

FORM ADV PART 2A

FIRM BROCHURE

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This brochure provides information about the qualifications and business practice of KDI Capital Partners, LLC. If you have any questions about the contents of this brochure, please contact us at 919-573-4124. 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.

Additional information about KDI Capital Partners, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov

Registration as an investment advisor with the SEC or by any state securities authority does not imply a certain level of skill or training.

Item 2 Material Changes

This version of Form ADV Part 2A dated June 7, 2012 replaces the last version dated February 15, 2012 which was our last annual amendment. An update has been made to Item 11 Code of Ethics disclosure related to personal trading.

This version of Form ADV Part 2A dated March 26, 2013 is our annual amendment and replaces our June 17, 2012 version. Our last annual amendment was dated February 15, 2012. Item 4E Discretionary Client Accounts was updated. An update has been made to Item 5A Compensation and Advisory Services regarding the calculation of the management and performance fees. Item 8A Methodologies of Analysis & Investment Strategies was updated regarding trading decisions. An update was made to Item 8B Material Risks Involved for each Significant Strategy or Method of Analysis related to limited diversification. Item 12B Aggregation of Orders was updated to reflect policy regarding trade errors.

This version of Form ADV Part 2A dated March 28, 2014 is our annual amendment and replaces our March 26, 2013 version which was our last annual amendment. Item 4B Types of Advisory Services was updated. Item 4E Discretionary Client Accounts was updated. An update to Item 8A Methodologies of Analysis & Investment Strategies was updated regarding types of equity securities.

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Item 4 Advisory Business

A. Description of your advisory firm, including how long you have been in business and principal owner(s)

KDI Capital Partners, LLC (“KDI” or the “Firm”) traces its roots to 1991 when John Day Managing Member, joined with Investors Management Corporation (IMC), the parent company of Golden Corral Corporation, to invest in publicly traded restaurant companies. Mr. Day combined his investment experience with IMC’s knowledge and experience in the food service industry to invest in publicly traded equity securities when the stock prices offered an attractive risk vs. reward situation to enhance the returns on IMC’s available cash. The investment activities were structured as a partnership in order to better track the investment returns.

In 1996 Maynard Capital Partners, LLC (MCP) was formed to manage equities for investors outside the IMC organization, attracted by the partnership’s performance. The name reflected the founding involvement of James Maynard, the Chairman and CEO of IMC and Golden Corral. In 2004, Sheldon Fox joined the growing firm, becoming a member in 2007. Also, in 2007, MCP changed its name to KDI Capital Partners, LLC to highlight the firm’s core operating principles of knowledge, discipline and integrity. KDI is owned 56.5% by John Day, 23.5% by Sheldon Fox and 20% by IMC and is under the management and control of John Day and Sheldon Fox.

KDI’s principal investment strategy is long equities. KDI specializes in value investing, by doing extensive fundamental research. Holding cash is used in an effort to reduce risk when there is a shortage of attractive opportunities. The Firm manages one fund that sells covered call options for securities it holds long to offset some of the potential downside risk.

B. Types of Advisory Services

KDI currently provides discretionary management services to privately placed investment funds (“private funds”) which are organized as domestic limited and general partnerships. (These private funds are sometimes known as “hedge funds”.)

KDI manages eight private funds, including six U.S. limited partnerships and two U.S. General Partnerships. KDI serves as the general partner of the partnerships.

Each private fund is managed according to its investment objectives, strategies, and guidelines and is not tailored to the specific needs of any investor in the private fund (“underlying investors”). Specifics regarding investment objectives, strategies, and guidelines are described in detail in the offering documents and agreements of each fund. Six of the eight funds operate under the same objectives and strategies. KDI does not provide individualized advice to underlying investors in its private funds, so each potential investor should evaluate whether the private fund meets their investment objectives and risk level before investing in the fund.

C. Individual Needs of Clients

KDI does not tailor its advisory service to the individual needs of underlying investors. Please refer to the response to Item 4B above.

D. Wrap Fees

KDI does not participate in wrap fee programs.

E. Discretionary Client Accounts

KDI has discretionary authority over all the assets it manages on behalf of its private funds. As of February 28, 2014, KDI managed approximately \$454,000,000.

Item 5 Fees and Compensation

A. Compensation and Advisory Services

KDI charges a fee consisting of (1) an annual “management fee” based upon the net asset value of the private funds assets, which is paid quarterly in arrears; and (2) a “performance fee” that is calculated based upon a percentage of the net profits if the net profits of the underlying investor’s account exceeds a particular rate (i.e., hurdle rate). The performance fee is calculated and paid at the end of a three year allocation period. The performance fee is paid to KDI as the general partner via a special partnership allocation of earnings.

KDI’s current fee schedule is generally as follows:

Management Fee: 1% annually, paid quarterly in arrears

Performance Fee: 15% - 20% at end of three year term, on earnings in excess of the hurdle amount

KDI may waive or reduce the management fee or performance fee with respect to investors. Thus, different investors may pay different management fees or performance fees based on the investment date or waivers.

B. Payment of Fees

KDI, as general partner of the private funds, may deduct fees from the Fund with respect to the payment of management fees and performance fees. KDI can either fax or e-mail a letter to its Prime Broker requesting to have the fees wired to KDI's account.

C. Other Fees

The private funds incur expenses other than advisory fees, such as investment expense (e.g., brokerage commissions, clearing and settlement charges, interest expense), research related expenses, government charges, taxes and duties, legal expenses, accounting, auditing and tax preparation expenses. Please see the response to Item 12 for additional information about brokerage expenses.

D. Advanced Fees

Not applicable. KDI does not charge fees in advance.

E. Compensation for Sales of Securities

Not applicable. No supervised person receives compensation for the sale of securities or other investment products.

Item 6 Performance-based Compensation

Please see response to Item 5A above. Performance fees are charged to underlying investor's capital account only if gains in the account exceed a hurdle rate.

The Adviser and its investment personnel provide investment management services to multiple private funds. The Adviser is entitled to be paid performance fees by its private funds. Investment personnel may receive additional compensation from the Adviser based on performance in the private funds. The Adviser and its investment personnel, including investment personnel that share in performance-based compensation, manage both private funds that are charged performance-based compensation and private funds that are charged an asset-based fee, which is a non-performance based fee. In addition, certain private funds may have higher asset-based fees or more favorable performance-based compensation arrangements than other accounts. Any performance-based fees charged by KDI will be in compliance with Rule 205-3 under the Investment Advisers Act of 1940, as amended ("Advisers Act"), as applicable, unless that rule is inapplicable by reason of Advisers Act Section 205(b) or interpretive positions of the staff of the U.S. Securities and Exchange Commission ("SEC").

Performance-based fee arrangements may create an incentive for KDI to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. This creates a potential conflict of interest. KDI has procedures designed and implemented to ensure that all private funds are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among the funds.

Item 7 Types of Clients

Please see the response to Item 4B above. KDI provides investment advisory service to private funds in accordance with their investment objective, strategies and guidelines.

KDI's private funds generally require a minimum investment of \$250,000 or \$1,000,000. KDI reserves the right to reduce the minimum amount for certain Investors.

This Brochure should not be considered to be an offer of interests in any of the private funds. It should not be relied on in determining whether to invest in any of the private funds. It is not an offer of, or agreement to provide, advisory services directly to any recipient of the Brochure. This Brochure is designed solely to provide compliance information about KDI with regard to obligations under the Advisers Act. It responds to relevant regulatory requirements under the Advisers Act, and may be different from the information provided in the offering documents for any of the private funds. If there are differences between the Brochure and the offering documents for the funds the offering documents should govern.

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

A. Describe the methods of analysis and investment strategies

KDI's principal investment strategy is long-only equities. The principal focus is on U.S. equities, with potential limited investments in equity securities of European and/or Canadian companies.

The firm employs an all cap value style to manage its unleveraged, long-only private funds. KDI hedges market risk in its long-only portfolio through its willingness to hold significant amounts of cash when attractive investment opportunities are not available in the market. Utilizing the flexibility to be in cash and to invest across all market caps, the firm seeks to identify attractive risk-reward situations, concentrating clients' capital in exceptional opportunities that provide them a good margin of safety and the opportunity to exceed the returns of index funds over time.

In addition to the long-only funds, KDI manages one fund which is designed for more conservative investors seeking greater capital protection with the opportunity for attractive risk-adjusted returns. The firm uses a covered call writing strategy in this private fund. Most companies are high quality, large cap, dividend paying companies.

KDI's investment strategy is guided by several investment beliefs:

- The long term, business gains equal investment gains and stocks, over time, tend to be priced at intrinsic business value.
- Investment returns from equities are a combination of a stock's current premium or discount to intrinsic business value plus future business gains or losses.
- Leadership/Management is a major determinant of business gains, and thus investment gains.
- A company's ability to earn high returns on capital is essential to achieving above-average business gains, and thus above-average investment returns.
- Companies that generate larger amounts of free cash flow generally produce greater business gains.

The firm's investment strategies include:

- Invest only when it is believed that the risk of loss is limited and the opportunity for significant returns is present.
- Reduce the risk of owning equities through gaining an in-depth knowledge of the company and the industry.
- Adhere to objective, measureable and conservative disciplines when making investment decisions.

The detailed due diligence process includes some or all of the following elements:

- One-on-one meetings with management
- Detailed conservative pricing models based on long-term business value to establish current buy and sell price targets
- Store, warehouse and other site visits
- Company presentations at industry conference
- Insights from KDI investors with relevant industry background
- Other contacts including competitors, former employees, franchisees, vendors, customers, etc.
- Sell-side investment research
- Economic analysis and government policy
- Network of industry experts.

The due diligence process is ongoing and trading decisions may be made at any point during the process.

B. Explain the material risks involved for each significant strategy or method of analysis

With all investments there is a risk of loss of capital. KDI believes that its investment strategies and due diligence techniques are designed to moderate the risk of loss of capital through the precise selection of securities and willingness to stay in cash. KDI makes no guarantee or representation that the private funds' investment strategies will be successful, and no assurance can be given that the private funds will achieve their investment objectives. Past performance is no guarantee of future results. Investments in the private funds, like any equity investment, may be deemed highly speculative, involve significant risk and should be purchased only by persons who can afford to lose the money invested. The private funds are not intended to be a complete investment program.

Limited Diversification. The portfolios of the private funds typically contain between 15 and 25 securities. As a consequence, the Fund's returns as a whole may be adversely affected by the unfavorable performance of even a single investment. In some instances, the Fund may hold as much as twenty percent (20%) or more of its portfolio funds in a single investment.

Calculated Value. The private fund's strategies are based in part on the estimated value of various publicly traded companies, as determined by the KDI. The formulae used to estimate value, including price to earnings, return on equity, and other ratios and indicators, are meant merely to approximate a company's economic worth, and are not intended to determine a company's actual current or future value, which may be subject to a variety of subjective, as well as objective, factors over which a company's management, not to mention KDI, may have little or no foreknowledge or control.

Accuracy of Public Information. KDI selects investments, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to the adviser by the issuers or through sources other than the issuers. Although KDI evaluates all such information and data and ordinarily seeks independent corroboration when KDI considers it is appropriate and reasonably available, the adviser is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available.

Economic Risk. Changes in economic conditions, including, for example, changes in interest rates, inflation rates, employment conditions, competition, technological developments, political and diplomatic events and trends, and tax laws may adversely affect the business prospects or perceived prospects of the companies in which the private funds invest. None of

these conditions is within the control of KDI and no assurances can be given that KDI will anticipate these developments. Accordingly, adverse economic changes may cause losses in the Fund.

C. If you recommend primarily a type of security, explain the risks involved.

Options Transactions. The purchase or sale of an option involves the payment or receipt of a premium payment by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that either the option expires worthless and the investor loses its entire investment in the option, or the option is later sold at a substantial loss. Over-the-counter options also involve counterparty solvency risk.

The private fund may engage in transactions in options that are traded on a recognized securities exchange, over-the-counter or are privately negotiated. The private fund may write (i.e., sell) covered and uncovered call options, which give the purchaser the right to buy the underlying security covered by the option from the private funds at the stated exercise price. A “covered” call option means that so long as the private fund is obligated as the writer of the option, it will own (i) the underlying securities subject to the option, or (ii) securities convertible or exchangeable without the payment of any consideration into the securities subject to the option. An “uncovered” (i.e., naked) call option means any call option that is not covered. The private funds will receive a premium from writing call options. The private funds will be subject to substantial risks with respect to any call options that the Fund writes.

The private fund may also write (i.e., sell) both covered and uncovered put options. By selling a put option, the private funds incur an obligation to buy the security underlying the option from the purchaser of the put at the option’s exercise price at any time on or before the option’s expiration date, at the purchaser’s election (certain options written by the private fund will be exercisable by the purchaser only on a specific date). Generally, a put option is “covered” if the private funds maintain cash, U.S. government securities or other high grade debt obligations equal to the exercise price of the option or if the private fund holds a put option on the same underlying security with a similar or higher exercise price. Conversely, a put option is “uncovered” or “naked” if the private fund does not have a corresponding short stock position or does not have cash, U.S. government securities or other high grade debt obligations equal to the exercise price of the option. The private fund will be subject to substantial risk of loss with respect to any put options that it writes. When the private fund writes a put option, it will bear the risk of loss if the value of the underlying security declines below the exercise price. The loss could be substantial if the decline is substantial.

Short Sales. The private fund may from time to time sell securities short in anticipation of the realization of a gain if the securities sold short should decline in market value. A short

sale is affected by selling a security that the private fund does not own, or selling a security which the private fund owns but which it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the private fund must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The private fund must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must, unless the private fund then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash and/or marketable securities with the lender. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position and a theoretically unlimited loss to the Fund.

The private fund will not otherwise employ any hedged investment strategies, which typically seek to reduce or eliminate equity or fixed income exposure during periods of general or specific decline.

Foreign Securities Risk. The private fund may invest directly in securities of foreign domiciled companies (“foreign securities”) that trade on U.S. national exchanges or over-the-counter domestic exchanges; foreign securities represented by American Depositary Receipts (“ADRs”), as described below; and foreign securities traded on foreign exchanges. The private fund may also invest in foreign currency-denominated fixed-income securities. Investing in securities issued by companies whose principal business activities are outside the United States may involve significant risks not present in domestic investments. For example, there is generally less publicly available information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the U.S. securities laws. Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitation on the removal of cash or other assets of the private fund, political or financial instability, or diplomatic and other developments which could affect such investments. Further, economics of particular countries or areas of the world may differ favorably or unfavorably from the economy of the United States. Foreign securities often trade with less frequency and volume than domestic securities and therefore may exhibit greater price volatility. Additional cost associated with an investment in foreign securities traded on foreign exchanges may include higher custodial fees than would apply to domestic custodial arrangements, and transaction costs of foreign currency conversions. Certain foreign governments levy withholding taxes on dividend and interest income. Although in some countries it is possible for a Fund to recover a portion of these taxes, the portion that cannot be recovered will reduce the income that a Fund receives from its investments.

ADRs provide a method whereby the private fund may invest in securities issued by companies whose principal business activities are outside the United States. ADRs are receipts typically issued by a U.S. bank or trust company evidencing ownership of the underlying securities, and may be issued as sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangement to have its securities trade in the form of ADRs. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some case it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program

Counterparty Risk. The private fund's assets will be deposited with banks, brokerage firms, financial institutions and other counterparties, including the Custodian. The assets might be held in street name. The bankruptcy of any of such entities, mismanagement of deposits, default in transactions with the Fund, or fraud could result in the loss of Fund assets. If there is a failure or default by the counterparty to such a transaction, the private fund may have limited contractual remedies pursuant to the agreements related to the transaction. The private fund seeks to minimize such counterparty risk through the selection of financial institutions and the types of transactions employed. However, the private fund's operational requirements may involve counterparty and other risk elements that may create unforeseen exposures. The private funds and KDI disclaim any liability for any negligence, errors, acts or omissions, fraud or dishonesty by any such counterparties.

Market Risks. Stock prices fluctuate in response to many factors, including the activities of individual companies and general market and economic conditions. Regardless of any one company's particular prospects, a declining stock market may produce a decline in stock prices for all companies. Stock market declines may continue for an indefinite period of time, and investors should understand that from time to time during temporary or extended bear markets, the value of the private fund's assets could decline. In addition, the profitability of a significant portion of the private fund's investment program depends to a great extent upon correctly assessing the future course of movements in interest rates, currencies, equities and other investments. There can be no assurance that KDI will be able to predict accurately these price movements.

Item 9 Disciplinary Information

Not applicable. There are no legal or disciplinary events that would be material to any client or prospective client's evaluation of KDI's advisory business or the integrity of KDI's management.

Item 10 Other Financial Industry Activities and Affiliations

A. Broker-dealer

Neither KDI nor any management persons are registered or pending registration as a broker-dealer or registered representative of a broker-dealer.

B. Other Registrations

Neither KDI nor any management persons are registered or pending registration as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of the foregoing entities.

C. Relationship with persons in certain categories

Neither KDI nor any management persons have relationships or arrangements with anyone in the listed categories.

D. Selection of other advisers for your clients and receipt of compensation

Not applicable. KDI does not select advisers for its clients and receive compensation for the service.

Item 11 Code of Ethics

A. Code of Ethics Description

KDI created a Code of Ethics ("Code") to ensure that its clients' interests come first. KDI has a fiduciary duty to act solely for the benefit of its clients. In recognition of KDI's fiduciary duty and its desire to maintain its high ethical standards, KDI has adopted a Code of Ethics (the "Code") which contains provisions designed to prevent improper personal trading, identifies potential conflicts of interest and provides a means to resolve any actual or potential conflicts in favor of KDI's clients. Employees are prohibited from trading any security without the approval of the Compliance Officer.

Employees are required to report transactions and holdings to KDI's Chief Compliance Officer relating to all personal securities accounts. A copy of the Code is available to any client or prospective client upon request.

B. Recommend securities to clients in which you have a material interest

The owners of KDI participate in the private funds' investments, *pro rata*, in accordance with their capital accounts and receive a portion of the performance allocation of 15% - 20% of the net profits of the underlying investors in such funds in excess of a hurdle rate (i.e., the performance fee) that is paid to KDI, as well as a pro rata share of the management fees. Additionally, the CIO and COO are both underlying investors in one or more of the private funds. Employees of KDI may own the same securities in their personal accounts that are owned by the private funds.

To avoid potential conflicts of interest the employees are subject to preclearance requirements prior to them initiating a trade, see response to Item 11A above. For their investment in the private funds the CIO and COO receive the same pro rata allocation of assets and liabilities for their investment in the private funds as the other underlying investors.

C. Invest in the same securities as you recommend to clients

Please see response to Items 11A and 11B above. Employees of KDI may have investments in securities owned by or recommended to the private funds. KDI may purchase or sell for the private funds securities in which KDI, its affiliates or employees also have a position or interest. The employees must obtain prior approval before trading any security and will not be granted ability to trade any security which KDI has or is considering buying or selling within a 2 day period for the private funds. The Chief Compliance Officer may make an exception to the 2 trading day blackout period if it is determined that there would be no adverse impact on the private funds.

Since this situation may represent a potential conflict of interest, KDI has implemented procedures relating to personal securities transactions that are designed to prevent actual conflicts of interest.

D. Recommend securities to private funds at the same time as buy/sell for your own account

Please see response to Item 11C above.

Item 12 Brokerage Practices

A. Factors in Selecting Brokers and their Compensation

KDI places all buy and sell orders with the primary objective of seeking to obtain the best combination of price and execution. KDI has a high standard of quality regarding execution services and has selected brokers to work with who can meet that standard.

In addition to the best price and execution, KDI also considers factors such as: transactions costs; the nature of the security being traded; the size and type of transaction; the desired timing of the trade; the quality of research; access to personnel and to company management; access to conferences; and responsiveness of the broker-dealers.

1. Research and Soft Dollars

In allocating brokerage, KDI will consider the receipt of research and brokerage services (“soft dollar benefits”) in a manner consistent with (i) the “safe harbor” provided by Section 28(e) of the Securities Exchange Act of 1934 (“Exchange Act”) and (ii) the objective of seeking to achieve best execution in connection with each transaction. KDI may direct brokerage transactions for the private funds to broker-dealers that provide KDI with soft dollar benefits. The brokerage commissions used to acquire soft dollar items are referred to as “soft dollars.”

Broker-dealers typically provide a bundle of services including research and execution of transactions to its customers. The research provided can be either proprietary (created and provided by the broker-dealer, including tangible research product as well as access to analyst and traders) or third-party (created by a third party but provided by broker-dealer). Broker-dealers generally do not charge separate fees for this research or other brokerage services. KDI may use soft dollars to acquire research brokerage services.

Research obtained with soft dollars may not be utilized by KDI for the specific fund that generated the soft dollars. Because KDI aggregates the private funds transactions, brokerage commissions are aggregated to brokers and therefore the research received from each broker may not be specifically tied to the fund which generated the soft dollars. KDI does not allocate the relative costs or benefits of research among the private funds because it believes that the research they receive benefits all of the private funds.

As stated above, Section 28(e) of the Exchange Act provides a “safe harbor” that allows advisers to pay for research and brokerage services with the commission dollars generated by transactions for the private funds. KDI evaluates whether the soft dollar benefit is in accordance with the safe harbor in meeting the investment objectives of the private funds. The ability to use soft dollars in exchange for research benefits KDI by giving KDI a supplement to its own research and analysis activities from research staffs of other securities firms and give them access to individuals with

expertise in specific companies, industries, and economic and market conditions. These research services are received primarily in the form of written reports, telephone contacts and one-on-one meetings with analysts. All of these benefits are used to aid KDI in making investment decisions. Receipt of soft dollar items benefit KDI in that KDI does not pay for the items with its own funds. A conflict of interest is created in that KDI has an incentive to select a broker-dealer based on receiving such soft dollar benefits rather than on the private funds interest in receiving the most favorable execution.

KDI uses soft dollars generated with its prime broker to pay for other research services including historical company financial data and real time price quotes, information regarding stock transactions and ownership levels of management of companies which KDI owns or is considering purchasing. KDI also uses soft dollars to pay for access to a large network of experts.

KDI selects broker-dealers based on their ability to provide best execution and soft dollar benefits that benefit the private funds. KDI can't place a specific dollar value on research services or other soft dollar benefits they receive from broker-dealers for executing transactions. Because of this, KDI may pay broker-dealers commissions for executing transactions for the private funds in excess of amounts other broker-dealers would have charged for executing similar transactions. This will be done only if KDI determines that these amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers.

KDI's CIO and COO evaluate the brokerage commissions paid for securities transactions based primarily on their professional opinions in collaboration with the opinions of the trader. Their opinions are formed using their experience in the securities industry and information in the market concerning the commissions being paid by other investors of the same size and type.

2. Brokerage for Client Referrals

There is a possibility that prime brokers or other executing brokers through their capital introduction groups with whom KDI directs trades could introduce potential investors to the private funds managed by KDI. As a result there would be the potential for conflicts of interest from KDI's relationship with such brokers. KDI would evaluate each such relationship and consider any conflicts of interest which may result from these relationships to ensure (i) KDI gets the best execution for client transactions and (ii) KDI will not favor any such brokers over other comparable brokers that do not introduce clients.

3. Directed Brokerage

The underlying investors of the private funds do not direct KDI as to which brokers to use. The discretion as to the brokers used is completely controlled by KDI.

B. Aggregation of Orders

KDI aggregates buy and sell orders of the private funds in an effort to receive best price and execution for the funds. The Adviser will generally follow the guidelines set forth below in aggregating client orders for securities, including the orders placed for private investment vehicles:

- no investment advisory client will be favored over any other investment advisory client;
- each client that participates in an aggregated order will participate at the average share price for all the Adviser's transactions in that security on a given business day and transaction costs will be shared pro rata based on each client's participation in the transaction;
- if the aggregated order is filled in its entirety, it will be allocated among clients in accordance with KDI's policies and procedures;
- if the aggregated order is partially filled, it will be allocated among clients pro rata;
- transactions involving a small number of shares will be allocated in any manner deemed appropriate by KDI under the circumstances.

Initial Public Offerings will be allocated according to the policy, to those clients who are able to participate in such offerings. In the event the Adviser is only allotted a small number of shares, value of which would be .1% of total assets under management or less, and the Adviser does not believe there will be an opportunity to purchase additional shares based on valuation, the Adviser may choose to allocate the shares in another manner for example, to the client with the largest cash/total assets ratio.

Notwithstanding the foregoing, an aggregated order may be allocated on a basis different from that specified in the allocation statement if the reason for the different allocation is explained in writing. Reasons for allocation on a basis different from that specified in the allocation statement may include; a client's investments guidelines and restrictions; available cash; liquidity requirements; pending withdrawals; legal regulatory reasons; or to avoid odd lots.

It is the policy of the Adviser that the utmost care is taken in making and implementing investment decisions of behalf of the private funds. However, on those occasions when an error does occur, the Adviser will reasonably determine how to correct the error. If the trade error results in a loss that is determined to be Material, the Adviser will reimburse the private fund for such loss. The Adviser defines Material as .025% of Net Assets. The Adviser will generally not reimburse losses deemed non Material.

Item 13 Review of Accounts

A. Frequency of Review

Each private fund is periodically reviewed by the CIO and COO. Changes in the portfolio may be triggered by things such as, discussions with company management, analysts or industry experts, changes in company fundamentals, general market/economic conditions, news and press releases and KDI's assessment of the impact of current events.

B. Factors Triggering Review

All of the factors listed in Item 13A above would lead to a review of the private funds.

C. Reports to Clients

KDI provides monthly statements to the underlying investors of the private funds. The statements include current Net Asset Value, current portfolio of the fund, return percentages and estimated tax information. The statements are prepared by KDI's fund administrator and sent by KDI to each of the underlying investors. KDI is available to meet with any client upon request. KDI also provides to the underlying investor a Form K-1 for tax purposes and a copy of the annual audited financials of the fund are sent within 120 days following year end.

Item 14 Client Referrals and Other Compensation

A. Person not a client provides economic benefit

KDI does not receive an economic benefit from anyone who provides investment advice or other advisory service to its clients.

B. Client Referrals

Neither KDI nor its affiliates compensate any person for client referrals.

Item 15 Custody

See the responses to Item 5 and Item 13C. Monthly statements are sent to the underlying investors of the private funds. The monthly statements are prepared by KDI's fund administrator and sent by KDI to each of the underlying investors. Annual audited financials are also sent to the underlying investors within 120 days following year end.

Item 16 Investment Discretion

KDI has discretionary authority to manage the private funds as laid out in the fund documents. The partnership agreement grants discretionary investment authority to KDI as the general partner.

Item 17 Proxy Voting

KDI has adopted proxy voting policies and procedures designed to prevent conflicts of interest from influencing proxy voting decisions it makes on behalf of the private funds. The policies and procedures are also in place to ensure that the decisions made are in accordance with KDI's fiduciary obligation to act in the best interest of the funds.

Generally, KDI will vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock. Other issues will be evaluated and a decision will be made depending on the impact to shareholder value. A copy of KDI's Proxy Voting Policy and Procedures as well as the voting records are available to any underlying investor upon request.

Item 18 Financial Information

Not applicable. KDI does not require prepayment of fees 6 months or more in advance. KDI has not been the subject of a bankruptcy petition at any time during the past 10 years.