

# **KB & Partners Management Co. LLC**

**a subsidiary of KB Holdings LLC**

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– Registered Investment Adviser –

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# **Investment Adviser Brochure**

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(Form ADV Part 2A)

MARCH 2014

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This brochure provides information about the qualifications and business practices of KB & Partners Management Co. LLC. If you have any questions about the contents of this brochure, please contact KB & Partners Management Co. LLC at 212-980-5050. 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. Registration as an Investment Adviser does not imply a certain level of skill or training.

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# Material Changes

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This section describes any material changes that have been made to this brochure since its last annual update in March 2013.

There have been no material changes to this brochure since the last filing.

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## Section **1** **Advisory Business**

KB & Partners Management Co. LLC (the “Firm”), a wholly owned subsidiary of KB Holdings LLC, is a Registered Investment Adviser managed by President and Chief Investment Officer, Thomas Graham Kahn, and Chairman, Irving Kahn. The Firm was founded in March of 2000 and has only one client: Kahn Brothers & Partners LP (the “Partnership”), a New York State limited partnership formed for the purpose of investment. As of December 31, 2013, the Firm managed \$64,499,691 of assets for its client on a solely discretionary basis.

KB & Partners Management Co. LLC invests primarily in publicly-traded equities. However, the Firm may occasionally transact other types of securities, including but not limited to American Depositary Receipts, investment fund shares, warrants, rights and fixed income and derivative securities.

The Firm employs a modified Graham and Dodd value investing style that it has developed and employed since its inception. The Firm’s strategy seeks a long-term annualized total return that exceeds its benchmark while maintaining reasonable protections against permanent loss of capital. Its managers are not focused on short-term results, choosing instead to concentrate on long-term performance over periods of years or even decades. The duration of a typical investment of the Firm may be three to five years or longer.

The Firm’s investment decisions are based primarily on bottom-up, fundamental analysis of securities. The Firm’s managers seek a detailed understanding of target companies, their industries and the positions of those companies relative to their competitors. When possible, they engage in direct dialog with company managements. They review and analyze multiple sources of information that include company filings and varied outside sources. Macroeconomic factors are considered in the investment process but do not drive decision-making.

In selecting potential investments, the Firm seeks stocks that are trading near to or below their “intrinsic values.” Value can be measured in many ways, but, the Firm tends to use a variety of metrics, including (among many) book value, tangible book value, sum-of-the-parts, sales, EBIT, EBITDA, earnings per share, net working capital and cash flow. The Firm seeks to invest in securities whose prices have been depressed in a manner that is disproportionate or abnormal as compared to reasonable expectations in a reasonable environment. After the managers have identified a stock that trades at a discounted price as compared to its value, they then look for catalysts that might unlock that value and cause the price to rise to a reasonable level as compared to that value.

The Firm’s managers seek value opportunities wherever they may find them. They find attractive situations in companies large and small and across the spectrum of the world’s industries. The most important singular criterion that the Firm seeks before making an investment is an attractive ratio of a security’s price to its value. The price to value relationship—as opposed to arbitrary characteristics such as the company’s market capitalization, industry or geographic location—is key to the investment process.

Depth of experience is also an essential part of the Firm’s methodology. Experience over many market cycles imparts judgment that is essential to making prudent and informed investment decisions.

The Partnership is not currently subject to a wrap fee program.

## Section

# 2 Fees and Compensation

KB & Partners Management Co. LLC provides investment advisory and management services to the Partnership with full discretion.

As the Partnership's investment adviser, KB & Partners Management Co. LLC is compensated in two ways: first, the Firm receives a management fee that is a percentage of total net assets in the Partnership at the time of assessment, and, second, it receives a performance-based allocation or incentive allocation that is calculated based on the investment performance of the Partnership's account over the billing period being assessed.

The Firm's management fee is assessed at the close of each fiscal quarter of the Partnership at a rate of  $\frac{1}{8}^{\text{th}}$  of 1% (0.00125) of the Partnership's total net assets at the time of assessment and before such fee is accrued. One half of the management fee is payable to the Firm, and the other half to Sullivan & Serwitz Equity Partners LP (the "Special Limited Partner"), a founding partner of the Partnership that is responsible for introducing and servicing investors in the Partnership. The management fee is deducted directly from the Partnership's account at its custodian, Charles Schwab & Co., Inc.

The Firm's incentive allocation, if any, is determined at the end of each fiscal year of the Partnership. At the close of the fiscal year, to the extent that the net profits allocated to the capital account of a limited partner exceed the net losses allocated to the limited partner's capital account for the fiscal year, there shall be reallocated as of the end of the fiscal year to the Firm's and the Special Limited Partner's capital accounts one-half each of an amount equal to 25% of such excess. The incentive allocation will be subject to a loss carryforward provision.

Prior to joining the Partnership, all prospective limited partners receive a Private Placement Memorandum and are made aware of the fee structure and of the terms of the Partnership.

The Partnership may incur other fees or expenses from outside institutions that will arise in connection with the services offered by the Firm. First, at the Partnership's request, the Firm uses an outside broker-dealer, Charles Schwab & Co., Inc., to transact all securities trades for the Partnership. As compensation for this service, Charles Schwab & Co., Inc. currently receives a flat commission. This commission rate may not be the absolute lowest available.

Also, the Partnership may incur fees from its custodian, currently Charles Schwab & Co., Inc. Custodian fees are determined by the custodian institution itself. The Firm and its affiliated businesses do not custody client assets.

Kahn Brothers & Partners LP's account is not subject to a wrap fee program.

## Section

# 3 Performance-Based Fees and Side-By-Side Management

At the close of the fiscal year, the Firm may be entitled to a performance-based allocation in addition to its advisory fee. The performance-based allocation, if earned, is assessed in proportion to the profits earned in the Partnership's account or in the capital account of an investor in the Partnership subject to certain limitations.

At the close of the fiscal year, to the extent that the net profits allocated to the capital account of a limited partner exceed the net losses allocated to the limited partner's capital account for the fiscal year, there shall be reallocated as of the end of the fiscal year to the Firm's and the Special Limited Partner's capital accounts one-half each of an amount equal to 25% of such excess. This performance-based allocation will be subject to a loss carryforward provision.

Performance-based fees or allocations can incentivize managers to perform well for their clients. However, they can also encourage managers to speculate or to take greater risks than they would in the absence of such fees or allocations. Performance-based fees can also, in some instances, create a conflict of interest. This can arise when an investment adviser manages performance-based fee or allocation accounts side-by-side with accounts that aren't assessed such fees or allocations. When there is side-by-side management, advisers may be encouraged to offer more or better services to those accounts that are assessed the performance-based fees or allocations.

The principals and employees of KB & Partners Management Co. LLC and its affiliated businesses are aware of these potential conflicts. Although the Firm has only one client, the Firm's principals also manage funds for the clients of affiliated businesses. Unlike the Partnership's account, the accounts for most of the clients of these affiliated businesses do not presently incur performance-based fees or allocations. The principals and employees of the Firm manage all accounts of the Firm and its affiliated businesses fairly regardless of the presence or absence of performance-based fees or allocations. The Firm's principals, compliance officer and supervisory employees continually monitor its personnel to ensure that this policy is followed.

## Section

# 4 Types of Clients

KB & Partners Management Co. LLC has one client: Kahn Brothers & Partners LP, a New York State limited partnership that invests in securities. Investors in the fund, who may include high net worth individuals, pension funds, charities, foundations, endowments, trusts, individual retirement accounts and other types of institutional and non-institutional clients that meet the requirements of being an accredited investor according to Rule 501 of Regulation D of U.S. securities laws, are admitted into the fund at the discretion of the Firm and the Special Limited Partner.

## Section

# 5 Methods of Analysis, Investment Strategies and Risk of Loss

KB & Partners Management Co. LLC employs a modified Graham and Dodd value investing style that seeks an adequate return on capital over long periods of time with satisfactory protections against permanent loss of capital.

The Firm has developed and employed this approach since its inception. The Firm's chairman, Irving Kahn, was a teaching assistant at Columbia University to Benjamin Graham, the father of value investing and fundamental analysis. Swayed by the merits of value investing, the Firm's principals adopted the strategy and have used variations of it throughout their careers.

Depth of experience is an important component of the Firm's methodology. Judgment gained from investment experience over many market cycles is important for making prudent and informed investment decisions. The Firm's Chairman, Irving Kahn, who began his career in 1928, and its President and Chief Investment Officer, Thomas Graham Kahn, who began his career in 1967, rely

heavily on their professional experience and judgment in making investment decisions for the Firm and its client.

KB & Partners Management Co. LLC is not focused on short-term results, choosing instead to concentrate on long-term performance over periods of many years or even decades. The duration of a typical investment of the Firm may be three to five years or longer.

The Firm manages investments primarily in publically-traded equities. However, it may also transact other types of securities—including but not limited to American Depositary Receipts, investment fund shares, warrants, rights and fixed income and derivative securities—if it feels it is prudent to do so. The Firm may engage in long or short transactions, although shorts tend to be infrequent.

The Firm's investment decisions are based its modified value investing strategy which relies on a primarily bottom-up process of fundamental analysis of securities. The managers seek a detailed understanding of target companies, their industries and the positions of those companies relative to their competitors. When possible, the managers engage in direct dialog with members of company managements. The managers review and analyze multiple sources of information including company filings and varied outside sources. Macroeconomic factors are considered in the investment process but do not drive decision-making. The Firm does not employ technical analysis and finds the technique largely without merit. Its analysts and managers prefer to study company, industry and economic information instead of looking for largely arbitrary patterns in trading data.

Within its modified value investing paradigm, the Firm uses many sources and methods to find investment opportunities. Its managers may look for investments in businesses with little to no long-term debt, reasonable amounts of cash, strong net working capital positions and/or prices that are near to or below a company's "intrinsic value." Value can be measured in many ways, but, the Firm tends to use a variety of metrics including book value, tangible book value, sum-of-the-parts, sales, EBIT, EBITDA, earnings per share, net working capital and/or cash flow. The managers select securities, one at a time, based on asset valuations, operating performance metrics and long-term fundamental business prospects (among other characteristics). After they have identified a security that trades at a discounted or acceptable price as compared to its value, they look for catalysts that might unlock that value and cause the price to rise to a reasonable level as compared to that value.

If there are very few values to be found in a given period, the Firm is perfectly comfortable holding cash and equivalents for its client, rather than placing money in speculative, overpriced issues. The Firm will not invest in an overpriced market simply to have its client "fully invested." Instead of risking its client's money in frothy, overvalued securities, the Firm would rather wait patiently for attractive situations to arise.

The Firm's managers seek value opportunities wherever they may find them. They find attractive situations in companies large and small and across the spectrum of the world's industries. The most important singular criterion that the Firm seeks before making an investment is an attractive ratio of a security's price to its value. The price to value relationship—as opposed to arbitrary drivers of diversification like a company's market capitalization, industry or geographic location—is key to the Firm's investment process.

The Firm prefers companies whose managements hold meaningful stakes in their companies' shares and are thus more inclined to protect their own, as well as their shareholders', interests. It is less comfortable with situations in which the managements have unnecessarily aggressive compensation packages and/or nominal ownership interests.

The Firm's investment process may be characterized as "contrarian." The Firm's managers will often look for out-of-favor stocks or stocks in depressed economic sectors, rather than seeking out the popular industries or names of the day. This means that the Firm may invest in companies that, at the time of purchase, may appear to be unattractive from the perspective of the prevailing mainstream public or broad market viewpoint. Buying at depressed levels is one of the hallmarks of successful value investing. As a result, the Firm often looks for companies that are, at the time of purchase, depressed but whose prospects (as concluded by the Firm's analysis) indicate that the downturn may be temporary. Such situations may include investments in what are termed "fallen angels." These are

companies that have suffered temporary and resolvable problems but maintain the capacity for material improvement in the future. The Firm may also invest in “special situations,” which are investments in which the upside potential is heavily dependent on a material corporate event such as a sale, merger, acquisition, tender, spin-off, bankruptcy, or other relevant corporate action.

The Firm may purchase micro, small or medium capitalization stocks or stocks with large amounts of closely-held shares. Such securities may be traded more infrequently, in smaller quantities, or in the less liquid over-the counter market. These companies often have a smaller following among securities analysts and institutional investors. Low levels of institutional ownership increase the likelihood of inefficient pricing, which can help to create the bargain opportunities that the Firm seeks. As a result, these stocks may have a greater potential for mispricing and illiquidity. As with all investments, one should be familiar with the characteristics and trading liquidity of these securities if they are ever purchased.

**All investments in securities, including those transacted by the Firm, involve a risk of realized loss of capital that the Partnership and its investors should be prepared to bear.** The Firm tries to mitigate this risk by refraining from the purchase of securities that it deems to be overpriced and by employing a long-term investment strategy that can lessen the impact of short-term volatility. However there is no guarantee that the Firm’s strategy or its analysis of an investment will be correct, and losses, unrealized or realized, may occur.

Investing in general is subject to many risk factors, some of which are within the Firm’s control and some of which are not. Factors out of the Firm’s control include varied economic and political events that may negatively affect investments. Additionally, the increased volatility of the markets may lead to adverse investment performance for periods of time.

Some types of investments that the Firm engages in on a highly infrequent basis have inherent risks particular to them. Short sales, however rarely used, carry a risk of loss that is theoretically unlimited. Potential monetary losses on short sales have no upward bounds. Fixed-income investments may carry varied risks, including interest rate risk, credit risk and reinvestment risk, among others types of risk. Interest-rate sensitive securities, including preferred equity securities, may have interest-rate risk associated with them. Investments in options, however rarely used, carry various risks including but not limited to, for long positions, the potential for 100% loss of one’s premium; for uncovered short calls, a potential for loss that is theoretically unlimited; and, for options in general, potential losses that are significantly levered as compared to the amount of one’s original investment.

Kahn Brothers Advisors LLC employs a modified value investing strategy. Although value investing seeks to mitigate risk by avoiding the purchase of overpriced securities, investors should be aware that there are risks particular to this strategy. It is possible that the market may undervalue an investment for an indefinite or unacceptably long period of time. This can negatively impact the investment’s desired return or lead to losses. Additionally, when investing in “fallen angels” or out-of-favor companies or industries (i.e. contrarian investing), there is a risk that these companies or industries may fail to regain favor and that this will negatively impact returns or lead to losses. There is a risk that investments in “special situations” will not produce the desired return or will lead to losses if the anticipated corporate event does not materialize or materializes after an unacceptably long period of time. All of the aforementioned risks may be greater for investments in small or illiquid companies.

The Firm’s modified value investing approach is just one particular investment style. There is a broad universe of different styles, each with its own advantages and disadvantages. Furthermore, there is a wide array of opinions on the strengths and weaknesses of each style. Investors should be aware that any discretionary investment with KB & Partners Management Co. LLC or in the Partnership will be made according to the Firm’s modified value style—other styles will not be employed. Therefore, discretionary investments with the Firm or in the Partnership will not be diversified by investment methodology. The Firm invests most often in the public equities markets. Therefore, discretionary investments with the Firm or in the Partnership may not be diversified by asset class.

As with any long-term investment, there is the potential for the Firm’s or the Partnership’s investments to incur unrealized or realized losses or to underperform benchmark indices for periods of time. This is usually a natural part of a long-term investment’s lifecycle. There will be times, particularly early in an



investment, when a security's price will be low enough to be unattractive to sell. There may also be times when it will be lower yet and can produce a realized loss if sold. The Firm rarely recommends exiting investments during these periods. Therefore, the client and the partners in the Partnership should be prepared to maintain their investments during these periods and, in some cases, at the Firm's recommendation, to increase their investments at the reduced prices that have presented themselves. If the client or a partner in the Partnership chooses to withdraw his or her investment in the Partnership during one of these periods of underperformance, he or she may realize a loss or a return below expectations in that security or in his or her capital account that the partner should be prepared to sustain.

Inevitably, there will be times when the market becomes overpriced as a whole, and, during these times, underpriced and attractive investments may become harder to identify. In such a market, the Firm may prefer to hold larger amounts of cash and equivalents in the Partnership's account rather than investing in securities that it deems to be excessively risky due to overpricing. Partners in the Partnership should understand that, during these periods, cash and equivalents may produce little to no return depending on the prevailing interest and inflation rates. However, the Firm's managers are more comfortable holding cash and equivalents that earn little to no return than with purchasing overpriced, risky securities.

## Section

# 6 Disciplinary Information

There are no legal or disciplinary events that are material to the Firm or to a client's or prospective client's evaluation of our advisory business or to the integrity of the Firm's management.

## Section

# 7

# Other Financial Industry Activities and Affiliations

Neither KB & Partners Management Co. LLC nor any of its management persons is registered or has a pending application to register as a broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, a commodity pool operator, a commodity trading advisor or an associated person of any of the foregoing entities.

The Firm does not recommend or select other investment advisers for its clients from which it receives directly or indirectly compensation that creates a material conflict of interest.

The Firm and its management persons are affiliated with a number of entities that are relevant to its advisory business and/or its clients. Please see the relevant section for information on potential conflicts of interest that could arise in connection with these relationships: (1) related to brokerage and execution, see Section 9 (entitled “Brokerage Practices”); (2) related to investment recommendations, see Section 8 (entitled “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading”); and (3) related to fees, see Sections 2 and 3 (entitled “Advisory Fees” and “Performance-Based Fees and Side-By-Side Management”):

- Kahn Brothers Group, Inc., an affiliated holding company whose principals and employees include a number of management persons of the Firm. The following management persons have positions: Thomas Graham Kahn, President, Director and a significant investor; Irving Kahn, Chairman of the Board of Directors; Donald Kahn, Director and a significant investor; William DeLuca, Senior Vice-President and Secretary; Kenneth Rodwogin, Senior-Vice President and Director; William Knox, Senior Vice-President; and Paula Cutrone, Senior Vice-President and Director;
- Kahn Brothers Advisors LLC, an affiliated Registered Investment Advisor managed by the Firm’s principals. The following management persons have positions: Thomas Graham Kahn, President, Director and a significant investor; Irving Kahn, Chairman of the Board of Directors; Donald Kahn, Director and a significant investor; William DeLuca, Senior Vice-President and Secretary; Kenneth Rodwogin, Senior Vice-President and Director; William Knox, Senior Vice-President; and Paula Cutrone, Senior Vice-President and Director;
- Kahn Brothers LLC, an affiliated broker-dealer managed by the Firm’s principals. The following management persons have positions: Thomas Graham Kahn, President, Director and a significant investor; Irving Kahn, Chairman of the Board of Directors; Donald Kahn, Director and a significant investor; William DeLuca, Senior Vice-President and Secretary; Kenneth Rodwogin, Senior-Vice President and Director; William Knox, Senior Vice-President; and Paula Cutrone, Senior Vice-President and Director;
- KB Group Asset Management LLC, an affiliated business that invests in securities. The following management persons have positions: Thomas Graham Kahn, President, Director and a significant investor; Irving Kahn, Chairman of the Board of Directors; Donald Kahn, Director and a significant investor; William DeLuca, Senior Vice-President and Secretary; Kenneth Rodwogin, Senior-Vice President and Director; William Knox, Senior Vice-President; and Paula Cutrone, Senior Vice-President and Director;
- Kahn Brothers Asset Management Corp., a Registered Investment Adviser to a pooled investment vehicle that is managed by the Firm’s principals. The following management persons have positions: Thomas Graham Kahn, President, Director and a significant investor; Irving Kahn, Chairman of the Board of Directors; and William DeLuca, Vice-President; and
- Sterling Bancorp Inc. a publicly traded bank holding company headquartered in Montebello, New York of which the Firm’s president and chief investment officer, Thomas Graham Kahn, is a current Director. Mr. Kahn was also a Director of its predecessor company, Provident New York Bancorp Inc., which was merged into Sterling Bancorp in 2013. The Firm has addressed

the potential conflicts of interest that may arise by strictly adhering to its investment methodology as the sole motivation for all transactions in Sterling Bancorp (and its predecessor); by transacting in these securities only during Mr. Kahn's authorized trading windows as an insider; by strictly enforcing the Firm's policies regarding inside information; by having the Firm's other principal and senior employees monitor Mr. Kahn's trading activity in these securities, should it occur, prior to execution.

## Section

# 8

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

KB & Partners Management Co. LLC relies on the Code of Ethics of its affiliated investment advisory business, Kahn Brothers Advisors LLC. This Code of Ethics acts as a guide for ethical conduct by all employees of the Firm and its affiliated businesses. The principals of KB & Partners Management Co. LLC believe that the Firm's good reputation is a direct reflection of the conduct and professionalism of its employees. Employees are therefore expected to comply with the Code of Ethics unconditionally.

The Code of Ethics obligates the Firm's employees to maintain and follow their fiduciary responsibilities to the Partnership. This includes, among other things, their responsibility to *never* (a) serve their own personal interests ahead of the client's interests, (b) take advantage of their position in the Firm to gain unauthorized forms of compensation (c) permit any abuse of position, trust or responsibility or (d) act or permit an action that creates the impression that one of the aforesaid violations has occurred.

Before making an investment in the Partnership, all prospective partners are advised that the employees of the Firm own or may own directly or indirectly the same securities that will be recommended and/or transacted for the Partnership. If the Firm, its principals and its employees have a material financial interest in a company that it is currently recommending, this interest will be disclosed to the partners.

Employees of the Firm must provide independent, impartial advice; must ensure that that advice is suitable to the Partnership's investment objectives, needs and circumstances; must obtain best execution for the Partnership's transactions when the Firm or a related person is also transacting the same security; and must safeguard all of the client's personal information. The provision relating to client confidentiality applies during and after the employment terms of the Firm's employees.

The Code of Ethics also strictly prohibits any actions that are or can be construed as being unethical or illegal. This includes any actions that are or may be interpreted as fraudulent, deceptive or manipulative. Trading on material, non-public information (also known as "insider information") is strictly forbidden under the Code of Ethics as well as by U.S. federal law. The Firm has a "zero tolerance" policy for transactions that are motivated by insider information or employ deceptive devices or practices.

The Code of Ethics also describes the Firm's policies on personal securities transactions. It is policy to prioritize transactions by clients of the Firm's affiliated investment advisor Kahn Brothers Advisors LLC above those of the Partnership due to the fact that the Firm's principals have a meaningful ownership position in the Partnership. It is also policy to prioritize transactions by the Partnership over transactions of the Firm, if they occur, or any of the Firm's affiliated businesses or of related persons to these entities. When placing orders for the Partnership, any of its affiliated businesses or related persons to these entities, employees of the Firm must be aware of other pending orders in that same security to ensure proper prioritization of transactions. When possible the Firm prefers to have trades that may present these conflicts executed on different days or at times with enough separation to remove any potential conflict from the transactions. The Firm's officers regularly review all trading activity to ensure that this policy is honored.

The Firm and its related persons do not recommend or transact for the Partnership securities in which it or they have a material financial interest. However, the related persons of the Firm and its affiliated businesses own or may own directly or indirectly shares of companies that the Firm recommends as investments to the Partnership. The partners in the Partnership are advised of this fact before investing in the Partnership. Generally speaking, this direct or indirect ownership by these related persons can create a conflict of interest in that the Partnership's investments in such a company could have a material impact on the company if the investment was of sufficient size. Additionally, an investment adviser may be biased towards recommending such an investment regardless of its merits or suitability to the Partnership. However, the Firm believes that these conflicts as they relate to the Firm, the Partnership and the investors in the Partnership are, for the following reasons, not significant. Positions by these related persons in investments that the Firm recommends are almost always passive. Also, these investments are typically in publicly-traded, liquid securities that are not materially affected by additional investments of the size executed on behalf of the Partnership.

Regarding bias in the recommendation of such investments, the Firm's principals believe it is in the Partnership's best interests to have its investment adviser's financial interests aligned with its own. The Firm maintains a policy of "eating its own cooking," which means only recommending investments to the Partnership that its principals and employees and their families are also or would also invest in themselves. Any investment that is good for the Partnership should also possess enough merit and sway enough conviction for the Firm's principals and/or their families to be comfortable owning it directly or indirectly themselves. The Firm considers this policy to be a benefit, not a drawback, to the Partnership. However, to ensure that a conflict does not arise from such a transaction, the senior officers of the Firm monitor all transactions that apply to this type of situation.

The Firm and its related persons do not buy or sell securities from the Firm's client. Some of the Firm's principals are also principals for Kahn Brothers Asset Management Corp., which acts as investment adviser for an investment partnership. The Firm does not solicit partners of the Partnership for investment in this fund. Additionally some of the Firm's Principals are also principals of an investment adviser, Kahn Brothers Advisors LLC, which advises institutional and non-institutional clients. Some of the investors in the Partnership are clients of Kahn Brothers Advisors LLC. In the future, the principals of the Firm may solicit investors in the Partnership to become clients of Kahn Brothers Advisors LLC if appropriate. Kahn Brothers Advisors LLC has a largely identical investment strategy to the Firm's. However, there may be a conflict of interest in that the fee structure of an account at Kahn Brothers Advisors LLC may not be identical to the fee structure of the Partnership. In some cases, the fees may be greater; in others, they may be less. The Firm addresses the potential conflict that may arise by fully describing to the solicited partner the two fee structures, their differences, if any, and the conflicts of interest, if any. More on this topic and how it is addressed can be found in Section 2 and Section 3 (entitled "Advisory Fees" and "Performance-Based Fees and Side-By-Side Management" respectively).

All violations or observed violations of the Code of Ethics must be promptly reported to the Firm's Chief Compliance Officer who will take remedial action.

The Firm's Code of Ethics is available free of charge to the Partnership, the investors in the Partnership, prospective investors in the Partnership or any future clients or prospective clients of the Firm upon request.

## Section

# 9

## Brokerage Practices

Clients of KB & Partners Management Co. LLC may select any broker-dealer of their choosing. However, the Firm currently has only one client, Kahn Brothers & Partners LP, and that client uses the brokerage and custody services of Charles Schwab & Co., Inc.

For its brokerage services, Charles Schwab & Co., Inc. receives a flat commission rate for in-house transactions regardless of transaction size and does not charge “mark-ups.” It charges a higher commission for “trade-away” transactions that it must execute through outside broker-dealers. Neither its in-house nor its “trade-away” commissions may be the absolute lowest available. These commissions are negotiated between the Partnership and the broker-dealer.

KB & Partners Management Co. LLC does not purchase investment research or exchange research, products or services for soft dollar benefits. Rather, the Firm generates its own internal research and may obtain source material from firms with which it does not have formal business relationships.

Although the Firm has no soft dollar arrangements, its affiliated broker-dealer, Kahn Brothers LLC, has a disclosed agreement through which its clearing and custody firm, Pershing LLC, may provide it with various office services in addition to the clearing and custody services it provides. In exchange for these total services—including and especially clearing services—Pershing LLC may receive a percentage of the commissions generated by Kahn Brothers LLC (subject to certain limitations specified under contract). The Firm may utilize some of the office services provided by Pershing LLC.

Occasionally, the Partnership’s broker-dealer may have multiple orders in the same security that have been entered on behalf of the Partnership and also on behalf of clients of one for the Firm’s affiliated investment advisers. When this occurs and if possible, the Firm may instruct the broker-dealer to aggregate these orders if it believes that doing so may effectuate a more favorable execution for the clients. Unfilled bunched orders are allocated by the investment adviser to client portfolios in a reasonable and fair manner.

The Firm endeavors to obtain best execution from its broker-dealer. Best execution will be obtained with the proviso that related persons to the Firm and its affiliated businesses have a financial interest in the Partnership, and, therefore, in situations in which clients of the Firm’s affiliated businesses—clients with which the Firm’s principals have no financial interest—are transacting the same security as the Partnership and at the same broker-dealer as the Partnership, the clients of the affiliated business must receive best execution over the Partnership. However, to prevent this type of situation from arising, the Firm typically does not execute these transactions on the same day.

## Section **10** **Review of Accounts**

Senior officers of KB & Partners Management Co. LLC make an effort to review the Partnership’s discretionary account on a frequent and periodic basis. They endeavor to review the account at a minimum of a monthly interval. However, the account may be reviewed more or less frequently at the Firm’s discretion. The Firm’s principals believe that this interval is appropriate for reviewing accounts that follow the Firm’s long-term, low-turnover investment strategy.

Reviews are conducted by the Firm’s President, Thomas Graham Kahn and/or the Firm’s Senior Analyst, William Knox. Reviews involve, among other factors, analyses of the timing and availability of other attractive investments that are suitable for the Partnership, the Partnership’s cash position and the concentration of company and sector positions relative to the total portfolio. Reviews also take into account the Partnership’s investment goals and restrictions and its short-term and long-term financial needs.

General market condition and company- and industry-specific news are also tracked on a continuous, pro-active basis. Significant events may trigger additional portfolio reviews. Also, changes in the Partnership’s financial circumstances may trigger additional portfolio reviews.

The Partnership receives printed quarterly appraisals that are generated by the Firm’s internal account software. These appraisals display the account’s holdings by name, the weights of individual positions in the portfolio and the cost and current market value of each position. Investors in the Partnership also

receive quarterly letters from the Firm that discuss the performance of the Partnership's account over the period and annual printed K-1 forms from the Firm's accountant.

## Section **11** **Client Referrals and Other Compensation**

KB & Partners Management Co. LLC does not have any compensated referral arrangements with consultants or solicitors for new clients. The Firm also does not receive economic benefit from a non-client in exchange for giving investment advice to a client. However, the firm Sullivan & Serwitz Equity Partners LP (the "Special Limited Partner") has a disclosed arrangement with the Firm in which it introduces and services investors in the Partnership. As a founding partner of the Partnership, the Special Limited partner receives a portion of the fees assessed by the Partnership.

## Section **12** **Custody**

KB & Partners Management Co. LLC does not custody assets for the Partnership. The Partnership's assets are custodied at the outside custodian institution, Charles Schwab & Co., Inc.

In addition to receiving quarterly appraisals from the Firm, the Partnership also receives statements from its custodian institution. Also, investors in the Partnership receive quarterly letters from the Firm discussing the performance of the Partnership's account over the period and annual printed K-1 forms from the Firm's accountant. The Firm urges the Partnership and all investors in the Partnership to carefully review the documents they receive. The Partnership should compare and reconcile its appraisals from the Firm with the statements it receives from its custodian institution. All investors in the Partnership should carefully review and reconcile all documents it receives from the Firm and its accountant.

## Section **13** **Investment Discretion**

The Firm's client, Kahn Brothers & Partners LP, has granted the Firm broad discretionary authority over its portfolio. The terms of discretion are specified in the Investment Advisory Agreement and enabled by the granting of power of attorney over the portfolio. The extent and parameters of this authority are also detailed in the Partnership's Agreement of Limited Partnership. The Partnership may, at any time, choose to amend the extent and parameters of this authority by renegotiating the Agreement of Limited Partnership or by coming to an understanding with the Partnership's general partner and Special Limited Partner.

## Section **14** **Voting Client Securities**

KB & Partners Management Co. LLC has the authority to vote proxy ballots on the Partnership's behalf. The Firm typically votes proxies electronically (i.e. via [www.proxyvote.com](http://www.proxyvote.com)) or, in some cases, by telephone or USPS first-class mail.

The Firm follows its internal proxy voting policies when voting ballots on behalf of the Partnership. These policies primarily instruct the Firm to vote in a manner that, in the opinion of the Firm, maximizes the long-term financial interests of the Partnership and its holdings in the company at hand. These policies also instruct the Firm to vote proxy ballots only after a thorough review of the proxy material. Absent specific reasons and/or concerns to the contrary, the Firm may vote as recommended by the management of the company.

If the Partnership wishes to direct a particular vote on its own, it may do so by contacting the Firm at 212-980-5050 or [accountservices@kahnbrothers.com](mailto:accountservices@kahnbrothers.com) and instructing it on how to vote or by requesting that the Firm refrain from voting to allow it to vote itself.

If the Partnership or an investor in the Partnership would like information on how it voted a particular security in its portfolio, he or she may contact the Firm at 212-980-5050 or [accountservices@kahnbrothers.com](mailto:accountservices@kahnbrothers.com). Also, upon request, an investor in the Partnership may receive a copy of the Firm's proxy voting policies and procedures.

If the Firm believes that a material conflict of interest exists with respect to voting a proxy, the Firm may resolve it in a number of ways. If the conflict pertains to a particular employee of the Firm, then that employee may recuse him or herself from the process of voting that particular proxy. If the conflict pertains to the Firm as a whole, then the Firm may request that the client vote its own proxy for that particular security or initiative or it may abstain from that particular vote.

## Section **15** **Financial Information**

KB & Partners Management Co. LLC has no financial conditions that are reasonably likely to impair its ability to meet its contractual commitments to the Partnership. Nor has it ever been the subject of any bankruptcy petitions. The Firm does not require or solicit prepayment of fees six months or more in advance.