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Item 1 - Cover Page

Kirr, Marbach & Company, LLC

621 Washington Street

Columbus, Indiana 47201

812-376-9444

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

This Brochure provides information about the qualifications and business practices of Kirr, Marbach & Company, LLC (“KM”). If you have any questions about the contents of this Brochure, please contact us at [812-376-9444](tel:812-376-9444) and/or [mickey@kirrmar.com](mailto:mickey@kirrmar.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.

[Kirr, Marbach & Company, LLC](#) is registered with the United States Securities and Exchange Commission (“SEC”) as an investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Kirr, Marbach & Company, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The date of this Brochure is March 31, 2011

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## **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 31, 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.

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## Item 4 – Advisory Business

Kirr, Marbach & Company, Inc. commenced business on May 1, 1975 and converted to Kirr, Marbach & Company, LLC (“KM”), an Indiana limited liability company, in 1994. The principal owners of KM are Mark D. Foster, CFA, Chief Investment Officer and Mickey Kim, CFA, Chief Operating/Compliance Officer.

KM manages separate accounts and is the adviser to the Kirr, Marbach Partners Value Fund (“Value Fund”--KMOVAX), an open-end registered investment company (i.e. a mutual fund). Client accounts range from asset allocations of 100% equities/0% fixed income to 0% equities/100% fixed income. **An investment with KM is suitable for long-term investors only.** KM client accounts and shares of Value Fund are *not* short-term investment vehicles.

On the equity or stock investment side of our business, our investing style is “Value.” The majority of our equity holdings tend to be in the \$1-\$10 billion market capitalization range (i.e. “medium capitalization” or “mid-cap”), but we will also invest in small-cap and large-cap stocks with compelling value. Because of KM’s focus on value investing, an investment with KM may not be a complete investment program for the equity portion of your portfolio.

When researching a stock, we evaluate it as if we were going to own the entire business for many years. We look for stocks we believe are undervalued relative to our evaluation of “intrinsic value” and possess certain characteristics we believe will lead to higher market prices over time. We rely primarily on our own fundamental research to identify attractive candidates for investment and use a number of proprietary and non-proprietary sources, including computerized fundamental databases, brokerage and other industry contacts and management interviews. In the fundamental research process, we review certain attributes we believe are important, such as:

- Strong, shareholder-oriented management;
- Strong balance sheet and financial characteristics;
- Low price to earnings ratio;
- Low price to earnings growth (*i.e.*, growth at a reasonable current price);
- Low price to free cash flow ratio;
- Current price reflects substantial discount from the liquidation or sale value of its underlying assets;
- Positive change in company and/or industry fundamentals; and
- Lack of following by a significant number of analysts or out of favor.

The securities we select typically possess some but not all of the above attributes. Finally, we look for a “catalyst” (such as a management change or financial restructuring) that we believe will close the gap between the stock’s current price and our evaluation of its “intrinsic value.” Current income from dividends is generally not a primary factor when we research stocks.

Stocks held in client accounts are subject to stock market risks and significant fluctuations in value. Investing in securities involves risk of loss that clients should be prepared to bear. The primary risk factors include:

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- **Stock Market Risk:** If the stock market declines in value, the stocks owned in client accounts are likely to decline in value. Increases or decreases in value of stocks are generally greater than for bonds or other debt investments.
  - **Mid-Cap/Small-Cap Risk:** Medium capitalization and small capitalization companies may not have the size, resources or other assets of large capitalization companies. These medium capitalization and small capitalization companies may be subject to greater market risks and fluctuations in value than large capitalization companies and may not correspond to changes in value of the stock market in general.
  - **Stock Selection Risk:** The stocks selected by KM may decline in value or not increase in value when the stock market in general is rising.
  - **Liquidity Risk:** KM may not be able to sell stocks at an optimal time or price.
  - **Foreign Investment Risk:** KM's foreign investments may increase or decrease in value depending on foreign exchange rates, foreign political and economic developments and U.S. and foreign laws relating to foreign investments. Many foreign securities are less liquid and their prices are more volatile than comparable U.S. securities. Foreign securities may be difficult to liquidate rapidly without adverse price effects. The costs of foreign investing also tend to be higher than the costs of investing in domestic securities.

Client accounts may also hold foreign equity securities, such as American Depositary Receipts ("ADRs"), which are receipts issued by a U.S. bank or trust company that evidence ownership of non-U.S. securities and are traded on a U.S. exchange or in the over-the-counter market. In addition, client accounts may hold shares of investment companies, including open-end and closed-end mutual funds and/or exchange-traded funds ("ETFs") that invest in foreign equity securities. There may be fees and expenses, in addition to our investment management fee, associated with investing in ADRs, open-end and closed-end mutual funds and ETFs. Shares of closed-end funds and ETFs may trade at a discount or premium to their net asset value in the secondary market. As noted above, foreign equity securities are subject to a variety of additional risk factors and other investment considerations

On the fixed income investment side of our business, we typically invest in intermediate maturity (5-10 years) High-Current-Yield Corporate, Investment Grade Corporate and U.S. Government/Agency debt. Our fixed income strategy is to assess the relative attractiveness of intermediate maturity high-current-yield corporate, investment grade corporate and United States Government/Agency securities and construct a portfolio blending these securities that offers what we believe is an attractive risk/return profile. We rely primarily on our own fundamental research.

High-current-yield corporate debt securities, sometimes known as "high yield bonds," "non-investment grade bonds" or "junk bonds," have been a significant component of our fixed income investment strategy and may comprise up to 100% of a client's fixed income portfolio. High-current-yield corporate debt securities typically offer a greater yield than comparable maturity investment grade corporate debt and United States Government/Agency securities. However, high-current-yield corporate debt securities have a **higher risk of default** than investment grade corporate debt and United States Government/Agency securities. In addition, the market for trading high-current-yield corporate debt is significantly less developed than are the markets for investment grade corporate debt or United States Government/Agency securities. The market for trading

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high-current-yield corporate debt securities is an “over-the-counter” market where the individual market-making brokers’ “bids” and “offers” are not updated and displayed on a continuous basis (as is the case with the NASDAQ National Market for over-the-counter stocks). The market for trading high-current-yield corporate debt securities is **inherently less “liquid”** than are the markets for trading investment grade corporate debt and United States Government/Agency securities. The market for trading high-current-yield corporate debt securities has experienced periods when it has been very difficult for us to effect transactions quickly and/or close to recent quoted price levels. In addition, while we will typically engage in a “block” purchase (typically \$1 million or more par value) of a high-current-yield corporate debt security, the “block” is allocated among individual client accounts for whom we determine the security is an appropriate investment. Accordingly, such allocations result in individual client accounts owning “non-block” or “odd lots” of bonds. These “non-block” or “odd-lot” positions may be extremely difficult, if not impossible, to sell quickly and/or at levels close to recent quoted “block” prices.

Corporate debt securities rated as investment grade by one or more of the major credit rating agencies (Standard & Poor’s, Moody’s Investor Service and Fitch Ratings) generally carry less risk of default than do securities that are unrated or carry ratings below investment grade, but more risk of default than U.S. Government/Agency securities. The trading market for investment grade corporate debt securities is typically an “over-the-counter” market where the individual market-making brokers’ “bids” and “offers” are not updated and displayed on a continuous basis. The market for trading investment grade corporate debt securities has experienced periods of “illiquidity,” which may make it difficult for us to effect transactions quickly and/or at the recent quoted price levels. In addition, similar to above, “non-block” or “odd lot” positions may be extremely difficult, if not impossible, to sell quickly and/or close to recent quoted “block” price levels.

The trading market for U.S. Government/Agency securities is generally highly liquid, is updated continuously and is readily available for us to view on quotation services such as Bloomberg. “Non-block” or “odd lot” positions are generally quickly salable at a small discount to recent quoted “block” price levels.

Client accounts may hold, to a limited extent, shares of investment companies, including open-end and closed-end mutual funds, exchange-traded funds (“ETFs”) and money market funds. Investment companies pay advisory fees to their investment advisors, which reduce the net asset value of the funds’ shares. Additionally, we charge our clients an advisory fee based on the value of their total portfolio, which may include investment company holdings. Therefore, if and to the extent a client’s account is invested in investment companies, ***the client may pay two levels of advisory fees for the management of the client’s assets, both directly to KM and indirectly through the management fees assessed by the investment companies in the client’s account.*** We do not intend to invest in such investment companies unless, in our judgment, the potential benefits of such investments justify the payment of any associated fees and expenses.

Client accounts range from asset allocations of 100% equities/0% fixed income to 0% equities/100% fixed income. Client accounts with similar asset allocations will generally hold the same or similar securities in the same or similar proportions. KM is a Portfolio Manager for Wrap Fee Programs sponsored by various Investment Adviser/Broker-Dealers. KM manages wrap fee program accounts in the same or similar manner as its regular client accounts. Under a wrap fee program, KM receives a portion of the wrap program fee from the wrap program sponsor (see Item 5). KM is able to accommodate client investment restrictions (including, but not limited to, restrictions such as no foreign holdings, no holdings in certain specified sectors or investment grade-rated debt only).

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As of December 31, 2010 KM managed \$418,200,000 on a discretionary basis (253 accounts). KM did not manage any client assets on a non-discretionary basis.

## Item 5 – Fees and Compensation

### KM's Fees

#### Kirr, Marbach & Company, LLC's Standard Fee Schedule for Investment Advisory Services

<u>Annual Rate of Compensation</u>	<u>Market Value of Assets Managed</u>
1.50%	First \$500,000
1.00%	Amount Over \$500,000
Negotiable	Over \$10,000,000

#### Kirr, Marbach & Company, LLC's Institutional Fee Schedule for Investment Advisory Services

<u>Annual Rate of Compensation</u>	<u>Market Value of Assets Managed</u>
1.00%	First \$10,000,000
0.75%	Next \$40,000,000
0.65%	Next \$50,000,000
0.50%	Amount Over \$100,000,000

All fees are subject to negotiation.

While most clients authorize KM to deduct fees directly from their account(s), clients may also elect to pay their fees separately without automatic fee deduction from their account(s).

The specific manner in which fees are charged by Kirr, Marbach & Company, LLC ("KM") is established in a client's written agreement with KM. KM will generally bill its fees on a calendar quarterly basis, *in advance*. In such cases, KM's fees for the quarter will be calculated by multiplying (a) the market value of the client's account (including cash and cash equivalents) as of the last day of the preceding quarter by (b) 25% of the Annual Rate of Compensation. For example, KM's fee for the calendar quarter ending June 30 will be billed in early April and will be based on the market value of the client's account as of March 31. KM will generally not adjust fees for capital contributions and/or withdrawals that may have been made during the quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee (based on the number of elapsed days during the account management period). Upon termination of an account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

KM is a Portfolio Manager for wrap fee programs sponsored by various investment adviser/broker-dealers (see Item 4). Under a wrap fee program, the sponsor will charge a client a specified fee or fees not based directly upon the transactions in the client's account. Services offered typically include investment advisory

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services, execution of client transactions, custody of client assets and reporting. To the extent KM is selected to serve as Portfolio Manager for a client who has established an account under a wrap fee program, KM will receive a fee from the wrap fee program sponsor that is less than our Standard Fee Schedule.

KM participates in Unified Managed Account platforms whereby we provide the sponsor with a model portfolio, which is kept current. The sponsor pays a fee to KM based upon the amount of the sponsor's client assets being managed utilizing KM's model portfolio. The fees KM receives from the sponsor under this arrangement are less than KM's Standard Fee Schedule.

#### Additional Third Party Fees and Costs

In addition to KM's fees (described on the previous page), clients will also incur in the course of KM's investment management of their account(s):

- Costs associated with securities transactions, such as brokerage commissions, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions; and
- Fees charged by brokers, banks or other qualified custodians for custody services.

Client accounts that purchase securities issued by investment companies, including open-end and closed-end mutual funds, exchange-traded funds ("ETFs") and money market funds, may incur sales charges or service fees to third parties in connection with such purchases, including deferred sales charges. Further, as discussed under Item 4, such investment companies may also charge internal management fees, which are disclosed in the applicable fund's prospectus.

These third party fees and costs are in addition to KM's fees. KM does not receive any portion of these fees and costs.

Item 12 further describes the factors that KM considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

Kirr, Marbach & Company, LLC 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) and therefore is not subject to conflicts of interest that might arise if it managed accounts on a performance-fee basis alongside other accounts that are managed on the fixed fee schedules described in Item 5.

### **Item 7 – Types of Clients**

Kirr, Marbach & Company, LLC provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, foundations, endowments, registered mutual funds, health care organizations and insurance companies.

In general, a separate KM client account needs to have a minimum of \$100,000. The minimum initial investment for the Kirr, Marbach Partners Value Fund is \$1,000.

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## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

**Investing in securities involves risk of loss that clients should be prepared to bear.**

For a discussion of KM's methods of analysis, investment strategies and risk of loss, please see Item 4.

For a discussion of risk of loss presented by investments in the Kirr, Marbach Partners Value Fund, please see the Prospectus dated January 3, 2011 (available by contacting KM at 812-376-9444 or at [www.kmpartnersfunds.com](http://www.kmpartnersfunds.com) )

## **Item 9 – Disciplinary Information**

This Item would require that KM disclose information if there existed any legal or disciplinary events that would be material to your evaluation of KM's advisory business or the integrity of KM's management. There are no such legal or disciplinary events.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Matthew D. Kirr, Senior Client Service Officer, is a registered representative of Quasar Distributors, LLC, the Distributor for the Kirr, Marbach Partners Value Fund ("Value Fund").

Kirr, Marbach & Company, LLC is the investment adviser to Value Fund. The registration statement for Kirr, Marbach Partners Funds, Inc. ("Funds"), an open-end investment company incorporated in Maryland, was declared effective on December 18, 1998. Funds commenced operations on December 31, 1998 by offering shares in Value Fund, which is a diversified equity portfolio concentrating on "mid-cap value" domestic equities. KM's investment advisory agreement with Funds provides for an investment management fee of 1% of Value Fund's average daily net assets. Mark D. Foster, KM's Chief Investment Officer, is President and a director of Funds. Mickey Kim, KM's Chief Operating/Compliance Officer, is Vice President, Treasurer, Secretary, Chief Compliance Officer and a director of Funds. Value Fund may buy, sell or hold the same type or class of security owned in KM advisory clients' accounts. KM employees and their families comprise a significant portion of the assets invested in Value Fund and participate on a pro-rata basis with all other shareholders

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Kirr, Marbach & Company, LLC ("KM") and Funds have adopted a Code of Ethics ("Code") under Rule 17j-1 of the 1940 Act that governs the personal trading activities of all owners and employees of KM. The Code is based upon the principle that KM and its owners and employees have a fiduciary duty to place the interests of KM's clients and shareholders of Value Fund above their own. The Code is designed to assure that the personal securities transactions, activities and interests of the owners and employees of KM will not interfere with (i) making decisions in the best interest of clients and/or Value Fund and (ii) implementing such decisions while, at the same time, allowing owners and employees to invest for their own accounts. KM will be pleased to provide a copy of the Code to any client or prospective client, upon request.

The Code permits KM owners and employees to purchase or sell securities for their own accounts, including securities that may be purchased or held by client accounts and/or Value Fund, subject to certain exceptions. To the extent KM owner(s) and/or employee(s) purchase or sell the same securities for their own account(s)

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as are purchased or held by client accounts and/or Value Fund, a conflict of interests may arise. For example, KM owners/employees could benefit from the knowledge that KM clients/KM Fund were contemplating a transaction in a specific security by trading that security ahead of KM clients/KM Fund (i.e. a practice known as “front running”). KM acknowledges and addresses this potential conflict of interest by generally prohibiting KM owners and employees from purchasing or selling *equity* securities that are also held in client accounts and/or Value Fund. KM has determined that KM owners’ and employees’ purchase or sale of *fixed income* securities that are also held in client accounts and/or Value Fund would not materially interfere with the best interest of KM’s clients and/or Value Fund. The Code requires all KM owners and employees to complete quarterly transaction reports, acknowledge receipt of the Code, provide an annual list of securities holdings and certify annually that they have complied with the Code. In addition, the Code requires KM owners and employees to pre-clear most securities transactions with KM’s Chief Compliance Officer. The Code also places other limitations on the acquisition of securities by KM owners and employees, including a ban on acquiring securities in an initial public offering, restrictions on the purchase of private placement securities and a prohibition from profiting on short-term trading in securities.

KM owners and/or employees may personally invest for their own accounts in private investment vehicles or accounts that are managed by unaffiliated investment managers or brokers. These investment vehicles or accounts may, without the knowledge, direction or control of KM owners and/or employees, purchase, hold or sell securities that are also purchased, held or sold by KM clients and/or Value Fund.

KM may advise its clients of the opportunity to purchase shares of Value Fund. This may create a conflict of interests, as KM has a financial interest in Value Fund as investment adviser to Value Fund and KM owners, employees and their families hold significant investments in Value Fund. Value Fund may trade in the same securities with KM client accounts on an aggregated basis when consistent with KM’s obligation to seek best execution. In such circumstances, KM’s policy is to treat Value Fund on a fair and equitable basis relative to all of its clients (see KM’s Allocation of Execution Opportunities Policy below). Thus, Value Fund and client accounts will share commission costs equally and receive securities at a total average price.

#### KM’s Allocation of Execution Opportunities Policy

KM’s policy is to allocate, to the extent operationally and otherwise practical, execution opportunities to each client (including Value Fund) over a period of time on a fair and equitable basis relative to its other client accounts without regard to the size of the client relationship, the fee structure of the client relationship or KM’s financial interest in the advisory client relationship (no client or group of clients is systematically either advantaged or disadvantaged). KM allocates execution opportunities based on numerous considerations including (but not limited to) cash availability and/or requirements, the time clients had funds available for investment or have had investments available for sale, investment objectives and restrictions, a client’s participation in other opportunities and relative size of portfolio holdings of the same or comparable securities. KM may place orders for the same security for different advisory clients at different times due to (but not limited to) the above considerations.

Where KM buys or sells the same security for two or more clients (including Value Fund), KM may place concurrent orders with a single broker to be executed as a single, aggregated “block” in order to facilitate orderly and efficient execution. Whenever KM does so, each client account on whose behalf an order was placed will receive the average price at which the “block” was executed and will bear a proportionate share of all transaction costs, based on the size of the client account’s order. While KM believes combining orders for accounts into an aggregated “block” will, over time, be advantageous to all participants, in particular cases the

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average price at which the “block” was executed could be less advantageous to one particular client account than if the client account had been the only account effecting the transaction or had completed its transaction before the other participants.

KM will typically place a single, aggregated “block” order to be executed when purchasing high-current-yield corporate debt securities, investment grade corporate debt securities and/or United States Government securities for client fixed income portfolios. The “block” is allocated to individual client accounts for which KM believes the security is an appropriate investment. Accordingly, such allocations result in individual client accounts owning “non-block” or “odd lot” positions. For high-current-yield corporate debt securities and investment grade corporate debt securities, these “non-block” or “odd lot” positions may be extremely difficult, if not impossible, to sell quickly and/or close to recent quoted “block” price levels. See also Item 4.

The need to liquidate, change asset allocation or otherwise raise cash in a client account may necessitate selling a position or part of a position in a security of a size that is not readily marketable. In order to facilitate the sale of the security, KM *may* arrange with a third party broker for one of KM’s client accounts to sell the security and one or more of KM’s client accounts to purchase the security. Such “agency cross transaction” will be contemplated *only* if KM’s judgment is that the transaction would be beneficial to *both* the client account(s) selling the security and the client account(s) purchasing the security. The ability to effect an agency cross transaction between client accounts may be a conflict of interest for KM in that it affords KM the opportunity to advantage/disadvantage clients. KM receives no compensation for effecting such agency cross transactions and has adopted a formalized policy and procedure designed to demonstrate KM’s impartiality to the account(s) selling and the account(s) purchasing the security. KM’s current intention is for agency cross transactions to be utilized on a *very* infrequent basis.

#### Initial Public Offering (IPO) Allocations

KM may participate in IPOs. The Statement of Policy above governs the allocation of IPOs, including those IPOs where KM anticipates the security will initially trade in the market at a premium (“hot issues”). An additional consideration that may be used in KM’s allocation of “hot issues” is the relative investment performance of a client account versus the index benchmarks and/or the average of all similar client accounts. In this case, a “hot issue” may be allocated to enhance the performance of client account(s) that are lagging. KM’s participation in IPOs (particularly “hot issues”) is extremely limited.

#### Item 12 – Brokerage Practices

In general, there are no limitations on KM’s authority to effect investment or brokerage decisions, except as agreed upon with the individual advisory client. KM has the duty to seek “Best Execution” when selecting brokers to effect securities transactions and has formed a Best Execution Review Committee (Mark Foster, CFA--Chief Investment Officer and Mickey Kim, CFA--Chief Operating/Compliance Officer) that monitors compliance. KM may consider the following factors in selecting brokers to effect securities transactions:

- (a) The quality of order execution offered by the broker.
- (b) The financial stability of the broker.
- (c) The broker’s responsiveness to KM.
- (d) The broker’s ability/willingness to accommodate “step outs” (see Directed Brokerage).

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(e) The commission rate or spread involved.

(f) To compensate the broker for proprietary research services that are provided by the broker to KM. Proprietary research services provided by brokers assist KM in making investment decisions and include written research reports on individual companies or industries, information on the U.S. and world economies, technical analysis of individual securities, access to brokerage security analysts, economists and strategists and the opportunity to attend broker-sponsored investment conferences.

(g) To compensate the broker for payment to third party vendors of research services and/or research/trading-related equipment. These services and equipment allow KM's portfolio managers and analysts instantaneous access to fundamental and technical information for thousands of domestic and foreign securities and assists traders in executing orders. These vendors currently include Bloomberg, Baseline, Wall Street Transcripts, The Leuthold Group, Vickers Stock Research, SmallCap Report, TheMarkets.com, the New York Stock Exchange and the American Stock Exchange.

#### Research and Other Soft Dollar Benefits

Items (f) and (g) in the list of factors set forth above are commonly referred to as "soft dollar" arrangements. These types of arrangements create an inherent conflict of interests between KM and its clients (including Value Fund). When KM uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, KM receives a benefit because KM does not have to produce or pay for the research, products or services. Further, KM may have an incentive to select a broker based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving the most favorable execution. In recognition of the brokerage and research services provided by a broker, either directly or through a third party vendor, KM may cause a client account to pay that broker a commission in excess of that which another broker may have charged for the same transaction. Brokerage commissions generated in a client's account may be used to pay for research services used by KM in managing other client accounts. Likewise, not all services provided by a broker may be used by KM in connection with the client account that paid commissions to the broker providing such services. Further, KM does not attempt to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. KM believes, however, that, over time, all of KM's client accounts will receive some benefit from the research and other products and services purchased with all other clients' brokerage commissions.

KM's Best Execution Review Committee meets quarterly to review trading and soft dollar issues, including to identify the brokers to which client brokerage transactions would be directed in exchange for soft dollar benefits that KM receives, and to determine if KM is meeting its duty to seek "best execution." KM believes that all of the above arrangements for which it receives an economic benefit satisfy the requirements of the "safe harbor" provided by Section 28 (e) of the Securities Exchange Act of 1934.

#### Brokerage for Client Referrals

KM may consider, in selecting brokers for execution of client transactions, whether such brokers (or third parties related to such brokers) refer clients to KM. This creates an inherent conflict of interests between KM and its clients (including Value Fund) in that KM may have an incentive to select a broker based on our interest in receiving client referrals, rather than our clients' interest in receiving the most favorable execution.

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KM did not direct client transactions to a particular broker, however, specifically in return for client referrals during its fiscal year ended December 31, 2010. If KM decides to direct client transactions to a particular broker in return for client referrals, it will be under the supervision of the Best Execution Review Committee.

#### Directed Brokerage

Clients may direct KM to effect securities transactions with a broker to compensate the broker for services provided to the client, either directly or indirectly, including, but not limited to, investment performance monitoring, economic advice and asset allocation advice. These could include instances where KM is a portfolio manager in a “wrap fee program” that is sponsored by the broker. In these client-directed brokerage arrangements, it is KM’s policy to not use brokerage from another client account to pay for services purchased under the arrangement. KM will follow the client’s instructions and **not seek Best Execution** on a directed brokerage execution. Further, clients directing brokerage will not benefit from participation in an aggregated “block” execution (see KM Allocation of Execution Opportunities Policy under Item 11), unless KM is able to arrange for a “step-out” (see below). As a result, a client that directs KM as to brokerage may incur greater costs in commissions and/or quality of execution, and the directed brokerage arrangement therefore may cost the client more money, than would be the case were KM to be given discretion to seek Best Execution.

#### “Step-Outs”

KM may direct an executing broker to “step-out” on a portion of an order to purchase or sell securities for client account(s). A “step out” trade occurs when the executing broker assigns a portion of an executed order to purchase or sell securities to another broker. “Step outs” may be utilized for reasons including, but not limited to, A) improving the quality of trade executions due to KM dealing with a smaller number of brokers KM believes offer a higher level of service, B) avoiding the need to break-up “block” transactions, C) as an efficient means of compensating brokers for soft dollar research services provided to KM either directly or through a third-party vendor, D) reduce the need to “sequence” trades or E) as an efficient means to accommodate client directed brokerage instructions.

#### Aggregation of Client Purchase and Sale Orders

Where KM buys or sells the same security for two or more clients (including Value Fund), KM may place concurrent orders with a single broker to be executed as a single, aggregated “block” in order to facilitate orderly and efficient execution. See KM Allocation of Execution Opportunities Policy under Item 11 for a discussion of the conditions under which such aggregated orders will be considered by KM.

KM’s Relationship with Charles Schwab & Co., Inc. (“Schwab Institutional”)—See Item 15

#### Conclusion

In general, KM believes that the brokerage commissions its clients (including Value Fund) pay approximate industry averages.

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## Item 13 – Review of Accounts

Darrell (Kip) Wright and/or Matthew Kirr and/or David Kirr (Part-time), Senior Client Service Officers, and/or Mark Foster, Chief Investment Officer, review client accounts on an ongoing basis as part of the portfolio management process. Such reviews are conducted at least quarterly. One of their primary tools is KM’s proprietary portfolio management system (“Scarlet”) that details client account holdings and invested levels and tracks investment performance.

Each month, clients receive a statement detailing asset holdings and transactions directly from the broker-dealer, bank or other qualified custodian that holds and maintains client’s investment assets.

Each quarter, clients receive written statements prepared by KM detailing holdings and investment performance versus the benchmark S&P 500 Index, Russell 3000 Index and Barclays Intermediate Government/Credit Index. Benchmarks are blended for balanced accounts (i.e. accounts holding both equities and fixed income). Performance is calculated for the current year-to-date and Since Inception of the account. KM also produces a quarterly newsletter discussing our outlook on the economy, the state of the financial markets and our investment strategy. Finally, clients are contacted by phone each quarter to discuss KM’s investment performance, our outlook for the financial markets and any other topic clients would like to explore.

We are pleased to discuss any topic of interest to a client at the client’s convenience.

## Item 14 – Client Referrals and Other Compensation

KM receives certain soft-dollar benefits as a result of its allocation of brokerage to certain brokers (as discussed under Item 12), but KM does not otherwise receive economic benefits for its providing of investment advice or other advisory services to its clients from a party other than its clients. Further, KM does not currently have a “referral,” “solicitation,” or “third-party marketing agreement” with any person or company. In the past, KM has entered into written agreements with persons/companies whereby KM has provided cash compensation in return for providing marketing services and/or client referrals. These written agreements were designed to comply with SEC Rule 206(4)-3 (the “Cash Solicitation Rule”). If KM enters into a client referral, solicitation or third-party marketing agreement in the future, such written agreement(s) will also be designed to comply with the Cash Solicitation Rule.

## Item 15 – Custody

KM clients receive monthly statements directly from the broker-dealer, bank or other qualified custodian that holds and maintains client’s investment assets. **KM urges you to carefully review such statements and compare such official custodial records to the quarterly account statements that we provide to you.** Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### KM’s Relationship with Charles Schwab & Co., Inc. (“Schwab Institutional”)

KM selected Schwab Institutional as a “preferred provider” of custodial services to our clients in 2008.

We may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (“Schwab Institutional”) a registered broker-dealer, to maintain custody of clients’ assets and to effect trades for their accounts. KM and Schwab Institutional are separate, unaffiliated entities.

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Schwab Institutional provides KM with access to its institutional trading and operations services typically not available to Schwab's retail customers. These services generally are available to independent investment advisors at no charge so long as a total of at least \$10 million of the Applicant's clients' account assets are maintained at Schwab Institutional. Schwab Institutional's services include brokerage, custody, research, access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. Schwab Institutional also makes available to KM other products and services that benefit KM. Some of these other products and services assist KM in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of KM's fees from its clients' accounts and assist with back-office support, record keeping and client reporting.

Schwab Institutional provides various products, services and other benefits to KM at no cost or a reduced cost basis based upon KM's commitment that KM's clients will place or maintain a specified dollar amount of assets in accounts with Schwab Institutional within a specified period of time. This creates a conflict of interest between KM and its clients in that KM may be influenced by this commitment in recommending that clients establish brokerage accounts at Schwab Institutional.

The products and services or other benefits provided by Schwab Institutional include payments offsetting the fees otherwise payable by KM for the following products and services: (1) software which, among other things, provides accounting and performance reporting, including an associated one year maintenance fee; and (2) software which automates and monitors office activities, including tracking client correspondence and documents.

Some of the products, services and other benefits provided by Schwab Institutional benefit KM and may not benefit KM's clients' accounts. These benefits may include educational events organized and/or sponsored by Schwab Institutional and occasional business entertainment of KM which may include meals and attendance at sporting events and concerts. KM's recommendation that a client place assets in Schwab Institutional's custody may be based in part on benefits to KM, and not solely on the nature, cost or quality of custody and execution services provided by Schwab Institutional.

#### Item 16 – Investment Discretion

KM typically receives discretionary authority from the client at the outset of an advisory relationship (via the investment advisory agreement) to select, purchase and sell securities for the client's account.

KM will observe limitations and/or restrictions placed by the client on managing the account (See Item 4).

#### Item 17 – Voting *Client Securities*

KM adopted its Proxy Voting Policies and Procedures, effective August 6, 2003 (the "Policy"). Briefly, KM has retained RiskMetrics/Institutional Shareholder Services (ISS), via its ProxyExchange platform, to act as voting agent. RiskMetrics/ISS is the world's leading provider of proxy voting and corporate governance services. RiskMetrics/ISS is responsible for research and recommendations on proxy issues, casting proxy votes and the record keeping of proxy votes. RiskMetrics/ISS has published the Proxy Voting Guidelines Summary, which covers how RiskMetrics/ISS recommends voting on a wide range of issues. KM has incorporated the RiskMetrics/ISS Summary into the Policy and our general policy is to follow RiskMetrics/ISS

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recommendations. The Policy also addresses how potential or actual material conflicts of interest in proxy voting are handled. KM has formed a Proxy Voting Committee (Mark Foster, Chief Investment Officer and Mickey Kim, Chief Operating/Compliance Officer) to administer the Policy and its procedures.

Unless directed otherwise by the client, KM will vote client securities. If a client would like to cast its vote(s) contrary to RiskMetrics/ISS recommendation(s), KM is able to accommodate that. In this circumstance, the client should issue this instruction by contacting Mickey Kim, CFA, Chief Operating/Compliance Officer.

It will be our pleasure to provide you with information on how your securities were voted and/or a copy of KM's Proxy Voting Policies and Procedures, promptly upon written request and at no charge. Please address requests for further information to Mickey Kim, CFA, Kirr, Marbach & Company, LLC, 621 Washington Street, Columbus, IN 47201.

### **Item 18 – Financial Information**

KM has no financial commitment or condition that is reasonably likely to impair its ability to meet its contractual commitments to its clients, KM has never been the subject of any bankruptcy proceeding.