

ITEM 1 – COVER PAGE



**KDP ASSET MANAGEMENT, INC.**

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Montpelier, VT 05602  
802-223-0440

[www.kdpam.com](http://www.kdpam.com)

PART 2A OF FORM ADV

MARCH 31, 2015

This brochure provides information about the qualifications and business practices of KDP Asset Management, Inc. If you have any questions about the contents of this brochure, please contact us at 802-229-2848 or [highyield@kdpam.com](mailto:highyield@kdpam.com). 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 KDP Asset Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

KDP Asset Management, Inc. is a Registered Investment Adviser. Registration with the Securities and Exchange Commission does not imply a certain level of skill or training.

**ITEM 2 – MATERIAL CHANGES**

This Form ADV Part 2A brochure is an update to our brochure dated December 10, 2014.

Our brochure may be requested by mail addressed to: Michael Bravin, Chief Compliance Officer, KDP Asset Management Inc. 24 Elm Street, Montpelier, Vermont 05602. Mr. Bravin may also be reached by phone 802-223-0440, or via email at [michael.bravin@kdpam.com](mailto:michael.bravin@kdpam.com). Our brochure is also available on our web site [www.kdpam.com](http://www.kdpam.com).

Additional information about KDP Asset Management, Inc. is available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site provides information about any persons affiliated with KDP Asset Management, Inc. who are registered, or are required to be registered, as investment adviser representatives of KDP Asset Management, Inc.



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## ITEM 4 – ADVISORY BUSINESS

### FIRM DESCRIPTION & OWNERSHIP

KDP Asset Management, Inc. is an investment adviser registered with the SEC specializing in the management of high yield bonds and leveraged loans with a strong focus on rigorous, bottom-up credit analysis. Investment advice provided is limited to fixed income mandates with an emphasis on high yield bonds and leveraged loans. The firm was established in June 1999 and is headquartered in Montpelier, Vermont. In 2003, a holding company, KDP, LLC, was created to further ensure alignment of interests between KDP Asset Management, Inc. and its research affiliate KDP Investment Advisors, Inc. KDP, LLC is a holding company owned 72% by Kingman Penniman, CEO. KDP, LLC owns 98.2% of KDP Asset Management, Inc. The remaining 1.8% is owned by outside investors. KDP, LLC also owns 100% of KDP Investment Advisors, the firm's high yield investment research business.

References in this brochure to "KDP" are intended to apply collectively to KDP Asset Management, Inc. and its research affiliate KDP Investment Advisors, Inc. KDP Asset Management provides investment management services to both institutional clients and high net worth individuals. KDP Investment Advisors, Inc. provides high yield research and related services to institutional clients. KDP Investment Advisors, Inc., through a Research and Database Service Agreement, provides KDP Asset Management, Inc. with access to: (i) the detailed industry knowledge possessed by its investment professionals; (ii) its significant proprietary database; and (iii) its analytical support capabilities. The service agreement between KDP Asset Management, Inc. and KDP Investment Advisors, Inc. is reviewed for possible conflicts of interest and firewalls are erected and supervised as necessary.

### TYPES OF ADVISORY SERVICES & CLIENT ASSETS

KDP Asset Management strategies focus primarily on US Dollar denominated high yield bonds and leveraged loans, but may also in certain circumstances and under client guidelines also own securities such as second lien loans, defaulted bonds, convertible bonds, convertible preferred securities, common stock or distressed credit securities. KDP's fundamental research serves as the basis for the management of our strategies.

KDP Asset Management, Inc. provides investment management services based on the individual needs and objectives of its clients. Clients may impose restrictions on investing in certain securities or types of securities. Some clients have elected to have socially responsible, environmental, religious, or other guidelines applied to their portfolios. In addition, KDP Asset Management, Inc. provides clients with the ability to set customized guidelines in terms of asset class weightings, sector weightings, and industry emphasis.

KDP does not currently participate in wrap fee programs.



As of February 28, 2015, KDP Asset Management, Inc. managed assets of \$443,672,476 on a discretionary basis. As of February 28, 2015, KDP Asset Management, Inc. managed assets of \$14,319,425 on a non-discretionary basis.

## ITEM 5 – FEES AND COMPENSATION

KDP Asset Management, Inc. is paid quarterly in arrears based on a percentage of assets under management according to the schedule below. KDP's fees are negotiable and may vary based on account type and client services required.

### **KDP DEFENSIVE HIGH YIELD STRATEGY**

75 bps	for the first	\$10,000,000
60 bps	for the next	\$25,000,000
50 bps	for the next	\$25,000,000
40 bps	thereafter	

### **KDP CREDIT STRATEGY**

80 bps	for the first	\$10,000,000
65 bps	for the next	\$25,000,000
55 bps	for the next	\$25,000,000
45 bps	thereafter	

### **KDP LOAN STRATEGY**

80 bps	for the first	\$10,000,000
65 bps	for the next	\$25,000,000
55 bps	for the next	\$25,000,000
45 bps	thereafter	

### **CORE LOAN FUNDING, LLC**

50 bps

Accounts with special investment guidelines or other circumstances or requirements may be charged differently based on the services rendered. Some existing clients may pay different fees that are not available to new clients.



## **FEE BILLING**

Separately managed accounts are billed on a quarterly basis in arrears for fees. Many clients use KDP's quarter end market value to determine fees, however, certain client's request the average market value of the three month ends within the quarter to be used. Most separately managed account fees are based on using KDP Investment Advisors, Inc. pricing of the individual issues, however, certain clients require KDP to base the fees on valuation provided by the custodian. KDP does not directly debit fees from separately managed client accounts.

Core Loan Funding LLC clients would be billed quarterly and the structure's trustee would authorize fee payment.

If any Separately Managed Account's contribution/withdrawal changes more than 10% in any quarter, the fee will be prorated. If any Separately Managed Account is not under management for a full quarter, the fee will be prorated.

KDP serves as a sub-advisor to other third-party managers. Fees received from these sub-advisory arrangements may differ from the general fee schedules.

## **OTHER FEES**

KDP Asset Management, Inc. does not have physical custody of any client assets. KDP fees are exclusive of transaction fees and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers-dealers, and other third parties. Such charges, including custodial fees and transaction charges are exclusive of and in addition to KDP Asset Management, Inc.'s fee. Please see Item 12 of this brochure for further information on brokerage selection.

## **FEES IN ADVANCE**

KDP Asset Management, Inc. does not accept payment of fees in advance.

## **ADDITIONAL COMPENSATION**

Neither KDP Asset Management Inc. nor any of its supervised persons accept compensation for the sale of securities or other investment products to its clients.

KDP Asset Management, Inc. may be deemed to be a fiduciary to certain advisory clients that are employee benefit plans or individual retirement accounts ("IRAs") pursuant to the Employee Retirement Income and Securities Act ("ERISA"). As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, KDP may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, unless such fees are waived.



**ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

KDP Asset Management, Inc. does not currently charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

**ITEM 7 – TYPES OF CLIENTS**

KDP Asset Management, Inc. manages separately managed accounts for institutional clients such as insurance companies, endowments, foundations, public plans, pension, profit-sharing plans and high net worth individuals. KDP Asset Management, Inc. may agree at its sole discretion to manage separate accounts below our stated minimum account size.

**KDP DEFENSIVE HIGH YIELD STRATEGY**

Separately Managed Accounts	\$3,000,000
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**KDP CREDIT STRATEGY**

Separately Managed Accounts:	\$10,000,000
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**KDP LOAN STRATEGY**

Separately Managed Accounts:	\$10,000,000
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**CORE LOAN FUNDING LLC**

	\$1,000,000
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## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### **INVESTING IN HIGH YIELD SECURITIES INVOLVES RISK OF LOSS THAT CLIENTS SHOULD BE PREPARED TO BEAR.**

KDP offers several key advantages to its clients:

- The breadth and depth of its investment team
- KDP's research and KDP Default Risk and Loan Rankings
- The functional capacity, flexibility and client transparency of its management platform and operations

KDP believes that the key to delivering superior risk adjusted returns lies in controlling credit risk. To do this we combine rigorous bottom up credit analysis with a conservative top down management approach that helps ensure a strong overall credit profile and broad portfolio diversification.

KDP employs a value-oriented, long-term approach to investing that leverages our strong fundamental research capabilities. We seek to take advantage of market inefficiencies and anomalies on an opportunistic basis in order to capture excess credit spread. We place a strong emphasis on issuer, industry and sector diversification. We generally focus on larger and better quality credits in the high yield and leveraged loan universe, as they are often more resilient in times of difficulty and their securities tend to be more liquid and less volatile. Our investment objective is to provide a high level of current income with a strong emphasis on principal preservation through avoiding defaults and maximize portfolio return for amount of risk.

Portfolios are actively managed and trading for the most part focuses on taking aggressive action to eliminate weakening credits and on selectively realizing investment gains. Our conservative approach is reinforced by a sell discipline which creates a strong sell bias on any position that has declined more than 10% from purchase under normal market conditions. While specific strategies may differ slightly, our basic investment philosophy remains the same for all products and styles.



## METHODS OF ANALYSIS

KDP Asset Management derives input from a myriad of sources in its decision making process including our investment team's extensive high yield contacts developed over the past decades which provide us with both sell side research as well as market and specific security color. Our portfolio managers are also constantly assessing issuer and sector conditions through exhaustive exposure to industry and credit specific readings in search of relative value and appropriate weightings. In short, while we rely in great part on our seasoned in-house analyst team, we are quite cognizant of external information sources. Ultimately, the Portfolio Managers determine if they are interested in pursuing a specific security and at that point the credit is placed on an active consideration list.

KDP's Portfolio Managers seek the most attractive risk/reward investments. They have full discretion to purchase securities that have been placed on an Approved List by the Investment Management Committee, provided that the securities meet appropriate criteria for a specific client's portfolio.

The cornerstone of our investment process is our proprietary research based on KDP Default Risk Rankings (DRR) and KDP Loan Recovery Rankings. Analysts prepare initial new issue reports, quarterly earnings comments and as-needed updates for all companies followed including a detailed company analysis, a fully integrated financial model including 3 years of projections which form the basis of our KDP Default Risk and KDP Loan Recovery Rankings.



## KDP DEFAULT RISK RANKING

Our unique forward-looking DRRs are part of KDP's bottom-up, research intensive approach and assess a company's probability of default over 2 and 5-year time horizons and are critical to our investment selection and portfolio construction process. Analysts are required to maintain Default Risk Rankings for all companies that are held within KDP's portfolios.

KDP Quality Segments	
High Quality	1+/1+ to 1/3
Above Average	1/4 to 2/4
Average Quality	2/5 to 3/5
Below Average	3/6 to 4/6
Speculative	5/6 to 7/7
Default	-In Default-

Rating Agency Equivalents			
KDP 2 Yr	KDP 5 Yr	Moody's	S&P
1+	1+	Baa2	BBB
1	1	Baa3	BBB-
1	2	Ba1	BB+
1	3	Ba2	BB
1	4	Ba3	BB-
2	3	Ba3	BB-
2	4	B1	B+
2	5	B2	B
3	4	B2	B
3	5	B3	B-
3	6	Caa1	CCC+
4	5	Caa1	CCC+
4	6	Caa2	CCC
5	6	Caa3	CCC-
6	6	Ca	CC
6	7	Ca	CC
7	7	C	C
- In Default -		C	D

## KDP LEVERAGED LOAN RECOVERY RANKING

KDP's coverage of leveraged loans entails providing bank loan information, including a summary of terms and conditions, collateral, covenants and current loan pricing in the secondary market along with fixed rate equivalent yields and spreads. The primary focus is on institutional Term Loan B's with coverage of second lien loans, revolvers and other term loan tranches as deemed appropriate. KDP Loan Recovery Ranking (RR) is applied at the issue level and is independent of our KDP Default Risk Ranking (DRR).

Generally, Recovery Ranking focuses on risk of loss and is based primarily on our assessment of asset coverage taking into consideration collateral and covenants. Each loan is assigned a letter ranking (A-E) with recovery defined as the undiscounted amount of principal and interest expected to be received in the event of a default and assuming a workout or bankruptcy scenario over a specific period of time (usually 12-24 months). Covenants are important in determining likelihood and timing of default. Strength of collateral is also important in that a strong credit with a weaker collateral package might have a similar Recovery Ranking versus a weaker credit with an all assets security package. Typically, most loans fall in the A, B or C categories. Expected recovery falls into one of the following five categories.



Rating Category	Expected Recovery	Description
A	100%	Excellent
B	75% < 100%	Solid
C	50% < 75%	Average
D	25% < 50%	Inferior
E	0% < 25%	Weak

## INVESTMENT STRATEGIES

### KDP DEFENSIVE HIGH YIELD

KDP's Defensive High Yield strategy over the past 12 years has sought to provide a high level of current income, with a strong emphasis on principal preservation, by investing in better-quality US Dollar denominated high yield bonds and employing an investment approach focusing on fundamental analysis and active risk management. This strategy seeks to invest in companies, sectors and levels of the corporate debt structure where our analysts and investment managers see relative value and that the portfolio is being compensated sufficiently for the level of risk undertaken. All of these decisions are driven by KDP's Default Risk Ranking methodology.

#### ☐ PORTFOLIO STRATEGY AND CHARACTERISTICS:

- Provide a high level of current income with strong emphasis on principal preservation by investing in better-quality high yield bonds and employing an investment approach focusing on fundamental analysis and active portfolio and risk management
- Available as a separately managed account.

#### ☐ INVESTMENT OBJECTIVES:

- To provide a high level of current income with a strong emphasis on principal preservation
- To produce superior long-term performance with low volatility
- Benchmarks: BofA Merrill Lynch HY BB-B Cash Pay Constrained Index and BofA Merrill Lynch HY BB-B Non-Distressed Index

#### ☐ INVESTMENT GUIDELINES:

- Bottom-up, value-driven investment selection process
- Focus on better quality segment of the high yield market: target rating of BB-/B+
- Minimum KDP DRR of 3/5 (B3/B- Rating Agency Equivalent) for all purchases
- Focus on larger companies – Typically  $\geq$  \$50MM Cash Flow (EBITDA)



- Conservative portfolio management style: Strong emphasis on diversification with issuers typically <1%, industries typically <10%

## KDP CREDIT STRATEGY

The Strategy's objective is to obtain attractive annual returns over the long term through a blend of income and capital appreciation by allocating between US Dollar denominated defensive high yield bonds, senior/secured floating rate loans and opportunistic/distressed credits across all industry sectors. KDP believes that this strategy allows for the flexibility to move into what it assesses to be the optimum asset allocation depending on the prevailing environment.

The KDP Credit Strategy actively allocates across three asset groups:

- ❑ **DEFENSIVE HIGH YIELD BONDS (0-100% ALLOCATION)**
- ❑ **SENIOR SECURED LOANS (0-100% ALLOCATION)**
  - Typically same credit quality and diversification requirements as Defensive High Yield Bonds, however, the strategy may purchase Bank Loans with DRRs of lower than 3/5 provided they have a KDP Leveraged Loan Recover Ranking (RR) of A (100% Expected Recovery)
- ❑ **OPPORTUNISTIC CREDIT SECURITIES (0-25% ALLOCATIONS)**
  - Comprised of securities such as second lien loans, defaulted bonds, convertible bonds, convertible preferred securities, or distressed
  - Benchmarks: BofA Merrill Lynch High Yield BB/B Non-Distressed and Credit Suisse Institutional Leveraged Loan Index and the J.P. Morgan BB/B Leveraged Loan Index.

## KDP LOAN STRATEGY

The KDP Loan Strategy seeks to actively manage senior secured, floating rate loans applying the credit discipline of KDP's 18 industry and market analysts and relying on the experience of our seasoned portfolio management team.



☐ **INVESTMENT OBJECTIVES:**

- Provide a high level of current income with emphasis on principal preservation investing in better-quality high yield loans
- Employ an investment approach focusing on fundamental analysis and active portfolio and risk management
- To produce superior long-term performance with low volatility
- Benchmark: Credit Suisse Institutional Leveraged Loan Index and the J.P. Morgan BB/B Leveraged Loan Index

☐ **INVESTMENT GUIDELINES**

- Bottom-up, value-driven investment selection process
- Focus on better quality segment of the high yield loan market: target rating of Ba3/BB-
- Strategy may purchase Leveraged Loans with KDP Default Risk Ranks of lower than 3/5 (B3/B-) provided they have a KDP Leveraged Loan Recovery Ranking of A (100% Expected Recovery)
- Focus on larger companies – Typically > \$100MM Cash Flow (EBITDA)
- Conservative portfolio management style - emphasis on diversification with issuers <5%, industries typically <15%

## CORE LOAN FUNDING

Core Loan Funding is an open-ended fund that expects to purchase a diversified portfolio consisting primarily of senior secured corporate loans of U.S. corporations. Core Loan Funding provides equity investors with an opportunity to utilize term leverage and thereby potentially enhance returns provided through KDP's defensive and fundamentally driven management of loans.

The term financing facility is structured on the basis of fundamental credit performance of assets and not market technicals. Equity investors may benefit from a three year reinvestment period over the five year term of the facility. The portfolio is expected to be purchased by KDP in the open market after the closing date of Core Loan Funding, (no legacy or inventory items) The targeted asset pool is consistent with the credit defensive, targeted low volatility strategy that KDP has utilized in its management strategies for clients.

### Eligible Assets:

The Pool shall consist of secured first lien syndicated term loans approved by the Senior Note Provider and which shall be subject to the following limitations:

- Individual obligor concentrations no greater than \$4 million, provided that up to



10 obligors may be up to \$5 million each

- Eligible Assets may not be rated lower than B- by S&P or lower than B3 by Moody's at the time of inclusion in the collateral portfolio
- Eligible Assets must be actively quoted by at least three approved broker-dealers selected by the Senior Note Provider

## RISK OF LOSS

KDP Asset Management, Inc. invests in below investment grade securities (sometimes referred to as 'junk bonds') and leveraged loans. These securities would be classified as highly illiquid. No person should invest who cannot afford to hold the investment for a substantial period of time or who cannot afford the loss of the entire investment.

High yield companies are prone to be more negatively affected by economic downturns and adverse market conditions due to their high leverage. Thus, credit risk tends to increase during economic recessions, which usually results in wider credit spreads and price depreciation.

The risk that an issuer of a security will fail to pay interest and or principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of the security to decline. Fixed income securities rated below investment grade are especially susceptible to credit risk.

Fixed income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed income securities generally declines. On the other hand, if interest rates fall, the value of the fixed income securities generally increases.

Certain fixed income securities pay interest at floating or variable rates. Variable rate securities, reset at specified intervals, while floating rate securities, such as senior secured loans, reset whenever there is a change in a specified index rate or as market conditions and/or issuer conditions warrant. The market prices of these securities may fluctuate significantly when interest rates change.

There is the risk that future cash flows from existing investments may have to be reinvested at lower rates of return than the rates originally achieved. The risk is amplified in the case of securities which have embedded optionality which may cause prepayments to accelerate as rates decline.

There is a risk that issuers and counterparties will not make payment on the securities they issue. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security which may affect liquidity and our ability to sell the security.

In some circumstances, the markets for fixed income securities can become "illiquid". In other words, the spread between the "bid" (level where a market participant would buy) and the "ask"



(level at which one would sell) becomes very wide. In these instances, it may become difficult or even impossible to transact in the affected securities. Certain fixed income securities may be substantially less liquid compared to other securities.

The frequency at which prepayments (including voluntary prepayments and accelerations due to defaults) occur on the investments will be affected by a variety of factors, including the prevailing level of spreads as well as economic, demographic, geographic, tax, social, legal and other factors.

The performance of the portfolios managed could be impaired by the concentration of investments in any one obligor or to obligors in a particular industry or geographic location in the event that such obligor, industry or geographic locations were to experience adverse business conditions or other adverse events. Examples of developments that might cause adverse outcomes on a sector's valuations include legislative actions, regulatory changes, tax or accounting changes and technical conditions specific to that market segment. These conditions that negatively impact an industry or market sector will have a greater impact as compared to an account that does not have its holdings similarly concentrated. In addition, defaults may be highly correlated with particular obligors, industries or geographic locations. If investments involving a particular obligor, industry or geographic location represent more than a small proportion of the investments, and that obligor, industry or geographic location were to experience difficulties that would affect payments on such investments, the overall timing and amount of collections on the investments may differ from what the Portfolio Manager may have expected, and portfolios may be adversely affected.

The success of KDP Asset Management, Inc. will be dependent upon the investment decisions made by the Portfolio Managers and its key employees. Certain key individuals at KDP have been material to its business. A loss of any one or more of such persons could be material to KDP Asset Management, Inc. and its clients.

Within the past several years, world financial markets have experienced extraordinary market conditions. In reaction to these events, regulators in the United States and several other countries have undertaken and continue to undertake unprecedented regulatory action to stabilize U.S. and global financial markets. It is uncertain whether regulatory actions will be able to prevent losses and volatility in securities markets, or stimulate the credit markets. Additionally, there may be significant new regulations that could limit investment opportunities or change the functioning of the capital markets, and there is the possibility of a severe worldwide economic downturn.

**Use of Leverage.** Due to the existence of term-financing in Core Loan Funding, LLC., changes in the market value of the securities could be greater than the changes in the value of the underlying Portfolio, which itself is subject to, among other things, credit and liquidity risk. Purchasers of the securities must consider with particular care the risks of leverage. Although the use of leverage creates opportunity for substantial returns, it substantially increases the likelihood that the holders of securities could lose their entire investment if the Issuer is





adversely affected by the removal of certain assets upon the occurrence of credit events or otherwise.

**Secured Bank Loan Risk.** The risks associated with floating rate loans are similar to the risks of below investment grade securities. In addition, the value of the collateral securing the loan may decline, causing a loan to be substantially unsecured. The sale and purchase of a bank loan are subject to the requirements of the underlying credit agreement governing such bank loan. These requirements may limit the eligible pool of potential bank loan holders by placing conditions or restrictions on sales and purchases of bank loans.

Strategies investing in bank debt are subject to certain risks in addition to those present in high yield bond portfolios. Clients are bound by contractual obligations established under the bank debt's loan documentation and the transfer agreements executed when purchasing and selling bank debt. Bank loans are not traded on an exchange and purchasers and sellers of bank loans rely on market makers, usually the administrative agent for a particular bank loan, to trade bank loans. These factors, in addition to overall market volatility, may negatively impact the liquidity of loans. Difficulty in selling a floating rate loan may result in a loss. Purchases and sale transactions for this asset class involved heightened risk of extended and delayed settlement times which can result in increased counterparty and liquidity risk. Bank debt is not registered or regulated under federal securities laws.

Borrowers may pay back principal before the scheduled due date when interest rates decline, which may require the loan strategy to replace a particular loan with a lower-yielding security. In rare instances, the client may assume the credit risk of the administrative agent in addition to that of the borrower, and investments in loan assignments may involve the risks of being a lender.

## **ITEM 9 – DISCIPLINARY INFORMATION**

Investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to evaluation of KDP Asset Management, Inc. or the integrity of its management team. KDP Asset Management, Inc. has not been the subject of any complaints or been involved in any disciplinary proceedings since its inception in 1999.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

In 2003, a holding company, KDP, LLC, was created to further ensure alignment of interests between KDP Asset Management, Inc. and its research affiliate KDP Investment Advisors, Inc. KDP, LLC owns 98.2% of KDP Asset Management, Inc. The remaining 1.8% is owned by outside investors. KDP, LLC also owns 100% of KDP Investment Advisors, the firm's high yield investment research business. KDP, LLC is a holding company owned 72% by Kingman Penniman, CEO. KDP Investment Advisors, Inc., through a Research and Database Service Agreement, provides KDP Asset Management, Inc. with access to: (i) the detailed industry



knowledge possessed by its investment professionals; (ii) its significant proprietary database; and (iii) its analytical support capabilities

KDP Asset Management, Inc. has a sub-advisory arrangement with General Re-New England Asset Management, Inc. (GR-NEAM), a registered investment advisor with the Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940. Under this sub-advisory arrangement KDP offers the management of (1) high yield bonds; (2) senior secured loans, as well as (3) a credit strategy, in which KDP actively allocates between the high yield bond strategy and senior secured loan strategy. The choice between the strategies will depend upon client preferences, asset size, and concentration limitations.

KDP Asset Management, Inc. will serve as the Portfolio Manager of the actively marketed Core Loan Funding, LLC, by virtue of a contractual agreement with Core Funding, LLC's placement agent, Sandler O'Neill & Partners L.P.

#### **ITEM 11 – CODE OF ETHICS AND PERSONAL TRADING**

KDP Asset Management, Inc. has a fiduciary responsibility to treat clients fairly and avoid actual or potential conflicts of interest. The employees of KDP Asset Management, Inc. have an obligation to act solely in the best interests of clients, and to make full and fair disclosure of all material facts, particularly where the clients' interests may conflict with the interests of the firm or its employees. Information concerning the trading activities, identity of securities and financial circumstances of KDP Asset Management, Inc.'s clients must be kept confidential.

KDP Asset Management, Inc. or KDP Investment Advisors Inc. may recommend that clients buy and sell securities that KDP Asset Management, Inc. has some interest in. This creates a potential conflict of interest between and among the manager, its employees, and its clients. To address this potential conflict, KDP Asset Management, Inc. and KDP Investment Advisors, Inc. each adopted a Code of Ethical Conduct pursuant to SEC Rule 204A-1, which is reviewed and updated annually as necessary. All persons to whom the Code of Ethical Conduct is applicable must avoid investment activities and practices which may work to the detriment of the firm or which would impair, or appear to impair, their ability to act for our clients in an objective and unbiased manner. No company's securities may be purchased or sold by an employee without prior approval in writing from a member of the Compliance Committee. These transactions are subject to KDP Asset Management, Inc.'s Policies and Procedures regarding personal securities trading, as well as to the requirements of the Investment Advisers Act. The Chief Compliance Officer periodically monitors reported personal securities trading activities. This includes a quarterly review of the reported trading activities of all employees, compared to the pre-approval records.

Employees may not undertake business activities outside of the Firm that may cause, or appear to cause, any conflict of interest. All employees are subject to pre-approval of all political contributions. The practice of accepting gifts or gratuities is not only unnecessary and undesirable but also contrary to the clients' interest. Therefore, employees are prohibited from



accepting other than token gifts valued at less than \$100 per year from firms, organizations, vendors, their employees, agents or other individuals who may do or conduct business with the firm or furnish materials, goods and services to the firm.

In the course of providing its services, KDP Asset Management, Inc. and KDP Investment Advisors, Inc. may come into possession of material, non-public information which, if disclosed, might affect an investor's decision to buy, sell, or hold a security. Under applicable law, KDP Asset Management, Inc. and KDP Investment Advisors, Inc. are prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, including KDP's clients.

KDP Asset Management, Inc. and KDP Investment Advisors, Inc. maintain an Insider Trading Policy that is designed to identify and prevent the misuse of material, non-public information. There may be certain instances in which employees receive material nonpublic information due to investment activities and, consequently, this may restrict KDP Asset Management, Inc. with respect to that investment. KDP Asset Management, Inc. and KDP Investment Advisors, Inc. when required, institutes trading and communication prohibitions, including, but not limited to: restricted lists, trading walls or firm-wide restrictions.

KDP Asset Management, Inc. maintains a Privacy Policy which is intended to describe KDP Asset Management, Inc. policies, educate employees about KDP Asset Management, Inc. policies, establish procedures, monitor and ensure, to the extent feasible, that KDP Asset Management, Inc. satisfies its obligations in this area. KDP Asset Management, Inc. will have access to client nonpublic personal information. We do not disclose any nonpublic personal information about current or former clients without their authorization, except as permitted by law or in response to governmental inquiries. We restrict access to client nonpublic personal information to those agents who need to know that information in order to provide services to clients. KDP also may disclose nonpublic personal information to third parties (such as brokers, custodians, administrators, or back-office service providers) only as permitted by law and on an as needed basis. KDP maintain safeguards to protect nonpublic personal information. If, at any time in the future, it becomes necessary to disclose nonpublic personal information in a way that is inconsistent with this policy, KDP Asset Management, Inc. shall provide advance notice of the proposed change in order for the opportunity to opt out of such disclosure.

KDP Asset Management, Inc. and KDP Investment Advisors, Inc. adopted a Whistleblower policy to comply with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act. A supervised person when reporting a concern or making a complaint is to report such action to the Chief Compliance Officer or to KDPAM's other senior management in the event the concern pertains to the Chief Compliance Officer.

All KDP Asset Management, Inc. and KDP Investment Advisors, Inc. employees must accept in writing at time of hire, annually and when revised the terms of the Code of Ethical Conduct Policy, Insider Trading Policy, the CFA Institute's Asset Manager Code of Professional Conduct and Code of Ethics and Standards of Professional Conduct.



KDP considers all employees to be "Access Persons" and thus all employees at KDP Asset Management, Inc. and KDP Investment Advisors, Inc. are held to the same strict standards.

A copy of each these policies are available to any client or prospective client upon request by mail; Michael Bravin, Chief Compliance Officer, KDP Asset Management Inc. 24 Elm Street, Montpelier, Vermont 05602; by phone 802-223-0440; or email at michael.bravin@kdpam.com.

## **ITEM 12 – BROKERAGE PRACTICES**

### **BROKERAGE DISCRETION AND BEST EXECUTION**

Generally and unless otherwise directed by a client, KDP Asset Management, Inc. has full authority and discretion to engage any broker-dealer that is on KDP's list of "approved broker-dealers" and negotiate commissions and to execute investment decisions and transactions for its clients. KDP's overriding objective in broker-dealer selection is to be consistent with our fiduciary duty of best execution of orders for our clients. Generally, fixed income transactions do not have stated commissions and such transactions are typically effected on a "net" basis which may reflect a markup or markdown.

In selecting broker-dealers, KDP Asset Management, Inc. seeks those broker-dealers that it reasonably believes can provide best execution of transactions under the circumstances. KDP may consider a number of factors, including but not limited to: the nature of the security being traded; the size and type of the transaction; the nature and character of the markets for the security to be purchased or sold; the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality, including trade anonymity; the quality of the execution, clearance and settlement services; financial stability of the broker-dealer, and the broker-dealer's execution capabilities, including block positioning, access to public offerings, and ability to obtain best price and execution. Portfolio managers execute all trades with internally approved broker-dealers. KDP has controls in place for monitoring execution in our clients' portfolios including periodically reviewing trades for best execution and maintaining an approved broker-dealer list. Although KDP Asset Management, Inc. generally seeks competitive commission rates and dealer spreads, it will not necessarily pay the lowest commission or commission equivalent. In any transaction for its clients, KDP Asset Management, Inc. uses reasonable diligence to ascertain the best market for the security and buy or sell in such market so that the resultant price to the client is as favorable as possible under prevailing market conditions.



## USE OF RESEARCH AND OTHER SOFT DOLLAR BENEFITS

Subject to the criteria of Section 28(e) of the Securities Exchange Act of 1934, KDP may pay a brokerage commission in excess of that which another broker might have charged in recognition of the value of the brokerage and research services provided. Research services include advice as to the value of securities; the advisability of investing in, purchasing or selling securities; the availability of securities or purchasers or sellers of securities; furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and performance of accounts; and effecting securities transactions and performing functions incidental thereto (such as clearance and settlement). Research obtained in this manner based on the safe harbor requirements of Section 28(e) may be used by KDP in servicing any or all of its clients. Clients may benefit from research obtained through the commissions paid by any of KDP's client accounts.

KDP may also from time to time participate in certain "soft dollar" arrangements with broker-dealers to obtain third-party research and market data services. The company participates in such arrangements only under the safe harbor provision of Section 28(e). Services obtained by KDP may include, but are not limited to Bloomberg Terminals (research, market information and corporate data), and Advent Software (trading and portfolio accounting software).

KDP does receive unsolicited research from the broker dealers it trades with during the normal course of business. KDP Asset Management, Inc. makes a good faith determination that the amount of commission paid is reasonable in relation to the value of the brokerage and research service provided by the broker-dealer. Receipt of research or brokerage services from brokers who execute trades involve conflicts of interest with our best execution efforts, given an incentive to transact with those brokers from whom we may obtain such research and services. Such transactions are carefully considered and reviewed by the Investment Management Committee and KDP Compliance Committee to ensure conformity with the safe harbor provisions of Section 28(e).

## TRADE AGGREGATION

KDP will aggregate trades where possible and advantageous to clients. Clients will share transaction costs equally on a pro-rated basis. If purchases of securities are considered at the same time for two or more clients, the transactions in such securities will be allocated among the clients in a manner deemed to be fair and equitable by KDP Asset Management, Inc. KDP's trade aggregation allocation policies are designed, in part, to prevent conflicts of interest that may arise. These policies take into account factors including but not limited to, the assets of such accounts, the respective size of such accounts, the amount of securities proposed to be purchased or sold in the accounts, diversification within the respective accounts, the investment objectives of the accounts (including portfolio duration targets, sector allocation and structure relevant to client benchmark). Each client that participates in a block trade will receive the average security price and pro-rata portion of the trade transaction cost. Compliance will



continually monitor allocations among all accounts to ensure that all trade allocation policies are consistently enforced.

### **CROSS TRADES**

KDP Asset Management Inc.'s policy and procedure is to not engage in any agency cross transactions. KDP may effect cross transactions between client accounts in which one client will purchase securities held by another client. Such transactions will only be entered into when in compliance with the Investment Company Act, Advisers Act and any other applicable law (Employee Retirement Income Security Act of 1974, as amended for ERISA accounts), as well as when KDP Asset Management, Inc. deems the transaction to be in the best interests of both clients and at a price KDP Asset Management, Inc. has determined by reference to independent market indicators and which KDP Asset Management, Inc. believes to constitute "best execution" for both parties and will be executed through a broker-dealer. Neither KDP Asset Management, Inc. nor any related party would receive any compensation in connection with any such "cross" transactions. All cross trades are reviewed and approved prior to execution by a member of the Compliance Committee.

### **TRADE ERRORS**

As a fiduciary, KDP Asset Management, Inc. has the responsibility to effect orders correctly, promptly and in the best interests of our clients. In the event any error occurs in the handling of any client transactions, due to KDP Asset Management, Inc.'s actions, or inaction, or actions of others, KDP Asset Management, Inc.'s policy is to seek to identify and correct any errors as promptly as possible without disadvantaging the client or benefiting KDP Asset Management, Inc. in any way. If the error is the responsibility of KDP Asset Management, Inc., any client transaction will be corrected and KDP Asset Management, Inc. will be responsible for any client loss resulting from an inaccurate or erroneous order. KDP Asset Management, Inc.'s policy and practice is to monitor and reconcile all trading activity, identify and resolve any trade errors promptly, document each trade error with appropriate supervisory approval and maintain a trade error file.

### **ITEM 13 – REVIEW OF ACCOUNTS**

KDP's Risk Management Committee monitors all portfolio activity on a daily, post-trade basis via a proprietary web portal to ensure compliance with client-specified investment criteria and constraints. The Committee monitors portfolio compliance, pricing, performance, credit risk, and other risk factors daily. Any violations or discrepancies triggered by the automated report are sent to the Investment Committee for review and immediate appropriate action. In addition, the Investment Committee and Risk Management Committee receive an automated daily electronic report that provides information as to compliance with all individual client mandates.

All transactions are reviewed and approved by the Chief Executive Officer of KDP Asset Management, Inc. on a daily basis. The reviews focus on consistency of portfolio investments





with firm policy and asset allocations. The Portfolio Managers review client accounts on an ongoing basis to monitor performance and for consistency with client guidelines, objectives and restrictions. Account performance is computed monthly and is reviewed by the Investment Management Committee.

The Portfolio Managers also meet daily with KDPIA Industry and Market Analysts. Price movements, news stories and any earnings releases as well as industry and issuer positions are discussed encompassing all securities held in a client's portfolio to include potential transactions. Monthly performance is reviewed for all clients. All portfolios are reviewed by senior investment professionals who include Kingman Penniman, Chief Investment Officer, Kathy News, Senior Portfolio Manager, and Justin Monteith, Portfolio Manager. One or more members of the portfolio team correspond directly with the client. All accounts are reviewed with the client as directed by the client.

Clients may receive monthly reports that include performance analysis, portfolio holdings and transactions. Through our client portfolio portal, all clients have the opportunity to monitor and apply a broad range of analytics to their portfolios in an ongoing manner on a 24/7 basis.

#### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

KDP Asset Management, Inc. does not pay referral fees to a third-party.

From time to time KDP Asset Management, Inc. may enter into agreements, which comply with Rule 206(4)-3 and other requirements of the Advisers Act, that provide for the payment of cash compensation to solicitors who secure clients for KDP Asset Management, Inc. Fee arrangements are generally based on a retainer and/or percentage of the management fee associated with any new business secured by the solicitor.

KDP Asset Management, Inc. has also instituted an incentive compensation plan for all employees. Employees will receive a cash reward for each Qualified Prospect that becomes a client of KDP Asset Management, Inc.

#### **ITEM 15 – CUSTODY**

KDP Asset Management, Inc. does not have physical custody of client's funds or assets. Separately managed accounts are custodied with the custodian of the clients' choosing. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. KDP Asset Management, Inc. urges clients to carefully review such statements and compare such official custodial records to the account statements that we may provide to clients. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.



**ITEM 16 – INVESTMENT DISCRETION**

KDP Asset Management, Inc. accepts discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, KDP Asset Management, Inc. observes the investment policies, limitations and restrictions of the clients for which it advises. Clients may restrict KDP from purchasing securities in certain industries, a specified issuer or may impose certain social restrictions. Investment guidelines and restrictions must be provided to KDP Asset Management, Inc. in writing.

**ITEM 17 – VOTING CLIENT SECURITIES**

Because KDP Asset Management, Inc. manages fixed income securities, proxy voting is generally not required or requested under a fixed income class. However, clients may obtain a copy of KDP Asset Management, Inc.'s complete proxy voting policies and procedures upon request. Clients may also obtain information from KDP Asset Management, Inc. about how KDP Asset Management, Inc. voted any proxies on behalf of their account(s).

**ITEM 18 – FINANCIAL INFORMATION**

In certain circumstances, Registered Investment Advisers are required in this item to provide clients with certain financial information or disclosures about KDP Asset Management Inc.'s financial condition. KDP Asset Management, Inc. has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

