

Kestrel Investment Management Corporation

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This Brochure provides information about the qualifications and business practices of Kestrel Investment Management Corporation (“Kestrel”). If you have any questions about the contents of this Brochure, please contact us at (650)-572-9450 or service@kestrelinvestment.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.

Kestrel is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. Additional information about Kestrel is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

Pursuant to the new SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We will provide information about certain material changes at other times as required.

There are no material changes since the last annual update of this brochure (March 31, 2011).

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Item 4 – Advisory Business

- A. Kestrel has been in continuous operation since 1993 and is 100% owned by the founding principals, Abbott Keller and David Steirman.
- B. Kestrel provides investment management services to separately managed advisory accounts (each, a “Separate Account”) and a privately-offered investment limited partnership, Kestrel Investment Fund, L.P. (the “Fund”). Kestrel invests primarily in U.S. small and mid cap value stocks.
- C. Kestrel manages Separate Accounts in accordance with the investment objectives provided by the client. Separate Account clients may impose restrictions on investing in certain securities as well as other investment limitations.

Kestrel invests the Fund’s assets in accordance with the Fund’s investment objectives, however the Fund’s partnership agreement does not impose limits or restrictions on the types of securities or instruments in which the Fund may invest or the types of positions it may take.

- D. Kestrel does not participate in any wrap fee programs.
- E. As of December 31, 2011, Kestrel had \$732.3 million in assets under management on a discretionary basis.

Item 5 – Fees and Compensation

- A. Separate Accounts: Fees paid by Separate Account clients are based on a percentage of assets under management based on the following basic schedule:

Annual Fee Rate	Institutional Clients	Non-Institutional Clients
First 3,000,000	1.00%	1.25%
On balance of assets	1.00%	1.00%

All Separate Account fees are subject to negotiation. Kestrel may change the fees upon thirty (30) days prior written notice.

Kestrel has negotiated a performance-based fee arrangement with one of its larger institutional clients. Kestrel’s fee for this account is equal to a fixed annual percentage of the account’s market value plus an annual incremental performance fee based upon the account’s performance relative to the performance of a “benchmark.”

The Fund: The Fund pays Kestrel a management fee for managing the Fund’s investment portfolio and for administering some of the Fund’s operations. The management fee is calculated at a rate of 1.0% per annum of each limited partner’s capital account balance. The Fund may vary the management fee as to particular limited partners by separate agreement.

- B. Separate Accounts: Kestrel generally bills its fees for managing Separate Accounts on a quarterly basis in advance, although this is negotiable. Clients are billed directly for fees and Kestrel will not directly deduct fees from Separate Accounts.

The Fund: The Fund pays Kestrel the management fee quarterly in advance based on the value of each limited partner's capital account as of the beginning of the quarter. Each limited partner's capital account in the Fund is decreased by the applicable portion of the management fee.

- C. Separate Accounts: The fees that Kestrel charges its Separate Account clients are exclusive of charges imposed by custodians, brokers, and other third parties, such as custodial fees, markups and markdowns on principal transactions, brokerage commissions, transactions fees, sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Kestrel does not receive any portion of these charges.

The Fund: The Fund bears all of its ongoing operating costs. These include, among other things, brokerage commissions on portfolio transactions, interest on margin and other borrowings; borrowing charges on securities sold short; custodial fees; bookkeeping, accounting, audit and other professional fees and expenses; legal fees (including fees paid to Kestrel's counsel for services for the benefit of the Fund); expenses Kestrel, as general partner of the Fund, incurs for investment research and due diligence; governmental fees and taxes; telephone expenses; costs of reporting to partners; cost of governance activities (such as obtaining partner consents); fees paid to a third-party administrator to perform, among other things, some of the services and functions described above; and all other reasonable expenses related to the management and operation of the Fund or the purchase, sale or transmittal of Fund assets, all as Kestrel determines in its sole discretion. Kestrel may cause some or all of those costs to be paid using "soft dollars"—i.e., paid by securities brokerage firms in recognition of commissions or other compensation paid on securities transactions the Fund executes through those firms (including markups and markdowns on principal transactions).

As to any subscription to the Fund, the subscribing limited partner may be subject to a subscription fee of up to 1.0% of the gross subscription amount, to cover the Fund's costs of establishing portfolio exposure for the subscription, which otherwise would be borne by all of the partners. In addition, the Fund may charge transaction costs incurred in funding a withdrawal to the withdrawing limited partner.

As noted above, clients will bear brokerage and other transaction costs. See Item 12 of this Brochure for a description of Kestrel's brokerage practices.

- D. Separate Accounts: Management fees on Separate Accounts are prorated for each contribution and withdrawal made during the calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be refunded, and any earned, unpaid fees will be due and payable.

The Fund: Kestrel is paid a prorated management fee as to capital contributed to the Fund on a date other than the first day of a quarter. If a limited partner were to be permitted to withdraw

capital on a date other than the end of a quarter, he or she would not receive any refund of any management fee as to the remaining portion of that quarter.

E. Kestrel does not accept compensation for the sale of securities or other investment products.

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

Kestrel may enter into performance-based fee arrangements (that is, fees based upon a share of capital gains or capital appreciation of the assets of a client) subject to negotiation with the client. As a result, Kestrel may at times manage both accounts that charge a performance-based fee and accounts that are charged an asset-based fee.

Performance-based fee arrangements may create an incentive for Kestrel to favor accounts that pay a performance fee in the allocation of investment opportunities and to recommend investments to accounts that pay a performance fee which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Kestrel has procedures designed to ensure that all clients are treated fairly, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

Item 7 – Types of Clients

Separate Accounts: Kestrel provides portfolio management services to individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities and other U.S. and international institutions. The minimum Separate Account size is generally \$10 million, although Kestrel may waive this requirement in its sole discretion.

The Fund: Kestrel serves as investment adviser to the Fund in its capacity as the Fund's general partner. The minimum investment in the Fund by a limited partner is generally \$1,000,000, although Kestrel may waive this requirement in its sole discretion. The Fund is not required to have a minimum asset level for operation.

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

A. Kestrel seeks superior long-term returns by selecting stocks primarily from the universe of companies where management has initiated voluntary restructuring(s) because they believe their stock is undervalued. This universe generally includes: companies actively pursuing share repurchases (i.e. buybacks), spin-offs of underperforming or non-core businesses, or asset sales.

Kestrel uses signals from management to identify stocks that are undervalued and have the potential for significant appreciation with below market risk. Kestrel applies fundamental analysis and quantitative and qualitative screens to determine which stocks should be purchased and sold. Kestrel does not seek to achieve sector diversification.

Kestrel uses negative screens to weed out undesirable companies from consideration. Negative screening seeks to eliminate stocks from consideration rather than seeking positive affirmation in order to include a stock in the portfolio.

Kestrel avoids stock market timing and macroeconomic forecasting. Kestrel believes that its comparative advantage resides in discerning unrecognized microeconomic trends and identifying misperceived factors. From time to time, Kestrel may devote a portion of the portfolio to other groups of companies sharing a common characteristic which it believes investors have failed to price properly. Kestrel monitors sectors undergoing regulatory change(s) and industries where analysts have historically focused on a single short-term indicator in order to identify these types of opportunities.

Kestrel's portfolio is generally comprised of the 40-60 stocks where it is most confident that the restructuring action is driven by management's motivation to correct the undervaluation of their common stock. Kestrel does not diversify solely to achieve industry or sector representation; the industry makeup of the portfolio is driven by the companies and industries identified in Kestrel's strategic screens and fundamental research.

Initial positions are roughly equally weighted based upon market cap and liquidity. Kestrel seeks to remain fully invested at all times. While Kestrel does not have absolute limits, it will carefully examine any holding that approaches 10% of the portfolio. Kestrel does not generally trim or add to a position as a stock's price fluctuates.

- B. Investing in securities involves a risk of loss that clients should be prepared to bear. The following describes some material risks associated with Kestrel's methods of analysis and investment strategies:

Small Capitalization Stocks. Kestrel invests client assets primarily (but not exclusively) in stocks of companies with relatively small market capitalizations. While Kestrel believes these stocks can provide significant potential for appreciation, they can involve higher risks in some respects than investments in stocks of larger companies. For example, prices of small-capitalization and even some medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency for smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks may be considered illiquid.

Concentration of Investments. Separate Account clients may limit (or may not limit) the percentage of the account that may be invested in a particular investment, industry or sector. However, the Fund's partnership agreement does not limit the amount of capital that may be committed to any single investment, industry or sector. The Fund, at times, may hold a relatively small number of positions, each representing a relatively large portion of the Fund's capital. The Fund or a Separate Account may at times have a relatively large portion of its capital exposed to a particular industry or market sector. Losses in one or more large positions, or a downturn in an industry or market sector in which client assets are concentrated, could materially adversely affect the Fund's or the Separate Account's performance in a particular period.

Limited Liquidity of Some Investments. Kestrel may invest client assets in securities that, while they are publicly traded, are relatively illiquid. That may be because a security is thinly traded or

because the overall position in a security across all Kestrel clients is large in relation to the overall market for the security. Clients may own securities that are relatively liquid when acquired but that become illiquid after the investment. Kestrel may not be able to liquidate illiquid securities positions on a client's behalf if the need were to arise. Also, rapid sales of such securities could depress the market value of those securities, reducing the client's profits, or increasing its losses, in the positions.

Substantial Positions in Portfolio Companies. From time to time, positions in the securities of particular companies that Kestrel's clients hold may comprise a substantial percentage of those companies' outstanding securities. In these cases, it may be difficult to liquidate or reduce a client's position in these securities, preventing Kestrel from realizing profit or avoiding loss on a client's behalf. In addition, there may be other circumstances under which the aggregate holdings of a security by Kestrel's clients, or Kestrel's involvement with the issuer of that security, limit the ability to liquidate or reduce its position. By causing clients to accumulate a significant stock position, Kestrel may at times attempt to influence management of a particular company or exercise control over that company. Any such activities may or may not be profitable for clients.

The above represents only material risks of Kestrel's significant investments strategies and methods of analysis. There are other risks that clients should consider. Prospective investors in the Fund should also read the risk factors set out in the Fund's Offering Memorandum.

Item 9 – Disciplinary Information

Kestrel has no information on legal or disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

Kestrel has no financial industry activities or affiliations applicable to this item.

Item 11 – Code of Ethics

- A. Kestrel has adopted a Code of Ethics that describes the standards of business conduct that Kestrel requires of employees and establishes procedures intended to prevent Kestrel, and its personnel and certain relatives, from inappropriately benefiting from Kestrel's relationships with clients. The Code of Ethics provides that (i) Kestrel's clients' interests come before Kestrel's or employees' interests; (ii) employees must avoid any actual or potential conflicts between their or Kestrel's interests and the interests of clients; (iii) employees must avoid any abuse of their positions of trust with and responsibility to Kestrel and its clients; and (iv) Kestrel and its employees must comply with all applicable securities laws. Kestrel will provide a copy of its Code of Ethics to any client or prospective client upon request.

- B. Neither Kestrel nor its related persons buys or sells for client accounts, securities in which it or a related person has a material financial interest.
- C. From time to time, Kestrel may cause a client to buy securities of a company in which one or more of Kestrel's employees has an ownership position, or an employee may buy securities of a company at a time when client accounts also hold the security. The Code of Ethics requires employees to report personal securities holdings and transactions and includes procedures for restrictions on employee trading intended to prevent employees from benefiting from, or appearing to benefit from, any price movement that may be caused by client transactions or Kestrel's recommendations regarding securities. Among other things, these include requirements that employees make a written request for, and receive clearance from, Kestrel's Chief Investment Officer (or, in his absence, the President or Chief Compliance Officer) before they buy or sell any security (other than certain government securities, mutual funds, and certain other types of securities that Kestrel does not believe create a potential for conflicts of interest) and prohibitions of transactions in securities that Kestrel is actively considering, or is, buying or selling for client accounts. It also contains restrictions on and procedures to prevent inappropriate trading while in possession of material nonpublic information (including information about Kestrel's trading activity for clients).

Kestrel anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Kestrel has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Kestrel, its affiliates and/or clients, directly or indirectly, have a position of interest. Kestrel's employees and persons associated with Kestrel are required to follow Kestrel's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Kestrel and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Kestrel's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Kestrel will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Kestrel's clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Kestrel and its clients.

- D. As discussed above, the Code of Ethics prohibits transactions in securities that Kestrel is actively considering, or is, buying or selling for client accounts.

Item 12 – Brokerage Practices

- A. *Selection of Broker-Dealers.* Kestrel generally has discretion to select brokers, dealers, banks and other financial intermediaries and counterparties with or through which to execute or enter into

portfolio transactions (collectively, “Transacting Parties”). Kestrel generally makes those selections on a transaction-by-transaction basis. In choosing Transacting Parties, Kestrel is not required to consider any particular criteria. Generally, Kestrel’s primary objective is to obtain “best execution” of its clients’ portfolio transactions. In evaluating whether a Transacting Party will provide best execution, Kestrel considers a range of factors including, among others: historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions; the execution, clearance and settlement and error correction capabilities of the Transacting Party generally and in connection with securities of the type and in the amounts to be bought or sold; the Transacting Party’s willingness to commit capital; the Transacting Party’s reliability and financial stability; the size of the transaction; the market for the security; and, as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the Transacting Party. Kestrel is not required to select the Transacting Party that charges the lowest transaction cost, even if that Transacting Party can provide execution quality comparable to other Transacting Parties, and at times Kestrel’s clients may pay more than the lowest transaction cost available in order to obtain for those clients, and/or Kestrel, services and products other than the execution of securities transactions.

- A1. *Soft Dollars:* Kestrel may select Transacting Parties in recognition of the value of various services or products, beyond transaction execution, that they provide to Kestrel and its clients. This is known as paying for those services or products with “soft dollars.” Kestrel could be considered to have a conflict of interest when it uses soft dollars for research and brokerage services and products. Because Kestrel might otherwise have to pay cash for those services and products, it may have an incentive to use Transacting Parties who provide those products and services more than it otherwise would. Because many of those services and products could benefit Kestrel, (including by helping Kestrel manage some clients’ portfolios more than others) Kestrel may face conflicts of interest in allocating its clients’ portfolio transaction business. These may include incentives to: (i) pay Transacting Parties higher compensation (including markups and markdowns on principal transactions with market-makers) than the compensation payable to other market participants who do not provide the services or products; (ii) select Transacting Parties that do not provide the best possible price; and (iii) use (and pay) Transacting Parties who do not actually provide execution services (including Transacting Parties who are paid commissions on transactions effected on a principal basis with other Transacting Parties acting as market makers). The extent of the conflict of interest arising out of the use of soft dollars depends in large part on the nature and uses of the services and products acquired with soft dollars.

During the previous fiscal year, Kestrel used client soft dollars to acquire a variety of “research” and “brokerage” services and products for which clients would not otherwise be required to pay. The types of “research” Kestrel received from Transacting Parties included (but are not limited to): reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial and industry publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services and systems (to the extent used to assist in making investment decisions), quotation services; and other products or services that may enhance Kestrel’s investment decision-making. “Brokerage” services and products (beyond typical execution services) include (but are not limited to): connectivity services and software used for such things as communicating orders and settlement related information electronically to executing

Transacting Parties, post-trade matching of trade information, communicating allocation instructions, and other clearance and settlement functions. Kestrel has a conflict of interest to the extent these services are paid for by Transacting Parties, as it will have an incentive to use those Transacting Parties regardless of whether using them would otherwise be in the client or Fund's best interests.

Procedures: The following are the procedures that Kestrel generally employs (and generally employed during the last fiscal year) to direct client transactions to a particular Transacting Party.

Transacting Parties from which Kestrel obtains soft dollar services or products generally establish "credits" based on past transactional business (including markups and markdowns on principal transactions), which may be used to pay for specified Kestrel expenses. In some cases the process is less formal; a Transacting Party simply may suggest a level of future business that would fully compensate the Transacting Party for services or products it provides. Clients' actual transactional business with a Transacting Party may be less than the suggested level but can—and often will—exceed that level, and credits established may exceed the amounts used to acquire services and products. This may be in part because client investment activities generate aggregate commissions in excess of the levels of future business suggested by all Transacting Parties who provide services and products. It may be in part because those Transacting Parties may also provide superior execution and may therefore be most appropriate for particular transactions. Kestrel may ask a Transacting Party who is executing a transaction for several accounts managed by Kestrel (see the discussion below regarding aggregation of orders) to "step out" of a portion of the transaction in favor of a Transacting Party who has provided or is willing to provide products or services for soft dollars. That is, the executing Transacting Party will allow a portion of the overall commissions or other compensation to be paid to the soft-dollar Transacting Party. This assists Kestrel in acquiring products and services with soft dollars while providing the benefits of aggregated transactions as described below.

These procedures are generally consistent with the requirements of Section 28(e) when the products or services acquired constitute research and/or brokerage. However, Section 28(e)'s safe harbor is not available where transactions are effected on a principal basis, as most transactions with market-makers in over-the-counter securities are, with a markup or markdown paid to the Transacting Party. Kestrel may nonetheless use those markups and markdowns as soft dollars with which to acquire services and products of the kinds described above.

Kestrel's employees involved in trading monitor the quality of execution provided by the brokers and dealers through whom Kestrel executes transactions on behalf of clients as well as the reasonableness of the compensation paid to those brokers and dealers in light of all the factors described above.

- A2. Kestrel does not enter into agreements with brokers, dealers or other third parties under which Kestrel is obligated to compensate them for client referrals.
- A3. *Directed Brokerage:* Some clients may instruct Kestrel to use one or more particular brokers or dealers in managing their accounts. A client may specify that a particular amount of

business should be sent to a broker or dealer and that all business should be directed to that broker or dealer, or merely that that broker or dealer should be used when all other considerations are equal. In some cases, the broker-dealer may serve as custodian of the assets in the account and/or consultant to the client. Clients should understand that giving such directions may prevent Kestrel from effectively negotiating brokerage compensation on their behalf or aggregating orders with other clients. These directions may even prevent Kestrel from obtaining the most favorable net price and execution. Thus, in directing brokerage, a client may lose possible advantages that other clients may have and they should consider whether the commission expenses, and execution, clearance, and settlement capabilities, they will obtain through their directions are adequately favorable in comparison to those that Kestrel otherwise attains for its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Kestrel's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Kestrel will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

- B. *Aggregation of Orders:* Where Kestrel buys or sells the same security for two or more clients, Kestrel may place concurrent orders with a single broker, to be executed together as a single "block" in order to facilitate orderly and efficient execution. When Kestrel does so, each account on whose behalf an order was placed will receive a proportionate share of the securities purchased or the sales proceeds, based on the size of that account's order, at the average price for the "block" transaction. An account generally will not be included in a block transaction if the number of shares to be allocated to or sold by the account would be less than 500 (or another amount specified with regard to a particular transaction). This minimum share amount varies as to particular transactions based on such factors as the quantity of shares of a particular security traded on a particular day, the size of the aggregated order, and the relative size of client accounts, and, as to directed brokerage clients as to whom there exist "step out" arrangements (see next paragraph), a specific minimum share amount may be imposed by the broker or dealer stepping in. An account that does not participate in a particular block transaction on a particular day as a result of this procedure may pay brokerage fees that are either lower or higher than the fees it might otherwise pay if it participated in the block transaction. In addition, such an account may experience less (or more) advantageous prices as to a security, as compared with accounts whose trades in the security were made through the aggregated transaction.

Generally, clients will bear a proportionate share of all transaction costs in block transactions, although if such a transaction is effected with a broker-dealer with which a particular client has directly negotiated a special commission arrangement, that client's transaction costs may differ from the costs borne by other clients participating in the block. In addition, in connection with a client's directed brokerage arrangement (see above), Kestrel may, for purposes of obtaining more favorable transaction terms or quality on behalf of that client's account than might otherwise be available, include that account in a particular block transaction but arrange for the Transacting Party executing the transaction to "step out" of a portion of the transaction in

favor of the broker or dealer specified by the directed brokerage client. In those circumstances, the portion of the block transaction as to which the step out occurred generally will be subject to higher transaction costs as compared with the rest of the transaction, and, accordingly, Kestrel will allocate those higher costs to the relevant directed brokerage client accounts in accordance with the terms of the directed brokerage arrangements.

Item 13 – Review of Accounts

- A. Kestrel manages both Separate Accounts and the Fund pursuant to the same investment strategy, and the team of reviewers is the same for both the Separate Accounts and the Fund. The reviewers include Kestrel's Chief Investment Officer (CIO), President, Trader, Chief Compliance Officer (CCO) and Portfolio Specialist. Kestrel's CIO and Trader review each client account on a daily basis. In connection with securities transactions on behalf of clients, Kestrel's Trader maintains a checklist of restricted securities, industry and sector limits and maximum cash levels. At the end of each calendar quarter, the CCO confirms compliance with established client guidelines and internal firm policies and procedures.
- B. Kestrel's Separate Account clients generally receive, at the end of each quarter, reports showing their portfolio holdings, transactions throughout the quarter and portfolio returns compared against the target benchmark. Kestrel's staff meets with Separate Account clients on a periodic basis and/or upon a client's request to review the clients' account performance.

Limited partners in the Fund are able to access information about their interest in the Fund via the Fund administrator's website and may request to receive, on a monthly basis, hardcopy statements via regular mail from the administrator. The information provided in those statements includes limited partners' capital contributions and withdrawal amounts, their capital account balances at the beginning and end of the relevant period and the Fund's rate of return over the period. At the end of each fiscal year, Kestrel delivers annual audited financial statements to limited partners.

Item 14 – Client Referrals and Other Compensation

Kestrel does not receive any economic benefits for providing investment advice or other advisory services.

Item 15 – Custody

Separate Accounts: Kestrel does not intend to have custody of Separate Account clients' assets. Separate account clients should receive, at least quarterly, statements from the broker dealer, bank or other qualified custodian that holds and maintains their investment assets. Kestrel urges its clients to carefully review such statements and compare custodial records to the account statements that Kestrel provides. Kestrel's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies.

The Fund: As the general partner of the Fund, Kestrel is considered to have custody of the Fund's assets. In compliance with the SEC's custody rule, the Fund's assets are held by a "qualified

custodian” and within 120 days of each fiscal year-end, financial statements prepared in accordance with generally accepted accounting principles are audited by an independent public accountant registered with, and subject to regulation inspections by, the Public Company Accounting Oversight Board.

Item 16 – Investment Discretion

Separate Accounts: Kestrel manages Separate Accounts on a fully discretionary basis, *i.e.*, Kestrel’s clients grant it the authority to select which and how many securities to buy or sell, subject to specified investment objectives and guidelines. Clients generally grant Kestrel a power of attorney to invest the assets in a Separate Account through an investment advisory agreement.

The Fund: As the general partner of the Fund, Kestrel has full discretion to invest the Fund’s assets. Limited Partners appoint Kestrel, as general partner of the Fund, to act as their attorney-in-fact in order to carry out the provisions of the Fund’s partnership agreement.

Item 17 – Voting Client Securities

Kestrel has adopted policies and procedures that provide the guidelines Kestrel expects to follow in the exercise of its voting authority over proxies it receives on behalf of its clients. A copy of those policies and procedures and information concerning how Kestrel voted proxy issues will be provided, upon request, to any client, prospective client or limited partner in the Fund. Such request may be made in writing or by calling the number indicated on the cover page of this Brochure.

Kestrel will vote proxies in the best interests of Separate Account clients and the Fund in accordance with the proxy voting policy. Because of the extenuating circumstances associated with specific proxy issues, Kestrel’s votes may differ from the indications noted in the policy.

From time to time, a conflict of interest may exist between the interests of a client and Kestrel. In such cases, Kestrel is committed to resolving the conflict in the best interest of its clients before it votes the proxy in question. If the proxy proposal is a routine proxy proposal, Kestrel will typically adhere to the guidelines in the proxy voting policy. If the proxy proposal is a non-routine proxy proposal, Kestrel will take any of the following courses of action that it believes best accomplishes the principles outlined in the proxy voting policy: 1) disclose the conflict to clients and obtain consent before voting; 2) suggest that clients engage another party to determine how the proxy should be voted; or 3) vote according to the recommendation of an independent third party, particularly if the conflict involves Fund investors, such as a: proxy consultant; research analyst; or compliance consultant.

Item 18 – Financial Information

- A. Kestrel does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

- B. Kestrel has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.
- C. Kestrel has not been the subject of a bankruptcy petition at any time during the past ten years.

Item 19 – Requirements for State-Registered Advisers

Not applicable.