



# KDP

## ASSET MANAGEMENT

### Welcome to KDP

KDP is an asset management and investment research firm with 34 professionals and staff specializing in high yield securities and leveraged loans with a strong credit analysis approach to investing. KDP and its predecessor firms' research arm has been providing independent research to institutional credit clients since 1975 and is widely regarded as a leader in this field.

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## Company Overview

KDP is an independent asset management and investment research firm specializing in high yield bonds and leveraged loans with a strong focus on rigorous, bottom-up credit analysis.

**KDP Asset Management Inc. (KDPAM)** was established in June 1999 as the asset management arm of KDP, specializing in the management of high yield securities. KDP has combined the substantial resources and reputation of its research business with a proven and experienced portfolio management team. The synergies from this combination have positioned KDPAM to take its place as a top-tier investment management company. KDPAM is registered with the SEC.

**KDP Investment Advisors, Inc. (KDPIA)** and its predecessor companies, Duff & Phelps Fixed Income Research and McCarthy, Crisanti & Maffei (MCM) have been providing research to credit investment professionals since 1975. The firm has a blue chip client base of over 140 entities, and its independent research is known for combining the best attributes of high yield street research, in-house research organizations and the major rating agencies. For more information on KDPIA and KDP Advisor, its online research service, go to [www.kdpadvisor.com](http://www.kdpadvisor.com).

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## KDP Advantage

KDP Asset Management (KDPAM) offers a unique advantage to its clients based on the breadth and depth of its investment team, its proprietary research and Default Risk Ranking and Loan Recovery Ranking systems, and on the functional capacity, flexibility and transparency of its web-based management platform.

**KDP's seasoned investment team offers the depth, capacity, and experience of a much larger firm with the focus and flexibility of a smaller, more entrepreneurial organization:** KDP's portfolio management team of Kingman Penniman, CIO, and Senior Portfolio Manager Kathleen News, and Trader Justin Monteith have over 75 years of combined fixed income experience. KDP's 18 industry and market analysts have average experience of over 21 years and average tenure at the firm of over 9 years. Based on its current assets under management, KDP has significant capacity to manage future growth.

**KDP's proprietary research process and unique, forward-looking Default Risk Ranking system form the cornerstone of its investment management process:** We believe our disciplined, time-proven approach gives us a significant advantage over most of our peers.

**KDP has taken the sophisticated analytics and extensive database that its research product is known for and tailored them to meet the specific needs of its investment management clients:** KDP's web-based management platform combines the best of KDP's research with powerful portfolio analytics that together help its managers to constantly optimize the risk/return profile of the portfolios they manage. KDP makes this information available to its clients through secure websites that enable them to view KDP research, recommendations, portfolio holdings and transactions on a real-time basis, providing 24/7 transparency.

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## Portfolio Management

### Philosophy & Process

**We believe 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 an active, top-down management approach that ensures a strong overall credit profile and broad portfolio diversification. We employ a value-oriented 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 tend to focus on larger companies, as they tend to be more resilient in times of difficulty, and their securities tend to be more liquid. Portfolios are actively managed and trading tends to focus on taking aggressive action to eliminate weakening credits and on selectively realizing investment gains. Our conservative approach is reinforced by a sell discipline that creates a strong sell bias on any position that has declined more than 10% from purchase in the case of bonds and 5% for loans under normal market conditions.

## Investment Team

KDP Asset Management, Inc. (KDPAM) is led by Kingman Penniman and Kathleen News. Mr. Penniman, President & Chief Investment Officer, founded KDP's research business in 1975 and was responsible for developing KDP's proprietary high yield Default Risk Ranking. Ms. News has over 30 years experience, including over 16 years managing high yield portfolios. The investment team is supported by 18 seasoned industry and market analysts. KDP's analysts have average experience of over 21 years and average tenure at the firm of over 9 years.

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### **Kingman D. Penniman, CFA, Chief Investment Officer**

Mr. Penniman was formerly Executive Vice President, head of the High Yield Bond Group for Duff & Phelps Investment Research Co. Prior to joining D&P, he was with McCarthy, Crisanti & Maffei, Inc. He joined MCM with responsibility for initiating coverage and assigning investment grade ratings for the industrial grade companies. Mr. Penniman was subsequently responsible for MCM's high yield product. Previously, Mr. Penniman supervised the marketable bond research group for the National Life Insurance Company. He received a B.A. from Colby College and an M.B.A. from the Wharton School of the University of Pennsylvania. He is a member of the New York Society of Security Analysts and Vermont CFA Society.

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### **Kathleen A. News, Senior Portfolio Manager**

Ms. News has over 29 years of investment experience specializing in fixed income securities and serves as co-portfolio manager for all KDP portfolios. Prior to joining KDP in April 2001, Ms. News was a founding partner of Penn Capital Management (Penn) where she served as Managing Director and Senior Portfolio Manager from 1988 until November, 2000. Ms. News was part of the management team responsible for Penn's high yield bond style and had primary portfolio management responsibility for Penn's Defensive High Yield Style. Penn's Defensive High Yield Style experienced no defaults and was in the top 20 managers of 382 composites/funds for the forty quarters ending December 31, 2000 as reported by WBMM (Nelson's World's Best Money Managers). Prior to Penn, Ms. News was employed at Delaware Investment from 1977 to 1987. While at Delaware, Ms. News was the portfolio manager for Delaware Cash Reserve, a \$1 billion money market fund, as well as institutional accounts for Fortune 500 companies.

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### **Justin B. Monteith, CFA, Trader**

Justin B. Monteith, CFA, Trader. Prior to joining KDPAM, Mr. Monteith was responsible for KDP Investment Advisors' Pricing Services interacting with all major high yield and loan trading desks for a period of 4 years. Before joining KDP, he was a registered principal and head trader of bonds, equities and options for 5 years with Equity Services, Inc, a subsidiary of National Life Group. Prior to his tenure with Equity Services he was with Sentinel Funds, Bank of America Investment Services and Morgan Stanley Dean Witter. Mr. Monteith received his Masters in Financial Economics from the University of London, and his B.A. from Western Michigan University. He is a member of the Vermont CFA Society.

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## Portfolio Analytics

KDP has taken all of the best aspects of the firm's online research service, *KDP Advisor*, and tailored them to the specific needs of its clients and portfolio managers. Key portfolio metrics including current portfolio summaries, recent transactions, issuer/issue holdings and holding specific research are made available to our clients on a real-time basis via secured websites. KDPAM portfolio managers utilize KDP's proprietary, web-based management platform to access KDP research, pricing and key portfolio metrics. Leveraging these capabilities, they screen and sort portfolio holdings and potential investment opportunities to perform complex "what if" modeling to evaluate and optimize potential trades.

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# KDP Research

## Research Process

The cornerstone of our investment process is our proprietary research and Default Risk Ranking (DRR). We actively follow over 400 companies and provide twice-daily pricing on 1,200 securities. Analysts prepare initial write-ups, quarterly earnings comments and as-needed updates for all companies followed including a detailed company analysis, fully integrated financial model with 3 year forward projections, DRR and investment recommendation. Our unique forward-looking DRRs 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.

## Default Risk Rankings

At the heart of our recommendation system is the KDP Default Risk Ranking. This Ranking measures the probability that the company will default on its obligations over a five-year period. In arriving at this measure, the analyst evaluates the company's potential for generating cash flow, its financial strength and overall liquidity, the strength of its products and business plan, and the prospects for overall growth of the industry in which the company operates. As part of this process, the analyst generates a fully-integrated financial model including relevant historical results and a minimum three-year financial forecast for the company.

Once the Default Risk Ranking is established, the appropriate recommendation is derived by referring to the yield requirements that KDP has assigned to each Default Risk Ranking. Issue-specific yield requirements for a given Default Risk Ranking are adjusted for maturity, seniority, security, and whether the issue is a discount note or PIK (Paid-in-Kind) bond. If the yield on the bond issue in question falls within the required range, it receives a HOLD recommendation; if it is lower than the range, it becomes a SELL; and if it is higher, a BUY. Our investment horizon is long-term, although we also address near-term technical factors where appropriate and relevant.

KDP uses yield-to-worst as the total return measure for the bond issues of any company with a KDP Default Risk Ranking of 1+/1+ through 3/5 (BBB through B- equivalent). This is due to the relative likelihood that the company will not default on its obligations, and that the full par amount on these issues will be paid, either at maturity or earlier, depending on the issue call schedule and on the probability of early redemption. For the bonds issued by a company with a KDP Default Risk Ranking worse than 3/5 (CCC+ and lower equivalent), the KDP recommendation is tied to an expected value analysis. This change in methodology is necessary due to the higher probability of default and the increased risk that the issue in question will not reach maturity. Generally, our expected value analysis involves calculating the present value of the bond under two scenarios: a going concern scenario and a restructuring scenario. Probabilities are then assigned to each scenario, based on the probability of default implied by the company's Default Risk Ranking. An expected value of the bond is calculated, and this is then compared to the current price to arrive at the proper recommendation.

## Leveraged Loan Recovery Rankings

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. We assign a proprietary KDP Recovery Ranking (RR) that is independent of our KDP Default Risk Ranking (DRR), after assessing recovery risk along with other relevant factors including current loan pricing, spread and liquidity, refinancing risk and incorporating our DRR.

Generally, the KDP Leveraged Loan Recovery Ranking (RR) 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 similar recovery rating versus a weaker credit with an all assets security package. Expected recovery falls into one of five categories A (highest) through E (lowest). In almost all cases loans held within the KDP Credit Strategy have a Loan Recovery Ranking of A.

## KDP Advisor

KDP provides clients with access to its web-based, fixed income research service KDP Advisor (<http://www.kdpadvisor.com>), providing fundamental credit analysis and proprietary Default Risk Rankings and recommendations on below-investment-grade companies. The service features:

- **Forward-Looking Proprietary Default Risk Rankings (DRR):** The cornerstone of KDP's research process, and a more effective gauge of credit risk than similar metrics offered by competing services, DRRs assess a company's probability of default and credit quality.
- **KDP's Top Candidates for Likely Rating Agency Upgrades or Downgrades:** To take advantage of relative value opportunities, the service lists companies for which KDP's credit assessment is furthest from the rating agencies.
- **Access to KDP Analysts:** For the most up-to-date credit and industry analysis, each KDP Advisor user has full telephone and email access to the research team.
- **Real-time Updates and Assessments:** The core research product consists of written "Comments", analyzing significant corporate developments, as well as in-depth analyses published in the form of "Credit Critiques, Updates, and Credit Views." The latter includes historical and projected financial data, capitalization analysis, business summaries and segment analysis.
- **Relative Value Analysis:** To help uncover actionable investment opportunities and swap candidates, investors can screen and sort using 17 key metrics including KDP Default Risk Ranking, Agency Ratings, Recommendation, Price, Yield, Leverage Ratio and Coverage Ratio.

- **Company Credit Profiles:** One-stop quick access to summary financial, liquidity and capitalization information, comparative ratio analysis, links to KDP research going back to 1997, and links to the issuer's home page and SEC documents via EDGAR.
- **Intra-Day Commentary:** Twice daily commentary on the major debt and equity markets, providing timely assessment of market conditions and events.
- **Daily Email Notices:** Provides users with an easy way to keep abreast of the high-yield market and KDP research.
- **High Yield Calendar:** Continually-updated listing of high yield new issues, price talk, and deal timing. Contains links to new issue reports including "New Issue Summaries" which are published on selected higher-profile companies that are not otherwise part of KDP's research service.

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## Products & Performance

### Products

#### **KDP Defensive High Yield**

The goal of our Defensive High Yield product is to provide a high level of current income, with a strong emphasis on principal preservation, by investing in better-quality high yield bonds and by employing an investment approach focusing on fundamental analysis and active risk management. We concentrate on "real companies," with solid fundamentals, strong operations and positive cash flow. By positioning portfolios in the mid-to-higher quality segment of the market (target rating of BB-/B+), the strategy is designed to dampen the interest rate risk associated with higher quality credits as well as the credit and liquidity risk associated with lower-quality/distressed securities.

#### **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 defensive high yield bonds, senior/secured floating rate loans and opportunistic credits. 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.

#### **KDP Opportunity Fund**

The Fund's objective is to seek attractive net annual returns with modest volatility over the long term through a blend of income and capital appreciation by actively allocating primarily between high yield bonds and senior/secured floating rate loans and applying the credit discipline of KDP's 18 industry and market analysts. The Fund also seeks to take advantage of market inefficiencies and anomalies on an opportunistic basis in order to capture excess credit spread and capital appreciation. KDP believes that this strategy allows for the flexibility to move into what it assesses to be the optimum asset allocation and application of leverage depending on the prevailing environment.

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## KDP Analysts

### **Brian E. Bogart, CFA**

Brian E. Bogart CFA, Senior Vice President, Credit Analyst. Responsible for the containers, energy and paper/forest products industries. Before joining KDP, Mr. Bogart was Senior Vice President with Duff & Phelps Investment Research Co. and a Vice President with McCarthy, Crisanti & Maffei. Previously, he served as a senior bond analyst with the National Life Insurance Company. Prior to that, he was a securities analyst with Standard & Poor's. He received a B.A. from Bates College and an M.B.A. from New York University. He is a member of the Boston Society of Security Analysts.

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### **Barbara J. Cappaert, CFA**

Barbara J. Cappaert, CFA, Senior Vice President, High Yield Bond Analyst. Responsible for the gaming, lodging and media/communications industries. Previously, Ms. Cappaert was a Group Vice President with Duff & Phelps Investment Research Co. Before joining Duff & Phelps, she served as a Vice President with Citicorp Scrimgeour Vickers and as a portfolio analyst specializing in consumer companies at Baker, Fentress in Chicago. She received a B.S. from Marquette University. She is a member of the Investment Analysts Society of Chicago.

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### **Timothy J. Doherty**

Timothy J. Doherty, CFA, Vice President, Credit Analyst. Responsible for the analysis of the independent power producer, utility, and chemical industries. Mr. Doherty was previously a fixed income analyst covering utilities and independent power producers at Bank of Nova Scotia's investment banking arm, Scotia Capital. Prior to this, Mr. Doherty was an analyst with Bank of America's financial institutions lending group. He holds a B.A. from Boston College. Mr. Doherty is a member of the New York Society of Security Analysts.

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### **Terrence K. Dwyer**

Terrence K. Dwyer, Senior Vice President, Credit Analyst. Responsibilities include aerospace/defense, diversified manufacturing/conglomerates, building materials and consumer products. Prior to his position of Senior Vice President at Duff & Phelps Investment Research Co., Mr. Dwyer was a portfolio manager of the Value Line Aggressive Income Trust, an open-end high yield mutual fund for Value Line Incorporated, and an assistant portfolio manager for the Value Line Cash Fund. While at Value Line he was also a senior equity analyst specializing in conglomerates and metals. He received a B.S., cum laude, from Boston College and an M.A. with honors from Indiana University.

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### **Ken Duffel**

Ken Duffel, Assistant Vice President, Credit Analyst and Compliance Officer. Responsible for the oil and gas industries. Prior to attending graduate school, Mr. Duffel was a series 7 and 63 licensed representative at Computer Share Investor Services. Mr. Duffel holds a JD and MBA from Boston University. Mr. Duffel is sitting for the CFA Level II.

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### **Thomas C. Ferguson**

Thomas C. Ferguson, Vice President, Credit Analyst. Responsible for fixed income analysis of the finance, food/food services, grocery, restaurants and publishing & information industries. Mr. Ferguson has over 12 years experience as a financial analyst and previously was Associate Director at UBS Warburg where he was an equity analyst covering the financial services industry. Prior to this, Mr. Ferguson was with Standard & Poor's where he was responsible for equity research for small and mid-cap companies across several industry sectors. Mr. Ferguson began his career at Coopers & Lybrand where he was a Senior Associate in the mergers and acquisition group. He holds a B.A. from Georgetown University and an M.B.A. from Columbia University.

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#### **Kristi A. Flynn**

Kristi A. Flynn, Market Analyst. Ms. Flynn is a market analyst in KDP's Pricing Services and is also responsible for KDPAM operations including trade settlement, account reconciliations and portfolio reporting. Ms. Flynn was with INVESCO Capital Management for 10 years prior to joining KDP and has extensive experience in all areas of portfolio administration and accounting. She holds a B.A. from Gettysburg College.

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#### **Scott Grzankowski**

Mr. Grzankowski is a market analyst in KDP'S Pricing Services. Prior to joining KDP, Mr. Grzankowski was Investment and Trading officer at Primus Asset Management where he developed and executed proprietary trading strategies covering capital structure arbitrage, long/short relative value, curve arbitrage, and cash/synthetic basis trades. Before Primus, Mr. Grzankowski helped establish the Credit Default Swap front, mid- and back-offices for both Caylor Corporate & Investment Bank, where he was a member of a four person team responsible for trading single name CDS and bonds, as well as at Wachovia Bank. He received a B.S. in Finance from Canisius College.

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#### **Letitia Z. Hill**

Letitia Z. Hill, Group Vice President, Senior Market Analyst. Responsible for market and technical analysis and the maintenance of the KDP financial database. Ms. Hill has been a member of the team for over 30 years. She started her career as a telephone utility analyst, then became responsible for the statistical reports generated by the company.

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#### **John Moore, CFA**

John D. Moore, CFA, Vice President, Credit Analyst. Responsible for the analysis of the telecommunications and technology industries. Mr. Moore was previously Senior Credit Analyst at HSH Investment Management where he was a high yield analyst. Prior to this, Mr. Moore was a Senior Analyst with Moody's Investor Service where he was responsible for high yield and investment grade analysis across several industry sectors, specializing in technology, media, and telecom. He holds a B.A. from Duke University and an M.B.A. from Columbia University. Mr. Moore was an athletic member of the U.S. Olympic Rowing Team representing the United States in 1992 Games of the XXV Olympiad held in Barcelona.

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#### **Kip D. Penniman, Jr., CFA**

Kip D. Penniman, Jr., CFA, Vice President, Credit Analyst. Responsible for the analysis of high yield issues within the metals/mining, steel, environmental services and auto/auto related industries. Before joining KDP Investment Advisors, he spent five years as an Associate equity analyst with Brundage, Story & Rose, LLC Investment Council in New York City. He received a B.A. from the University of Colorado in Boulder.

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**Robert H. Veno, CFA**

Robert H. Veno, CFA, Vice President, Credit Analyst. Responsible for the analysis of the retail and healthcare industries. Mr. Veno was previously Senior Investment Analyst at Sun Capital Advisers where he was responsible for corporate issuer underwriting. Prior to this, Mr. Veno held portfolio management and underwriting positions with Sovereign Bank, Fleet Financial Group and the Federal Reserve Bank of Boston. He holds a B.A. from the University of Massachusetts, Amherst and an M.B.A. from the College of William and Mary. Mr. Veno is a member of the Boston Society of Security Analysts.