

## **Harlow Capital Management, LLC**

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This brochure provides information about the qualifications and business practices of Harlow Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 214.754.0800 or colbyharlow@gmail.com. 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 Harlow Capital Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes**

This update reflects a request for change in regulatory registration from the SEC to the State of Texas.

The last annual update of this brochure was in March 2011.

## Table of Contents

Advisory Business.....	1
Fees and Compensation .....	2
Performance-Based Fees and Side-By-Side Management .....	3
Types of Clients .....	4
Methods of Analysis, Investment Strategies and Risk of Loss.....	4
Disciplinary Information.....	4
Other Financial Industry Activities and Affiliations .....	5
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	5
Brokerage Practices.....	6
Review of Accounts.....	9
Client Referrals and Other Compensation .....	9
Custody .....	9
Investment Discretion.....	10
Voting Client Securities .....	10
Financial Information.....	10
Requirements for State-Registered Advisers.....	10

## ADVISORY BUSINESS

### Advisory Firm Description

Harlow Capital Management, LLC ("HCM" or the "Firm") has been in business since 2005. The Firm is wholly owned by Colby Harlow, who makes all investment decisions for all clients.

#### General Partner of Limited Partnerships

Arbco, LLC, a related entity, is the General Partner for two limited partnerships which are private funds ("the Funds"): Arbco Partners, LP and Harlow Energy Infrastructure Fund I, LP. HCM is the investment adviser for both Funds.

### Types of Advisory Services

#### Separately Managed Accounts

The Firm manages separate accounts on a discretionary basis (trading on behalf of clients without obtaining permission before each trade) and has full authority to determine which securities are purchased and sold. The Firm invests in equity securities (common stocks and equivalents) traded on or in a recognized exchange. HCM uses a disciplined investment process to identify high-quality companies available at reasonable prices, using a value-oriented investment strategy. HCM also invests in an array of high-quality, fixed income securities including both tax-free and taxable bonds for those clients requiring balanced portfolios.

#### Private Funds

Arbco Partners, LP is an investment available only to accredited investors and qualified purchasers as defined in the subscription documents. This fund has the investment objective to seek high absolute returns on capital, which are uncorrelated with major market indices. The fund strives to identify and value arbitrage prospects existing within the public markets, and implements a long/short strategy. This is not a solicitation for investment in Arbco Partners, LP. Please refer to the fund's Private Placement Memorandum for further details.

Harlow Energy Infrastructure Fund I, LP is an investment available only to accredited investors and qualified clients as further defined in the subscription documents. The investment objective of the fund is to generate high absolute returns over the long-term by investing principally in the marketable securities of energy-related master limited partnerships and their affiliates, as well as other issuers engaged in midstream energy and related sectors and infrastructure energy companies. This fund is long-biased, but has considerable flexibility in its investments. This is not a solicitation for investment in Harlow Energy Infrastructure Fund I, LP. Please refer to the fund's Private Placement Memorandum for further details.

### **Tailored Advisory Services**

Clients may impose restrictions on particular investments or investment classes in their separate accounts by notifying HCM at any time in writing. New clients are able to set restrictions at the onset of the relationship as well as any time during the relationship. If restrictions are in place, clients are reminded periodically that they may change their restrictions at any time.

### **Client Assets Under Management**

At 12/31/2011, HCM had \$74.2 million of discretionary assets under management. The Firm does not manage assets on a non-discretionary basis.

## **FEES AND COMPENSATION**

### **Separate Accounts**

#### *Investment Management Fees*

The basic fee schedule for separate accounts that HCM manages is as follows.

<b>Portfolio Size</b>	<b>Annual Fee</b>
Up to \$1,000,000	2.0%
\$1,000,001 - \$5,000,000	1.5%
\$5,000,001 - \$10,000,000	1.0%

Separately managed accounts invested solely in fixed income or mutual funds are charged an annual fee of 1.0% of assets under management. The annual fee charged by HCM is separate from and in addition to transaction, exchange, wire transfer, margin interest or account fees charged by the account custodian. Investment management fees charged by the Firm are calculated based on the portfolio valuation as determined by the account custodian at the close of market on the last business day of each quarter and are billed quarterly in arrears at the rate of one fourth of the annual fee shown above. These fees are deducted from clients' accounts by the custodian only with prior written permission from clients. The Firm may be charging current clients higher or lower fees than those described above, so clients receiving the same service from the Firm may be paying different fees. Fees are not negotiable for new relationships.

Client funds may be invested in individual equities bonds, open ended mutual funds, closed end mutual funds, and/or money market funds. To the extent that these accounts hold mutual and/or money market funds, HCM's fees for monitoring such assets are in addition to the fees included in the internal expenses of those funds paid to their own investment managers, which are fully disclosed in each fund's prospectus. This prospectus is sent directly to the client by the account custodian.

## Private Funds

### Management Allocations

Both Arbco Partners, LP. and Harlow Energy Infrastructure Fund I, LP. pay the investment adviser a monthly fee, which is charged in arrears. This fee amounts to an annual fee of 2% of the value of each partner's balance of his/her capital account. Fees will be withdrawn from each limited partner's capital account and are not negotiable.

### Other Compensation

Mr. Harlow also sells life insurance products to individual clients as appropriate. These products compensate Mr. Harlow by paying him a share of the insurance premiums. His compensation from insurance comprises a small percentage of his annual compensation.

## PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

### Performance Fees on Separately Managed Accounts

Additionally, the Firm charges a performance fee of 20% of excess performance above a target of 12% for equity accounts over \$1,000,000. Performance fees are assessed annually in arrears as of December 31 of the first entire year the account is managed by HCM. Excess performance is calculated by taking the difference between the average quarterly actual value of the account (which includes unrealized gains) and the value of the account at the 12% benchmark. Account value is based on the price quotations provided by the account custodian or by an independent pricing service if the custodian is unable to provide accurate prices. Performance fees are not negotiable, although the Firm may choose to waive all or a portion of the performance fee on any account.

### Performance Fees on the Funds

Performance (or incentive) allocations are charged at the rate of 20% of net profits, and are calculated and charged in arrears on an annual basis. Profit is calculated by taking the difference between the average quarterly capital basis of the account (which includes unrealized gains) less the expenses (including trades) for the year. For anniversary dates where a performance fee has not been earned, the calculation period will carry over to the following year. Performance fees are not negotiable.

The General Partner has the authority to waive all or a portion of the incentive fee.

### Side by Side Management: Private funds and separate accounts

Performance fee arrangements may create an incentive for the adviser to make investments that are more risky or more speculative than would be the case in the absence of a performance fee. In order to mitigate this incentive, performance fees on separately managed accounts are subject to a maximum fee of 3% of the average capital base during the reporting period. There also may be an inherent conflict of interest for the Firm due to the fact that some accounts may pay a performance fee and others may not, and the Firm may have incentive to favor accounts paying performance fees. The

Firm attempts to mitigate this conflict by monitoring investment objectives and seeing that all investment opportunities are provided to all clients equitably as appropriate.

## **TYPES OF CLIENTS**

HCM provides investment supervisory services and manages investment advisory accounts for:

- high net worth individuals,
- trust,
- estates,
- charitable organizations and endowments, and
- private pooled funds as mentioned above under Advisory Services.

Harlow Capital Management, LLC has a minimum dollar value of \$250,000 in order for an account to be managed. This same minimum applies to investing in both Funds as well. The firm reserves the right to waive or lower this minimum.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

HCM uses a combination of the following types of analysis in evaluating investments for client accounts:

- fundamental—Analysis of financial attributes of a company, such as revenue growth, debt to equity ratio, inventory turnover, etc.
- technical—Analysis which assumes past performance is a predictor of future performance.

Investment strategies for separately managed accounts are structured to meet each client's objective. Risks vary accordingly, although all accounts are subject to market risk.

Investing in securities involves risk of loss that clients should be prepared to bear. The Fund documents further explain risks to investing in the Funds.

HCM manages separate accounts to the client's investment objective, usually establishing balanced and diversified portfolios. Diversification occurs across industry sectors (health care, financial, industrial, etc.) within an asset allocation strategy to most closely match a client's investment horizon. That is, a portfolio for a younger person would be more heavily weighted in equities, and an older person's portfolio would be more heavily weighted in bonds and cash. Risks for this investment strategy are market risks in the equity and bond markets and inflation.

Please refer to the Fund documents for the risks inherent in their investment strategies.

## **DISCIPLINARY INFORMATION**

There have been no disciplinary actions against HCM or Mr. Harlow.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

HCM is the investment advisor for the Funds. Mr. Harlow is a managing member of the General Partner of the Funds, which creates a conflict with clients. This conflict is mitigated by the Firm's policies and procedures, which require fair and equitable treatment of all in the Partnership.

Mr. Harlow also provides life insurance products as a licensed insurance agent on a commission basis. This presents a potential conflict of interest with clients to the extent that he may recommend the purchase of insurance products whereby receiving a commission. This is mitigated by informing clients that they may obtain insurance coverage elsewhere. Mr. Harlow spends a minimum amount of time on the insurance business.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics and Personal Trading**

Harlow Capital Management, LLC has adopted a code of ethics that emphasizes the highest standards of conduct that the adviser has always sought to observe. The Code of Ethics consists of general principles that are understood to govern the personal investment activities of the Firm's personnel, the Firm's fiduciary duty to clients, and the obligations of the Firm's personnel to uphold the Firm's fiduciary duty.

Harlow Capital Management, LLC or individuals associated with the Firm may buy, sell, or hold in their personal accounts the same securities that the Firm recommends to its clients and in accordance with the Firm's internal compliance procedures. Such trades must occur at least the day after trades are placed on behalf of clients. Individuals associated with the firm may purchase open-ended mutual funds for their own accounts without restriction. The Firm does not allow front running.

To manage and mitigate potential conflicts of interest, the firm has established the following policies in its code of ethics, which is available to any client or investor upon request:

- An officer, director, or employee of the firm shall not buy or sell securities for a personal portfolio when the decision to purchase is substantially derived, in whole or in part, by reason of employment with the firm, unless the information is also available to the investing public on reasonable inquiry.
- Non-public information received by any Firm personnel is not to be communicated to others, or to be the basis of any personal or client trades.
- No person associated with the firm shall prefer his or her own interest to that of any client.
- Personal securities trades of IPO's and private placements must be pre-approved by the Chief Compliance Officer.
- All personal trades must be submitted on a quarterly basis for review. Annual reports of personal securities holdings are also provided to the Chief Compliance



- Officer for review.
- Gifts received from vendors are to be of nominal value.
- Firm personnel must report all outside business activities for approval from the Chief Compliance Officer, and firm personnel may be directors of publicly traded entities only with prior approval of the Chief Compliance Officer.
- The Firm and its employees must always comply with all applicable securities laws.

### **Interest in Client Transactions**

Clients of Harlow Capital Management, LLC that are appropriately qualified are solicited to invest in the Funds as appropriate for each client's investment objective and risk tolerance.

As stated above, Arbco LLC. is the general partner of both Funds, and therefore collects the performance allocations when appropriate. Mr. Harlow is the managing member of Arbco, LLC. and would benefit personally from the profitability of Arbco, LLC. This creates a conflict of interest with investors in the Funds, which is fully disclosed in both Fund documents.

## **BROKERAGE PRACTICES**

### **Selecting broker/dealers for trades and custody of client assets**

The Firm recognizes its fiduciary responsibility to maintain best execution for trades executed on behalf of clients. Mr. Harlow uses a number of factors to select broker/dealers and to monitor all trade executions. These factors include:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution;
- the financial strength, integrity and stability of the broker;
- the broker's risk in positioning a block of securities;
- the quality, comprehensiveness and frequency of available research services and other services considered by the Firm to be of value; and
- the competitiveness of commission rates in comparison with other brokers satisfying the Firm's other selection criteria.

HCM currently conducts the majority of its trades for clients through Assent, LLC, a registered broker/dealer with excellent service at extremely competitive commissions. Clients with separate accounts managed by HCM are encouraged to custody their accounts with Charles Schwab & Co., Inc. or RBC Capital Markets, LLC, due to their quality of service, access to no transaction fee mutual funds and competitive commission structures. Brokerage firms that have custody of a Client's assets may impose a "trade-away" fee for trades executed by other brokers.

## **Trade Errors**

HCM has a policy that no client will sustain losses as a result of any trade error occurring in the account. Errors are booked through an error account for Harlow Capital Management, LLC.

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

“Soft dollars” is a term applied to commission revenue generated by client trades which is then used to pay for services provided to an investment advisor. These services must apply to benefit clients and include research and other related services as defined by Section 28(e) of the Securities and Exchange Act of 1934.

Section 28 (e) provides a safe- harbor permitting an investment adviser to cause an account to pay commission rates in excess of those that another broker/dealer would have charged for effecting the same transaction. HCM may determine in good faith that the commission paid is reasonable in relation to the value of the brokerage and research services provided. This determination may be viewed in terms of either the particular transaction involved or the overall responsibilities of HCM with respect to the accounts over which it exercises investment discretion. Such research furnished by broker/dealers may be used in connection with accounts other than those that generated the soft dollars. The use of soft dollars may create a conflict of interest between HCM and its clients through the assumption that soft dollars are generated with higher commission rates than would otherwise be the case. Further, HCM may have incentive to trade through broker/dealers granting soft dollars rather than attending to the quality of client trades. These conflicts are mitigated by HCM through constant monitoring of commission rates, and ensuring that rates generating soft dollars continue to be very competitive, as well as ensuring that execution quality is not sacrificed. The Firm monitors its trade execution quality on a periodic basis every year.

The Firm may utilize products paid for with soft dollars which have “mixed use” by benefitting both clients and HCM. Where HCM itself receives administrative benefits and research services from broker/dealers, the Firm makes a good faith allocation between the research and services directly benefiting clients, and those benefiting HCM. Only benefits accruing to clients may be paid for with soft dollars. The remaining benefits or services must be paid for in hard dollars by HCM. A conflict of interest may exist between HCM and its clients by reason of the Firm's allocation of the costs of soft dollar benefits and services between those that primarily benefit the Firm and those that primarily benefit its clients. The Firm maintains complete records of soft dollars generated, the products and services obtained with those soft dollars as well as its calculation of mixed use items.

In the prior year, HCM used soft dollars to purchase the following services:

- Bloomberg
- Market Data
- NYSE
- NASDAQ

And the following services were considered “mixed use” of soft dollars:

- Advent’s Axys portfolio management software
- Advent’s Partner

HCM does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. In 2011, most soft dollars were generated through Assent LLC due to its very competitive rates and the administrative ease of having one broker manage all soft dollar relationships, for the broker has to pay the vendors directly. Most equity trades executed by the Firm for its clients generated soft dollars in the prior year.

### **Brokerage for Client Referrals**

HCM does not trade with particular broker/dealers in exchange for receiving client referrals.

### **Directed Brokerage**

Some clients may direct HCM to use specific financial entities as custodians and/or brokers to execute trades for their portfolios. When directed by an individual client to use a specific broker-dealer, no attempt is generally made to negotiate commissions, and as a result, these clients may pay materially different commissions than those paid by other clients of the firm for the same trade. The firm often places block trades, in which individual trades are grouped to place a block order in the interest of receiving a better price. When different prices are given for pieces of the block, the executing broker gives an average price to all participating clients. Clients directing the firm to use specific broker-dealers may not participate in such blocked trades, and therefore may receive a different price, and may be limiting the firm’s ability to negotiate better commissions on blocked trades.

### **Order Aggregation**

When the same security is purchased or sold for several client accounts at or about the same time, the transaction may be executed on a combined (“blocked”) basis, because the aggregate volume of the transaction may provide better purchase or sale prices, lower commission expense, or beneficial timing of transactions. However, if an entire block order cannot be filled at one time, the following factors will be considered in order to equitably allocate shares between the respective accounts: the size of each account (a small account’s allocation may be increased to give it a meaningful position, or eliminated if the allocation is too small); or each account’s relative cash position (a relatively large cash position may require more rapid investment of those funds than accounts with relatively smaller cash positions); or transaction fees that will be incurred if multiple trades are executed within a single account (for this reason, pro-rata allocation is preferred over random allocation). All blocked trades are allocated to the clients’ accounts on the day of the trade. HCM personnel may not participate in block trades with clients.

## **Initial Public Offerings**

Accounts over which HCM has discretionary authority will be eligible to participate in Initial Public Offerings (IPOs). IPOs will be allocated to client accounts according to each client's investment objective. If the entire order is not filled, HCM may modify the trade allocations; shares will be distributed on a pro rata basis in client equity accounts, with a minimum allocation of twenty-five (25) shares per account to minimize transaction cost. The following are acceptable reasons for modification: small accounts do not receive an allocation because the position's size results in excess settlement cost; accounts with a relatively large cash position or that are over-weight or under-weight in the industry sector.

## **REVIEW OF ACCOUNTS**

Mr. Harlow reviews each portfolio at least bi-monthly for asset allocation, cash positions and securities holdings. Client meetings are held at least annually (according to a client's availability), in which asset allocations, account holdings, performance and the client's financial profile are reviewed. Additional reviews may be triggered by events such as a client meeting, change in a client's risk tolerance, financial position or investment objective, change in a company or fund's management, major market moves, or other unforeseen events.

Clients of separately managed accounts receive statements directly from their custodians on at least a quarterly basis. HCM sends quarterly economic and market commentary to investors in the Funds and to clients with separately managed accounts. Additionally, investors in the Funds receive written audited financial statements and performance reports annually.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Some custodians provide investment advisors with additional benefits which are not paid for with soft dollars. These additional benefits include access to national conferences and local seminars, newsletters covering compliance and practice management, research, and electronic downloads of client data. These services might assist HCM with its administration of client accounts, and thus slightly help its profitability, creating a potential conflict of interest with clients. HCM believes this is not a material conflict.

## **CUSTODY**

Custody is defined as an investment advisory firm, its related entities, and/or its personnel having direct access to client funds or securities.

HCM's separately managed accounts are held by qualified custodians, which send account statements directly to clients on at least a quarterly basis. (Clients are reminded to review these statements carefully.) Since HCM has the authority to direct the custodian to deduct its management fees directly from these accounts, it has a form of custody for these accounts. However, clients must give prior permission for these deductions and see proof of them on each quarterly statement the client receives from

the custodian. Otherwise, HCM does not have custody of the assets in these client accounts.

The general partner, Arbco LLC, for which Mr. Colby is managing member, has the authority to withdraw assets from the Funds. Therefore, Arbo LLC is deemed to have custody of the Funds' assets. As of 2010, the Funds are audited on an annual basis by a PCAOB inspected firm as required, with copies of the audited statements going to the investors within 120 day of the Funds' fiscal year end.

## **INVESTMENT DISCRETION**

HCM trades on behalf of its clients through a Limited Power of Attorney, which is included in the Investment Advisor Service Agreement. This limited power grants HCM the authority to place trades with full discretion, not requiring receipt of a client's permission prior to placing each trade. Clients may notify HCM at any time in the relationship as to restrictions for investments in their portfolio. The Limited Partnership Agreement for each Fund grants HCM investment discretion as well.

## **VOTING CLIENT SECURITIES**

HCM acknowledges its fiduciary responsibility to vote proxies for securities held in client accounts. The Firm votes in a manner that ensures the exclusive benefit of the underlying participants and beneficiaries, while using care, skill, and due diligence that a prudent person acting in a like capacity and familiar with such matters would use under those circumstances. The firm votes all proxies to, in its opinion, maximize shareholder value, usually voting with management except on matters concerning executive compensation and extraordinary benefits. HCM will provide to clients, upon request, its proxy voting policy as well as its historical records regarding proxy voting. Proxy material for client accounts is sent to HCM rather than to clients, so the likelihood of a client directing HCM how to vote is small. However, should a client direct HCM how to vote on its behalf in writing, and voting has not yet closed, HCM would do so.

## **FINANCIAL INFORMATION**

There is no financial condition that is reasonably likely to impair HCM's ability to continue to provide services to its clients.

## **REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Please see the brochure supplement for information regarding the Firm's owner, Mr. Colby Harlow.

No person in the Firm has been involved in any arbitration claim or proceeding involving unethical practices.

The Firm does not have any relationships or arrangements with any issuer of securities.

**Colby L. Harlow**

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## EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

### Colby Harlow, born 1977

#### *Business Experience:*

Mr. Harlow is the President and Chief Compliance Officer of Harlow Capital Management, LLC ("HCM" or "the Firm") and is also the managing member of Arbco, LLC, the general partner for several private funds.

Prior to forming HCM in 2005, Mr. Harlow was a portfolio manager for Western Research & Management in Fort Worth, Texas, from September 2000 through January 2005. Mr. Harlow was also an analyst for Salomon Smith Barney in Dallas, Texas, from September 1999 to September 2000.

#### *Education:*

Mr. Harlow received a Bachelor of Arts in Economics and Business Administration from Austin College in Sherman, Texas, in 1998.

## DISCIPLINARY INFORMATION

Mr. Harlow has had no disciplinary or legal events that would be material to a client or prospective client.

## OTHER BUSINESS ACTIVITIES

Mr. Harlow also holds a life insurance license, and periodically offers such products to clients as appropriate. He receives a portion of the client's premium if the client chooses to use this service, although clients are free to purchase life insurance elsewhere. Mr. Harlow ensures that compensation from the sale of life insurance products comprises a small portion of his total annual compensation.

## ADDITIONAL COMPENSATION

Mr. Harlow receives no compensation beyond that disclosed above under Other Business Activities.

## SUPERVISION

Mr. Harlow is the senior person at HCM, so does not have a supervisor.

## REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Mr. Harlow has not been found liable in an arbitration claim, nor has he been found liable in a civil, self-regulatory organization or administrative proceeding.

Mr. Harlow has not been the subject of a bankruptcy petition.