

**ITEM 1  
COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**Longbow Capital Partners, L.P.**

May 2013

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*This brochure provides information about the qualifications and business practices of Longbow Capital Partners, L.P. If you have any questions about the contents of this brochure, please contact us at (212) 245-3700 or [john.zhang@longbowcap.com](mailto:john.zhang@longbowcap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.*

*Additional information about Longbow Capital Partners, L.P. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

## **ITEM 2**

### **MATERIAL CHANGES**

Longbow Capital Partners, L.P. (the "Investment Adviser") is required to identify and discuss any material changes made to its Brochure since the last annual update. There are no material changes to report since the Investment Adviser's last Form ADV Part 2A dated March 2013. If the Investment Adviser makes any material changes to this Brochure, this section will be revised to include a summary of such changes.

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## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm.**

Longbow Capital Partners, L.P., a Delaware limited partnership (the "Investment Adviser"), commenced operations in 2003 with an office in New York, New York. Mr. Thomas M. Fitzgerald, III (the "Principal Owner"), a limited partner of the Investment Adviser and the managing member of the general partner of the Investment Adviser, Longbow GP, L.L.C., a Delaware limited liability company (the "Investment Adviser General Partner"), is the principal owner of the Investment Adviser and controls the Investment Adviser. The Investment Adviser General Partner has ultimate responsibility for the management, operations and the investment decisions made by the Investment Adviser.

#### **B. Description of Advisory Services.**

##### **1. Advisory Services.**

The Investment Adviser serves as the investment manager with discretionary trading authority to private pooled investment vehicles (collectively, the "Funds"). The Funds include (1) Longbow Partners, L.P., a Delaware limited partnership (the "Classic Domestic Fund"), (2) Longbow Capital International Fund, Ltd., a Cayman Islands exempted company (the "Classic Offshore Fund" and together with the Classic Domestic Fund, the "Classic Funds"), (3) Longbow FOCUS, L.P., a Delaware limited partnership (the "FOCUS Domestic Fund"), (4) Longbow FOCUS, Ltd., a Cayman Islands exempted company (the "FOCUS Offshore Fund" and together with the FOCUS Domestic Fund, the "FOCUS Funds"), (5) Longbow Clean Value Fund, L.P., a Delaware limited partnership (the "Clean Value Domestic Fund"), and (6) Longbow Clean Value Fund, Ltd., a Cayman Islands exempted company (the "Clean Value Offshore Fund").

The Classic Offshore Fund invests substantially all of its assets in Longbow Capital Master Fund, Ltd., a Cayman Islands exempted company (the "Classic Master Fund").

The FOCUS Domestic Fund invests substantially all of its assets in Longbow FOCUS Master Fund, L.P., a Cayman Islands exempted limited partnership (the "FOCUS Master Fund"). The FOCUS Offshore Fund also invests in the FOCUS Master Fund by investing all of its capital in Longbow Focus Intermediate Fund, L.P., a Cayman Islands exempted limited partnership (the "FOCUS Intermediate Fund"), which, in turn, invests in the FOCUS Master Fund.

The Clean Value Domestic Fund invests substantially all of its assets in Longbow Clean Value Master Fund, L.P., a Cayman Islands exempted limited partnership (the "Clean Value Master Fund"). The Clean Value Offshore Fund also invests in the Clean Value Master Fund by investing all of its capital in Longbow Clean Value Intermediate Fund, L.P., a Cayman Islands exempted limited partnership (the "Clean Value Intermediate Fund"), which, in turn, invests in the Clean Value Master Fund.

Shares in the Classic Offshore Fund, the FOCUS Offshore Fund and the Clean Value Offshore Fund are offered on a private placement basis to U.S. tax-exempt entities, and

in accordance with Regulation S of the Securities Act of 1933, as amended (the "Securities Act") with respect to non-U.S. persons, and subject to certain other conditions, which are fully set forth in the offering documents for the Classic Offshore Fund, the FOCUS Offshore Fund, and the Clean Value Fund.

Longbow Advisors, L.L.C. (the "Longbow Advisors GP"), a Delaware limited liability company that is affiliated with the Investment Adviser, serves as the general partner or manager, as applicable, of the Classic Domestic Fund, the FOCUS Domestic Fund, the FOCUS Intermediate Fund and the FOCUS Master Fund. The interests in the Classic Domestic Fund and the FOCUS Domestic Fund are offered on a private placement basis, pursuant to Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "1940 Act"), to persons who are "accredited investors" as defined under the Securities Act and "qualified purchasers" as defined under the 1940 Act, and subject to certain other conditions, which are set forth in the offering documents for the Classic Domestic Fund and the FOCUS Domestic Fund.

Longbow Clean Value General Partners, L.L.C. (the "Longbow Clean Value GP" and together with Longbow Advisors GP, the "Fund General Partners"), a Delaware limited liability company that is affiliated with the Investment Adviser, serves as the general partner or manager, as applicable, of the Clean Value Domestic Fund, the Clean Value Intermediate Fund and the Clean Value Master Fund. The interests in the Clean Value Domestic Fund are offered on a private placement basis, pursuant to Section 3(c)(1) of the 1940 Act, to persons who are "accredited investors" as defined under the Securities Act, and subject to certain other conditions, which are set forth in the offering documents for the Clean Value Domestic Fund.

As used herein, the term "Client" generally refers to each Fund.

## 2. Investment Strategies and Types of Investments.

Please see Item 8.

### C. Availability of Customized Services for Individual Clients.

The Investment Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents.

In addition, the Investment Adviser may enter into "side letter" agreements or other similar agreements with one or more investors in the Funds which provide such investors with additional and/or different rights (including, without limitation, with respect to redemption dates, notice periods and other liquidity rights; performance compensation; management fees; informational rights and other rights) than other investors. In general, the Investment Adviser will not be required to notify any or all of the other investors of any such "side letters" or any of the rights and/or terms or provisions thereof, nor will the Investment Adviser be required to offer such additional and/or different rights and/or terms to any or all of the other investors.

### D. Wrap Fee Programs.

The Investment Adviser does not participate in wrap fee programs.

E. Assets Under Management.

The Investment Adviser manages approximately \$288 million of regulatory assets as of March 31, 2013 on a discretionary basis.

## ITEM 5 FEES AND COMPENSATION

### A. Advisory Fees and Compensation.

The fees applicable to each Fund are set forth in detail in each Fund's offering documents. A summary of such fees is provided below.

#### 1. The Classic Funds.

Investors in the Classic Funds pay a management fee to the Investment Adviser as of the beginning of each fiscal quarter equal to 0.375% (1.5% annualized) of the capital account balance or net asset value ("NAV") of each series of shares as of such time.

In addition to the management fees set forth above, with respect to the Classic Domestic Fund, Longbow Advisors GP and an affiliate of the Investment Adviser composed of personnel of the Investment Adviser (the "Longbow Affiliate") collectively are generally entitled as of the end of each fiscal year to 20% of the net capital appreciation of the Classic Domestic Fund during the year as an incentive allocation, subject to a loss carryforward mechanism. The mechanism provides that losses will only be carried forward for one year and then will no longer be taken into account in calculating the incentive allocation. Net capital appreciation generally includes both realized gains and losses and unrealized appreciation and depreciation of securities held in the Classic Domestic Fund's portfolio.

With respect to the Classic Offshore Fund, Longbow Advisors GP and the Longbow Affiliate collectively are generally entitled as of the end of each fiscal year to 20% of the net realized and unrealized appreciation in the NAV of each series of shares of the Classic Master Fund during the year, subject to certain adjustments, as an incentive allocation; provided that an incentive allocation will be made only with respect to the net realized and unrealized appreciation in the NAV of a series of shares in excess of the "Prior High NAV" of such series of shares. The "Prior High NAV" for each series of shares of the Classic Master Fund is the NAV of that series immediately following, and after reduction for, the most recent calculation of an incentive allocation with respect to such series (or if an incentive allocation has not yet become due with respect to such series, the NAV of such series immediately following the initial issuance of such series). If the NAV of a series of shares of the Classic Master Fund depreciates in any year other than as a result of redemptions relating to the corresponding series of shares (a "Loss Year") and such depreciation is not fully recovered by the end of the next year, the Prior High NAV will be reduced (but not below the NAV of the series) by the amount of any unrecovered depreciation for the Loss Year.

Upon the complete or partial redemption by an investor other than at the end of a fiscal year, an incentive allocation, if any, will be made with respect to the amount being redeemed.

The Investment Adviser and Longbow Advisors GP reserve the right to waive or modify any fee arrangements or performance compensation for any investor or to impose different terms and conditions on future investors. A Classic Fund's management fee and incentive allocation are generally non-negotiable.



The Investment Adviser and its personnel may invest in one or more of the Classic Funds. The Investment Adviser is not subject to the incentive allocation and the Investment Adviser's personnel are not charged a management fee or subject to the incentive allocation with respect to the applicable Classic Fund.

## 2. The FOCUS Funds.

Investors in the FOCUS Funds pay a management fee to the Investment Adviser as of the beginning of each fiscal quarter that ranges between 0.3125% (1.25% annualized) and 0.50% (2.0% annualized) of the capital account balance or NAV of each series of shares as of such time.

In addition to the management fees set forth above, with respect to the FOCUS Funds, Longbow Advisors GP and the Longbow Affiliate collectively are generally entitled to incentive allocations that range between 17% to 20% of the net capital appreciation of the FOCUS Funds as an incentive allocation, subject to the Loss Recovery Account as described below. Net capital appreciation generally includes both realized gains and losses and unrealized appreciation and depreciation of securities held in the FOCUS Funds' portfolio.

Generally, the FOCUS Funds have a "high water mark" for each capital account effected by maintaining a memorandum loss recovery account (the "Loss Recovery Account") for such capital account. The Loss Recovery Account mechanism is described in the FOCUS Funds' offering documents. Neither Longbow Advisors GP nor the Longbow Affiliate will be allocated any incentive allocation with respect to an investor's investment in a FOCUS Fund until such investor has recovered any net capital depreciation credited to its related Loss Recovery Account (as adjusted for withdrawals/redemptions) as set out in the FOCUS Funds' offering documents. Investors are permitted to elect to invest in classes of interests for which the incentive allocation is measured over one-year, two-year and three-year performance periods. For some of the two-year and three-year classes of interests, a portion of the incentive allocation that has been allocated to Longbow Advisors GP and the Longbow Affiliate remains subject to a "clawback." As such, certain amounts of the incentive allocation may not be withdrawn by Longbow Advisors GP or the Longbow Affiliate until a determination of the net capital appreciation or net capital depreciation attributable to investments in the classes that feature multi-year performance periods is made at the end of the (a) first year and/or (b) second year immediately succeeding the allocation of the incentive allocation. In the event there is net capital depreciation attributable to an investment in a class that features a multi-year performance period, a portion of such net capital depreciation will be reallocated from such investors to Longbow Advisors GP and the Longbow Affiliate.

The Investment Adviser and Longbow Advisors GP reserve the right to waive or modify any fee arrangements or performance compensation for any investor or to impose different terms and conditions on future investors. A FOCUS Fund's management fee and incentive allocation are generally non-negotiable.

The Investment Adviser and its personnel may invest in one or more of the FOCUS Funds. The Investment Adviser is not subject to the incentive allocation and the Investment Adviser's personnel are not charged a management fee or subject to the incentive allocation with respect to the applicable FOCUS Fund.

Upon the complete or partial redemption of shares by a shareholder other than at the end of a fiscal year, an incentive allocation, if any, will be made with respect to the amount being redeemed.

### 3. The Clean Value Funds.

Investors in the Clean Value Funds pay a management fee to the Investment Adviser as of the beginning of each fiscal quarter equal to 0.5% (2.0% annualized) of the capital account balance or net asset value ("NAV") of each series of shares as of such time.

In addition to the management fees set forth above, with respect to the Clean Value Funds, Longbow Clean Value GP and an affiliate of the Investment Adviser composed of personnel of the Investment Adviser (the "Longbow Affiliate") collectively are generally entitled as of the end of each fiscal year to 20% of the net capital appreciation of the Clean Value Funds during the year as an incentive allocation, subject to the Loss Recovery Account as described below. Net capital appreciation generally includes both realized gains and losses and unrealized appreciation and depreciation of securities held in the Clean Value Funds' portfolio.

Generally, the Clean Value Funds have a "high water mark" for each capital account effected by maintaining a Loss Recovery Account for such capital account. The Loss Recovery Account mechanism is described in the Clean Value Funds' offering documents. Neither Longbow Clean Value GP nor the Longbow Affiliate will be allocated any incentive allocation with respect to an investor's investment in a Clean Value Fund until such investor has recovered any net capital depreciation credited to its related Loss Recovery Account (as adjusted for withdrawals/redemptions) as set out in the Clean Value Funds' offering documents.

Upon the complete or partial redemption by an investor other than at the end of a fiscal year, an incentive allocation, if any, will be made with respect to the amount being redeemed.

The Investment Adviser and Longbow Clean Value GP reserve the right to waive or modify any fee arrangements or performance compensation for any investor or to impose different terms and conditions on future investors. A Clean Value Fund's management fee and incentive allocation are generally non-negotiable.

The Investment Adviser and its personnel may invest in one or more of the Clean Value Funds. The Investment Adviser is not subject to the incentive allocation and the Investment Adviser's personnel are not charged a management fee or subject to the incentive allocation with respect to the applicable Clean Value Fund.

### B. Payment of Fees.

Fees and compensation paid to the Investment Adviser, the Fund General Partners and the Longbow Affiliate by the Clients are generally deducted from the assets of such Clients. As discussed above, management fees are generally deducted on a quarterly basis and performance compensation is generally deducted on an annual basis.

C. Additional Fees and Expenses.

1. The Funds.

Generally, each Fund may bear the following expenses: operating expenses, investment expenses (*e.g.*, brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, initial and variation margin, interest expense), professional fees (including, without limitation, expenses of consultants and experts' fees relating to particular investments), travel expenses related to investments, legal expenses, fees and reimbursable expenses of the Administrator, the management fee, internal and external accounting, audit and tax preparation expenses, costs of printing and mailing reports and notices, entity-level taxes, corporate licensing, regulatory expenses (including filing fees), organizational expenses, expenses relating to the offer and sale of shares and interests, and extraordinary expenses. Such expenses (other than the management fee) are generally shared on a *pro rata* basis by all of the investors in a Fund, including, as applicable, the Fund General Partners.

The FOCUS Domestic Fund and the FOCUS Offshore Fund also bear their *pro rata* share of the FOCUS Master Fund's expenses. The Clean Value Domestic Fund and the Clean Value Offshore Fund also bear their *pro rata* share of the Clean Value Master Fund's expenses.

For a more complete list of the expenses borne by each Fund, please review such Fund's offering documents.

D. Prepayment of Fees.

Please see responses to 5A above.

E. Additional Compensation and Conflicts of Interest.

Neither the Investment Adviser nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

**ITEM 6**  
**PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Investment Adviser and its affiliates accept performance compensation from every Client. As a result, the Investment Adviser and its affiliates do not face the conflicts of interest that may arise when an investment adviser accepts performance-based fees from some Clients, but not from other Clients.

**ITEM 7**  
**TYPES OF CLIENTS**

The Investment Adviser generally provides investment advice to Funds, as described above. Generally, investors in the Funds may include institutions, pension plans, high net worth individuals and other sophisticated investors.

## ITEM 8

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

#### A. Methods of Analysis and Investment Strategies.

*The descriptions set forth in this Brochure of specific advisory services the Investment Adviser offers to Clients, and investment strategies pursued and investments made by the Investment Adviser on behalf of its Clients, should not be understood to limit in any way the Investment Adviser's investment activities. The Investment Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Investment Adviser considers appropriate, subject to each Client's investment objectives and guidelines. The investment strategies the Investment Adviser pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.*

#### 1. The Classic Funds.

##### Overview

The Classic Funds are sector-focused, long/short investment funds. The Classic Funds' investment objective is to achieve consistent absolute returns with low volatility and low overall correlation to the U.S. equity and bond markets. The Investment Adviser seeks to accomplish this objective by concentrating the Classic Funds' investments in the power, pipeline and utility sectors while employing a value focused investment strategy that is defined by rigorous fundamental research and a disciplined stock selection process. The Investment Adviser seeks to construct a long bias, hedged portfolio for the Classic Funds and relies upon proprietary risk management tools, minimal leverage and a low long/short ratio as a means of preserving capital and mitigating risk.

The Classic Funds invest in and trade primarily listed U.S. equity securities of companies associated with the power, pipeline and utilities sectors including, but not limited to, electric and gas utilities, diversified energy, energy infrastructure companies and merchant energy providers. The Investment Adviser believes that the combination of the sectors' multiple volatility catalysts, high variability of returns and the widely divergent nature of the companies in this fragmented industry create an ideal environment for a long bias, hedged investment strategy.

##### Investment Methodology

Sector Monitoring and Stock Identification. The Investment Adviser is dedicated to achieving superior long term investment returns through rigorous fundamental research and a value focus. The Investment Adviser creates and maintains its own earnings models for each of the companies in its portfolio, primarily to estimate the long-term or "normal" earnings capacity of such companies. The Investment Adviser typically completes intensive fundamental analysis on each enterprise to understand the controversies that create excess investment return opportunities. Fundamental analysis concentrates on management, earnings quality, regulatory environment, competitive position, fundamental exposures and financial statement analysis. The Investment Adviser relies upon a variety of primary and secondary sources for this analysis, including discussions with senior management and

relevant third parties including rating agencies, regulators, competitors and other research and investment professionals.

The Investment Adviser's stock selection process utilizes proprietary valuation, earnings and risk management models which complement its fundamental research work. The Investment Adviser utilizes a proprietary Dividend Discount Model ("DDM") which incorporates its "normal" earnings estimates as a screen for value. The Investment Adviser also employs a proprietary earnings revision model incorporating First Call estimates as a measure of near term changes in company fundamentals. The Investment Adviser integrates its DDM and earnings revisions models as a primary screen for identifying the most compelling long and short sale opportunities. The Investment Adviser expects that this fundamentally driven, systematic screening process typically yields a significant subset of long and short candidates within the Classic Funds' defined universe owing to the sector's high dispersion of returns.

Portfolio Construction. The Investment Adviser manages a hedged, long bias portfolio comprised of approximately 40 stocks to protect investment principal through focused diversification without compromising investment returns. In narrowing the universe of investment candidates and constructing the Classic Funds' portfolio, the Investment Adviser evaluates each stock in the context of such stock's absolute and relative expected returns as well as considers each stock in the context of the overall exposures and risk controls of the portfolio.

Risk Management. The Investment Adviser generally manages risk in the Classic Funds' portfolio through a combination of short exposure, rigorous research and concentrating on value stocks which it believes offer an incremental margin of protection. The Investment Adviser does not currently anticipate the use of leverage on behalf of the Classic Funds. The Classic Funds' goal is to preserve capital and to use fundamental research to find a select number of stocks that the Investment Adviser believes should be held by the Classic Funds for the long term. It is expected that the Classic Funds' portfolio will be characterized by lower turnover and longer duration investments than may be typical with more leveraged, market neutral strategies employed by other managers.

Long Investment Methodology. Long investment candidates must show evidence of both attractive relative valuations and improving business fundamentals. In selecting long investments, the Investment Adviser will: measure opportunity; assess risks and correlations with other positions; weigh visibility versus valuation; consider the potential for long-term capital gains treatment; and concentrate positions.

Short Sale Methodology. Short sale candidates must show evidence of both high relative valuations and deteriorating business fundamentals. Particular emphasis is placed on balance sheet deterioration, declining free cash flows and downward earnings revisions. In selecting short sale candidates, the Investment Adviser will: evaluate the probability, magnitude and price reaction to a predicted event(s); assess the risks and correlations with other positions; gauge the upside versus the downside; and diversify positions relative to the Investment Adviser's long holdings.

Leverage/Financial Instruments. The Investment Adviser does not currently anticipate the use of leverage. The Investment Adviser may elect to use leverage in the future; however any use of leverage will be modest. The Investment Adviser focuses the

majority of its investing activities in listed U.S. equities in the utility and power sectors. However, the Investment Adviser may elect to invest a portion of the Classic Funds' assets in American Depositary Receipts issued by non-U.S. listed companies that provide financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Additionally, the Classic Funds may elect to invest a portion of its assets in fixed income and equity-linked securities. The Investment Adviser may also invest a portion of the Classic Funds' assets in warrants, options and other derivatives for hedging purposes. The Investment Adviser may maintain assets in cash or in any cash-equivalent instruments it deems appropriate, pending investment, for defensive purposes or to fund withdrawals. Any income earned from such investments will be reinvested by the Classic Funds in accordance with its investment program.

## 2. The FOCUS Funds.

### Overview

The FOCUS Funds are a long/short investment fund focused on investing primarily in the equity securities of companies within the energy infrastructure and utility and power sectors. The FOCUS Funds' investment objective is to seek superior risk-adjusted, investment returns with low correlation to the equity market. The Investment Adviser seeks to accomplish this objective through a combination of proprietary fundamental research, concentrated stock selection and the disciplined application of the Investment Adviser's risk tools.

The Investment Adviser focuses its investment activities in the listed equity securities of approximately 700 utility, power, energy, and energy infrastructure companies. Energy infrastructure companies refers to companies that support the energy, utility and power sectors' infrastructure requirements through the provision of equipment, materials, services and resources.

The Investment Adviser is defined by its proprietary fundamental research and stock selection. The Investment Adviser's long investments tend to share one of several key characteristics including: (i) significant undervaluation versus the Investment Adviser's "normal" earnings of Discounted Cash Flow estimates, (ii) low absolute valuation on a price-to-cash flow, earnings or EV/EBITDA basis, (iii) unrealized intrinsic value as measured on a Sum of the Parts basis, or (iv) underappreciated progress in transitional issues related to developing industry dynamics, strategic initiatives, management changes or restructuring/turnarounds. The Investment Adviser's short investments tend to share the inverse of one of these characteristics.

The FOCUS Funds investment universe consists of U.S. and non-U.S. domiciled companies. The Investment Adviser may elect to invest in either the ordinary shares of these non-U.S. domiciled companies or in their American Depositary Receipts. It is generally expected that these non-U.S. companies will adhere to either U.S. generally accepted accounting principles or International Financial Reporting Standards. The Investment Adviser also may invest a portion of the FOCUS Funds' assets in midstream energy-related master limited partnerships ("MLPs") and may obtain this economic exposure by way of total return swaps as a means of simplifying the tax and administrative considerations related to MLP investments. These total return swaps will have a term of not more than one year and no payments will be exchanged between the FOCUS Funds and their



counterparties before the termination date of the total return swap. Additionally, the Investment Adviser may elect to invest a portion of the FOCUS Funds' assets in fixed income and equity-linked securities. The Investment Adviser may also invest a portion of the FOCUS Funds' assets in warrants, options and equity derivatives for investment or hedging purposes.

### Investment Methodology

Sector Monitoring and Stock Identification. The Investment Adviser is dedicated to achieving superior risk-adjusted investment returns through detailed proprietary fundamental research and concentrated stock selection. The Investment Adviser creates and maintains its own earnings models for each of the companies in its portfolio, primarily to estimate the long-term or "normal" earnings and cash flow potential of such companies. The Investment Adviser completes intensive fundamental analysis on each enterprise to understand the controversies that create excess investment return opportunities. Fundamental analysis concentrates on financial statement analysis, management, earnings quality, cost structure, regulatory environment, end market exposures, strategic initiatives and industry dynamics. The Investment Adviser relies upon a variety of primary and secondary sources for this analysis, including discussions with utility and power executives, regulators, independent industry consultants, rating agency representatives, members of the private equity community, competitors and other research and investment professionals.

The Investment Adviser's stock selection process incorporates proprietary valuation and risk management models which complement its fundamental research work. The Investment Adviser uses a Dividend Discount Model, Discounted Cash Flow analysis or relative value, as appropriate to the specific sector, which incorporate its "normal" estimates of earnings or cash flow as a screen for value. The Investment Adviser's value screens rank investments within specific subsectors on the basis of expected return (the difference between Investment Adviser's target price and the current stock price) as well as selected measures (including earnings revisions) which the Investment Adviser has determined is relevant to momentum.

The Investment Adviser then performs further analysis on the subset of stocks that present the most compelling expected return opportunities. During this step in the process, the Investment Adviser seeks to further understand the controversies for each stock and the range of potential earnings outcomes associated with these controversies, and to examine the prospective catalysts which drive the Investment Adviser's return expectations.

Portfolio Construction. The Investment Adviser manages a long bias, long/short portfolio comprised primarily of "core" and "non-core" equity investments within the defined FOCUS Funds' investment universe. The Investment Adviser seeks to generate superior risk-adjusted investment returns by way of: (i) portfolio construction which contemplates an average gross investment exposure of 130% - 170%, (ii) stock selection which draws upon the information advantage associated with the Investment Adviser's proprietary fundamental research and specialized industry expertise, and (iii) concentration of investments in the least number of high and low expected return investment opportunities (for long and short investments, respectively) while maintaining and appropriate diversity of portfolio exposures as measured by the Investment Adviser proprietary risk tools. The Investment Adviser expects that the portfolio will be comprised of 25 – 45 investments.

Risk Management. The Investment Adviser employs a proprietary risk factor model which measures portfolio skew or risk exposure to a variety of fundamental, industry and non-fundamental factors. The risk tools allow the Investment Adviser to stress test the portfolio (and specific risk factor exposures) in the context of the price movements associated with prior three standard deviation events affecting the utility, power, energy, and energy infrastructure sectors with the objective of projecting potential portfolio draw-downs over a thirty day period. The Investment Adviser believes that its proprietary risk tools provide a comprehensive and analytically rigorous method of measuring portfolio risk and that the disciplined application of these risk tools is an important element in managing the portfolio within the FOCUS Funds' stated objectives.

Long Investment Characteristics. Long investment candidates tend to share one of several key characteristics including: (i) significant undervaluation versus the Investment Adviser's "normal" earnings, EBITDA or Discounted Cash Flow estimates, (ii) low absolute valuation on a price-to-cash flow, earnings or EV/EBITDA basis, (iii) unrealized intrinsic value as measured on a Sum of the Parts basis, or (iv) underappreciated progress in transitional issues related to developing industry dynamics, strategic initiatives, management changes or restructuring/turnarounds.

Short Sale Characteristics. Short sale candidates are expected to show evidence of both high relative valuations and deteriorating business fundamentals. Particular emphasis is placed on balance sheet deterioration, declining free cash flows, the relationship of capital expenditures relative to EBITDA and prospective earnings shortfalls relative to market expectations and unsustainable dividend policy. Short sale candidates may also be adversely affected by underappreciated secular or regulatory developments which have the potential to change industry status quo. In selecting short sale candidates, the Investment Adviser will: evaluate the probability, magnitude and price reaction to a predicted event(s); assess the risks and correlations with other positions; gauge the upside versus the downside; and diversify positions relative to the FOCUS Funds' long holdings.

#### Leverage/Financial Instruments

The Investment Adviser focuses the majority of its investing activities in listed U.S. equities in the utility, power, midstream and energy infrastructure sectors, including energy-related MLPs in which the Investment Adviser will obtain its exposure through total return swaps. The Investment Adviser may elect to invest a portion of the FOCUS Funds' assets in ADRs or listed ordinary shares issued by non-U.S. domiciled companies that provide financial statements prepared in accordance with either GAAP or IFRS. Additionally, the FOCUS Funds may invest a portion of their assets in fixed income and equity-linked securities. The Investment Adviser may also invest a portion of the FOCUS Funds' assets in warrants, options and other derivatives for speculative or hedging purposes.

The Investment Adviser does not currently anticipate the use of leverage. However, leverage may be required in the construction of total return swaps, which is the FOCUS Master Fund's preferred method of investing in MLPs. The Investment Adviser may elect to use leverage in the future, however any use of leverage will be modest.

The Investment Adviser may maintain assets in cash or in any cash-equivalent instruments it deems appropriate, pending investment, for defensive purposes or to fund

withdrawals. Any income earned from such investments will be reinvested by the FOCUS Funds' in accordance with its investment program.

### 3. The Clean Value Funds.

#### Overview

The Clean Value Funds are a long/short investment fund focused on investing primarily in the equity securities of companies within the energy and energy infrastructure sectors. Longbow Clean Value seeks superior absolute returns with low correlation to the U.S. equity and commodities markets through a fundamental long/short investment program focused primarily on energy and energy infrastructure investments.

The Investment Adviser focuses its investment activities in the listed equity securities of approximately 700 utility, power, energy, and energy infrastructure companies. Energy infrastructure companies refers to companies that support the energy, utility and power sectors' infrastructure requirements through the provision of equipment, materials, services and resources.

The Investment Adviser is defined by its proprietary fundamental research and stock selection. The Investment Adviser's long investments tend to share one of several key characteristics including: (i) low absolute valuations as measured on a net asset value or prospective free cash basis, (ii) unrealized intrinsic value uncovered by analyzing each company on an "asset by asset" basis, and (iii) underappreciated progress in transitional issues related to changing industry dynamics, management changes, restructurings or turnarounds. The Investment Adviser's short investments tend to be fully valued stocks with underappreciated competitive risks and deteriorating credit profiles.

The Clean Value Funds investment universe consists of U.S. and non-U.S. domiciled companies. The Investment Adviser may elect to invest in either the ordinary shares of these non-U.S. domiciled companies or in their American Depositary Receipts. It is generally expected that these non-U.S. companies will adhere to either U.S. generally accepted accounting principles or International Financial Reporting Standards. The Investment Adviser also may invest a portion of the Clean Value Funds' assets in midstream energy-related master limited partnerships ("MLPs") and may obtain this economic exposure by way of total return swaps as a means of simplifying the tax and administrative considerations related to MLP investments. These total return swaps will have a term of not more than one year and no payments will be exchanged between the Clean Value Funds and their counterparties before the termination date of the total return swap. Additionally, the Investment Adviser may elect to invest a portion of the Clean Value Funds' assets in fixed income and equity-linked securities. The Investment Adviser may also invest a portion of the Clean Value Funds' assets in warrants, options and equity derivatives for investment or hedging purposes.

#### Investment Methodology

Sector Monitoring and Stock Identification. Longbow uses a fundamentally driven, research intensive, value-oriented, stock selection process. The key to this process is balancing longer term relative value opportunities with the current direction of business fundamentals. Careful attention is given to understanding the controversies causing securities

to be mispriced and whether the market view regarding these controversies can change in a reasonable time. Portfolio construction will emphasize those stocks with the best risk-adjusted returns subject to the volatility and exposure constraints of the portfolio.

Long Investment Characteristics. Longbow seeks to identify Long candidates by: (i) Screen the Longbow investment universe (identify lowest deciles of stocks on a P/CFPS and EV/GIC basis, significant absolute and relative price underperformance over 1 to 3 years), (ii) Perform business, asset, and operating analysis (review history of asset returns, review capital allocation across assets, analyze asset economics, determine whether assets generate cash flows through cycles), (iii) Perform credit analysis and credit modeling (ability to improve credit profile, target free cash flow yield of +20%), (iv) Perform catalysts test (forecast magnitude and timing of catalysts, identify what is necessary to change financial condition, recapitalization scenario analysis, analyze the collective impact of cost reductions, new capital spending budget and strategic initiatives), and (v) Perform management test (willingness to take steps to unlock value, Board of Directors representing shareholders, management's primary focus becomes free cash flow, debt reduction and creating shareholder value)

Short Investment Characteristics. Longbow seeks to identify Short candidates by: (i) Screen the Longbow investment universe (identify high flying themes with serial capital needs and questionable business model, identify value traps with prospective credit risks, screen for debt coverage, interest coverage, and other credit metrics, special situations: debt financed takeovers, unproven spin-offs), (ii) Perform business, asset, and operating analysis (viability of asset base, cash generation of assets), (iii) Perform credit analysis and credit modeling (liquidity analysis, need to consume capital, determine if there will be further credit and business degradation via financial modeling), (iv) Perform catalysts test (potential violation of debt covenants, liquidity events, incremental capital requirements (cost/dilution)), and (v) Perform management test (management dedicated to current asset base and business under all conditions, hoping for a turn in end markets, unwilling or unable to internally improve credit profile)

Longbow Clean Value portfolio investments are selected by forecast the magnitude and timing of changes which will materially improve (Long) or erode (Short) the company's overall financial condition.

Portfolio Construction. The Investment Adviser manages a long bias, long/short portfolio comprised primarily of "core" and "non-core" equity investments within the defined Clean Value Funds' investment universe. The Investment Adviser seeks to generate superior risk-adjusted investment returns by way of: (i) portfolio construction which contemplates an average gross investment exposure of 170% – 200% or less, (ii) stock selection which draws upon the information advantage associated with the Investment Adviser's proprietary fundamental research and specialized industry expertise, and (iii) concentration of investments in the least number of high and low expected return investment opportunities (for long and short investments, respectively) while maintaining and appropriate diversity of portfolio exposures as measured by the Investment Adviser proprietary risk tools. The Investment Adviser expects that the portfolio will be comprised of 25 – 40 investments.

Risk Management. The Investment Adviser employs a proprietary risk factor model which measures portfolio skew or risk exposure to a variety of fundamental, industry

and non-fundamental factors. The risk tools allow the Investment Adviser to stress test the portfolio (and specific risk factor exposures) in the context of the price movements associated with prior three standard deviation events affecting the utility, power, energy, and energy infrastructure sectors with the objective of projecting potential portfolio draw-downs over a thirty day period. The Investment Adviser believes that its proprietary risk tools provide a comprehensive and analytically rigorous method of measuring portfolio risk and that the disciplined application of these risk tools is an important element in managing the portfolio within the Clean Value Funds' stated objectives.

#### Leverage/Financial Instruments

The Investment Adviser focuses the majority of its investing activities in listed North American equities in the utility, power, energy, and energy infrastructure sectors, including energy-related MLPs in which the Investment Adviser will obtain its exposure through total return swaps. The Investment Adviser may elect to invest a portion of the Clean Value Funds' assets in ADRs or listed ordinary shares issued by non-U.S. domiciled companies that provide financial statements prepared in accordance with either GAAP or IFRS. Additionally, the Clean Value Funds may invest a portion of their assets in fixed income and equity-linked securities. The Investment Adviser may also invest a portion of the Clean Value Funds' assets in warrants, options and other derivatives for speculative or hedging purposes.

The amount of leverage utilized by the Fund is generally not expected to exceed 150% of assets, net of assets that are held for hedging purposes. Furthermore, leverage may be required in the construction of total return swaps, which is the Clean Value Master Fund's preferred method of investing in MLPs. Any use of leverage will be modest.

The Investment Adviser may maintain assets in cash or in any cash-equivalent instruments it deems appropriate, pending investment, for defensive purposes or to fund withdrawals. Any income earned from such investments will be reinvested by the Clean Value Funds' in accordance with its investment program.

#### B. Material, Significant, or Unusual Risks Relating to Investment Strategies.

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser. The term "Accounts" refers to the Funds managed by the Investment Adviser. The Accounts may be subject to certain of the following risks:*

General Risks of Investments in the Utility, Power Energy, and Energy Infrastructure Industries. The Investment Adviser will invest in companies involved in supporting the infrastructure requirements of the utility, power and related infrastructure sectors. These companies are sensitive to fluctuations in resource availability, fuel supply and demand, interest rates, special risks of constructing and operating facilities (including nuclear facilities), lack of control over pricing, merger and acquisition activity, environmental considerations, public policy initiatives and regulation.

Industry/Issuer Concentration. Investments will be focused on the utility, power, energy, and energy infrastructure sectors, and in establishing its portfolio positions, the Investment Adviser may emphasize concentration, rather than diversification. Therefore, the Accounts may be subject to more rapid change in value than would be the case if the Accounts were required to maintain a wide diversification among industry sectors and markets. This limited diversity could expose the Accounts to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those investments.

Regulatory Risks of Investments in the Utility, Power, Energy, and Energy Infrastructure Industries. Utility, Power, Energy, and Energy Infrastructure companies are subject to significant regulation in many aspects of their operations, including how facilities are constructed, maintained and operated, environmental and safety controls, and the prices they may charge for the products and services. Various governmental agencies and authorities have the power to enforce compliance with these regulations, and violators may be subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Stricter laws, regulations or enforcement policies could be enacted in the future, which would likely increase compliance costs and may adversely affect the financial performance of energy companies which may have implications for the companies that support the energy sectors' infrastructure related requirements.

Commodity Price Volatility Risk. Companies operating in the power, pipeline and utilities sectors may be affected by fluctuations in the prices of energy commodities, including, for example, natural gas, natural gas liquids, crude oil and coal, in the short- and long-term. Fluctuations in energy commodity prices would directly impact companies that own such energy commodities and could indirectly impact companies that engage in transportation, storage, processing, distribution or marketing of such energy commodities. Fluctuations in energy commodity prices can result from changes in general economic conditions or political circumstances (especially of key energy-consuming countries); market conditions; weather patterns; domestic production levels; volume of imports; energy conservation; domestic and foreign governmental regulation; international politics; policies of the Organization of Petroleum Exporting Countries ("OPEC"); taxation; tariffs; and the availability and costs of local, intrastate and interstate transportation methods. The power, pipeline and energy sectors as a whole may also be impacted by the perception that the performance of power, pipeline and energy sector companies are directly linked to commodity prices.

Supply and Demand Risk. Companies operating in the power, pipeline and utilities sectors may be impacted by the levels of supply and demand for energy commodities. Companies operating in these sectors could be adversely affected by reductions in the supply of or demand for energy commodities. The volume of production of energy commodities and the volume of energy commodities available for transportation, storage, processing or distribution could be affected by a variety of factors, including depletion of resources; depressed commodity prices; catastrophic events; labor relations; increased environmental or other governmental regulation; equipment malfunctions and maintenance difficulties; import volumes; international politics, policies of OPEC; and increased competition from alternative energy sources. Alternatively, a decline in demand for energy commodities could result from factors such as adverse economic conditions (especially in key energy-consuming countries); increased taxation; increased environmental or other governmental regulation; increased fuel

economy; increased energy conservation or use of alternative energy sources; or increased commodity prices.

Seasonal Fluctuation Risk. The prices of energy products fluctuate seasonally and follow different price patterns in the U.S. versus the rest of the world. For example, in some parts of the United States and other markets, natural gas demand peaks during the cold winter months, with market prices peaking at that time. As a result, the overall price of certain energy products may fluctuate substantially on a seasonal and quarterly basis and thus make consecutive period to period comparisons less relevant.

Catastrophic Event Risk. Companies operating in the power, pipeline and utilities sectors are subject to many dangers inherent in the production, exploration, management, transportation, processing and distribution of natural gas, natural gas liquids, crude oil, refined petroleum and petroleum products and other hydrocarbons. These dangers include leaks, fires, explosions, damage to facilities and equipment resulting from natural disasters, inadvertent damage to facilities and equipment and terrorist acts. These dangers give rise to risks of substantial losses as a result of loss or destruction of commodity reserves; damage to or destruction of property, facilities and equipment; pollution and environmental damage; and personal injury or loss of life. Any occurrence of such catastrophic events could bring about a limitation, suspension or discontinuation of the operations of companies operating in the energy sector. Companies operating in the power, pipeline and energy sectors may not be fully insured against all risks inherent in their business operations and therefore accidents and catastrophic events could adversely affect such companies' financial conditions and ability to pay distributions to investors.

Investment in Undervalued Securities. The Accounts make investments in securities of companies which the Investment Adviser believes to be undervalued. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired.

### C. Risks Associated With Particular Types of Securities

Equity Securities. The Accounts' investment portfolios primarily include equity securities of U.S. listed companies. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments. As a result, the Accounts may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Investment Adviser's expectations or if equity markets generally move in a single direction and the Accounts have not hedged against such a general move. The Accounts also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

Small and Medium Capitalization Companies. Each Account may invest a portion of its assets in the securities of companies with small- to medium-sized market capitalizations. While the Investment Adviser believes such stocks often provide significant potential for appreciation, those stocks, particularly small-capitalization stocks, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of small-capitalization and even medium-capitalization securities are often

more volatile than prices of large-capitalization securities and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be less liquid.

Swap Agreements. Each Account may enter into swap agreements. Swap agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Accounts' exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. An Account is not limited to any particular form of swap agreement if consistent with the Account's investment objective and policies.

Swap agreements tend to shift an Account's investment exposure from one type of investment to another. For example, if an Account agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease such Account's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Accounts' portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from an Account. If a swap agreement calls for payments by an Account, the Account must be prepared to make such payments when due. This is only true in default and not part of mark-to-market. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Accounts.

Other Derivative Instruments. The Accounts may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Accounts and legally permissible. Special risks may apply to instruments that are invested in by the Accounts in the future that cannot be determined at this time or until such instruments are developed or invested in by the Accounts. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Total Return Swaps. The Accounts will enter into total return swaps ("TRSs"). TRSs are financial contracts in which one party (the "protection buyer") effectively holds a short position on the reference asset, paying to the other party (the "protection seller") distributions on a reference asset to the extent distributions are paid to holders of such reference asset plus any capital appreciation on the reference asset. The protection seller effectively holds a long position on the reference asset and pays a "floating rate" (which may, in fact, be a fixed or floating periodic interest rate) plus capital losses on the reference asset to the protection buyer. A TRS allows a protection seller to derive certain economic benefits of ownership without the protection seller actually having to own the reference asset or put the reference asset on its balance sheet. Conversely, because a



protection buyer receives a periodic payment that is different from distributions on the reference asset plus any capital losses attributable to the reference asset, a TRS provides the protection buyer with protection from certain economic risks of ownership of the reference asset.

It is expected that an Account will generally be the protection seller under a TRS and the Accounts will only enter into TRSs with a term of not more than one year. No payments will be exchanged between an Account and its counterparty before the termination date of the TRS. It is expected that the reference assets for the majority of TRSs into which the Accounts will enter will be interests in MLPs.

A TRS is a contract pursuant to which the Accounts' counterparty agrees to make certain payments. If the credit quality of an Account's counterparty in a TRS deteriorates, the counterparty may default on its obligation to make payment to the Accounts under the TRS. Each Account expects to mitigate its counterparty risk by effecting swap transactions with nationally recognized swap counterparties with an investment grade rating, as judged by Moody's, Standard & Poor's or the Fitch Rating Service. Unless the counterparty is required to collateralize its obligations to an Account and actually does so, the Account may be treated as a general unsecured creditor in the event of the insolvency of the counterparty. Consequently, the performance of the Accounts is dependent not only on the credit quality of the reference assets and the performance of the TRS, but also on the credit quality of the Accounts' counterparties. Additionally, it is expected that the Accounts will face only a few counterparties in TRS transactions. This concentration increases the exposure of the Accounts to risks relating to such counterparties.

It is possible that an Account's counterparties will not be required to collateralize their obligations to the Account, but that the Account will be required to collateralize the Account's obligations to its counterparties under the TRSs. If an Account is required to post collateral to its counterparties, this will reduce the amount of cash available for other investments. The Accounts and their counterparties will negotiate a measure of exposure upon which to calculate amounts to be posted, which measure may include an aggregate of all positions of the Accounts and any affiliates or related entities managed by Investment Adviser at the discretion of the counterparty. The amount to be posted may vary from time to time due to the performance of the reference assets or the TRSs with a particular counterparty, or may vary due to other factors. Because it is expected that the Accounts will, in general, take long positions by means of TRSs, posting requirements could be significant, especially if the credit quality of the reference assets declines.

Under a TRS, an Account will have a contractual relationship only with its counterparty, and not with any reference asset or obligor in respect of a reference asset. An Account will therefore not obtain any benefit from any collateral supporting a reference asset and will not have the benefit of remedies normally available to the holder of a reference asset. An Account will only have rights against its counterparty in accordance with the TRS and will not have any recourse against the issuer of a reference asset.

Master Limited Partnership Risk. Although the Accounts' investments in MLPs will be through TRSs, such investments are still subject to certain risks associated with MLPs. An investment in an MLP unit involves risks that differ from those associated with investments in similar equity securities, such as common stock of a corporation. Holders of MLP units usually have the rights typically afforded to limited partners in a limited

partnership, and as such have limited control and voting rights on matters affecting the partnership. In addition, there is the risk that an MLP could be, contrary to its intention, taxed as a corporation, resulting in decreased returns from such MLP. Further, conflicts of interest may exist between common unit holders, subordinated unit holders and the general partner of the MLP, including those arising from incentive distribution payments.

Currency Risks. The Accounts' investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Investment Adviser generally expects to hedge the currency risk associated with investments in non-U.S. domiciled issuers by entering into U.S. dollar currency hedges coincident with the purchase or sale of such securities.

Other Derivative Instruments. The Accounts may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Accounts and legally permissible. Special risks may apply to instruments that are invested in by the Accounts in the future that cannot be determined at this time or until such instruments are developed or invested in by the Accounts. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Call Options. There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money. The Accounts currently do not intend to sell uncovered call options.

Put Options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money. The Accounts currently do not intend to sell uncovered put options.

Bonds and Other Fixed-Income Securities. The Accounts may invest in bonds and other fixed-income securities. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed-income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity,

market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

Foreign Securities. The Accounts may invest in securities of foreign issuers and in depositary receipts, such as ADRs, that represent indirect interests in securities of foreign issuers. Foreign securities in which the Accounts may invest may be listed on foreign securities exchanges or traded in foreign over-the-counter markets. Investments in foreign securities are affected by risk factors generally not thought to be present in the U.S. These factors include, but are not limited to, the following: varying custody, brokerage and settlement practices; difficulty in pricing; less public information about issuers of foreign securities; less governmental regulation and supervision over the issuance and trading of securities than in the U.S.; the unavailability of financial information regarding the foreign issuer or the difficulty of interpreting financial information prepared under foreign accounting standards; less liquidity and more volatility in foreign securities markets; the possibility of expropriation or nationalization; the imposition of withholding and other taxes on interest, dividends, capital gains or other income; adverse political, social or diplomatic developments; limitations on the movement of funds or other assets between different countries; difficulties in invoking legal process abroad and enforcing contractual obligations; and the difficulty of assessing economic trends in foreign countries. Moreover, governmental issuers of foreign securities may be unwilling to repay principal and interest due, and may require that the conditions for payment be renegotiated. Investment in foreign countries also involves higher brokerage and custodian expenses than does investment in domestic securities.

Hedging Transactions. The Investment Adviser is not required to attempt to hedge portfolio positions in the Accounts and, for various reasons, may determine not to do so. Furthermore, the Investment Adviser may not anticipate a particular risk so as to hedge against it. Each of the Accounts may utilize a variety of financial instruments (including options and derivatives), both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of an Account's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of an Account's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in an Account's portfolio; (v) hedge the interest rate or currency exchange rate on any of the Accounts' liabilities or assets; (vi) protect against any increase in the price of any securities the Account anticipates purchasing at a later date; or (vii) for any other reason that the Investment Adviser deems appropriate.

The success of the hedging strategy of an Account is subject to the Investment Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of an Account's hedging strategy is also subject to the Investment Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While an Account may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Account than if it had not engaged in any such hedging transactions. For a variety of reasons, the Investment Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent an Account from achieving the intended hedge or expose an Account to risk of loss. The

successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Accounts' portfolio holdings.

Short Selling. The Accounts will engage in short selling. Short selling involves selling securities which are not owned by the short seller, and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the seller to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Accounts engage in short sales will depend upon the Investment Adviser's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Accounts of buying those securities to cover the short position. There can be no assurance that any Account will be able to maintain the ability to borrow securities sold short. In such cases, an Account can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Investment in Undervalued Securities. The Accounts will make investments in securities of companies which the Investment Adviser believes to be undervalued. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired.

Leverage; Interest Rates; Margin. The Accounts do not currently anticipate the use of leverage through margin and other forms of direct and indirect borrowings. The Accounts' use of leverage through margin and other forms of direct and indirect borrowings in the future, if any, is expected to be modest. While leverage presents opportunities for increasing the total return on investments, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment could be magnified to the extent leverage is utilized. The cumulative effect of the use of leverage with respect to any investments in a market that moves adversely to such investments could result in a substantial loss which would be greater than if the investments were not leveraged.

The Accounts may elect to use short-term margin borrowings, which may result in certain additional risks to the Accounts. For example, should the securities pledged to brokers to secure an Account's margin accounts decline in value, the Account could be subject to a "margin call", pursuant to which the Account must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of an Account's portfolio, the Account might not be able to liquidate assets quickly enough to satisfy their margin requirements.

When an Account purchases an option in the United States, there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. Whether any margin deposit will be required for over-the-counter ("OTC") options and other OTC instruments, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

Necessity for Counterparty Trading Relationships; Counterparty Risk. The Accounts have established, and may in the future establish, relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Accounts to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Accounts will be able to establish or maintain such relationships. An inability to establish or maintain such relationships would limit the Accounts' trading activities, could create losses, and could preclude the Account from engaging in certain transactions or obtaining financing, derivative intermediation and prime brokerage services and thus prevent the Accounts from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Accounts establish additional relationships could have a significant impact on the Accounts' business due to the Accounts' reliance on such counterparties.

Some of the markets in which the Investment Adviser may effect transactions are not "exchange-based", including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Accounts to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Accounts to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Accounts have concentrated its transactions with a single or small group of counterparties. The Investment Adviser is not restricted from dealing with any particular counterparty or from concentrating any or all of the Accounts' transactions with one counterparty. Moreover, the Investment Adviser has no formal credit function which evaluates the creditworthiness of the Accounts' counterparties and the Investment Adviser's evaluation of the creditworthiness of its counterparties may not prove sufficient. The ability of the Accounts to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Accounts. The Accounts seek to mitigate its counterparty risk by effecting swap transactions with nationally recognized swap counterparties with an investment grade rating, as judged by Moody's, Standard & Poor's or the Fitch Rating Service.

Counterparty Insolvency. The stability and liquidity of swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. If there is a default by the counterparty to such a transaction, the Accounts will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Accounts being less than if the Accounts had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent. If one or more of the Accounts' counterparties were to become insolvent or the subject of liquidation or reorganization proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of the Accounts' financial instruments from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, the Accounts may use counterparties located in various jurisdictions outside the United States. Such local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Accounts' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Accounts and their assets. Investors should assume that the insolvency of any counterparty would result in a loss to the Accounts, which could be material.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of the Investment Adviser's advisory business or the integrity of the Investment Adviser's management.

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

A. Broker-Dealer Registration Status.

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status.

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

Not Applicable.

D. Material Conflicts of Interest Relating to Other Investment Advisers.

The Investment Adviser does not recommend or select other investment advisers for its Clients.



**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**  
**AND PERSONAL TRADING**

A. Code of Ethics.

The Investment Adviser has established a comprehensive Code of Ethics (the "Code of Ethics") which is distributed to each employee each fiscal year and updated periodically throughout the year as deemed necessary by the Investment Adviser. The Code of Ethics focuses on a wide range of important considerations including, but not limited to: outside activities, potential conflicts of interest, confidentiality, disciplinary matters, dealing with government and other regulatory bodies, personal trading, insider trading and prohibited transactions. Clients may request a copy of the Code of Ethics by contacting the Investment Adviser at the address or telephone number listed on the first page of this document.

B. Securities That You or a Related Person Has a Material Financial Interest.

1. Cross Trades.

The Investment Adviser may determine that it would be in the best interests of certain Clients to transfer a security from one Client to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the Clients, or to reduce transaction costs that may arise in an open market transaction. If the Investment Adviser decides to engage in a Cross Trade, the Investment Adviser will determine that the trade is in the best interests of each Client involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those Clients.

The Investment Adviser generally executes Cross Trades with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a Cross Trade between two Clients may occur as an "internal cross", where the Investment Adviser instructs the custodian for the Clients to book the transaction at the price determined in accordance with the Investment Adviser's valuation policy. If the Investment Adviser effects an internal cross, the Investment Adviser will not receive any fee in connection with the completion of the transaction.

2. Principal Transactions.

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in an Account by the Investment Adviser or its personnel, the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors in such an Account and approved or disapproved by (i) an advisory board comprised of representatives of such Accounts or (ii) a committee consisting of one or more persons selected by the Investment Adviser (or its affiliate), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations.

C. Investing in Securities That You or a Related Person Recommends to Clients.

As described in the Investment Adviser's Code of Ethics, the Investment Adviser's partners, officers and employees may not make personal investments in securities or instruments in which the Investment Adviser may invest Clients' assets. Prior approval of the Investment Adviser's Compliance Officer, or his designated substitute, is generally required in connection with any transaction for the proprietary account of an employee involving the purchase or sale of a security (including any private securities transactions which are not carried out through brokerage accounts). In addition, the Investment Adviser's personnel may also invest in eligible Funds of its or their choosing and are not required to invest in all Funds. Potential conflicts also may arise due to the fact that the Investment Adviser and its personnel may have investments in some Funds but not in others or may have different levels of investments in the various Funds. It is expected that, if such investments are made, the size of these investments will change over time. Neither the Investment Adviser nor its personnel are required to keep any minimum investment in any of the Funds. At present, the Principal Owner has a significant portion of his liquid net worth invested in the Classic Funds, the FOCUS Funds, the Clean Value Funds and the Fund General Partners.

The Investment Adviser has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as Client trades.

## **ITEM 12**

### **Brokerage Practices**

#### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

The Investment Adviser has full discretionary authority to manage the Clients, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction and commissions or markups and markdowns paid. The Investment Adviser's authority is limited by its own internal policies and procedures and each Client's investment guidelines.

Portfolio transactions for each Client are allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. In selecting an appropriate broker-dealer to effect a trade, the Investment Adviser seeks to obtain best execution, taking into consideration the price of a security offered by the broker-dealer, as well as a broker-dealer's full range and quality of its services including, among other things, its facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to the Investment Adviser, brokerage and research services provided to the Investment Adviser (*e.g.*, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services. The Investment Adviser has created a Brokerage Committee comprised of its Principal Owner, Chief Operating Officer and two senior professionals. On a quarterly basis, these individuals review trade commissions and the list of approved brokers with whom the Investment Adviser may trade. Further, they evaluate the broker's performance based on the Investment Adviser's Best Execution Guidelines in order to judge the overall quality and cost of a broker-dealer's execution services, including factors other than prices and commissions.

In addition, the Investment Adviser uses Goldman Sachs Security Services Co. and BNP Paribas as the Funds' prime brokers (the "Prime Brokers"). One of the services which the Prime Brokers offer is introductions to new investors through its capital introduction program. Currently, neither the Investment Adviser nor the Funds compensate the Prime Brokers for their capital introduction programs (although the Investment Adviser may do so in the future). While such events and other services provided by a prime broker may influence the Investment Adviser in deciding whether to use such prime brokers in connection with brokerage, financing and other activities of the Funds, the Investment Adviser will not commit to allocate a particular amount of brokerage to a broker-dealer in any such situation.

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

From time to time, the Investment Adviser may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transaction) for effecting transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. The Investment Adviser will effect such transactions, and receive such brokerage and research products and services to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934 and subject to prevailing guidance provided by the SEC regarding Section 28(e).

Consistent with Section 28(e), research products or services obtained with "soft dollars" generated by one Account may be used by the Investment Adviser to service one or more other Accounts, including clients that may not have paid for the soft dollar benefits. The Investment Adviser does not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Where a product or service obtained with soft dollars provides both research and non-research assistance to the Investment Adviser, the Investment Adviser will make a reasonable allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Investment Adviser's allocation of the costs of such benefits and services between those that primarily benefit the Investment Adviser and those that primarily benefit the Accounts. The Investment Adviser has set out specific guidelines as to soft dollar use within its Compliance Manual.

## 2. Brokerage for Client Referrals.

Neither the Investment Adviser nor any related person receives client referrals from any broker-dealer or third party. However, as discussed above, subject to best execution, the Investment Adviser may consider, among other things, capital introduction and marketing assistance with respect to investors in the Funds in selecting or recommending broker-dealers for the Funds.

## 3. Directed Brokerage.

The Investment Adviser does not recommend, request or require that a Client direct the Investment Adviser to execute transactions through a specified broker-dealer.

### B. Order Aggregation.

It is the policy of the Investment Adviser to allocate investment opportunities among the Clients fairly and equitably, to the extent possible, over a period of time. The Investment Adviser, however, will have no obligation to purchase, sell or exchange any security or financial instrument for one Client which the Investment Adviser may purchase, sell or exchange for another Client or proprietary account if the Investment Adviser believes in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for a particular Client. Additional factors that the Investment Adviser may take into consideration include, among others, the relative size of the Client; investment objectives of the Client; amount of uninvested cash balances relative to each Client; acceptable risk levels of each Client; return targets for each Client; permissible asset classes for each Client; preferred asset classes for each Client; liquidity requirements of each Client; and position of each of the Clients relative to such Clients investment constraints at the time of allocation the Investment Adviser will also consider tax consequences; legal restrictions, including those that may arise in foreign jurisdictions; the possibility that an allocation may result in a small or odd lot; and other factors consider relevant. In addition, the Investment Adviser may aggregate orders for Clients in order to reduce transaction costs to the extent permitted by applicable law, but may determine not to do so in all cases. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Account generally will receive the average price with transaction costs allocated *pro rata* based on the size of each such Account's participation in the order (or allocation in the event of a partial fill) as determined by the

Investment Adviser. In the event of a partial fill, allocations generally will be made *pro rata* based on the initial order, but may be modified on a basis that the Investment Adviser deems to be appropriate, including, for example, in order to avoid odd lots or de minimis allocations.

### **ITEM 13**

#### **REVIEW OF ACCOUNTS**

A. Frequency and Nature of Review of Client Accounts or Financial Plans.

The Investment Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each Client's portfolio. Such reviews are conducted by the members of the Investment Adviser's management committee, portfolio managers and research associates.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review.

A review of a Client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

The Investment Adviser generally provides annual audited financial statements to its Clients within 120 days of the applicable Client's fiscal year end.

Investors in the Funds receive a monthly letter from the Investment Adviser documenting the performance of their Fund, along with a commentary by the Investment Adviser, although the Investment Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Investment Adviser. Information also may be available through the Investment Adviser's password-protected website. In addition, the Investment Adviser issues investors tax reports and audited financial statements concerning their respective Funds within 120 days of the end of the Fund's fiscal year.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

A. Economic Benefits for Providing Services to Clients.

The Investment Adviser does not receive economic benefits from non-clients for providing investment advice and other advisory services.

B. Compensation to Non-Supervised Persons for Client Referrals.

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for Client referrals. However, the Investment Adviser has entered into placement agreements with placement agents (each such placement agent, the "Placement Agent"), pursuant to which the Placement Agent has agreed to introduce potential investors to the Funds. Pursuant to the terms of such Placement Agreement, the Placement Agent will receive (i) ongoing payments from the Investment Adviser based upon a percentage of the management fees otherwise due to the Investment Adviser for interests or shares purchased by an investor introduced by the Placement Agent and (ii) a portion of the incentive allocation otherwise due to a Fund General Partner and the Longbow Affiliate.

## **ITEM 15**

### **CUSTODY**

The Investment Adviser may be deemed to have custody of funds and securities of the Funds because it has the authority to obtain funds or securities of the Funds, for example, by deducting advisory fees from a Fund's account or otherwise withdrawing funds from a Fund's account.

The Investment Adviser is not required to comply (or is deemed to have complied) with certain requirements of Rule 206(4)-2 under the Advisers Act with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.



**ITEM 16**  
**INVESTMENT DISCRETION**

The Investment Adviser serves as the management company with discretionary trading authority to each Fund.

The Investment Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents.

The Investment Adviser entered into an investment management agreement, or similar agreement, with each Fund, pursuant to which the Investment Adviser was granted discretionary trading authority.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

The Securities and Exchange Commission adopted Rule 206(4)-6 under the Advisers Act, which requires registered investment advisers that exercise voting authority over Client securities to implement proxy voting policies. In compliance with such rules, the Investment Adviser has adopted proxy voting policies and procedures (the "Policies"). The general policy is to vote proxy proposals, amendments, consents or resolutions relating to Client securities, including interests in private investment funds, if any (collectively, "proxies"), in a manner that serves the best interests of the Clients, as determined by the Investment Adviser in its discretion, taking into account, among other things, the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. In limited circumstances, the Investment Adviser may refrain from voting proxies where the Investment Adviser believes that voting would be inappropriate taking into consideration the cost of voting the proxy and the anticipated benefit to the Clients. A copy of the Policies and the proxy voting record relating to a Client of the Investment Adviser may be obtained by contacting the Investment Adviser. Clients may obtain a copy of the Policies and its proxy voting record upon request.

**ITEM 18**  
**FINANCIAL INFORMATION**

The Investment Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.