

Towle & Co.

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

Additional information about Towle & Co. also is available on the SEC's website at www.adviserinfo.sec.gov.

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

Item 2 Material Changes

Towle & Co. does not have any material changes from our last annual update dated March 3, 2011 to report.

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Item 4 Advisory Business

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

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

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

Towle & Co. had served as sole manager to the Peterson Value Fund, LLC since its inception in 1999. The Peterson Value Fund, LLC officially closed in June 2008 and, subsequently, returned all capital to investors by August of that year.

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

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

E. As of calendar year end 2011, Towle & Co. managed assets with a market value of \$308.0 million for the benefit of clients on a discretionary basis. Towle & Co. did not have any assets under management that were considered to be non-discretionary.

Item 5 Fees and Compensation

A. Management fees for separate accounts are 1% per annum payable quarterly in arrears. Towle & Co. reserves the right to negotiate fees when appropriate. Some clients pay more or less than others depending on, but not limited to, the type and size of the account, the range of additional services provided, and the aggregate amount of client-related assets.

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

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

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

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

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

The Company's standard discretionary management agreement allows Towle & Co. to earn and charge performance-based fees. To date, only the Peterson Value Fund LLC, in which Towle & Co. acted as sole manager, has collected performance-based fees. As mentioned above, the Peterson Value Fund LLC was terminated in 2008. As a result, Towle & Co. currently has no client relationships in which the Company earns or collects performance-based fees. However Towle & Co. would be willing to negotiate a performance-based fee structure upon request. The compensation of all employees of Towle & Co. consists of salary, bonus, and retirement contribution. No employees, including supervised persons, are directly compensated by clients, and therefore are not eligible to earn any performance-based fees.

Item 7 Types of Clients

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

The advertised minimum to open a separately managed account is \$1,000,000. For one of the platforms in which Towle & Co. acts as investment manager, the minimum is \$250,000. The account minimum opening and maintenance balances for separate accounts are subject to negotiation. Some of the factors Towle & Co. will take into consideration in reducing the minimum account size include the range of additional services provided and the aggregate amount of related assets.

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

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

Towle & Co. looks for well-seasoned companies with strong market positions, identifiable catalysts for earnings improvement, and committed, experienced management teams. Investments are made in industries such as financial services, manufacturing, distribution, consumer products, transportation, and energy, among others. Towle & Co. does not invest in tobacco, liquor, or gaming companies.

Buy Decision

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

- Low price-to-book value: < 1.0X
- Low price-to-earnings (current or normalized): < 10.0X
- Low price-to-sales: < 0.5X
- Low total enterprise value to earnings before interest, taxes, depreciation and amortization: <6.0x
- Selling at 50% or less of comparable acquisition values
- Total debt less than shareholders' equity
- Out-of-favor, consolidating or transforming industry
- Market position, technological leadership or other competitive advantage
- Operating and/or financial leverage
- Hidden assets
- Stagnating or declining stock price
- Weak or negative sponsorship from the investment community

- Experienced leadership team
- No tobacco, gaming or liquor industry investments

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

Sell Discipline

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

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

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

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

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

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

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

Second, the unwavering discipline with which Towle & Co. applies its investment process prevents the Company from expanding beyond its area of expertise. This unwillingness to compromise on our investment principles results in a relatively concentrated portfolio of between 35 and 50 positions. Concentration typically results in greater variability in daily portfolio values when compared to indices or portfolios with a

larger number of holdings. On the other hand, the investment team has a higher conviction with respect to each of the holdings, which we believe is a key to superior performance.

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

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

Within the investment process, Towle & Co. has a three year time horizon when considering the purchase of securities. As a result, average annual portfolio turnover has been low, historically below 50%. This low turnover and lack of frequent trading reduces the drag on investment performance due to increased transaction costs and/or taxes.

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

C. The risks of investing in primarily small capitalization common equities are described above in Paragraphs A and B.

Item 9 Disciplinary Information

Towle & Co., its management persons, and *any* of Towle & Co.'s employees have never been involved in:

- A. A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which they
1. were convicted of, or pled guilty or nolo contendere ("no contest") to (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;
 2. were the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion, or a conspiracy to commit any of these offenses;
 3. were found to have been involved in a violation of an investment-related statute or regulation; or
 4. were the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, Towle & Co. or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule or order.
- B. An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which Towle & Co. or its management persons or any of its employees

1. were found to have caused an investment-related business to lose its authorization to do business, or
 2. were found to have been involved in a violation of an investment-related statute or regulation and were subject of an order by the agency or authority
 - a. denying, suspending, or revoking the authorization of Towle & Co. or a management person to act in an investment-related business;
 - b. barring or suspending Towle & Co. or a management person's association with an investment-related business;
 - c. otherwise significantly limiting Towle & Co.'s or a management person's investment-related activities; or
 - d. imposing a civil money penalty of any amount on Towle & Co. or a management person.
- C. A self-regulatory organization (SRO) proceeding in which Towle & Co. or a management person
1. was found to have caused an investment-related business to lose its authorization to do business; or
 2. was found to have been involved in a violation of the SRO's rules or was (i) barred or suspended from membership or from the association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined any amount.

Item 10 Other Financial Industry Activities and Affiliations

A. Towle & Co. is not registered, nor does it have an application to register, as a broker-dealer. One employee, Joseph W. Bradley, Director of Marketing, is a registered representative of a broker-dealer, Grand Distribution Services, LLC.

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

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

Towle & Co. does serve as General Partner to two pooled investment vehicles, Towle Capital Partners, LP and Towle Capital Partners II, LP. And from 1999 through 2008, Towle & Co. also served as sole manager to a third pooled investment, Peterson Value Fund, LLC. Any conflicts of interest that may normally arise as a result of a General Partner/Limited Partnership arrangement are mitigated by the fact that the above-named owners of Towle & Co. are also personally substantial investors in the two pooled investment vehicles.

D. Periodically, Towle & Co. may direct clients or prospects to unaffiliated investment advisors for financial advice which is beyond the scope of Towle & Co.'s capabilities as an asset manager. Such referrals may be made for asset allocation, estate planning or other financial planning guidance. In all circumstances,

Towle & Co. has not and will not be compensated, either directly or indirectly, by those independent advisors for the referrals.

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

A. Towle & Co. has adopted a Code of Ethics that outlines the requirements for the ethical standards and professional conduct of our business by firm officers and employees. The Code of Ethics addresses conduct in the areas of independence, fair dealing, confidentiality of information, and personal investing activities. A copy of Towle & Co.'s Code of Ethics is available upon request.

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

C. Towle & Co. and related persons invest in the same securities that Towle & Co. recommends to clients. See Paragraph D below for further information.

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

Item 12 Brokerage Practices

A. The Company owes a fiduciary duty to clients to obtain best execution of their brokerage transactions. In the SEC Release 34-23170, the SEC stated: As a fiduciary, an investment adviser has an obligation to obtain 'best execution' of clients' transactions under the circumstances of the particular transaction. The investment adviser must execute securities transactions for clients in such a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances. An investment adviser should consider the full range and quality of a broker's services in placing brokerage including among other things, the value of research provided as well as execution capability, commission rate, financial responsibility, and responsiveness to the investment adviser. The Commission reminds that the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution for the account. Towle & Co, under the guidance of the Chief Compliance Officer, periodically evaluates the execution performance, including reasonableness of their compensation, of broker-dealers executing transactions.

1. Towle & Co. generally will seek competitive commission rates, but will not necessarily attempt to obtain the lowest possible commission for every transaction. Certain transactions may be directed to broker-dealers in return for soft dollar research services used by Towle & Co. to make investment decisions.
 - a. The use of client brokerage commissions to obtain research or other products and services results in a benefit received by Towle & Co., because Towle & Co. does not have to produce or pay for the research, products, or services.
 - b. Towle & Co. may have an incentive to select a broker-dealer based on an interest in receiving the research or other products and services. This incentive may be in conflict with clients' interests in receiving most favorable pricing during execution.
 - c. When Towle & Co. directs brokerage to a certain broker-dealer in exchange for soft dollar benefits, brokers may receive a commission greater than another qualified broker might charge to effect the same transaction. This higher cost is borne by the client.
 - d. The soft dollar benefits described in Sub-paragraph (a) above are used for the benefit of all client accounts. No effort is made by Towle & Co. to allocate soft dollar benefits to client account proportionately to the related soft dollar costs.
 - e. Other than the introduction of investment ideas or ongoing investment or economic research, Towle & Co. does not receive any other products or services from the broker-dealers with which it does business, with one exception. One broker-dealer acts as the primary custodian for client accounts. In addition to ongoing investment and economic research, this broker-dealer provides a platform of services for the benefit of clients. These services include favorable arrangements below published rates, waived wire transfer fees, discounted margin rates, and waived fees associated with the administration of certain accounts, among other things.
 - f. Generally, if a broker-dealer introduces Towle & Co. to a new investment idea, Towle & Co. will compensate the broker-dealer by directing executions, both for the purchase and the subsequent sale, to this broker-dealer. In certain circumstances when liquidity is required, executions may be directed to broker-dealers with demonstrated superior access to specific segments of the market, for example either retail, or large blocks of stock. Also, for more liquid stocks, executions are often directed to broker-dealer firms with the lowest known commission rate. Finally, a percentage of executions are directed to the institution providing the platform of services described in Sub-paragraph (e) above.
2. Towle & Co., its employees, and related persons do not receive client referrals from any other parties as a result of selecting or recommending broker-dealers.
3.
 - a. Towle & Co. does not recommend, request, or require a client to direct Towle & Co. to execute transactions through a specified broker-dealer. Towle & Co. does permit a client to direct brokerage, as described in Sub-paragraph (b) below.
 - b. In some cases, clients may instruct Towle & Co., in writing, to direct all or a portion of their brokerage transactions to a specific broker-dealer of their choice. In return, the broker-dealer provides services to the client rather than Towle & Co. In these directed arrangements, Towle & Co. may not, nor is obligated to, obtain best execution as we will be unable to negotiate commissions or obtain volume discounts. Clients with directed brokerage may forgo any benefits from aggregated block trades and, as a result, may pay materially disparate

commissions, greater spreads, or other transaction costs, or receive less favorable net prices on transactions than would otherwise be the case with block trades. In short, directing brokerage may cost clients more money. The decision to direct trades is solely the responsibility of the client, as Towle & Co. will not perform any due diligence on brokers not already on our Approved Broker-Dealer list.

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

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

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

Item 13 Review of Accounts

A. The administrative staff under the supervision of the Director of Operations reconciles client transactions with custodian reports on a daily basis. The administrative staff under the supervision of the Director of Operations reconciles client positions and cash balances to month-end brokerage and trust statements.

Periodically, as part of Towle & Co.'s Compliance Program, the administrative staff reviews client account documentation for completeness and accuracy. During this process client accounts are also checked for fairness of trade allocations, accuracy of management fees charged and collected, and differences in month-end positions from the model portfolio. The administrative staff is supervised by the Director of Operations, and their report is reviewed by the Chief Compliance Officer.

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

C. Clients with separately managed accounts receive a quarterly investor letter accompanied by a Performance History Report and a Portfolio Appraisal Report typically within two weeks of a calendar quarter end. The investor letter will regularly include a review of portfolio transactions and the current investment environment, as well as a look ahead. When deemed helpful to taxable investors, Towle & Co. will send a statement of realized gains and losses for the year to date for each separate account. The distribution will be done in a manner that provides the client with an opportunity to direct Towle & Co. to be more active in its tax

management of the client account before year end. This statement of realized gains and losses is available at any time to clients upon request.

Item 14 Client Referrals and Other Compensation

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

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

Item 15 Custody

For all separately managed accounts and sub-advisory relationships, Towle & Co. does not take custody of client assets. Client assets reside at independent, third-party, nationally recognized custodians. Clients will receive monthly account statements directly from the broker-dealer, bank or other qualified custodian. Clients should carefully review those statements. Towle & Co. will also send to clients a quarterly investor letter accompanied by a quarter-end Performance History Report and a Portfolio Appraisal Report. We urge clients to carefully compare the account statements received from custodians with the Portfolio Appraisal Reports received from Towle & Co.

According to SEC Rule 206(4)-2, Towle & Co. technically has custody of the Partnerships' assets. Assets of the Partnerships reside at a nationally recognized, independent, third-party custodian. Furthermore, Towle & Co. has hired an independent, third-party administrator to administer the Partnerships and an independent, third-party accounting firm to audit the Partnerships. Investors in the Partnerships will receive monthly capital account statements directly from the independent, third-party administrator. Investors should carefully review those statements. Towle & Co. will also send to investors in the Partnerships the quarterly investor letter.

Item 16 Investment Discretion

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

Item 17 Voting Client Securities

A. Towle & Co. will vote proxies in accordance with client-directed instructions. In the absence of written voting instructions from clients, Towle & Co. has adopted the ISS Benchmark Policy without exception. The ISS Benchmark Policy covers several areas, including Auditors, Board of Directors, Proxy Contests, Takeover Defenses, Mergers and Corporate Restructurings, State of Incorporation, Capital Structure, Executive and Director Compensation, and Corporate Responsibility. A description of the specific issues in these areas and how these issues will be voted can be found in the 2012 U.S. Proxy Voting Guidelines Concise Summary on the RiskMetrics Group website at www.issgovernance.com/policy/2012/policy_information. Though it is likely to be limited to issues relating to Corporate Restructurings or Changes of Control, Towle & Co. has retained the right to override any votes as it sees fit. A copy of Towle & Co.'s proxy policies, procedures, and voting records is available upon request.

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

Item 18 Financial Information

A. With the exception of the wrap fee relationship described in Item 4 Advisory Business Paragraph D and one sub-advisory relationship, Towle & Co. does not solicit prepayment of fees from investors. All management fees are payable in arrears. An audited Statement of Assets, Liabilities and Equity for Towle & Co. for the fiscal year ended December 31, 2011 is available upon request. The Statement was compiled on a cash basis in accordance with Statements on Standards for Accounting and Review Services by the American Institute of Certified Public Accountants.

B. Towle & Co. does not have any financial condition that would impair the Company's ability to meet its contractual commitments to clients.

C. Towle & Co. has a strong financial position and has never been the subject of a bankruptcy petition. As of December 31, 2011, Towle & Co.'s balance sheet had shareholders' equity of \$1.54 million and no debt.