc. ("Schwab") for brokerage services, including trade processing, collection of management fees, marketing assistance and research. Item 12 – Brokerage Practices further describes the factors that FMI considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

FMI does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client) or participate in side-by-side management.

### **Item 7 – Types of Clients**

FMI provides investment advisory services to individuals, high net worth individuals, retirement plans, non-profit organizations and foundations, and businesses/corporations.

FMI generally does not require a minimum initial investment for investment management services. The firm, in its sole discretion, will accept clients based upon each client's particular circumstances.

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

### **Methods of Analysis and Investment Strategies**

FMI develops and utilizes long-term investment strategies and endeavors to provide clients with the balance of growth versus risk consistent with their individual circumstances and financial situation. Our primary investment selection and management philosophy is built upon Strategic Asset Allocation which is based upon principles of the Nobel Prize-winning Modern Portfolio Theory considering the effects of asset risk, return, correlation and diversification on probable investment portfolio returns. In addition, FMI incorporates academic research and studies in quantitative finance into the development of these strategies. FMI does not routinely analyze individual securities. Instead, for asset management accounts, FMI typically recommends exchange traded funds or mutual funds to clients. FMI may consider whether individual stock and bond positions are appropriate for a client's portfolio on a case-by-case basis and recommend whether pre-existing positions should be maintained.

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

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. All investments present the risk of loss of principal – the risk that the value of securities (e.g., mutual funds, ETFs, stocks, bonds, etc.), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities when sold is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment. There is no guarantee that investment recommendations made by FMI will be successful. We cannot assure that your account will increase, preserve capital, or generate income, nor can we assure that your investment objectives will be realized. Although all investments involve risk, our investment advice seeks to limit risk through diversification among various asset classes.

We may recommend a variety of security types for your account in an effort to achieve your individual needs and goals. This may include, but is not limited to, open-end and closed-end mutual funds, ETFs, stocks, bonds, ETFs, or alternative investments. An investment in alternative investments may present risks specific to the particular investment vehicle, such as long-term

illiquidity, redemption notice periods or other restrictions on redemptions, capital calls, or periodic taxable income distribution.

Described below are the material risks associated with investing in the types of securities we generally use in client accounts:

### **Mutual Funds**

Mutual funds may invest in different types of securities, such as value or growth stocks, real estate investment trusts, corporate bonds, or U.S. government bonds. There are risks associated with each asset class.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. Redemption is at the current net asset value, which may be more or less than the original cost. Aggressive growth funds are most suitable for investors willing to accept price per share volatility since many companies that demonstrate high growth potential can also be high risk. Income from tax-free mutual funds may be subject to local, state and/or the alternative minimum tax.

Because each mutual fund owns different types of investments, performance will be affected by a variety of factors. The value of your investment in a mutual fund will vary from day to day as the values of the underlying investments in a fund vary. Such variations generally reflect changes in interest rates, market conditions and other company and economic news. These risks may become magnified depending on how much a fund invests or uses certain strategies. A fund's principal market segment(s), such as large-cap, mid-cap or small-cap stocks, or growth or value stocks may underperform other market segments or the equity markets as a whole.

You can find additional information regarding these risks in the fund's prospectus.

### **Equity Securities**

In general, prices of equity securities (common, convertible preferred stocks and other securities whose values are tied to the price of stocks, such as rights, warrants and convertible debt securities) are more volatile than those of fixed-income securities. The prices of equity securities could decline in value if the issuer's financial condition declines or in response to overall market and economic conditions. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

## **Exchange-Traded Funds (ETFs)**

ETFs are typically investment companies that are legally classified as open-end mutual funds or unit investment trusts. ETFs differ from traditional mutual funds in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly traded companies. ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and ask price is often referred to as the “spread.” The spread varies over time based on the ETF’s trading volume and market liquidity. It is generally lower if the ETF has high trading volume and market liquidity and higher if the ETF has low trading volume and market liquidity. Liquidity risks are higher for ETFs with a large spread. ETFs may be closed and liquidated at the discretion of the issuing company.

## **Fixed-Income Securities**

The return and principal value of bonds fluctuate with changes in market conditions. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. If bonds are not held to maturity, they may be worth more or less than their original value. Credit risk refers to the possibility that the issuer of a bond will not be able to make principal and/or interest payments. High yield bonds, also known as “junk bonds,” carry higher risk of loss of principal and income than higher rated investment grade bonds.

## **International Investing**

The risks of investing in foreign securities include loss of value as a result of political or economic instability; nationalization, expropriation or confiscatory taxation; changes in foreign exchange rates and foreign exchange restrictions; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies). These risks may be greater with investments in emerging markets. Certain investments utilized by the firm may also contain international securities.

## **Cash and Cash Equivalents**

A portion of your assets may be invested in cash or cash equivalents to achieve your investment objective, provide ongoing distributions, and/or take a defensive position. Cash holdings may result in a loss of market exposure.

## **Alternative Investments**

Alternative investments are illiquid investments and do not trade on a national securities exchange. Alternative investments typically include investments in direct participation program securities (partnerships, limited liability companies, business development companies or real estate investment trusts), commodity pools, private equity, private debt, or hedge funds. Alternative investments are subject to various risks, such as illiquidity and property devaluation based on adverse economic and/or real estate market conditions.

Alternative investments are not suitable for all investors. Investors considering an investment strategy utilizing alternative investments should understand that alternative investments are generally considered speculative in nature and may involve a high degree of risk, particularly if concentrating investments in one or few alternative investments. These risks are potentially greater and substantially different than those associated with traditional equity or fixed income investments. Additional information regarding these risks can be found in the product's prospectus or offering documents.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of FMI or the integrity of FMI's management. FMI has no disciplinary information to report.

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

FMI is licensed as and operates as an insurance agency in conjunction with and as a complementary component of its asset management and investment advisory services. Certain Supervised Persons of FMI are licensed insurance agents and may recommend and offer life insurance coverage—Permanent, Term and Universal Life—for clients desiring to implement their insurance needs through the FMI insurance agency. FMI is licensed to sell insurance products in various states and will only offer those products in the states where the firm is properly licensed. Clients are advised that the fees paid to FMI for investment advisory services are separate and distinct from any fees and compensation earned, whether directly or indirectly, by any of our personnel in connection with insurance services offered by FMI. You have the option to purchase insurance that your investment adviser representative recommends through other agents that are not affiliated with FMI.

Any recommendation to use the insurance services of FMI presents a conflict of interest as our licensed insurance professionals will be compensated for such services. Certain financial professionals of FMI receive commissions for the sale of fixed insurance products and, in some instances, ongoing compensation called trail commissions, as licensed insurance agents of FMI. This

compensation gives these financial professionals an incentive to recommend insurance products in addition to advisory services. We address this conflict of interest by upholding our fiduciary duty to provide investment advice that is in your best interest and disclosing the conflict to you before or at the time you enter into an investment advisory contract with our firm. FMI does not charge a management fee on the cash values that may accumulate in insurance policies.

FMI is a wholly owned subsidiary of Crews Core Holding Company, which is a wholly owned subsidiary of First Security Bancorp. Crews Core Holding Company and First Security Bancorp own Crews & Associates, Inc., a registered investment adviser and broker-dealer. FMI does not recommend or use products offered by any of these affiliated entities.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Our Code of Ethics**

FMI is committed to providing investment advice with the utmost professionalism and integrity. Our firm strives to identify manage and/or mitigate conflicts of interest and has adopted policies, procedures, and oversight mechanisms to address conflicts of interest. We have adopted a Code of Ethics that emphasizes our fiduciary obligation to put client interests first and is designed to ensure personal securities transactions, activities, and interests of employees will not interfere with the responsibilities to make decisions in the best interest of clients. All supervised persons of our firm must acknowledge and comply with our Code of Ethics. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

### **Participation in Client Transactions**

FMI does not effect principal or agency cross securities transactions for client accounts. FMI also does not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells a security to an advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.



## **Employee Personal Trading**

Supervised persons of FMI may purchase or sell the same security that we recommend for investment in client accounts. This creates a conflict of interest as there is a possibility that employees of our firm might benefit from market activity by a client in a security held by the employee. Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of FMI will not interfere with making decisions in the best interest of advisory clients and implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of FMI's clients. Our Code of Ethics also places restrictions on our employees' personal trading activities. These restrictions include, but are not limited to, a prohibition on trading based on non-public information and pre-clearance requirements for certain types of transactions. Employee trading is continually monitored under the Code of Ethics in an effort to prevent conflicts of interest between FMI and our clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with FMI's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. FMI will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

## **Item 12 – Brokerage Practices**

### **Selection and Recommendation of Broker-Dealers**

Though FMI recommends brokers with which we have negotiated pricing on behalf of our clients, we do not have discretionary authority to select brokers. We endeavor to recommend broker-dealers that will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research and other services that will help our firm provide investment management services to clients. FMI may recommend brokers who provide useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance.

We have negotiated competitive pricing and services with Charles Schwab & Co., Inc. ("Schwab") for brokerage back-office and trade execution services. Schwab is a member of SIPC and FINRA member. The brokerage commissions and/or transaction fees charged by the broker-dealer are in addition to FMI's advisory fee. FMI regularly reviews the reasonableness of the compensation

received by Schwab used for executing client transactions in an effort to ensure that our clients receive favorable execution consistent with our fiduciary duty. Factors which FMI considers in recommending broker-dealers to clients include, but is not limited to, their respective financial strength, reputation, execution, pricing, research, and service. The commissions and/or transaction fees charged by Schwab may be higher or lower than those charged by other broker-dealers.

Effective October 7, 2019, Schwab has eliminated commissions for online trades of U.S. equities, ETFs and options (subject to \$0.65 per contract fee). We encourage you to review your broker-dealer's pricing to compare the total costs of entering into a wrap fee arrangement versus a non-wrap arrangement. You will still incur commissions and fees at Schwab for certain types of transactions in a non-wrap fee arrangement. To see what you would pay for transactions in a non-wrap account, please refer to Schwab's most recent pricing schedules available at [www.schwab.com/aspricingguide](http://www.schwab.com/aspricingguide).

The commissions paid by FMI's clients are intended to be consistent with our duty to obtain "best execution." However, a client may pay a commission that is higher than what another qualified broker-dealer might charge to affect the same transaction when FMI determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while FMI will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

To the extent that you maintain an account with another custodian or FMI provides advice with respect to other non-managed assets, you will be responsible for effecting specific transactions pursuant to the recommendations. Examples of such accounts include but are not limited to a 401k plan, 529 college savings plan, or other holdings on a platform specific to such assets.

## **Products & Services Available to Us from Broker-Dealers**

A broker-dealer's trading platform is essential to FMI's service arrangements and capabilities, and FMI may not accept discretionary management authority over client accounts who direct the use of other brokers. Schwab provides FMI with access to institutional trading and custody services, which are typically not available to retail investors. These brokerage and custodial services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. Other benefits we may receive include receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its participants; access to block trading, which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information. Schwab's support

services are generally available on an unsolicited basis and at no charge to us as long as we maintain a total of at least \$10 million of our clients' assets in accounts at Schwab.

FMI also receives other services from Schwab (or third-party vendors with which they do business) to help us manage and further develop our business enterprise. These services include educational conferences and events; technology, compliance, legal, marketing and business consulting; publications and conferences on practice management and business succession; and access to employee benefits providers, human capital consultants and insurance providers. Fees for these services may be waived, discounted or compensated by the broker-dealer. Irrespective of these direct and indirect benefits to our clients, we strive to enhance our clients' experience and always put the needs of our clients first.

### **Research and Other Soft Dollar Benefits**

FMI does not participate in soft-dollar relationships.

### **Brokerage for Client Referrals**

When selecting broker-dealers for the execution of client securities transactions, FMI does not consider whether we will receive any client referrals from the broker-dealer or any other third-party.

### **Directed Brokerage**

As FMI will not request the discretionary authority to determine the broker-dealer to be used or the commission rates to be paid, clients must direct FMI as to the broker-dealer to be used. The commissions and transaction fees charged by these broker-dealers could be higher or lower than those charged by other custodians and broker-dealers. When directing the use of a particular broker-dealer, it should be understood that FMI will not have authority to negotiate commissions among various broker-dealers or obtain volume discounts. As such, best execution may not be achieved. Not all investment advisers require clients to direct the use of specific broker-dealers

### **Aggregation of Orders**

FMI will generally block trades where possible and when advantageous to clients. Certain trades will be effected independently. The blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts where transaction costs are shared equally and on a pro-rated basis between all accounts included in the block. Block trading allows us to execute equity or fixed income trades in a timely, equitable manner and to reduce overall commission charges to clients. Clients who do not provide FMI with discretion will not participate in block trades, and their trades in similar securities will be placed with brokers after trades for discretionary accounts. Accounts owned by supervised persons of our firm may participate in block trading with your accounts; however, these individuals will not be given preferential treatment of any kind.

## **Item 13 – Review of Accounts**

### **Review of Accounts**

Accounts at FMI are reviewed on a periodic basis. This informal review includes assessing client goals and objectives, monitoring the account, and addressing the need to rebalance, as necessary. Individual securities held in client accounts are periodically monitored by the firm. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes to a client's individual circumstances, market conditions, tax law changes or the political or economic environment.

Formal reviews are conducted with clients on a quarterly, semi-annual or annual basis, depending on the client's preferences. FMI may also review tax-planning needs, cash-flow needs, as well as charitable giving, insurance, and estate planning as part of our ongoing client reviews. Reviews are tailored to the services we provide to you, as well as your individual needs and goals. We encourage you to discuss your needs, goals, and objectives with us and keep us informed of any changes. If you engage our firm for ongoing investment advisory services, we will contact you at least annually to determine whether there have been any changes to your financial situation or investment objectives and whether you wish to impose any reasonable restrictions on the management of your account or reasonably modify any existing restrictions. At this time, we will advise you of any account changes we feel are necessary to help you stay on track with meeting your financial goals and consider whether the current services provided by our firm continue to be suitable for your needs.

### **Regular Reports**

In addition to the account statements you receive from the custodian at least quarterly, FMI also provides a detailed written quarterly performance report to asset management clients at the end of each calendar quarter. Quarterly performance reports provide details on account holdings and performance, such as internal rates of return and after fees and trading costs for each component of a client's portfolio and total portfolio. In no instance are non-financial assets included in any performance reporting. We urge you to carefully review your account statements and compare the account balances with the balances reflected on any performance report you may receive from our firm for accuracy. Balances on our reports may vary slightly from custodial statements due to differences in accounting procedures, reporting dates, valuation methodologies of certain securities or other operational factors. You should promptly notify us if you do not receive account statements from your custodian at least quarterly or if you believe the information on your account statements is inaccurate.

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

### **Other Compensation Arrangements**

FMI receives compensation from the broker-dealer used for your account and your account custodian in the form of access to electronic systems that assist us in the management of client accounts, as well as research, software and other technology that provide access to client account data (such as trade confirmations and account statements), pricing information and other market data, facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), and client reporting capabilities. Your account custodian also offers us discounts for products and services offered by vendors and third-party service providers, such as software and technology solutions. These economic benefits create a conflict of interest in that it gives our firm an incentive to recommend one broker-dealer or custodian over another that does not provide similar electronic systems, support, or services. We address this conflict of interest by disclosing to our clients the types of compensation that our firm receives so clients can consider this when evaluating our firm. It is important that you consider the fees, level of service and investment strategies, among other factors, when selecting an investment manager. FMI does not commit to any level of client account holdings at the broker-dealer or any level of transactions in client accounts in exchange for this compensation.

### **Client Referrals**

FMI does not pay any referral fees to other individuals for referring clients to our firm.

## **Item 15 – Custody**

When you establish a relationship with our firm for investment management services, your assets will be maintained by a bank, broker -dealer, mutual fund transfer agent or other such institution deemed a 'qualified custodian' by the SEC. We rely on the custodian to price and value assets, execute and clear transactions, maintain custody of assets in your account and perform other custodial functions. FMI does not maintain physical possession of any client account assets. Clients' assets must be held by a bank, broker dealer, mutual fund transfer agent or other such institution deemed a qualified custodian. We utilize Schwab as the qualified custodian for client accounts.

Nevertheless, FMI is deemed to have custody, pursuant to Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, due to its authority over certain accounts to distribute assets subject to a third-party standing letter of authorization. FMI relies on the SEC No-Action Letter issued to the Investment Advisers Association, dated February 21, 2017, which provides an exemption from the annual surprise custody examination by an independent accountant.

You will receive monthly and/or quarterly account statements directly from the qualified custodian. FMI will also provide you with written quarterly performance reports for your account in you engage our firm for asset management services. We urge you to carefully review your account statements and compare the account balances with the balances reflected on any performance report you may receive from our firm for accuracy. Balances on our reports may vary slightly from custodial statements due to differences in accounting procedures, reporting dates, valuation methodologies of certain securities or other operational factors. You should promptly notify us if you do not receive account statements from your custodian at least quarterly or if you believe the information on your account statements is inaccurate.

## **Item 16 – Investment Discretion**

For asset management services, FMI typically has investment discretion over clients' securities accounts. Investment discretion is the authority to determine the securities or other assets to purchase or sell on behalf of an account. Investment discretion may also include the authority to select or terminate a third-party asset manager. This authority is exercised in a manner consistent with your stated investment objective for the particular account. You must provide written authorization to our firm before we can assume discretionary authority over your account, which is provided in the investment management agreement. Any investment guidelines or restrictions you would like to place on your account must be provided to FMI in writing.

Clients that wish to maintain discretion over their accounts should understand that FMI cannot effect any account transactions without first obtaining your consent.

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

As a matter of firm policy and practice, FMI does not accept the authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Clients will receive applicable proxies directly from the issuer of securities held in clients' investment portfolios. The firm may offer assistance as to proxy matters upon a client's request, but the client always retains the proxy voting responsibility.

## **Item 18 – Financial Information**

As a registered investment adviser, FMI is required to provide you with certain financial information about our firm.

**Prepayment of Fees**

We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

**Our Financial Condition**

We do not have any financial commitment that is reasonably likely to impair our contractual commitments to our clients, nor has our firm ever been the subject of a bankruptcy proceeding.