BARROW FUNDS

Value Principles • Private Equity Perspective

Insights

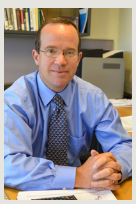
Barrow All-Cap Core Fund
Institutional Class: BALIX
Investor Class: BALAX

Barrow All-Cap Long/Short Fund
Institutional Class: BFSLX
Investor Class: BFLSX

Portfolio Managers

Nicholas Chermayeff
Principal

- 21 years of industry experience
- BA Harvard College



Robert F. Greenhill, Jr.
Principal

- 22 years of industry experience
- BA Harvard College
- MBA Harvard Business School

About Barrow Street

Founded in 1997 by Nicholas Chermayeff and Robert F. Greenhill Jr., Barrow Street Capital LLC is an investment management firm that manages value-oriented private and public equity strategies.

Headquartered in Stamford, Connecticut, the firm serves pension funds, sovereign funds, endowments, foundations, family offices and high net worth individuals. Since inception, Barrow Street has invested approximately $550 million of equity in private equity and public equity strategies.

Barrow Street Advisors LLC is an affiliate of Barrow Street Capital LLC and is the investment advisor for the Barrow Funds.

For More Information:
877-767-6633
www.barrowfunds.com

Portfolio Managers Nick Chermayeff and Bob Greenhill provide insight into how the Barrow Funds seek to identify opportunities and manage risk as a component of an investor's portfolio.

As a value-oriented all-cap manager, would you please discuss current valuations relative to historical levels and whether any market cap represents particular opportunity?

With regard to our Portfolio, we see equal opportunity among the large, mid, and small cap sectors as our holdings in each sector remain heavily discounted to our view of their intrinsic value. This discount, which we refer to as the Margin of Safety[†], is roughly at or above 50% for all three market cap sectors. For the market at large, we see smaller discounts in the large and mid cap sectors and modest overpricing in the small cap sector.

Barrow has been successful in the past at identifying companies that have later experienced an M&A event. What factors are driving your selection process to aid in your identification of companies that may experience an M&A event?

Because our private equity experience informs many of the factors that drive our security selection (e.g. conservative balance sheets, attractive operating margins, efficient use of capital, and strong cash-flow), it is not surprising that other private equity firms and corporate strategic buyers want to buy a disproportionate share of our companies. Stocks with strong cash flows which can be bought at a discount are clearly what a typical financial control buyer is looking for in the public markets.

With corporate balance sheets flush with cash, would you please comment on current M&A transaction volume and thoughts with respect to 2014? Do you believe any specific sector will experience greater levels of interest?

During the years, many of our portfolio positions have proven to be acquisition targets (4x the frequency of the market at large[1]). Therefore, we view increased M&A transaction volume to be a positive for our performance. In 2013, M&A activity is expected to be very similar to that of the previous four years, which have been depressed. By comparison, 2008 and 2007 were 50% and 100% higher, respectively, than the current level. If the market returns to those historical volumes, we believe that we are well-positioned to benefit from the additional premium that typically comes from these take-outs.

Given a similar discount to intrinsic value across all of our sectors, we do not believe any one industry will experience more activity than another. With respect to market cap, we expect small and mid cap stocks to garner the majority of the M&A action, as has been the case historically.

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[1]Barrow calculates the frequency of M&A activity in its portfolio on a quarterly basis by dividing the cumulative number of portfolio holdings that have been announced as merger or acquisition targets by the cumulative number of unique holdings it has held in its portfolio. Barrow calculates the frequency of M&A activity in the market on a quarterly basis by dividing the cumulative number of publicly-traded U.S. common stocks that have been announced as acquisition targets per Bloomberg by the total universe of publicly-traded U.S. common stocks as identified by Bloomberg (approximately 10,000). The ratio of portfolio M&A frequency to market-wide M&A frequency is calculated by dividing the portfolio's average of quarterly M&A frequency since inception 12/31/08 by the market-wide average of quarterly M&A frequency since inception 12/31/08.

Many all cap managers minimize their percentage holdings in the small cap bucket and have a large/mid cap bias. Would you please discuss your portfolio composition from a market cap perspective and the expected risk/reward of each capitalization range?

We generally weight our Portfolio equally across all three market cap categories. We do this for a variety of reasons, not the least of which is that the quality and value attributes we use to select stocks have historically generated alpha in all three categories. We are not afraid to weight one-third of the Portfolio in smaller companies. We want our investors to have the best opportunities for returns across all capitalization ranges.

Your portfolio composition emphasizes six sectors that are common across market caps. What led you to focus on only these sectors?

We analyze companies based chiefly on audited financials. We feel it's an approach that is designed to take out the risks of making erroneous forecasts and emphasize proven operating results instead. There are certain sectors that lend themselves better than others to this framework. For example, technology and telecom are currently excluded from our covered sectors because their valuations typically rely heavily on forward-looking predictions that we think are generally unreliable. With regard to utilities, since they do not rank attractively, we have historically made the decision to exclude the sector entirely. Financials have not been part of our Portfolio because even looking at audited balance sheets often does not allow the reader to assess stress risks to the franchise deriving from derivatives and off-balance sheet liabilities.

Would you please discuss your risk mitigation philosophy within the Long/Short Portfolio?

We believe that owning a diverse group of companies that trade at a deep discount to their intrinsic value is the most effective form of long-term risk mitigation. Over the short term, we seek to partially insulate our Portfolio from broader market fluctuations by building a carefully selected, diversified short book of companies with poor quality and value metrics. We balance these selections by the market cap and sector weighting of our long holdings to avoid inadvertent sector or market cap bets.

If we can deliver on our long-term goal of capital appreciation while also attempting to reduce volatility and preserve capital during market downtowns, our long/short strategy may be a good alternative in model portfolios for investors who have concerns about what may be high risk and limited reward in other asset classes.

What are your thoughts with respect to your short positions?

Over time, we believe that companies with high-quality balance sheets and operating fundamentals that trade at significant discounts to our view of their intrinsic values should outperform companies we consider to have low-quality balance sheets and operating fundamentals that trade at premiums to our view of their intrinsic value. Our short book consists of a diversified collection of this latter group—companies we consider to have poor quality and value attributes. To achieve diversification, we spread these shorts across many names, multiple industry sectors, and all three market cap categories.

Please discuss the factors that drive your target net long exposure. What is generally the operating range for the net long exposure?

In the Barrow All-Cap Core Fund, we are essentially fully-invested. We do not try to time the market or use cash defensively. In the Barrow All-Cap Long/Short Fund, we generally run the Fund such that it will maintain gross exposure to the equity market to allow investors a meaningful opportunity to participate in Barrow's alpha generation. Our short book is designed to provide a hedge against market downturns. We like maintaining consistent exposures to avoid emotional responses to market volatility.

Disclosure

Mutual fund investing involves risk. Principal loss is possible. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund and may be obtained by calling 1-877-767-6633. Read it carefully before investing.

†**Margin of Safety:** Benjamin Graham, considered to be the father of value investing philosophy, wrote "the 'margin of safety' resides in the discount at which the stock is selling below its minimum intrinsic value, as measured by the analyst." Graham, B. and Dodd, D. (1951) *Security Analysis*. New York, NY: McGraw-Hill.