

# Towle & Co.

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This brochure provides information about the qualification and business practices of Towle & Co. If you have any questions about the contents of this brochure, please contact us at 314-822-0204 or [compliance@towleco.com](mailto:compliance@towleco.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Additional information about Towle & Co. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Although Towle & Co. is a registered investment advisor with the SEC, registration does not imply a certain level of skill or training.

## Item 2 Material Changes

Material changes from our last update dated March 1, 2014 include:

Item 5. Updated fee information from flat 1% to a graduated schedule based on assets.

Item 9. Simplified disciplinary disclosure to better demonstrate a clean legal and regulatory record.

Item 12. Provided more detailed description of our use of Client Commission Arrangements consistent with Section 28(e) of the Exchange Act of 1934. Provided expanded discussion concerning post-trade allocations and directed brokerage.

Item 13. Expanded discussion concerning account reviews.

Item 18. Updated to reflect a change in customer base. As a result, all fees are now charged and collected in arrears with the exception of one account in a wrap program, which is collected by the sponsor.

## Item 3 Table of Contents

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## Item 4 Advisory Business

Formed in 1981, Towle & Co. is an independently-owned firm registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Towle & Co. is organized as an S-Corporation and has two owners active in the business, J. Ellwood Towle, Chief Executive Officer, and Christopher D. Towle, President. Since inception, various members of the Towle family have owned and continue to own 100% of the stock. No material changes to the current ownership structure are anticipated in the near future.

Towle & Co. manages long-only stock portfolios for both individual and institutional investors typically on a fully discretionary basis. The firm specializes in a long-term, deep-value investment discipline that is designed to uncover significant discrepancies between stock market prices and underlying company values. This search for value generally leads to smaller capitalization stocks, a market segment overlooked by many asset managers. For investors with a long-term investment horizon seeking capital appreciation in excess of stock market returns, the Towle Deep Value strategy may appreciably diversify their scope of investment and complement core equity allocations. Upon request, Towle & Co will work with clients to accommodate client-specific restrictions on our investment strategy.

Investors can participate in the Deep Value strategy via separately managed accounts, two pooled investment vehicles (the "Partnerships"), for which Towle & Co. serves as General Partner, and an Investment Company Act of 1940 mutual fund, Towle Deep Value Fund (the "Fund"), for which Towle & Co. serves as advisor. *Any reference to the Partnerships or the Fund within this Form ADV Part 2A shall not constitute an offer to sell or the solicitation of an offer to buy interests in the Partnerships or the Fund.* A private placement of securities may only be made in conjunction with the Partnerships' offering documents and the Fund's prospectus. The remainder of this Form ADV Part 2A will describe Towle & Co.'s separate account and sub-advisory business. Please refer to the Private Placement Memorandums for each of the Partnerships and the Prospectus for Towle Deep Value Fund for more information.

Clients typically grant Towle & Co. complete discretion over the selection and amount of securities to be bought or sold, the broker or dealer to be used, and the commission rate to be paid. And in general, Towle & Co. manages each account according to a model portfolio. However, any particular aspect of the authority described above may be restricted pursuant to the specific instruction of separately managed account clients.

Towle & Co. has and does provide investment advisory services on a discretionary basis to one client of a sponsoring broker-dealer/financial consultant who offers brokerage, custodial, and advisory services for a comprehensive "wrap fee" based on a percentage of assets under management. The sponsor of this wrap program typically receives the total "wrap fee" charged to the client and remits a portion to Towle & Co. The remitted portion, which represents fees for providing investment advisory services to the sponsored account, is determined by agreement between Towle & Co. and the sponsor. Fees are payable quarterly. Towle & Co. is required to direct all account brokerage transactions to the sponsoring broker to prevent incurring additional transaction charges outside of the comprehensive "wrap fee." As a result, although Towle & Co. seeks to achieve best execution for this wrap fee account, there are no guarantees that best execution will be achieved. In all other manners, including investment decisions, this wrap fee relationship is managed similarly to other separately managed accounts.

As of calendar year end 2014, Towle & Co. managed assets with a market value of \$561.2 million for the benefit of clients on a discretionary basis. Towle & Co. did not have any assets under management that were considered to be non-discretionary.

## Item 5 Fees and Compensation

Management fees for separate accounts are based upon the value of the assets in the account and are payable quarterly in arrears according to the following schedule. Towle & Co. reserves the right to negotiate fees when appropriate.

| <u>Account Assets</u> | <u>Annual Rate</u> |
|-----------------------|--------------------|
| First \$25 million    | 1.00%              |
| Second \$25 million   | 0.90%              |
| Over \$50 million     | 0.80%              |

The investment advisory fees that Towle & Co. receives as advisor to the Towle Deep Value Fund are described in the prospectus of the Fund. The fees Towle & Co. receives as General Partner of the Partnerships are more fully described in the Partnerships' Private Placement Memorandums.

Unless an alternative arrangement is requested, the client generally authorizes Towle & Co. to invoice its custodian directly for management fees due, with a copy of the billing statement sent to the client for verification. Fees for separately managed accounts are calculated as a percentage of the account value on the last trading day of each calendar quarter and payable at the end of each quarter. For accounts that start or terminate mid-quarter, the management fee is pro-rated. Managed account clients may terminate the advisory relationship upon fifteen (15) days written notice and within five (5) business days of signing the investment advisory agreement.

In addition to the above-described management fee, clients with separately managed accounts can expect to incur trade commissions and may also be responsible for wire transfer fees or other custodial charges. Other investment advisers may offer similar investment advisory services for fees that may be less than or greater than the fees charged by Towle & Co. For a further discussion on trading and related costs, please see Item 12 Brokerage Practices below.

As described above in Item 4 Advisory Business, the sponsor of the wrap fee program in which Towle & Co. participates collects fees in advance. In all other relationships, management fees are payable in arrears. As a result, clients will not be eligible to a management fee refund directly from Towle & Co.

Towle & Co.'s only remuneration for managing client assets is the management fee described above. Neither the Company nor any of its supervised persons accepts compensation for the sale of securities or other investment product. Towle & Co. does not believe a situation will arise whereby Towle & Co. could earn such solicitation fees.

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

The Company's standard discretionary management agreement allows Towle & Co. to earn and charge performance-based fees. However, Towle & Co. currently has no client relationships in which the Company earns or collects performance-based fees. Towle & Co. would be willing to negotiate a performance-based fee structure upon request. The compensation of all employees of Towle & Co. consists of salary, bonus, and retirement contribution. No employees, including supervised persons, are directly compensated by clients, and therefore are not eligible to earn any performance-based fees.

## **Item 7 Types of Clients**

Towle & Co. manages investment portfolios on a discretionary basis to individual and institutional investors. Towle & Co. does not engage in financial planning or other similar activities. Currently, the Company's client base consists largely of taxable, retirement, trust, and partnership accounts for the benefit of individuals or groups of individuals. However, Towle & Co. also has a seasoned and growing list of foundations, pension plans, and sub-advisory assignments. Furthermore, in its capacity as General Partner of the Partnerships and advisor of the Fund, Towle & Co. provides investment advisory services to three pooled vehicles.

The advertised minimum to open a separately managed account is \$1,000,000.

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

Towle & Co. manages assets using a focused investment philosophy that we call Deep Value. This strategy executes a fundamental, investment discipline that emphasizes the purchase of companies believed to be substantially undervalued relative to their private market worth and normalized earnings power. The bottom-up selection process strives to identify and invest in out-of-favor companies with significant appreciation potential over the long term. Paramount to this endeavor is a contrarian and independent viewpoint. No attempt is made to manage against the composition of a benchmark. While the Deep Value approach may include large capitalization stocks, the search for absolute value usually leads to equities with market capitalizations under \$5.0 billion.

A distinguishing characteristic of the strategy is its emphasis on identifying investment candidates with very low price-to-sales ratios. Low price-to-sales or low market value-to-revenues is a way to buy operating leverage and economic activity on the cheap. This has been a keen focus since inception and may be a key factor in the strategy's long-term out-performance. In addition to this criterion, we look for well-seasoned companies with strong market positions, identifiable catalysts for earnings improvement, and committed, experienced management teams. Investments are made in industries such as financial services, manufacturing, distribution, consumer products, transportation, and energy, among others. Towle & Co. does not invest in tobacco, liquor, or gaming companies.

### **Buy Decision**

We screen regularly for companies that exhibit many of the following characteristics:

- Low price-to-book value
- Low price-to-earnings (current or normalized)
- Low price-to-sales
- Low total enterprise value to earnings before interest, taxes, depreciation and amortization
- Selling at 50% or less of comparable acquisition values
- Total debt less than shareholders' equity
- Out-of-favor, consolidating or transforming industry
- Market position, technological leadership or other competitive advantage
- Operating leverage
- Hidden assets
- Stagnating or declining stock price
- Weak or negative sponsorship from the investment community
- Experienced leadership team

Candidates for inclusion in the portfolio are expected to trade at a significant discount to their private market value while demonstrating characteristics that we believe present potential appreciation in the general market or through value-enhancing transactions. In addition, candidates should exhibit some degree of downside protection by reason of having sound business fundamentals, a discounted valuation, or some combination of the foregoing.

### **Sell Discipline**

The decision to sell a company's stock is based on certain events or conditions that no longer make the investment attractive. Reasons for selling include:

- Sell target achieved
- Portfolio rebalancing
- Change in a company's strategic direction (acquisition, spin-off, new business activity, etc.)
- Erosion of fundamentals (deteriorating financial position, declining margins, weakening revenues, etc.)
- A more compelling alternative investment

When the current market value of a portfolio company declines 30% or more, we thoroughly review the original investment premise. If a company's fundamentals continue to satisfy our security selection criteria and investment thesis, we reaffirm management's ability to execute its plan and may decide to increase the position. Companies that fail this secondary review will be sold. We generally do not deviate from this approach.

Towle & Co. does not use automatic stop-loss triggers as they can be price detrimental to small capitalization stocks. For each company in the portfolio we assign a sell target based on valuation multiples for our estimate of its ongoing earnings power. Sell targets are continuously monitored and periodically adjusted as business and investment conditions change.

Following a sell decision, a position may be sold entirely or scaled out over time depending on the factors that led to the decision (sell target reached, portfolio rebalancing, more attractive alternative, etc.) When a single security begins to represent more than 7% of the portfolio we generally start to trim. Sector concentrations are typically less than 40% of the portfolio.

### **Risks**

Investing in common stocks involves risk in that prices of publicly traded equities fluctuate daily, sometimes dramatically. Furthermore, it is possible that the value of a stock could become worthless. Clients should be prepared to bear general equity price risk when investing with Towle & Co.

In addition to market risk described above, there are some investment risks that are specific to investing in the Deep Value strategy. First, Towle & Co.'s search for absolute value usually leads to equities with market capitalizations under \$5.0 billion. Stocks of small companies may be more thinly traded than those of larger, established companies and may be subject to greater price volatility than the overall stock market. Towle & Co. utilizes this heightened volatility to identify instances of severe mispricing, which drives superior performance.

Second, the unwavering discipline with which Towle & Co. applies its investment process prevents the Company from expanding beyond its area of expertise. This unwillingness to compromise on our investment principles typically results in a relatively concentrated portfolio of between 30 and 50 positions. Concentration can result in greater variability in daily portfolio values when compared to indices or portfolios with a larger number of holdings. On the other hand, the investment team has a higher conviction with respect to each of the holdings, which we believe is a key to superior performance.

Third, the contrarian nature of the Deep Value strategy often leads Towle & Co. into sectors of the stock market that are currently out-of-favor with the investing public. Although the process is fundamental, bottom-up analysis, portfolios usually end up with stocks grouped into several themes. In most instances, these out-of-favor industries tend to be economically sensitive. As a result, Towle & Co. portfolio values tend to have more volatility than market averages over an economic cycle.

Lastly, the fourth risk is our judgment. After considerable investigation and analysis, Towle & Co. determines intrinsic values for each company in which it invests. This process demands a certain degree of judgment about the attractiveness, value and potential appreciation of the stock. If our judgment proves to be incorrect, there is a risk that the stock price could fall below the purchase point, resulting in a capital loss for clients.

#### **Other Portfolio Considerations**

Within the investment process, Towle & Co. has a three year time horizon when considering the purchase of securities. As a result, average annual portfolio turnover has been low, historically around 30%. This low turnover and lack of frequent trading reduces the drag on investment performance due to increased transaction costs and/or taxes.

Furthermore, Towle & Co.'s long only investment philosophy is implemented *without* leverage or currency exposure for United States Dollar-denominated clients. Although the Deep Value strategy does not utilize options, futures, exchange traded funds or any other type of leverage, clients may periodically mandate or direct Towle & Co to utilize margin in their own managed accounts.

### **Item 9 Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be pertinent to your evaluation of the Towle & Co. or the integrity of its employees. Registered advisers are also required to report all disciplinary events regardless of materiality in Part 1A of Form ADV.

Towle & Co. has never had any disciplinary events of any kind to report.

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

Towle & Co. is not registered, nor does it have an application to register, as a broker-dealer. One employee, Joseph W. Bradley, Director of Client Development, is a registered representative of a broker-dealer, IMST Distributors, LLC.

Neither Towle & Co. nor any of its employees are registered, or have an application to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. Towle & Co. does not invest directly in any commodities in its investment process.

During the normal course of business, Towle & Co. engages several independent, third-party service providers, including but not limited to broker-dealers, custodians, auditors, administrators, and accountants. In all cases, Towle & Co. has entered into an agreement for services with each entity at what Towle & Co. believes to be competitive market rates.

Towle & Co. does serve as General Partner to two pooled investment partnerships. Any conflicts of interest that may normally arise as a result of a General Partner/Limited Partnership arrangement are mitigated by the fact that the above-named owners of Towle & Co. personally are substantial investors in the two pooled investment vehicles.

Periodically, Towle & Co. may direct clients or prospects to unaffiliated investment advisors for financial advice which is beyond the scope of Towle & Co.'s capabilities as an asset manager. Such referrals may be made for asset allocation, estate planning or other financial planning guidance. In all circumstances, Towle & Co. has not and will not be compensated, either directly or indirectly, by those independent advisors for the referrals.

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

Towle & Co. has adopted a Code of Ethics for all employees that describes the requirements for the ethical standards and professional conduct of our business. The Code of Ethics addresses conduct in the areas of independence, fair dealing, confidentiality of information, and personal investing activities. All employees must accept in writing the terms of the Code of Ethics upon employment, annually, and as amended. A copy of Towle & Co.'s Code of Ethics is available upon request.

Neither Towle & Co. nor any employees or related persons recommend to clients, or buys or sells for client accounts, securities in which they have a material financial interest. Our Code of Ethics requires that a supervised person of Towle & Co. shall not serve as an officer or on a board of directors of any publicly or privately traded company without prior authorization by the Chief Compliance Officer. To date, no such authorization has been requested or approved.

Towle & Co. believes its clients are best served when the firm's principals and employees are invested side-by-side with the client. Towle & Co. may buy or sell securities for affiliated accounts that it also purchases for clients. In the event affiliated persons participate, a conflict of interest may arise regarding trade execution and/or allocation. As a result of the aggregated block trading procedure described below in Item 12 Brokerage Practices, affiliated accounts may trade at the same time as client accounts in an aggregated block trade. In these situations, affiliated accounts will receive the same execution as client accounts. Also, as part of the aggregated block trade, these affiliated accounts will likely be executed before directed accounts of clients. On a quarterly basis, as part of Towle & Co.'s compliance program, a detailed review of every affiliated account is performed to determine if non-directed client accounts received most favorable execution.

## **Item 12 Brokerage Practices**

Under most arrangements, Towle & Co. has the freedom to decide which broker-dealer to be used and the amount of commissions paid when directing security transactions. As part of its fiduciary responsibilities, Towle & Co. seeks best execution given the circumstances of each transaction. When Towle & Co. selects broker-dealers to execute transactions, it takes into consideration the range and quality of a broker's services, including but not limited to, execution capability, trading expertise, accuracy of execution, commission rates, research, reputation and integrity, fairness in resolving disputes, financial responsibility, and responsiveness. The determinative factor is not the lowest possible commission cost, but whether the transaction represents best qualitative execution under the circumstances. The evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions is based on the professional opinions and



judgments of the persons responsible for the placement and the review of such transactions. Under the guidance of the Chief Compliance Officer, Towle & Co. evaluates the trade performance and best execution of all approved broker-dealers.

In allocating brokerage and order flow, Towle & Co. considers the receipt of “research and brokerage services,” consistent with its obligation to seek best execution for client transactions. As permitted by Section 28(e) of the Securities Exchange Act of 1934, Towle & Co. may cause its clients to pay a broker that provides research and brokerage services an amount of commission in excess of the amount other brokers would have charged for the transaction if Towle & Co. determines that the greater commission is reasonable in relation to the value of services provided by the executing broker relative to Towle & Co.’s overall, fiduciary duty. The broker may directly provide brokerage and research services to Towle & Co., or may purchase them from a third party for Towle & Co.’s benefit.

The term “brokerage and research services” includes advice as to the value of the securities; the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; and effecting securities transactions and performing incidental functions such as clearance and settlement.

Towle & Co. has entered into Client Commission Agreements (CCA) with broker-dealers that are involved from time to time in executing, clearing, or settling securities transactions on behalf of clients (“CCA Brokers”) which provide for the CCA Brokers to pay a portion of the commissions paid by Towle & Co.’s clients to providers of research services. Because these research service providers may play no role in executing client securities transactions, any research prepared by the research provider may constitute third party research.

Towle & Co. may use brokerage commissions, including CCA commissions, from client portfolio transactions to acquire research, subject to Towle & Co.’s obligation to seek best execution for its client accounts. The products and services acquired by Towle & Co. in connection with such arrangements are intended to comply with Section 28(e) and the SEC’s related interpretive guidance. Towle & Co. will not cause its clients to use trade commissions or CCA commissions for purposes other than for eligible brokerage and research services. In determining whether a service or product qualifies as brokerage and research services under Section 28(e), Towle & Co. evaluates whether the service or product provides lawful and appropriate assistance in carrying out its investment decision making responsibilities for the benefit of all client accounts.

Other than the introduction of investment ideas or ongoing investment or economic research, Towle & Co. does not receive any other products or services from the broker-dealers with which it does business, with one exception. One broker-dealer acts as the primary custodian for client accounts. In addition to ongoing investment and economic research, this broker-dealer provides a platform of services at below published rates for the benefit of clients.

Generally, if a broker-dealer introduces Towle & Co. to a new investment idea, Towle & Co. will compensate the broker-dealer by using CCA commissions or directing trade executions, both for the purchase and the subsequent sale, to this broker-dealer. In certain circumstances when liquidity is required, executions may be directed to broker-dealers with demonstrated superior access to specific segments of the market, for example either retail, or large blocks of stock. Also, for more liquid stocks, executions are often directed to broker-dealer firms with the lowest known commission rate. Finally, a percentage of executions are directed to the institution providing the platform of services described in the preceding paragraph.

Towle & Co., its employees, and related persons do not receive client referrals from any other parties as a result of selecting or recommending broker-dealers.

Towle & Co. does not recommend, request, or require a client to direct Towle & Co. to execute transactions through a specified broker-dealer. For a subset of our relationships, Towle & Co. does permit clients to select their own broker-dealer. In these directed brokerage arrangements, clients instruct Towle & Co. to direct all or a portion of their brokerage transactions to a specific broker-dealer of their choice. In return, the broker-dealer provides services to the client rather than Towle & Co. In these directed arrangements, Towle & Co. may not, nor is obligated to, obtain best execution as we will be unable to negotiate commissions or obtain volume discounts. Clients with directed brokerage may forgo any benefits from aggregated block trades and, as a result, may pay materially disparate commissions, greater spreads, or other transaction costs, or receive less favorable net prices on transactions than would otherwise be the case with block trades. In short, directing brokerage may cost clients more money. The decision to direct trades is solely the responsibility of the client.

Towle & Co. has adopted trade allocation policies that are intended to ensure that all trades are undertaken and, where necessary, allocated to clients (including the Partnerships and the Fund) in a manner that fulfills Towle & Co.'s fiduciary obligations to each client and otherwise allocates securities on a basis that is fair and equitable. Consistently applied, the allocation procedure maintains uniformity of position weightings across all accounts, preserves the integrity of the Deep Value composite, and upholds best practices for execution, allocation, and fairness.

Typically, it will be desirable to acquire or dispose of the same security for more than one client in an aggregated block transaction. If at all possible, Towle & Co. will aggregate those eligible accounts into a block order. Towle & Co. expects that commissions paid to brokers and overall execution costs for block trades will generally be equivalent to or lower than those that would prevail had the trades not been executed in a blocked fashion.

We segregate all clients into two trade/allocation groups. The first group is all the non-client-directed accounts. The second group includes all client-directed accounts, including the wrap account. An aggregated block trade will be placed and allocated to accounts in the first group. Upon completion of the block trade, accounts in the second group are traded on a rotated basis so that over time no single account has been treated more favorably than any other account within the group.

Although we take all reasonable steps to avoid errors in our trading process, occasionally errors do occur. We seek to identify and correct the errors affecting any account as quickly as possible, and once identified it is Towle & Co.'s general policy to place the client in a position that is no worse off had the error not occurred. In the event an error is identified after settlement, Towle & Co. generally will seek to reimburse the client for any losses arising from the error. If a settled trade results in a gain for a client, such a gain shall remain with the client unless specific instructions to the contrary are received from the client.

### **Item 13 Review of Accounts**

The investment team has real-time access to each account through our trade order management system. The investment team also performs a periodic review of each client account, during which every position in each client account is compared to the weights in the investment strategy model. The operations staff under the supervision of the Director of Operations reconciles client transactions with custodian reports on a daily basis and client positions and cash balances to custodial statements on a monthly basis.

As part of Towle & Co.'s compliance program, the operations staff periodically reviews client account documentation for completeness and accuracy. All client accounts are also checked quarterly for fairness of

trade allocations, accuracy of management fees charged and collected, and quality of trade execution. The operations staff is supervised by the Director of Operations, and their report is reviewed by the Chief Compliance Officer.

Beyond the regular review of client accounts described above, Towle & Co. will review an account if we are made aware of changes in the client's address, status, or financial position. A review of the client portfolio will also be performed by the investment team when large cash flows in or out of a client account occurs.

Clients with separately managed accounts receive a quarterly investor letter accompanied by a Performance History Report and a Portfolio Appraisal Report typically within two weeks of a calendar quarter end. We urge clients to carefully review these reports and compare the statements they receive from their custodian to the reports we provide. The investor letter will regularly include a review of portfolio transactions and the current investment environment, as well as a look ahead. Upon request, Towle & Co. will send a statement of realized gains and losses for the year to date for each separate account.

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

Neither Towle & Co. nor any of its employees are compensated by an independent third-party in any way for providing investment advice or other advisory services to Towle & Co. clients. Towle & Co. and its employees are not party to any sales awards or other prize programs. Towle & Co.'s only compensation for providing investment advisory services to its clients is the management fee described in Item 5 Fees and Compensation above.

Neither Towle & Co. nor any employee or related person compensates in any way any person who is not an employee of Towle & Co. for client referrals.

## **Item 15 Custody**

Towle & Co. does not provide custodial services to its clients. Client assets are held at independent, third-party, nationally recognized custodians. Clients will receive monthly account statements directly from the broker-dealer, bank or other qualified custodian. Clients should carefully review those statements. Towle & Co. will also send to clients a quarterly investor letter accompanied by a quarter-end Performance History Report and a Portfolio Appraisal Report. We urge clients to carefully compare the account statements received from custodians with the reports we provide.

Towle & Co. has been deemed to have custody of the Partnerships' assets for which it serves as General Partner. However, assets of the Partnerships reside at a nationally recognized, independent, third-party custodian. Furthermore, Towle & Co. has hired an independent, third-party administrator to administer the Partnerships and an independent, third-party accounting firm to audit the Partnerships. Limited partners in the Partnerships will receive monthly capital account statements directly from the independent, third-party administrator. Limited partners should carefully review those statements. Towle & Co. will also send to limited partners in the Partnerships the quarterly investor letter.

## **Item 16 Investment Discretion**

As per the Towle & Co. Discretionary Management Agreement and most sub-advisory agreements, a client agrees that Towle & Co. shall have sole discretion to invest and reinvest the assets of the client's separately managed account without prior consultation with the client. The client also agrees that Towle & Co. will manage, on a continuing basis, the client's account in what Towle & Co. perceives to be the client's best interest. This will include, among other things, the authority to select the broker-dealer to be used and the commission rates to be paid for all transactions, as well as the custodian for the account. Any particular aspect of this authority may be restricted pursuant to the specific, written instruction from the managed account client.

## **Item 17 Voting Client Securities**

Towle & Co. typically retains the authority to vote proxies for our clients' accounts. When Towle & Co. votes proxies, our objective is to maximize the value of the securities held in clients' accounts. To do this, we have hired Institutional Shareholders Services to manage the proxy process and adopted the Benchmark Policy without exception.

The Benchmark Policy covers several areas, including Auditors, Board of Directors, Proxy Contests, Takeover Defenses, Mergers and Corporate Restructurings, State of Incorporation, Capital Structure, Executive and Director Compensation, and Corporate Responsibility. A description of the specific issues in these areas and how these issues will be voted can be found in the 2015 U.S. Proxy Voting Guidelines Concise Summary on the Institutional Shareholder Services, Inc. website at [www.issgovernance.com/file/policy/usconcisevotingguidelines2015.pdf](http://www.issgovernance.com/file/policy/usconcisevotingguidelines2015.pdf). Though it is likely to be limited to issues relating to Corporate Restructurings or Changes of Control, Towle & Co. has retained the right to override any votes as it sees fit.

A copy of Towle & Co.'s proxy policies, procedures, and voting records is available upon request.

Certain clients have opted to retain the right to vote their own proxies. In such cases, clients receive their proxies directly from their custodian or transfer agent and not from Towle & Co. To date, clients who vote their own proxies generally have not contacted Towle & Co. with questions about a particular solicitation. Going forward, Towle & Co. would not be averse to clients requesting guidance from Towle & Co. concerning proxies, particularly with respect to Corporate Restructurings or Changes of Control.

## **Item 18 Financial Information**

Towle & Co. does not have any financial condition that would impair the Company's ability to meet its contractual commitments to clients. With the exception of the wrap fee relationship described in Item 4 Advisory Business, Towle & Co. does not solicit prepayment of fees from clients. All management fees are payable in arrears.

Towle & Co. has a strong, debt-free financial position and has never been the subject of a bankruptcy petition.