

## Longbow Asset Management

### ADV-PART II

Updated on April 5, 2012

#### I. Advisory Business

- A) Longbow Asset Management based in Tulsa, Oklahoma was founded and commenced operations on September 30, 2003.

Longbow's two co-owners and founders are Dwight T. Bottomley and Michael J. (Jake) Dollarhide.

- B) Longbow creates and executes an investment strategy for equity, fixed income, mutual fund, derivative, and cash and equivalent securities for client accounts. Longbow continuously manages and monitors the progress of its accounts under management.
- 1) Equity Strategy - Our equity strategy seeks long-term capital appreciation by investing in the common stocks of well-established U.S. companies (and, when appropriate, foreign companies listed as ADRs on the NYSE or an OTC exchange) as well as exchange traded funds (ETFs), master limited partnerships (MLPs), preferred stocks, and no-load equity mutual funds.
- 2) Fixed Income Strategy - Our fixed income portfolio seeks a high level of current income and capital safety by investing in a diverse mix of high quality debt instruments (investment grade of BBB/A and higher (in some cases we will consider BB)) such as investment grade U.S. corporate bonds, U.S. government agency bonds (like Federal Home Loan Bank), U.S. Treasury securities (like Inflation-Protected U.S. Treasury securities called TIPS), investment grade municipal bonds (BBB rated or higher and only in a small group of states including Oklahoma, New York and Texas), preferred stocks, and no-load fixed income mutual funds.
- 3) Retirement Plan Services - Our firm offers 401(k), Simple IRA, Individual 401(k), SEP-IRA plans, and other profit sharing plans and retirement offerings for small businesses and non-profit organizations using primarily mutual funds and exchange traded funds until a plan participant's balance exceeds \$250,000 for proper diversification purposes.

Additionally, our firm uses derivatives from time-to-time (on request or when a situation calls for them) for hedging needs, but not for speculative purposes (unless it is specifically requested by a client). Derivatives, for the most part, are only used as protection against the stock market's (or an individual common stock position's) downside.

For client portfolios with a market value of \$250,000 and higher individual securities (such as individual bonds and stocks) make up the majority of how a client's portfolio is constructed and ETFs and mutual funds play a supporting role particularly when we are attempting to gain exposure to a foreign market (such as Brazil or Indonesia) or to precious metals (such as copper or gold), currencies (Swiss franc), and other commodities (such as cotton or natural gas).

While the above security classes and investment strategies are our firm's main areas of focus, clients may also ask us to assist them with other security class types including life insurance contracts such as annuities, privately held investments, limited partnerships, real estate, managed accounts for access to third party investment advisors, and other non-equity business or personal investment securities.

- C) Longbow seeks to customize each and every client relationship (to the scope and point that customization is necessary and possible) to build investment portfolios consistent with each client's risk and reward preferences as well as overall suitability based on each client's overall age, demographic, financial, and investment goal situation. Additionally, clients may impose restrictions on investing in certain securities and types of securities at anytime.

- D) Longbow does not currently participate (and has not ever participated) in any wrap-fee programs.
- E) As of December 31, 2011, Longbow managed \$51,687,288 assets under management (AUM) with \$46,558,722 on a discretionary basis and \$5,128,566 on a non-discretionary basis.

## II. Fees and Compensation

- A) Billing will commence as of the date of the investment advisory agreement between the client and the firm and will be calculated and billed quarterly or semi-annually. The firm's annual asset management fee schedule is listed below:

<b>Fixed Income (Bonds)</b>	<b>0.50%</b>
<b>Equity (Stocks/Other)</b>	<b>1.00%</b>

*\*\*Please note that cash and equivalents will be billed in accordance with the portfolio's asset allocation as defined in Schedule II (either as fixed income or equity depending on its intended use). Also, some portfolios may hold mutual funds (either equity, fixed income, or mixed). In most cases, mutual funds will be billed at the equity rate of 1.00% unless the client and the firm agree on other terms which would be defined in Section II (Special Instructions from the Client to the Firm section). Other security class types include life insurance contracts such as annuities, privately held investments, limited partnerships, real estate, managed accounts for access to third party investment advisors, and other non-equity business or personal investment securities.*

The firm calculates the portfolio's asset management fee using market values on the last day of every calendar quarter or every six months as determined by the portfolio's custodian or a third party pricing service such as Bloomberg L.P., Dow Jones, or Yahoo Finance.

A minimum annual fee may be imposed for accounts with a market value of less than \$250,000. (The minimum annual fee is \$2500 for equities and \$1250 for fixed income.)

- B) The client may authorize the custodian to make quarterly or semi-annual asset management fee payments to the firm by bank check, electronic funds transfer (EFT), or other means, in which case a copy of the quarterly or semi-annual fee statement will be sent to the custodian in addition to the client.

Clients may select their billing method with Longbow at the beginning of the relationship and change it at anytime during the investment advisory relationship.

- C) From time-to-time there may be custodial fees and there are most likely always mutual fund fees whenever a client's portfolio is invested in mutual funds. Additionally, through Charles Schwab there are \$8.95 equity commissions (up to \$30 or higher) for equity (common stock, preferred stock, ETF, MLP, other) "buy and sell" transactions; fixed income commissions (or mark-ups) range from \$10 to \$35 per trade; if we buy bonds away from Schwab there is a \$20-30 trade away (Prime Broker) fee, various expense ratios certainly exist for any ETFs or mutual funds (ranging from 0.1% to more than 1.0% in some cases particularly for international funds) that we hold in a client's account, and in some cases there may be 12b-1 fees on mutual funds but we try to steer away from them in order to reduce costs where possible. However, through Schwab's Mutual Fund Marketplace there are no transaction costs when buying or selling no-load mutual funds (except in the rarest of occasions). No-load mutual funds are the targeted type of fund that we seek for our clients.
- D) As of this ADV update, Longbow does not have clients pay its fees in advance.

- E) As of this ADV update, Longbow does not compensate its employees for the sale of securities or other investment products. Additionally, clients (or prospective clients) have the option to purchase investment products that we recommend through other brokers or agents that are not affiliated with our firm.

### III. Performance-Based Fees and Side-By-Side Management

As of this ADV update, Longbow does not accept or implement performance-based fees and we do not receive any compensation in connection with the purchase and sale of securities including commission from load funds.

### IV. Types of Clients

Longbow's manages accounts for individuals, families, trusts, endowments, corporations, individual retirement accounts (IRAs), 401(k) Plans, other retirement plans, 529 Plans, custodial accounts, other organizational accounts, and charitable accounts.

The minimum account size for opening an account with Longbow is \$250,000.00.

### V. Methods of Analysis, Investment Strategies and Risk of Loss

#### A) Analysis

1) Equity - We believe the key to a successful equity portfolio lies not in its individual securities, but in how they interact as a group. Our quantitative based approach utilizes proven mathematical models to create a well balanced portfolio that maximizes the risk and return relationship. In addition, it creates a framework for future risk control, portfolio monitoring, and performance analysis.

We employ an optimization model to construct mean-variance efficient portfolios. Optimization is a mathematical process that can be used to solve many types of problems. But regardless of its particular application, the goal is always to maximize or minimize a value, given a set of constraints.

In portfolio optimization, we can either maximize the portfolio's return or minimize its risk. To reduce risk, we identify securities by analyzing historical returns that act as complements. These are combined to form portfolios with the desired characteristics including maximum security weights and industry exposures.

Regardless of the measures we take to reduce risk, investing in equity securities involves risk of loss in which clients should be prepared.

2) Fixed Income - Our fixed income portfolio seeks a high level of current income and capital safety by investing in a diverse mix of high quality debt instruments. The portfolio's risk and return characteristics are designed to be consistent with those of the Barclay's Capital Aggregate Bond Index.

Historically, due to their fixed payment structures, bonds have offered lower risk than other investment vehicles such as equities. They are, however, by no means risk free. A variety of factors affects their performance, some severely, and all should be closely monitored and controlled.

#### B) Risk

Investors in any security class, whether equities, fixed income or any other security types, face many risks and an investor's portfolio is always subject to realized and unrealized losses in any asset class.

- 1) Common stocks (and other equity securities) have historically experienced great risk measured by price volatility, the standard deviation of annual returns. The client understands that the firm cannot eliminate unique (company specific) or systemic (market) risk for any common stocks. The firm will attempt to diversify these risks but there is no guarantee that the firm will be able to do so.
- 2) Fixed income investing is no protection or guarantee from the reality of loss of principal, whether or not inflationary effects are considered. Additionally, with fixed income securities, the firm cannot eliminate interest rate risk, credit risk, default risk, reinvestment risk or any other associated risks.

## VI. Disciplinary Information

None.

## VII. Other Financial Industry Activities and Affiliations

None.

## VIII. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

A) Code of Ethics- our firm has adopted and strictly adheres to the Code of Ethics and Standards of Professional Conduct set forth by the Chartered Financial Analyst (CFA®) Institute, formerly the Association for Investment Management and Research (AIMR®). These guidelines clearly delineate right from wrong, thus eliminating 'gray areas' that may arise by providing a strict reference point.

We will provide a copy of our code of ethics to any clients or prospective client upon request and they can be viewed on-line anytime at [http://www.lbamc.com/pdf/ethics\\_policy.pdf](http://www.lbamc.com/pdf/ethics_policy.pdf).

B) Our firm does not buy or sell securities for client accounts in which our firm has a material financial interest.

C) Longbow Asset Management, Dwight T. Bottomley, Michael J. Dollarhide, and other employees of Longbow may buy and sell securities that it also recommends to clients with the understanding that client accounts take precedence (and are filled first in the case of block orders for example) over any Longbow related accounts, including corporate accounts (taxable or non-taxable) or the individual accounts of any officers or employees of the firm.

## IX Brokerage Practices

### A) Brokerage

Longbow's primary broker-dealer and custodian is Charles Schwab and Co., Inc., but since our firm is an independent investment advisory firm we have the ability to manage a client's account at practically any broker-dealer and the client always has the final say in where their account is held and managed by our firm.

Most all trades in client accounts are executed by the custodian of the account such as Charles Schwab. However, from time to time, when opportunities exist to execute trades at prices favorable for the accounts of clients and superior to potential execution prices offered by the client's custodian, Longbow may execute trades with third party brokerage firms, that is, brokerage firms that do not act as custodian for accounts of clients.

In all cases, Longbow has the fiduciary responsibility to achieve the best possible execution price and negotiate the most favorable commission rates on all trades executed for clients.

- 1) Longbow does not receive research or other products or services other than execution from broker-dealers or other third parties in connection with client securities transactions.
- 2) Longbow does not engage in client referral relationships with broker-dealers or other third parties.
- 3) Longbow does not participate in directed brokerage arrangements.

#### B) Order Bunching

On some occasions we aggregate (or bunch) the purchase and sale of equity and fixed income securities for various client accounts in order to achieve the best execution and the most favorable prices for our client accounts.

Additionally, there are many occasions in which we do not aggregate (or bunch) the purchase and sale of equity and fixed income securities for client accounts (particularly when we invest on an account-by-account basis for portfolio customization purposes). When purchase and sell orders are not “bunched” some clients will most likely receive different execution prices than other clients (depending on market conditions and price fluctuations).

Additionally, securities may be purchased and sold for one client’s portfolio, but not be purchased and sold for another client’s portfolio, even though both portfolios have the same investment objectives and the same size. Also, the percentage of any asset in any portfolio or account may differ from one another. Likewise, the asset allocation or monetary commitment between different types of securities, i.e. the allocation among assets, may differ from one portfolio to another, or from one account to another, or both portfolio and account. Finally, the timing of purchases and sales of identical securities may differ among clients of the firm and securities which are purchased by or sold for the officers, shareholders, and employees of the firm, may or may not be purchased and sold for the client.

### X. Review of Accounts

- A) Supervisory persons at Longbow monitor the securities that comprise our client accounts at various time daily. Additionally, Longbow reviews all client accounts on a weekly, monthly and quarterly basis at we seek to monitor proper diversification, security selection and performance, client cash requirements and the reinvestment of sold, called, or matured securities.

Jake Dollarhide (Chief Executive Officer) is the firm’s supervisory person that conducts the client account reviews.

- B) Anytime a client asks a question, authorizes a purchase or sell of a security, makes a request, or the firm sets up a portfolio review with a client, then that client’s accounts are reviewed in addition to the normal periodic scheduled reviews.

- C) Besides the monthly account statements that the client's custodian provides to the client, Longbow sends reports on a quarterly or semi-annual basis by mail that include unrealized gains and losses and performance reports.

## XI. Client Referrals and Other Compensation

Longbow does not directly or indirectly compensate related persons or unrelated persons (clients or non-clients and employees or non-employees) for client referrals.

## XII. Custody

Longbow does not have custody of client funds or securities. In every case, a qualified custodian sends monthly (or quarterly) statements directly to clients and clients should carefully review those statements. Additionally, Longbow sends quarterly or semi-annually account statements to clients as well. It is important for clients to compare Longbow's account statements to the account statements in which they receive from their custodian firm.

## XIII. Investment Discretion

Longbow accepts "discretionary authority" to manage securities accounts on behalf of clients. In most cases, the client authorizes the firm to place any buy and sell orders it sees fit according to the agreed upon asset allocation and overall investment strategy as well as to give investment and settlement instructions for the portfolio via phone, facsimile, or electronically to the custodian or respective broker-dealer that execute the investment orders. The client also authorizes the firm to arrange for any other function necessary to manage the portfolio, including but not limited to the selection of custodians, brokers, and other entities used to hold assets, execute transactions, and perform all other functions for the client's account.

In order for Longbow to have "discretionary authority" on a client's account, the client must sign a power of attorney on his/her account with their respective broker-dealer or custodian in order to grant that power to Longbow.

## XIV. Voting Client Securities

In most cases, Longbow will accept the authority to vote client securities via proxy vote (assuming the client chooses to grant us such authority). In all proxy situations, the firm, as the investment manager, has a duty to make independent proxy decisions and to decide with objectivity what is in the best interests of the beneficiaries for whom a proxy is voted (e.g., the client). At all times, client proxies will be voted and accurate proxy voting records will be maintained.

At anytime a client may obtain information from Longbow about how we voted on their respective securities and clients may obtain a copy of our proxy voting policies and procedures upon request.

## XV. Financial Information

Longbow does not require or solicit pre-payment of fees from clients and Longbow has not been the subject of a bankruptcy petition during the past ten years (or at anytime during its operations).

## XVI. Requirements for State-Registered Advisers

### A) Backgrounds of Executive Officers and Supervisory Individuals--

(1) Name: Michael J. (Jake) Dollarhide

Birth date: September 4, 1974

Formal education following high school:  
BS, Finance, 1997; The University of Tulsa, Tulsa, OK  
(along with a Minor in Economics)  
MBA, 2002; The University of Tulsa, Tulsa, OK

Business background:

2003 to Present (2012)  
Chief Executive Officer  
Longbow Asset Management Company  
Tulsa, Oklahoma, USA

1997 to 2003  
Chief Operating Officer  
Fredric E. Russell Investment Management Co.  
Tulsa, Oklahoma, USA

1996 to 1997  
Assistant Portfolio Manager  
Fredric E. Russell Investment Management Co.  
Tulsa, Oklahoma, USA

(2) Name: Dwight T. Bottomley, CFA, FRM

Birth date: October 15, 1976

Formal education following high school:  
BS, Finance, 1999; The University of Tulsa, Tulsa, OK

Business background:

2004 to Present (2012)  
Everest Asset Management AG  
Database Developer and Administrator (Consultant)  
Zurich, Switzerland

2003 to Present (2012)  
President

Longbow Asset Management Company  
Tulsa, Oklahoma, USA

1999 to 2003  
Portfolio Manager, North American Equities  
Von Ernst Performa, AG  
Vaduz, Principality of Liechtenstein

1997 to 1999  
Assistant Portfolio Manager  
Fredric E. Russell Investment Management Co.  
Tulsa, Oklahoma, USA

- B) Longbow is not actively engaged in any other businesses other than being an investment advisory firm.
- C) Longbow does not implement or use performance based fees not does it compensate its supervised persons for advisory services with performance based fees.

## XVII. Privacy Policy

At Longbow Asset Management, your privacy is our priority. Our privacy policy applies to individuals, businesses, trusts, foundations, retirement plans, or any other entities or organizations who are current, former, or prospective clients or who register for one of our services or promotional offers.

Our privacy policy is as follows:

- 1) We do not sell your personal information to anyone.**
- 2) The law allows you to “opt out” of only certain kinds of information sharing with third parties. Longbow does not share personal information about you with any third parties that triggers this right to opt out. This means that YOU ARE ALREADY OPTED OUT.**
- 3) We collect personal information in the normal course of business in order to administer your accounts and use it to deliver the best possible service to you.**
- 4) We protect the confidentiality and security of your personal information.**
- 5) If at anytime in the future our privacy policy changes, we will provide notice of those changes to you in our information-sharing policies.**

Additionally, companies we hire to provide support services are not allowed to use your personal information for their own purposes and are contractually obligated to maintain strict confidentiality. Furthermore, we limit their use of your personal information to the performance of the specific service we have requested.

We restrict access to personal information to our employees and agents for business purposes only. All employees are trained and required to safeguard such information.

We maintain physical, electronic, and procedural safeguards to protect your personal information. If you have any questions or concerns, please call our office at 918-295-9929 or contact us by e-mail at [admin@lbamc.com](mailto:admin@lbamc.com).



\* \* \* \*