



KDP Asset Management, Inc.

KDP ASSET MANAGEMENT, INC.

24 Elm Street
Montpelier, VT 05602
802-223-0440

www.kdpam.com

PART 2A OF FORM ADV

MARCH 31, 2011

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. 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.

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

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This brochure dated March 25, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

Currently, our brochure may be requested by mail addressed to: Michael Bravin, 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.

Additional information about KDP Asset Management, Inc. is available via the SEC’s web site 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.



ITEM 3 – TABLE OF CONTENTS

Item 1 – Cover Page.....	1
Item 2 – Material Changes.....	2
Item 3 -Table of Contents.....	3
Item 4 – Advisory Business.....	5
Firm Description & Ownership.....	5
Types of Advisory Services & Client Assets.....	5
Item 5 – Fees and Compensation.....	6
Fee Billing.....	6
Other Fees.....	7
Fees In Advance.....	7
Additional Compensation.....	7
Item 6 – Performance-Based Fees and Side-By-Side Management.....	7
Item 7 – Types of Clients.....	8
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Methods of Analysis.....	9
KDP Default Risk Ranking.....	10
KDP Leveraged Loan Recovery Ranking.....	10
Investment Strategies.....	11
Risk of Loss.....	13
Item 9 – Disciplinary Information.....	14
Item 10 – Other Financial Industry Activities and Affiliations.....	14
Item 11 – Code of Ethics and Personal Trading.....	15
Item 12 – Brokerage Practices.....	16
Brokerage Discretion and Best Execution.....	16



Use of Research and Other Soft Dollar Benefits.....	16
Trade Aggregation.....	17
Cross Trades.....	17
Trade Errors.....	17
Item 13 – Review of Accounts.....	18
Item 14 – Client Referrals and Other Compensation	18
Item 15 – Custody.....	19
Item 16 – Investment Discretion.....	19
Item 17 – Voting Client Securities.....	19
Item 18 – Financial Information.....	20
Brochure Supplement(s)	



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. 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.

KDP does not currently participate in wrap fee programs.

As of February 28, 2011, KDP Asset Management, Inc. managed assets of \$ 365,833,462 on a discretionary basis. As of February 28, 2011, no assets were managed 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 SEPARATELY MANAGED ACCOUNTS

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 DEFENSIVE HIGH YIELD FUND, L.P.

75 bps

KDP CREDIT STRATEGY (SEPARATE ACCOUNT ONLY)

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

CORE LOAN FUNDING, LLC

50 bps

FEE BILLING

Separately managed accounts are billed on a quarterly basis in arrears for fees. Most clients use KDP'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. Most separately managed accounts are based on KDP Asset Management Inc.'s valuation of the account, however, certain clients require KDP to base the valuation provided by the custodian. KDP does not deduct fees from separately managed client accounts.

Fees associated with the KDP Defensive High Yield Fund, L.P. are charged monthly and the custodian directly debits fees.

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 may serve 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.

KDP Defensive High Yield Fund, L.P. -- Should any Limited Partner redeem all or a portion of its Interest within one year and sixty days of its initial Capital Contribution, the General Partner may, at its discretion, deduct from the Redemption proceeds for the credit of the Fund an amount equal to 2% of the Redemption proceeds (the "Redemption Fee"). Any redemption fees collected are credited back to the partnership.

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 high net worth individuals, endowments, foundations, Taft Hartley plans, public plans, pension and profit-sharing plans. In addition, KDP provides investment management services to commingled private funds that are exempt from registration as mutual funds under the 1940 Act pursuant to section 3(c)(7) of the 1940 Act. KDP Asset Management, Inc. may agree at its sole discretion to manage separate accounts below our stated minimum account size.

KDP DEFENSIVE HIGH YIELD

Separately Managed Account	\$3,000,000
KDP Defensive High Yield Fund, L.P.	\$250,000

KDP CREDIT STRATEGY

Available in Separately Managed Accounts Only:	\$20,000,000
--	--------------

CORE LOAN FUNDING LLC

\$1,000,000

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 proprietary 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 ensures 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, and 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, and 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.

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 possibly pursuing a specific security and at that point the credit is placed on an active consideration list.

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's Portfolio Managers seeking the most attractive risk/reward investments, have full discretion to purchase securities that have been placed on an Approved List, provided that the securities meet appropriate rating criteria for a specific client's portfolio.



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. Expected recovery falls into one of the following five categories. Typically, most loans fall in the A, B or C 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 8 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 by 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 either separately managed accounts or commingled L.P.

☐ 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)**
 - Targeted holding period total return of 20%
 - 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.

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 for the benefit of its investors since its inception.



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'). 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.

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.

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.

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. 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 the 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 and reinvestment ability of the Portfolio Manager's and its key employees who will make investments and reinvestments on behalf of clients. 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.

Use of Leverage. Due to the existence of leverage 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 because, although the use of leverage creates opportunity for substantial returns on the Securities, it increases substantially 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.

ITEM 9 – DISCIPLINARY INFORMATION

KDP Asset Management, Inc. has not been the subject of any complaints or been involved in any disciplinary proceedings since its inception.

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. is a General Partner for the KDP Defensive High Yield Fund, L.P. that invests in High Yield Bonds. The KDP Asset Management, Inc. ownership percentage is .0001%.

KDP Asset Management, Inc. will serve as the Portfolio Manager of the currently 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.

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. 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 & Procedures regarding personal securities trading, as well as to the requirements of the Investment Advisers Act.

Additionally KDP Asset Management, Inc. and KDP Investment Advisors, Inc. require adherence to its Insider Trading Policy, and the CFA Institute's Asset Manager Code of Professional Conduct and Code of Ethics and Standards of Professional Conduct. 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, 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, KDP Asset Management, Inc. has full authority and discretion to engage any broker-dealer and negotiate commissions 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 include brokerage 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 approved broker-dealers. KDP has controls in place for monitoring execution in our clients' portfolios including periodically reviewing trades for best execution.

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 KDP's other client accounts.

KDP may from time to time participate in certain "soft dollar" arrangements with various 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), SNL (sector-specific research), LCD (news), and Advent Software (trading and portfolio accounting software). Research and services obtained in this manner are used by KDP Asset Management, Inc. in serving any and/or all of its clients.



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 on a regular basis 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.

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.

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 basis via a proprietary web portal to ensure compliance with client-specified investment criteria and constraints. Any violations or discrepancies are reported to the Investment Committee for review and immediate appropriate action. In addition, the Investment Committee receives a daily electronic report that provides information as to compliance with all individual client mandates.

The Portfolio Managers also meet daily with 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 which include Kingman Penniman, Chief Investment Officer, Kathy News, Senior Portfolio Manager, and Justin Monteith, Assistant Portfolio Manager. One or more members of the portfolio team correspond directly with the client. All accounts are reviewed with the client at least annually or more frequently as directed by the client.

The KDP Defensive High Yield Fund, L.P. provides clients with quarterly performance reports, all other clients may receive monthly reports that may include performance analysis, portfolio holdings and transactions. Through our client portfolio portal, all investors 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 you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

KDP may be deemed to have custody of the assets and securities of the KDP Defensive High Yield Fund, L.P. KDP because as it serves as the General Partner of the Fund which is a limited partnership. KDP does not have physical custody of the assets and securities of the Fund. Physical custody of the Fund's assets are maintained with a qualified custodian and the Fund is audited on an annual basis. The audited financial statements of the Fund are available to investors within 120 days following the end of the Fund's fiscal year.

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 you 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.

