



**KDP ASSET MANAGEMENT, INC.**

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802-223-0440

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

PART 2A OF FORM ADV

For MARCH 31, 2018

Submitted April 10, 2018

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 802-223-0440 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 March 30, 2017. While there were changes and clarifications throughout this Brochure, there have been no material changes since our last update.

Although this does not reflect a material change to our Brochure, KDP would like to note that since the last update that Dennis Dowden, CFA has been appointed a Portfolio Manager with responsibility for both high yield bonds and leveraged loans.

Although this does not reflect as a material change to the Brochure, KDP would like to note that since the last update, Kingman D. Penniman has been appointed as Interim Chief Compliance Officer and CJ Flynn as Compliance Officer.

This Brochure may be requested by mail addressed to: CJ Flynn, Compliance Officer, KDP Asset Management, Inc. 24 Elm Street, Montpelier, Vermont 05602. Mr. Flynn may also be reached by phone 802-262-1375 or via email at [CJ.Flynn@kdpam.com](mailto:CJ.Flynn@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 registered as an investment adviser with the Securities and Exchange Commission ("SEC") specializing in the management of high yield bonds and leveraged loans. Investment advice provided is limited to fixed income mandates with an emphasis on high yield bonds and leveraged loans. The firm was established in 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 Inc., the firm's high yield investment research business.

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

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 Investment Advisors, Inc. provides high yield and leveraged loan research 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 SERVICES OFFERED

The primary focus of KDP Asset Management, Inc. is on US Dollar denominated high yield bonds and leveraged loans, but may, 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 Asset Management, Inc. may invest in a broad array of securities and reserves the right to pursue other investment 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, types of securities, credit ratings, industry sectors, or other restrictions. 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, industry emphasis, credit ratings, and other restrictions. There can be no assurances that investments or trading activities will be profitable.

KDP Asset Management, Inc. does not currently participate in wrap fee programs.

KDP also seeks to provide bank clients with a comprehensive suite of possible loan services via its KDP Bank Loan Services including analytical & regulatory loan support, existing loan portfolio surveillance, pricing, loan administration, and trade facilitation.

As of February 28, 2018, KDP Asset Management, Inc. managed assets of \$417,665,963 on a discretionary basis. As of February 28, 2018, KDP Asset Management, Inc. managed assets of \$ 22,271,071 on a non-discretionary basis.

## ITEM 5 – FEES AND COMPENSATION

Fees charged by KDP Asset Management are specified within an IMA, signed with each client. KDP Asset Management, Inc. charges most of its clients a fixed percentage fee, which 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. Accounts with special investment guidelines or other circumstances and requirements also may be charged differently based on the services rendered. Some existing clients may pay different fees that are not available to new clients.

### 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 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	



**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	

**Individualized KDP Bank Loan Services**

Fees dependent on number and size of loan holdings.

50 bps of the amount of the transactions.

**FEE BILLING**

KDP Asset Management, Inc. charges different fee schedules for different accounts. Certain investment advisory clients are charged a flat fee but the majority are charged a fee based on the value of assets in the account (s).

Most separately managed accounts are billed on a quarterly basis in arrears for fees based on the total market value on the last day of the quarter. Unless otherwise directed, total market value includes net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest of the assets in the client account on the last day of the quarter. Some clients use KDP Asset Management, Inc.'s quarter end market value to determine fees, however, certain clients' request the average market value of the three month ends within the quarter to be used. In some cases, KDP Asset Management, Inc. is responsible for calculating managed account fees using KDP Investment Advisors, Inc. pricing of individual issues. Under the pricing policy, bonds and loans are generally priced at the "mid" between the bid and ask prices. A potential conflict of interest may arise in those circumstances where KDP Investment Advisor's (our affiliate) prices are used because KDP Asset Management, Inc. receives an asset-based advisory fee based on our determination of the value of the assets we managed. In these circumstances, the assets are priced in good faith in accordance with the internal pricing policy.

KDP Asset Management, Inc. does not deduct fees from client assets.

If any Separately Managed Account's contribution/withdrawal accounts for more than 10% of the market value 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.

Bank Loan Services fee invoices are sent at the closing of each transaction



KDP Asset Management, Inc. may serve as a sub-advisor to other third-party managers. Fees received from these subadvisory arrangements may differ from the general fee schedules.

## **OTHER FEES**

KDP Asset Management, Inc. does not have physical custody of any client assets. KDP Asset Management, Inc. 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 asset management 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 Asset Management, Inc. 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 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 foundations, public plans, corporate pensions, insurance companies, endowments, and high net worth individuals. KDP Asset Management, Inc. may agree, at its sole discretion, to manage separate accounts below the stated minimum account size.



**KDP DEFENSIVE HIGH YIELD STRATEGY**

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

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

Separately Managed Accounts:	\$10,000,000
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KDP Asset Management, Inc. provides non-discretionary investment advisory services. Pursuant to written agreements, KDP Asset Management, Inc. may provide asset allocation solutions, investment consulting, investment and investment policy monitoring, along with periodic reports. Clients retain discretion over all assets under consulting arrangements, and are responsible for implementing or declining to implement any Investment Advisory provided by KDP Asset Management, Inc.

KDP Asset Management, Inc. serves, in a limited non-discretionary role, whereby it stands ready to supervise the making of investments pursuant to the written (or verbal) investment directions of entities to the extent such entities may request assistance from time to time. Such arrangements are not reflected in listings of number of clients or assets under management.

**ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

**INVESTING IN HIGH YIELD SECURITIES INVOLVES RISK OF LOSS, INCLUDING THE RISK OF  
PRINCIPAL THAT CLIENTS SHOULD BE PREPARED TO BEAR.**

KDP offers several key advantages to its clients:

- The breadth and depth of its investment team
- Its research affiliate's rigorous bottom-up research and proprietary Default Risk and Leveraged Loan Recovery
- The functional capacity, flexibility and client transparency of its management platform and operations

KDP Asset Management, Inc. 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 Asset Management, Inc. employs a value-oriented, long-term approach to investing that leverages our research affiliate's strong fundamental research capabilities. KDP Asset Management, Inc. seeks to take advantage of market inefficiencies and anomalies on an opportunistic basis in order to capture excess credit spread. A strong emphasis is placed on issuer, industry and sector diversification. Investment Strategies 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. The objective is to provide a high level of current income with a strong emphasis on principal preservation through avoiding defaults and maximizing portfolio returns 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. While specific strategies may differ slightly, the basic investment philosophy remains the same for all products and styles.

## **INVESTMENT STRATEGIES**

### **KDP DEFENSIVE HIGH YIELD**

Seeks to provide a high level of current income, with an emphasis on principal preservation. Investing in higher-quality high yield bonds, the strategy employs an investment approach based on fundamental analysis and active portfolio and risk management. Portfolios are positioned in the mid- to higher quality segment of the U.S. High Yield bond market.

### **KDP SENIOR SECURED BANK LOAN STRATEGY**

Seeks to provide a high level of current income, with an emphasis on principal preservation, investing in higher-quality leveraged loans. The strategy employs an investment approach based on fundamental analysis and active portfolio and risk management. Portfolios are positioned in the mid- to higher quality segment of the US Leveraged Loan market.

### **KDP CREDIT STRATEGY**

Seeks to obtain attractive annual returns over the long term through a blend of income and capital appreciation by allocating between defensive high yield bonds and senior secured loans.

KDP Asset Management, Inc. 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.



## KDP BANK LOAN SERVICES

KDP Asset Management, Inc. seeks to provide federally regulated financial institutions with a comprehensive suite of loan management and due diligence services including analytical and regulatory support, existing loan portfolio surveillance and administration and trade facilitation.

## CORE LOAN FUNDING

A proposed open-ended fund that would seek to purchase loans to create a diversified portfolio. Core Loan Funding would provide equity investors an opportunity to utilize term-leverage and thereby potentially enhance returns. This contemplated strategy has yet to receive any equity funding, has not had a closing date, and is not currently managed.

## RISK OF LOSS

No guarantee or representation is made that any of KDP Asset Management, Inc.'s investment strategies will be successful.

### Below Investment Grade Securities Risk:

KDP Asset Management, Inc. invests in below investment grade securities (sometimes referred to as 'junk bonds') and leveraged loans. These issuers have a credit rating equal to or lower than BB+(Standard & Poors) or Ba1(Moody's). These securities would be classified as highly illiquid. Fixed income securities rated below investment grade are especially susceptible to credit risk. No entity should invest that cannot afford to hold the investment for a substantial period of time or who cannot afford the loss of the entire investment.

**Economic Risk:** High yield issuers are highly leveraged and are prone to be more negatively affected by economic downturns and adverse market conditions due to their high leverage or legal uncertainties. Thus, credit risk tends to increase during economic recessions, which usually results in wider credit spreads and price depreciation.

**Credit Risk:** 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.

**Interest Rate 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 unsecured securities generally increases.

Certain fixed income securities pay interest at floating or variable rates. Variable rate securities are 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.

**Perpetual Call Risk:** 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.

**Liquidity Risk:** 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" (the 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 success of KDP Asset Management, Inc. will be dependent upon the investment decisions made by its portfolio managers and 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.

**Use of Leverage:** Leverage is not utilized in any of KDP Asset Management, Inc.'s strategies.

**Senior 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 leveraged loan are subject to the requirements of the underlying credit agreement governing such leveraged loan. These requirements may limit the eligible pool of potential leveraged loan holders by placing conditions or restrictions on sales and purchases of leveraged loans. Leveraged loans are not traded on an exchange and purchasers and sellers of leveraged loans rely on market makers, usually the administrative agent for a particular leveraged loan. These factors, in addition to overall market volatility, may negatively impact the liquidity of leveraged loans. Difficulty in selling a floating rate loan may result in a loss.

Bank loan 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. These factors, in addition to overall market volatility, may negatively impact the liquidity of loans. 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.

**Potential Concentration Risk:** Client portfolios may have highly concentrated positions in issuers engaged in one or a few industries. 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. This increases the risk of loss relative to the market as a whole.

**Sector Risk:** The value of securities focused in a particular industry or market sector will be highly sensitive to financial, economic, political and other developments affecting that industry or market sector, and conditions that negatively impact that industry or market sector will have a greater impact as compared to an account that does not have its holdings similarly concentrated.

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.

**Extraordinary Events Risk:** Global terrorist activity and United States involvement in armed conflict may negatively affect general economic fortunes, including sales, profits, and production, and may lead to depressed securities prices and problems with trading facilities and infrastructure.

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.

**Cybersecurity Risk:** In addition to the risks associated with issuer recommendations, there are various operational systems, information security and related risks involved, including but not limited to "cybersecurity" risk. A breach in cybersecurity refers to both intentional and unintentional events that may cause an account to lose proprietary information, such as misappropriating sensitive information, access to digital systems, obtaining financial information,



corrupting data, or causing operational disruption. Similar adverse consequences could result from cybersecurity incidents affecting third-party service providers, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers and other financial institutions and other parties. KDP Asset Management, Inc. has risk management systems and business continuity plans in place, which are designed to reduce the risks associated with these attacks, although there are inherent limitations in any cybersecurity risk management system or business continuity plan, including the possibility certain risks have not been identified. Accordingly, there is no guarantee that such efforts will succeed especially since we do not directly control the cybersecurity systems of issuers or the third-party service providers. KDP Asset Management, Inc. will seek to notify affected client of any known cybersecurity incidents posing a risk of harm to clients as required by law or regulation.

#### **ITEM 9 – DISCIPLINARY INFORMATION**

Neither KDP Asset Management, Inc. nor the management personnel have any disciplinary information to report.

#### **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 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 Investment Advisors, Inc., has a relationship with KDP Asset Management, Inc. that you might consider material. In a variety of instances, KDP Investment Advisors, Inc. and KDP Asset Management Inc. utilize personnel and services of one another in the performance of their business including, without limitation finance, accounting, human resources, compliance, legal, technology platforms and market analysis. Such utilization can take a variety of forms including dual employee or delegation arrangements.

#### **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, and the identity of securities and financial circumstances of KDP Asset Management, Inc.'s clients must be kept confidential.



To address any potential conflicts between KDP Asset Management, Inc., its affiliate, and its employees, 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. A Code of Ethical Conduct pursuant to SEC Rule 204A-1 has been adopted, which is reviewed and updated annually as necessary. The Code and other policies cover, among other things, portfolio management and advertising, personal investment and insider trading. 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, to prevent the purchase or sale of a security if the security is part of a current or contemplated trade. When the term "security" is used it includes stocks, bonds, derivatives, and any other financial instruments.

Employee security 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. This requires reporting of personal securities accounts, transactions, and/or holdings to the Compliance Committee. The Compliance Committee 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 its research affiliate 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. maintains 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 non-public information due to investment activities and, consequently, this may restrict KDP Asset Management, Inc. with respect to that investment. KDP Asset Management, 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 educate employees about KDP Asset Management, Inc. policies, establish procedures, and 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 non-public personal information. KDP Asset Management, Inc. does not disclose any non-public personal information about current or former clients without their authorization, except as permitted by law or in response to governmental inquiries. Access to client non-public personal information is restricted to those employees who need to know such information in order to provide services to clients. KDP Asset Management, Inc. also may disclose non-public 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. Safeguards are maintained to protect non-public personal information. If, at any time in the future, it becomes necessary to disclose non-public 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 to provide clients the opportunity to opt out of such disclosure.

KDP Asset Management, Inc. has 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 KDP Asset Management, Inc.'s other senior management in the event the concern pertains to the Chief Compliance Officer.

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

These policies are meant to avoid actual and apparent conflicts of interest and to insure that clients' interests are put first. KDP may impose sanctions for violations of these policies. Possible sanctions include a ban on personal securities trading, suspension or termination of employment.

A copy of each of these policies is available to any client or prospective client upon request by mail; CJ Flynn, Compliance Officer, KDP Asset Management Inc. 24 Elm Street, Montpelier, Vermont 05602; by phone 802-262-1375; or email at [highyield@kdpam.com](mailto:highyield@kdpam.com)

## **ITEM 12 – BROKERAGE PRACTICES**

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

Fixed Income securities purchased and sold for clients are traded over the counter. 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 its list of "approved broker dealers" to execute



investment decisions and transactions for its clients. The 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. Debt instruments may also be purchased from underwriters and dealers in fixed-price offerings, the cost of which may include undisclosed fees and concessions received by the underwriters. Loans are generally purchased and sold directly between loan counter parties in dealer markets

KDP Asset Management, Inc. will use its best judgement in evaluating the services of a broker-dealer. In selecting broker-dealers, KDP Asset Management, Inc. seeks broker-dealers that it reasonably believes can provide best execution of transactions. In seeking out best execution under the circumstances, a number of factors may be considered, 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.

Although KDP Asset Management, Inc. generally seeks competitive dealer spreads, it will not necessarily transact at the lowest markup or markdown. In any transaction for its clients, KDP Asset Management, Inc. uses reasonable diligence to ascertain the best market for the security (unless required to use a specific broker designated by the client) and buy or sell in such market so that the resultant price to the client is as favorable as possible under prevailing market conditions.

If mutually agreed upon, a client may instruct KDP Asset Management, Inc. to direct brokerage for a client's account to a particular broker. If a client directs the use of a particular broker, KDP Asset Management, Inc. may be unable to negotiate commissions, obtain volume discounts, batch trades and ensure best execution on the client's behalf. Clients may also pay higher commissions than those clients who do not direct the use of a particular broker. No assurances can be given that the transactions executed in accordance with such client's directed broker arrangement will result in best execution for the client.

#### **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 Asset Management, Inc. in servicing any or all of its clients. Clients may benefit from research obtained through the commissions paid by any of KDP Asset Management, Inc.'s client accounts.

KDP Asset Management, Inc. 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). No soft dollars were generated in 2017. Services obtained may include, but are not limited to Bloomberg Terminals (research, market information and corporate data), and Advent Software (trading and portfolio accounting software). The Compliance Committee must formally approve all new third-party soft dollar services.

KDP Asset Management, Inc. 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 Compliance Committee to ensure conformity with the safe harbor provisions of Section 28(e).

#### TRADE AGGREGATION

Trades will be aggregated where possible and advantageous to clients. Clients will share transaction costs equally on a pro-rata 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. 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. Although KDP Asset Management, Inc. believes that the ability to aggregate orders for client accounts will in general benefit its clients as a whole over time, in any particular instance, such aggregation may result in a less favorable price or execution for any particular client than might have been obtained if a particular transaction had been effected on an un-aggregated basis. Compliance will monitor allocations among all accounts to ensure that all trade allocation policies are consistently enforced.

#### NEW ISSUES

KDP Asset Management, Inc.'s new issue policy is to allocate new issues fairly and equitably among our advisory clients over time. However, there may be circumstances where a portfolio



manager may allocate investments in a manner that does not treat all clients fairly and equitably. The guidelines provide for adjustments to allocation amounts in certain cases as an allocation may not always accommodate all accounts. For example, adjustments may be made: (1) to reallocate taking into account a participating portfolio's characteristics, such as available cash, issuer or industry concentration, credit exposure and duration; (2) to eliminate de minimis positions; (3) to give priority to accounts that are ramping up; and (4) to give priority to accounts with specialized investment guidelines. Also, with private placement transactions (144A's), certain conditions mandated by the client or issuer may limit availability of allocations to client accounts. The portfolio manager will submit a proposed new issue allocation report to the Chief Compliance Officer or in his absence a member of the Compliance Committee. Once the portfolio manager receives an actual allocation, a final new issue allocation report on these transactions will be submitted for approval to the Chief Compliance Officer or in his absence a member of the Compliance Committee to ensure transactions are consistent with stated policy.

### CROSS TRADES

KDP Asset Management Inc.'s policy and procedure is to not engage in any agency cross transactions. KDP may effect or cross transactions between clients' 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). KDP Asset Management, Inc. must deem 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 constitutes "best execution" for both parties.

KDP Asset Management, Inc. uses electronic platforms through which multiple brokers compete for trading opportunities for trading certain debt securities. This usually results in equal or more favorable overall executions for the transactions.

Cross trades may still benefit clients on both sides of the trade because the one client sells the security for more than the bid price (i.e., the price it would have received in the open market) and the other client purchases the security at less than the ask price (i.e., the price it would have paid in the open market). Neither KDP Asset Management, Inc. nor any related party would receive any special compensation in connection with any such "cross" transactions.

KDP Asset Management, Inc. has controls in place for monitoring execution in our clients' portfolios including annually reviewing trades for best execution and maintaining an approved broker-dealer list. Compliance will monitor cross trades to insure that all trade allocation policies are consistently enforced. Compliance will insure that the rationale for any cross trade is properly documented.

### 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. KDP Asset Management, Inc. will reimburse clients for any direct loss resulting from the correction of a guideline breach or trade error where such is the result of an action taken by KDP Asset Management, Inc. and will be responsible for any client loss resulting from an inaccurate or erroneous order and the client will retain any gain realized in connection with the error correction. 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 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. KDP 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 Portfolio Committee for review and immediate appropriate action. In addition, the Investment Committee receives 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 our research affiliate's 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 by senior investment professionals. One or more members of the portfolio team are responsible for corresponding directly with the client. All accounts are reviewed with clients as directed by clients.

Clients may receive written monthly report statements that are generated by the KDP Asset Management, Inc. systems. Clients receive these written reports if they are required in their contracts. These reports include performance analysis, portfolio holdings, and transactions. Through KDP Asset Management, Inc.'s client portfolio portal, all clients have the opportunity to monitor and apply a broad range of analytics to their portfolios in an ongoing manner, and on a 24/7 basis.



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

KDP Asset Management, Inc. does not pay referral fees to third-parties. 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 advisory 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 either client's funds or assets. Clients receive account statements from their custodians or broker-dealers. Clients should carefully review the account statements that are provided. Clients should carefully compare the account reports that they receive from KDP Asset Management, Inc. with the statements from their custodian or broker-dealer.

Although KDP Asset Management, Inc. does not provide custodial services to Clients, under the SEC's Custody Rule, KDP Asset Management, Inc. is deemed to have custody due to the fact that KDP Asset Management, Inc. can inform the custodian to remit investment advisory fees directly to KDP Asset Management, Inc.

There may be differences in market values between our account statements and the custodian's account statement for various reasons. For example, we and your custodian may use different pricing sources to value securities held in your portfolio. Other differences can be because we and the custodian may generate account statements based on a trade date versus settlement date basis or may be due to the custodian's policies for handling certain assets or changes in the values of certain assets. To the extent you find such discrepancies and would like to obtain an explanation, we encourage you to call us to obtain such information.

**ITEM 16 – INVESTMENT DISCRETION**

KDP Asset Management, Inc. ordinarily exercises 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 Asset Management, Inc. 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.

KDP Asset Management, Inc. also may manage accounts for clients on a non-discretionary basis and would follow the instructions of clients as to the securities to be bought or sold and any other transaction-related instructions the client directs.

### **ITEM 17 – VOTING CLIENT SECURITIES**

Because KDP Asset Management, Inc., manages fixed income securities, proxy voting is generally not required or requested. However, in certain cases there may be a request to vote from time to time.

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).

When voting on corporate debt actions for clients, our main concern is that all decisions be made solely in the best interest of the client (and for ERISA accounts, plan beneficiaries and participants, in accordance with the letter and spirit of ERISA). KDP Asset Management, Inc. will act in a prudent and diligent manner intended to enhance the economic value of the assets of the client's account except to the extent otherwise required by the agreement with the client. Examples of such corporate actions could include changes to the credit agreement, exchange for tender offer consents, and bank loans with cashless rolls.

### **ITEM 18 – FINANCIAL INFORMATION**

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.

KDP Investment Advisors, Inc. has no formal commitment that impairs its ability to meet its contractual and fiduciary commitments to KDP Asset Management, Inc. It should be noted, however, that in 2003, the KDP companies entered into an agreement with an investor group who proposed to provide up to \$2,100,000 to the KDP companies, all of which was to be converted into KDP, LLC senior preferred ownership units on or before December 31, 2003. The investor group did not provide the terms of the preferred membership interest thus total advances pending convertibility totaling \$2,175,000 for the KDP LLC fiscal year ended June 30, 2004 had to be classified as short-term debt, in compliance with generally accepted accounting principles. Without finalized documentation, KDP, LLC continues to report all of the advances on its financial statements as a short-term liability. This includes interest accrued of \$86,000 on the \$ 600,000 short term draft note received during 2003. These advances were reallocated to KDPIA and interest accrued as a prior period adjustment in 2015 and are not an obligation of KDP, LLC or KDP Asset Management, Inc. Based on legal advice and opinions, there is no expectation that repayments will be requested on these advances.



In 2013, KDP obtained a ten-year Small Business Administration (SBA) loan for \$1,375,000 guaranteed by KDP, LLC, KDP Asset Management, Inc., KDP Investment Advisors, Inc., and personally by Kingman Penniman. The balance of this loan as of December 31, 2016 was \$992,807 and is reported on KDP Investment Advisor's balance sheet.

KDP, LLC, KDP Asset Management, Inc. and KDP Investment Advisors, Inc. have no other outstanding debt obligations.

## KDP Privacy Policy

The purpose of this notice is to comply with SEC Regulation S-P which specifies privacy rules promulgated under section 504 of the Gramm-Leach-Bliley Act. Section 504 requires the Commission and other federal agencies to adopt rules implementing notice requirements and restrictions on a financial institution's ability to disclose non-public personal information about consumers. Under the Gramm-Leach-Bliley Act, a financial institution must provide its customers with a notice of its privacy policies and practices, and must not disclose non-public personal information about a consumer to non-affiliated third parties unless the institution provides certain information to the consumer and the consumer has not elected to opt out of the disclosure. The Act also requires the Commission to establish for financial institutions appropriate standards to protect customer information.

We may collect the following non-public personal information about you from the following sources:

Information we receive from you on applications or other forms; and

Information about your transactions with us, our affiliates, or others

However, we do not disclose any non-public personal information about our customers or former customers to anyone, except as permitted by law. We do not sell information about current or former customers to any third parties.

We restrict access to non-public personal information about you to those employees who need to know that information to provide products or services to you. We maintain physical, electronic, and procedural safeguards that comply with federal standards to guard your non-public personal information.



