

# **KRAMER VAN KIRK CREDIT STRATEGIES L.P.**

**200 West Monroe**

**Suite 1330**

**Chicago, Illinois 60606**

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**Initial Form ADV Part 2A Filing**

**(“The Brochure”)**

**This brochure provides information about the qualifications and business practices of Kramer Van Kirk Credit Strategies L.P. If you have any questions about the contents of this brochure, please contact us at 312-448-9766. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Kramer Van Kirk Credit Strategies L.P. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Kramer Van Kirk Credit Strategies L.P. is a registered investment adviser with the SEC; however, its registration does not imply any level of skill or training.**

## Item 2 Material Changes

This item is not applicable to the Brochure as it is part of Kramer Van Kirk Credit Strategies L.P. initial registration statement. Going forward, this section will address any material changes that have been incorporated since the last delivery or posting of this Brochure on the SEC’s public disclosure website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 3 Table of Contents

Item 2. Material Changes .....	2
Item 3. Table of Contents .....	2
Item 4. Advisory Business .....	2
Item 5. Fees and Compensation .....	3
Item 6. Performance Based Fees and Side-by-Side Management .....	4
Item 7. Types of Clients .....	5
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9. Disciplinary Information.....	7
Item 10. Other Financial Industry Activities and Affiliations.....	7
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	8
Item 12. Brokerage Practices .....	8
Item 13. Review of Accounts.....	9
Item 14. Client Referrals and Other Compensation.....	9
Item 15. Custody .....	9
Item 16. Investment Discretion .....	9
Item 17. Voting Client Securities .....	10
Item 18. Financial Information .....	10

## Item 4 Advisory Business

### Description of Kramer Van Kirk Credit Strategies L.P. (“KVK”)

At the time of this filing, KVK has no clients and no assets under management. However, KVK anticipates that within 120 days of the effective date of this registration statement, it will meet the regulatory requirements for assets under management for a registered investment adviser and has filed this initial registration statement in anticipation of this event. KVK will serve as an investment manager for pooled investment vehicles operating as private investment funds. Specifically, KVK will primarily manage collateralized loan obligation funds (“CLOs” or “Funds”) which will invest primarily in senior secured floating rate leveraged loans made to corporate and other business entities. These instruments are secured by the debtor’s assets and

rank first in priority of payment in the capital structure, ahead of unsecured debt. The advisory services offered by KVK will be tailored to the specific needs of each Fund as set forth in the Fund's offering memorandum and other governing documents including the indenture. Generally, at the time a Fund is structured there will be a discussion between KVK and the Fund with respect to these needs including the investment strategy and risk parameters, any investment restrictions and other aspects of their management of the Fund.

KVK may also provide separately managed account services to institutional clients in the future. These separately managed accounts will also invest primarily in senior secured floating rate leveraged loans made to corporate entities. These accounts may be in an "unlevered" (meaning the client will not borrow against its assets to include in the account management) or "low levered" (meaning that the account managed will contain a small percentage of borrowed funds for management) format.

KVK will only advise entities with which it has entered into an investment management agreement and will not provide its services to any other entities. It also expects to have full investment discretion for all Funds and accounts it will manage.

KVK Services LLC is the general partner of KVK. The sole members of KVK Services LLC are Thomas A. Kramer and Timothy Van Kirk who are also Managing Directors and Founders of KVK. KVK was founded in 2011; however, as noted above, currently does not serve as an investment manager to any Fund or separate account client.

#### Description of Advisory Services

KVK anticipates that the majority of its clients will be pooled investment vehicles that are CLOs. KVK may also provide investment advice to separately managed accounts in the future. KVK intends to utilize experienced based, in-depth credit and industry analysis on both a macro and micro level to construct broadly diversified portfolios. KVK strives to construct portfolios which are highly diversified by industry and issuer and provide appropriate risk adjusted returns to investors. Using a proprietary technology platform, KVK's investment professionals will analyze, select and manage investment positions using the most current issuer and market information. The investment process will be centered on a focused and disciplined credit analysis framework that evaluates all aspects of a potential asset. KVK will employ a robust and highly disciplined approach to portfolio monitoring to ensure compliance with specific benchmarks and investment criteria.

### **Item 5 Fees and Compensation**

#### Management Fees

As compensation for its investment advisory services, KVK may receive a Senior Investment Management Fee, a Subordinated Investment Management Fee and an Investment Manager

Incentive Fee Amount based on a percentage of assets under management (“AUM”). Typically KVK will charge a Senior Investment Management Fee at a rate between .05 - .20% per annum of the net client assets managed, while a Subordinated Management Fee may be paid at a rate between .30-.45% per annum of the client assets managed. The percentages may vary based on the type of fund and the assets KVK’s manages. KVK may also be entitled to an Investment Manager Incentive Fee Amount. Specific fee rates and the methodology for calculating these fees will be described in the investment management agreement and the relevant offering documents which will be provided to prospective investors. KVK may elect in the future to waive or defer all or a portion of its Investment Management Fee. Clients will not be billed directly by KVK but by a Fund’s Trustee quarterly in arrears as will be detailed in the relevant offering documents. Fees will be deducted by the Trustee from client assets and paid to KVK. The existence of an incentive or “performance fee” may incentivize KVK to manage a Fund’s assets in a more aggressive manner and the existence of differing incentive fees among funds in the future may create a conflict of interest with respect to the allocation of investment opportunities among the future funds managed by KVK. KVK has implemented a trade allocation policy that will address this potential conflict of interest (See Item 6).

In accordance with the investment management agreement and indenture between KVK and its Client Funds, the Funds will generally reimburse KVK for certain services provided by KVK and third party service providers to the Funds. These additional fees may include, among other things, those pertaining to the establishment of the Fund, the Fund’s trustee, collateral administrator, accountants, lawyers, rating agency, and regulators. Additionally, expenses associated with financial statements, the acquisition, holding, settlement and disposition of the assets may also be borne by the Funds. A discussion of brokerage fees paid by the Funds can be found at Item 12 of this Brochure.

#### **Item 6 Performance Fees and Side by Side Management**

As noted in Item 5, KVK may receive an incentive fee from a Fund under its management. While KVK does not currently manage a Fund, conflicts may arise in the management of future funds as KVK may have an incentive to favor funds for which the attainment of the incentive is more likely. Additionally, conflicts may arise with respect to the allocation of loan purchases among the Funds KVK manages. KVK has a fiduciary responsibility to act in each Fund’s best interest regardless of their compensation. KVK’s compliance policies and procedures are designed to ensure that one Fund is not unduly favored over another with respect to both potential compensation and the allocation of opportunities. In determining allocations among Funds of approved purchases, KVK will consider all pertinent information with respect to the asset being purchased compared to investment guidelines and parameters of each Fund. Each asset opportunity will be evaluated independently against, among other factors, a Fund’s available cash, industry and individual asset concentration limits and diversity requirements. When possible within these parameters, KVK will endeavor to allocate proportionally among

Funds when an asset is equally appropriate for more than one fund. However, when this is not possible due to the size of the opportunity, KVK may prioritize the allocation amount first to the Fund whose investment parameters are best matched to the specific characteristics of the asset and second to a fund which have the most available capital to invest. KVK may also take into consideration the age of the particular fund and differences in indenture restrictions. KVK's overall objective is to ensure that over time, all Funds receive a proportional share of Fund appropriate opportunities.

Neither KVK, nor its employees, are permitted to invest in the Funds managed by KVK and KVK does not maintain a proprietary account for its own benefit.

#### **Item 7 Types of Clients**

KVK currently has no clients. In the future, KVK expects that most of its clients will be CLO Funds though KVK may manage separate accounts as well. Each Fund will be structured separately; however, they will operate similarly in that each Fund will be owned by a group of investors who assume a certain percentage of equity interest in the Fund with another group of debt investors providing the remaining capital.

#### **Item 8 Methods of Analyses, Investment Strategies and Risk of Loss**

##### **Analyses and Investment Strategies**

KVK will focus on creating high quality, well diversified loan portfolios for its Funds that maximize market yield opportunities while minimizing the impact of any single credit event in order to provide appropriate risk adjusted returns to its Clients. KVK will invest predominantly in senior secured floating rate leveraged loans made to corporate and other business entities. KVK carefully scrutinizes all potential investments through an in-depth analysis on both a macro and micro level, taking into consideration both the quality of an individual asset as well as its fit within a broadly diversified portfolio. In constructing its portfolios, KVK will focus on companies with historically stable cash flows, liquidity and access to capital. Specifically, KVK's analysis of potential investments includes industry and company fundamentals, financial risk considerations, transaction structure and source, stress sensitivity, relative value and risk adjusted return analyses. All investments will have specific benchmarks assigned for the particular company and industry. Benchmarks may include minimum EBITDA, free cash flow, core revenue growth and other industry metrics. KVK's portfolios are highly diversified by both industry and by issuer. KVK may also invest in certain high yield bonds to the extent permissible under the various indentures.

KVK will employ a robust and highly disciplined approach to portfolio monitoring to ensure compliance with specific benchmarks, indenture restrictions and investment criteria. Using a proprietary technology platform, KVK's investment professionals will manage investment

positions using the most current issuer and market information. KVK will make hold/sell decisions based on a number of factors regarding the asset which may include; the visibility, clarity and transparency of the information on the issuer, current market price, issuer's overall industry/market position, senior and total leverage versus enterprise value and the Issuer's liquidity position.

### Risks

The following is a summary of some of the material risks associated with the investment strategy KVK will employ on behalf of its Funds. This summary does not attempt to describe all of the potential risks associated with each Fund; instead the offering memorandum will contain a more complete description of the risks associated with a Fund investment. Therefore, this summary of risks is qualified entirely by the disclosures to be made in the offering memorandum of each Fund.

All investment in securities involves the risk of loss. Structured investment products like the loans that will make up the Funds are complex instruments, typically involve a high degree of risk and are intended for sale to only sophisticated investors. The material risk of investing in the Funds generally relates to the underlying loans and other investments (if any) held by the Funds. Other risks will include:

**Credit Analysis** - KVK will employ a rigorous credit analysis prior to investing in loans for each Fund. However, risks with respect to their analysis include the unpredictability of the general economic, financial, industry and issuer specific conditions.

**Limited Liquidity**- The loans invested in by KVK will not be traded on an organized exchange but rather by banks and other counterparties and therefore will not be as easily purchased and sold as publicly traded securities. This risk may be heightened in times of economic downturn or in response to a specific economic event. Trading in loans is subject to delays due to their unique nature and transfer may require significant additional documentation as well as the consent of the agent bank offering the loan or the underlying obligor. The investments in a Fund are designed for long term investors and should not be considered a vehicle for short term trading.

**High Leverage**- The Funds will be highly leveraged and this may result in situations where the interest expense due is greater than interest income collected. The use of leverage can magnify the effects of deterioration in the performance of the investments. The more subordinate the investor, the greater risk of non-payment.

**Credit**- A borrower may not make required principal or interest payment under its borrowing terms.

**Interest rate and prepayment**- Companies are likely to prepay their outstanding loans during periods of declining interest rates. Proceeds received from prepayment may be

reinvested in a lower yielding investment.

Non-investment grade investments - Non-investment grade loans will have greater credit and liquidity risk than investment grade obligations and are more likely to be impaired during periods of economic downturn.

Subordination – Some of the loans invested in may be subordinated to the claims of other loans or senior lenders. Cash flows to senior claims may impact the ability to pay subordinated loan holders.

Pricing - Prices of the investments are volatile and will fluctuate due to a variety of factors including changes in interest rates, credit spreads, general economic and financial market conditions as well as international and domestic political events.

Defaults - The loans purchased for the Funds will generally be secured by collateral; however a Fund may be exposed to losses resulting from defaults.

High Yield Bonds – a Fund may invest in high yield bonds which bear the risk of losing their value due to interest rate fluctuations in the loan portfolio.

Additional risk factors will be set out in detail in the offering documents for the Funds.

#### **Item 9 Disciplinary Information**

KVK has no disciplinary information to report.

#### **Item 10 Other Financial Industry Activities and Affiliations**

Beyond its general partner, KVK Services LLC, KVK has no affiliated entities. KVK will maintain relationships with certain banks and other institutions with respect to the purchase and sale of loans for the Funds. KVK may have an incentive to engage in transactions with these institutions if they refer potential clients to the Funds. However, as part of its overall investment analysis, KVK considers the source of potential investments and would endeavor to mitigate any potential conflict that may arise in such relationships and shall act in good faith and in accordance with all applicable agreements and offering documents to resolve such conflicts fairly and equitably. KVK will engage in no other activities beyond the management of Funds and potentially separate accounts.

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

KVK maintains a Code of Ethics (“The Code”) for all employees pursuant to Rule 204A-1 of the Investment Adviser’s Act of 1940. The purpose of the Code is to ensure that high levels of legal and ethical standards are maintained by all employees and potential conflicts of interest are addressed and resolved.

Under the Code, all employees are deemed to be access persons and required to provide all personal securities transaction reports to KVK’s compliance area. Access persons also must obtain the pre-approval of the compliance area before entering into trades involving initial public offerings or private placements. All employee personal securities transactions must be conducted in a manner consistent with the Code and avoid any actual or potential conflicts of interest or any abuse of an employee's position. Employees will be required to keep information concerning the purchase and sale of loans and financial circumstances of any Funds confidential. KVK maintains a list of all companies from whom it has received financial or other material information. This list of companies (Restricted List) is updated and available to all employees on a weekly basis. The Code contains general prohibitions on the use of this information and any other material, non-public information in the possession of employees. All employee brokerage accounts are monitored for any activity with companies on the Restricted List.

A copy of the Code is available to any prospective Fund client upon request.

## **Item 12 Brokerage Practices**

KVK will trade loans on behalf of Funds in both primary and secondary markets. Typically, KVK will access primary markets through large commercial and investment banks known as “Agent Banks” who are normally responsible for the syndication of the loan. KVK does not pay commissions on these trades but instead generally pays a bid/ask spread on the loan.

A secondary market transaction involves an existing holder of a loan selling its position, in full or part, to another institution. These transactions usually occur through a trading counterparty whose function is to bring buyers and sellers together and also earns a return on the bid/ask spread on the loan.

KVK will have full discretionary authority to trade on behalf of the Funds and will therefore be obligated to obtain best execution for its client transactions. The SEC generally describes “best execution” as the duty to execute client securities transactions so that the client’s total costs or proceeds in each transaction are most favorable under the circumstances. The SEC has also stated that when seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution.



The factors KVK will consider in determining which broker-dealers to use include the price, financial condition of the broker-dealer, overall market conditions, expertise in the execution of trades, assignment fees if any, potential timing of execution and quality of market information provided. While KVK may, from time to time, receive market information or other research from broker-dealers with whom they transact, they currently do not have any “soft dollar” arrangements.

### **Item 13 Review of Accounts**

On a daily basis KVK will review diverse sources of information with respect to the assets in a Fund and the composition of the Funds themselves. Specifically, KVK will review “real time” news alerts, rating agency actions and price changes for the assets in the Funds to assess implications to KVK’s sell/hold decisions. Senior management will also review fund performance and portfolio composition on a daily basis to ensure compliance with governing documents. In addition to KVK’s internal reviews, third party service providers such as trustees will independently review fund and advisory activities monthly to ensure further compliance with each Fund's governing documents. Further, an independent accounting firm will review distributions by the Funds. KVK will reconcile its own reports and accounting with those of the Trustee’s which in turn issues a monthly compliance report to KVK. The Trustee will be responsible for distribution of account statements and monthly and quarterly reports to investors. KVK reviews all reports prior to their distribution. KVK may also produce its own quarterly letter which it makes available to Fund investors via the Trustee and its secure website. This information would supplement any information provided by the Trustee.

### **Item 14 Client Referrals and Other Compensation**

KVK currently does not have any arrangements whereby they will receive an economic benefit from any person who is not a client for providing investment advice or advisory services to clients.

### **Item 15 Custody**

KVK currently does not intend to maintain custody of the assets of the Funds it will advise. Any cash and securities owned by the Funds will be maintained with trustees and can only be used by the Fund in accordance with the Fund’s governing and offering documents. As noted above, Fund investors will receive account statements directly from the Trustee. Investors should carefully review these account statements received from the Trustee and compare any reports with those received from KVK.

#### **Item 16 Investment Discretion**

KVK intends to maintain discretionary authority with respect to the Funds it will manage in accordance with their governing and offering documents. KVK will enter into an Investment Management Agreement with a Fund which establishes this discretionary authority and outlines any limits on it. KVK's review of Fund assets and performance ensures that a Fund is managed in accordance with the agreement.

#### **Item 17 Voting Client Securities**

KVK will not vote proxies that are subject to Rule 206(4)-6 of the Adviser's Act. However, it does consider votes on loan amendments, modifications and waivers to be similar to proxy voting. KVK's portfolio managers will have the authority to vote on such matters and will take into consideration all applicable and available information when making a decision. Generally, KVK will vote in favor of proposed amendments it believes are a necessary aspect of a business' operations and/or that KVK believes will maximize the value of the investment for each fund. You may obtain a copy of KVK's proxy voting policies and procedures by contacting KVK at 312-448-9766.

#### **Item 18 Financial Information**

As of the date of this report and to the best of KVK's knowledge, no financial condition exists that is reasonably likely to impair its ability to meet expected contractual commitments to any potential Funds.