

Part 2A of Form ADV: Firm Brochure

**Halyard Asset Management
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March 31, 2012

This brochure provides information about the qualifications and business practices of Halyard Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at 914-437-5600 or by e-mail at info@halyardmgmt.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Halyard Asset Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about the Adviser also is available on the SEC's website at www.adviserinfo.sec.gov.

This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a private placement memorandum and related subscription materials.

2. Material Changes

Halyard Asset Management LLC's Brochure has been updated and note the following material change has occurred since the last annual update of the Brochure on March 31, 2011: Discretionary assets under management increased from \$329,870,553 to \$376,786,445.

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

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4. Advisory Business

Halyard Asset Management, LLC (*Halyard* or *we*) provides investment advisory services with a focus on fixed income assets to its clients on a discretionary basis. Halyard was launched and began managing assets on September 1st, 2010. The owners are Michael Kastner, Steven Boyd, and Dunn Capital Management, LLC, with each party owning greater than 25% each of Halyard. Dunn Capital Management is a commodity trading advisor and manages private investment funds organized primarily to invest in futures. Halyard is an investment adviser registered with the United States Securities and Exchange Commission (SEC).

Halyard manages its client's assets in either separately managed accounts or in a pooled investment vehicle. The separately managed accounts are generally managed in two general separate account strategies which are customizable and tailored to the specific needs and objectives of the client. Clients may impose restrictions with regard to, but not limited to, individual holdings, credit ratings, duration, sector, or industry. For U.S. taxpayers we offer a municipal bond version of each, and for non-tax-paying entities, we employ taxable securities. However, from time-to-time we will cross over into either taxable or tax-exempt securities if we deem it beneficial to the client to do so.

Advisory Services in Separately Managed Accounts

We typically manage separately accounts in two general strategies:

- Intermediate Fixed Income – Generally a portfolio of investment grade fixed income securities, benchmarked to the Barclay's Aggregate Bond Index.
- Reserve-Cash-Management – Designed to provide an alternative to money market funds with the primary objective of preserving principal, and secondarily providing liquidity.

Advisory Services in Pooled Investment Vehicles

Halyard is also the investment adviser and general partner to the Halyard Fixed Income Fund, L.P. (the **Fund**), a domestic limited partnership. The Fund is a pooled investment vehicle and is not registered under the Investment Company Act of 1940. Interests in the Fund are not registered under the Securities Act of 1933 or the Securities and Exchange Act of 1934. Accordingly, interests in the Fund are offered and sold exclusively to institutions and high net worth individual investors satisfying the applicable eligibility and suitability requirements in private transactions within the United States.

The objective of the Fund is to generate a total return in the fixed income market that is consistent with preservation of capital and prudent investment management. Halyard uses multiple strategies to access the fixed income markets including direct investments and allocations to sub-advisors in the fixed income sector. The Fund is offered pursuant to a private offering memorandum which contains important and detailed information concerning an investment in the Fund. Each client or prospective client should carefully review and consider the terms and conditions contained in the private offering memorandum of the Fund.

Halyard does not participate in any wrap fee program.

As of December 31, 2011, the Adviser managed approximately \$376,786,445 million in assets on a discretionary basis.

5. Fees and Compensation

The specific manner in which Halyard charges fees is established in a client's written investment advisory or subscription agreement which the client executes at the outset of the advisory relationship.

Advisory Fees

Separately Managed Accounts

Halyard receives a management fee for providing investment advisory services to separately managed client accounts based on the amount of assets under management. The fees are charged and collected on a monthly basis in arrears, based on the market value of the client's account on the last day of the period, according to the following schedule:

Strategy	Fee
Reserve Cash Management Strategy	<ul style="list-style-type: none">▪ 35 basis points per year (0.35%) on the first \$50 million▪ 25 basis points per year (0.25%) over \$50 to \$100 million▪ 19 basis points per year (0.19%) over \$100 million
Intermediate Fixed Income Strategy	<ul style="list-style-type: none">▪ 50 basis points per year (0.50%) on the first \$50 million▪ 35 basis points per year (0.35%) over \$50 to \$100 million▪ 25 basis points per year (0.25%) over \$100 million

For the initial period, the fee will be based on the market value of the assets in the client's account on the last day of the month and will be prorated based on that portion of the period during which the investment advisory agreement is in effect. All clients authorize the Adviser to directly debit fees from their accounts. A client will typically be able to terminate an investment advisory agreement at any time upon 30 days' prior written notice. For fees paid in arrears, the client will be billed for the pro-rata portion of fees to the termination date. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Although fees

are generally not negotiable, Halyard reserves the right to charge a fee different than what is quoted above.

In connection with the management of separately managed accounts, clients may select the provider to provide custody services for such client account. Halyard generally recommends clients to select Pershing Advisor Solutions (**Pershing**), a BNY Mellon Company, to provide custody services. For those client accounts that select Pershing as their custodian, Pershing deducts a custody fee directly from the client's account on a monthly basis. Clients who select a different provider for custody services, will be charged a fee on terms determined by the selected custodian.

The Fund

The Fund is offered pursuant to a private offering memorandum which contains important and detailed information concerning, among other things, the fees, terms of withdrawal and redemption for an investment in the Fund. In general, no withdrawal or redemption is permitted other than according to the terms of the governing documents of the Fund, subject to the right in some cases of Halyard, in its sole discretion, to waive the requirements for investors on a case by case basis. Each client or prospective client should carefully review and consider the terms and conditions contained in the private offering memorandum of the Fund.

The Fund charges each client a management fee in the amount of 0.35% of the value of the client's account per year. An allocable portion of the management fee is automatically deducted from each relevant client's account at the end of each month.

As part of a client's investment strategy (including the Fund), Halyard may, from time to time, invest in a non-affiliated mutual fund or exchange-traded fund. In such an instance, the Fund would incur the additional management fees and expenses, if any, of such an investment. Clients invested in the Funds will also be charged other fees and expenses of the Fund on a pro rata basis in accordance with their respective balances. Expenses borne by the Fund typically include audit, legal and administrative fees, and other Fund related expenses.

Other Expenses

Halyard's fees described above are exclusive of brokerage commissions, transaction fees, and other related costs and expenses that shall be incurred by the client (including the Fund). Clients may incur certain charges imposed by custodians, brokers, third party investment professionals and other third parties such as custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to Halyard's fee.

Please see **Item 12 "Brokerage Practices"** as it further describes the factors that Halyard considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

Halyard does not accept compensation for the sale of securities or other investment products to its clients.

6. Performance-Based Fees and Side-By-Side Management

Halyard currently does not charge or accept a performance-based fee from any of its clients.

7. Types of Clients

Halyard provides investment advisory services to high net worth individuals and families, charitable organizations, trusts, pension plans and other institutional investors. The minimum account size for a separately managed account is \$5 million and the minimum subscription for the Fund is \$250,000. Halyard may waive the minimum account and subscription requirements at its sole discretion.

8. Methods of Analysis, Investment Strategies and Risk of Loss

Halyard's investment process is primarily based on intensive research and focused on investing in fixed income securities. The process for constructing a portfolio involves both top-down economic analysis and bottom-up security selection. On an ongoing basis, the Halyard investment team studies the trend and composition of GDP, inflation, real interest rates, and the shape of the yield curve. From this analysis, we develop our internal views for U.S. Treasury rates (risk-free rate) six months and twelve-months forward, as well as our view on the shape of the yield curve. We evaluate the expected impact of our views on the various sub-categories of the fixed income investment universe including, but not limited to high-yield, investment grade, asset-backed, mortgage-backed, and floating rate securities. We believe that this analysis forms a significant input into the allocation made to each of those fixed income sub-categories. Building upon our expectation for interest rates and the expected performance of the various fixed income sub-categories, a bottom-up analysis of each security within each such sub-category is performed. The study includes analysis of company's financial statements and SEC filings, third-party credit analysis services, and other reports.

Investing in securities involves risk of loss that clients should be prepared to bear. The risks include, but are not limited to, the possibility that the market value of an investment may decline, that a debt issuer becomes insolvent, or restructures the terms of repayment of interest, principal, and/or both. In the instance where an investment is made to a third party mutual fund, ETF or similar investment vehicle, the risk of redemption delay or suspension would be in addition to all of the risks discussed. These risks are described in greater detail as follows:

- Interest Rate Risk: refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed-rate debt securities) and directly (especially in the case of debt instruments whose rates are adjustable). In general, rising interest rates will negatively

impact the price of a fixed-rate debt instrument and falling interest rates will have a positive effect on price. Adjustable-rate instruments also react to interest rate changes, although generally to a lesser degree, depending on the characteristics of the reset terms, including the index chosen, frequency of reset, and reset caps or floors, among other factors. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

- Default Risk: refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing default risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Default risk may change over the term of an instrument, and debt obligations that are rated by rating agencies are often reviewed and may be subject to downgrade.
- Credit spread Risk: The difference between the risk free U.S. government rate and the rate offered by a credit-related debt instrument is known as the credit spread. That spread will fluctuate based on a number of factors including, but not limited to the credit quality of the issuer, the health of the economy, and the strength of the industry in which the issuer operates. The change in that spread may have a positive or negative effect on the price of a fixed income instrument.
- Redemption Risk: The managers of third party mutual funds in which the Fund may invest or Halyard may fail to anticipate the amount of redemptions requested by investors for a given redemption period, particularly during abnormal market conditions, and withdrawal restrictions may be imposed by Halyard and/or the managers of third party mutual funds as a result.
- Key Man Risk: Key individuals responsible for investment decisions at Halyard or the managers of third party mutual funds may become incapacitated or unable to perform their duties.
- No Public Market: There is no public market for the interests in the Fund, and are therefore less liquid than publicly traded securities.

Investments in the Fund or separately managed accounts are speculative and involve a substantial degree of risk, including the risk that a client could lose some or all of its investment. An investment in the Funds or a separately managed account should be made only after consulting with independent, qualified sources of investment, legal, tax, accounting and other advice. The private offering memorandum of the Fund includes a detailed discussion of the risk factors associated with investing in a Fund. Each client or prospective client should carefully review and consider the terms and conditions contained in the private offering memorandum of the Fund.

9. Disciplinary Information

Halyard does not have any material legal or disciplinary events to disclose with respect to itself or its employees.

10. Other Financial Industry Activities and Affiliations

Neither Halyard, nor any of its employees is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Dunn Capital Management LLC (**Dunn**), a commodity trading advisor registered with the Commodities Futures Trading Commission, has a 49% ownership interest in Halyard. In addition, Halyard also manages certain assets for Dunn on a discretionary separate account basis pursuant to an investment management agreement between Halyard and Dunn. The Chief Financial Officer of Dunn also serves as the Chief Financial Officer of Halyard. It is Halyard's policy not to disclose any non-public information regarding purchase and sales for client accounts with personnel of Dunn. Halyard has established procedures in place to ensure that Dunn personnel are not in a position to have same-day information about client securities transactions or holdings that can be exploited for their advantage. In addition, Dunn personnel are not involved in making securities recommendations to clients, and do not have access to such recommendations that are non-public.

Halyard has material business relations with the following affiliated entities (none of which is a registered investment adviser):

- Halyard is the General Partner of Halyard Fixed Income Fund LP.
- BTS, L.P., a commodity pool managed by Dunn, is an investor in the Halyard Fixed Income Fund LP.

Halyard does not believe that the relationships with these entities cause a conflict of interest with clients.

Halyard does, from time to time, recommend or select other third-party investment advisers for our client accounts or the Fund. We do not receive direct or indirect compensation from such advisers, nor do we believe our investment in those advisers creates a conflict of interest.

11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

As an investment adviser, Halyard stands in a position of trust and confidence with respect to our clients. Accordingly we have a fiduciary duty to place the interests of clients before the interests of Halyard and our employees. In order to assist Halyard and our employees in meeting our obligations as a fiduciary, Halyard has adopted a Code of Ethics. All supervised persons (firm's partners, members, officers, directors and employees) must acknowledge the

Code of Ethics annually, or as amended. Supervised persons should understand that the Code of Ethics apply to all conduct, whether or not the conduct also is covered by more specific standards or procedures set forth below. Failure to comply with the Code of Ethics may result in disciplinary action, including termination of employment.

Persons subject to the Code of Ethics are subject to, among other things, various restrictions relating to the acquisition by them of securities. These restrictions include pre-authorization and disclosure requirements, restrictions on same-day trading, and general prohibitions on transactions in securities in certain circumstances, including:

- when in possession of inside information;
- transactions in securities of issuers on the Adviser's restricted list or during specified blackout periods;
- transactions in securities at a time when the employee intends, or knows of another employee's intention, to purchase or sell that security or an equivalent security on behalf the Fund or other advisory client;
- transactions in securities in which Adviser is placing a transaction on behalf of a Funds or other client within a certain number of business days of such order being placed by Adviser for the Fund or other client account; and
- acquisition of securities in initial public offerings.

There are also restrictions on the acquisition by persons subject to the Code of Ethics in private placements, which acquisitions require the prior approval of Halyard's chief compliance officer and the satisfaction of certain conditions.

The Code of Ethics also addresses the fiduciary duties expected of the persons subject to the Code of Ethics, including confidentiality obligations, gift and corporate opportunity policies, and restrictions on outside business activities.

Personal Trading

Halyard anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts, and will recommend to investment advisory clients or prospective clients, to purchase or sell securities in which Halyard, its employees, affiliates and/or clients, directly or indirectly, may have a position of interest. Halyard's supervised persons are required to follow the Code of Ethics. Subject to satisfying this policy and applicable laws, supervised persons may trade for their own accounts in securities which are recommended to and/or purchased for Halyard's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Halyard will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Halyard's clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same

securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Halyard and its clients.

Halyard may also from time to time, recommend clients invest in or redeem from, securities or investment products in which Halyard or its affiliates have a financial interest as the investment manager, general partner or co-investor. Halyard may also recommend that clients invest in the Fund of which Halyard is the general partner.

From time to time certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Halyard's obligation of best execution. Halyard will retain records of the trade execution (specifying each participating account) and its allocation.

It is Halyard's general policy to avoid engaging in any principal transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between the Fund and another client account. An agency cross transaction occurs when an investment adviser or its related persons acting as either a registered broker-dealer or through an affiliated broker-dealer executes for a fee a transaction between an advisory client and a client of the broker-dealer. Halyard does not currently engage in agency cross transactions.

From time to time, Halyard may determine that it is in the best interest of its clients to cross trade securities between advisory client accounts (including the Fund). Halyard may cross trade between client accounts by locating an independent broker-dealer to execute such a cross trade and Halyard will not receive any compensation from such a transaction.

Clients and prospective clients may obtain a copy of the Code of Ethics by addressing a request to the Halyard's Chief Compliance Officer, 50 Main Street, 9th Floor, White Plains, NY 10606.

12. Brokerage Practices

Both for purchases and sales of securities, Halyard will attempt to maintain trading relationships with broker-dealers that Halyard believes will provide the best availability of securities and the best execution over time. In general, Halyard will apply the same criteria with respect to all clients in assessing quality and cost of trade execution and will not, unless directed by a client, make intentional distinctions in the way trades are executed among different clients' accounts.

Halyard will place trades for execution only with approved brokers-dealers. The factors to be considered in selecting and approving brokers-dealers that may be used to execute trades for client accounts include, but are not limited to:

- Overall costs of a trade (*i.e.*, net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of Halyard's knowledge of negotiated commission rates currently available and other current transaction costs
- Trading expertise and quality of execution - accurate and timely execution, clearance and error/dispute resolution
- Reputation, financial strength and stability
- Integrity and ability to maintain confidentiality of client's trading program
- Block trading and block positioning capabilities
- Willingness to execute difficult transactions
- Willingness and ability to commit capital
- Access to underwritten offerings and secondary markets
- Ongoing reliability
- Nature of the security and the available market makers
- Desired timing of the transaction and size of trade
- Confidentiality of trading activity
- Market intelligence regarding trading activity
- The receipt of brokerage or research services

Halyard does not have any soft dollar arrangements. Furthermore, Halyard does not intend to direct trades in recognition of research provided by a dealer. Halyard will not pay a higher dealer "spread" or otherwise utilize client funds to compensate dealers for the provision of research or trading advice, and (to the extent, if at all, that Halyard engages in brokerage transactions on behalf of clients) Halyard will not pay higher brokerage commissions in executing client transactions in order to obtain research services or trading advice from securities brokers.

By virtue of conducting business with broker-dealers, Halyard may receive certain economic benefits from such broker-dealers, which would not be received if it did not transact through such broker-dealers. These benefits may include, but are not limited to: access to an electronic communication network for order entry and account information; receipt of proprietary research; and participation in broker-dealer sponsored research and capital introduction conferences. Broker-dealers generally provide these services at no additional cost. Halyard understands that the benefits received through its relationship with the broker-dealers generally do not depend upon the amount of transactions directed to, or amount of assets

custodied by, the broker-dealers. It is the understanding of Halyard that broker-dealers do not set discrete prices for such products and services. Accordingly, Halyard does not separately compensate these broker-dealers for the provision of these services.

Halyard does not receive client referrals from broker-dealers or third parties and does not permit clients to direct trade execution to specified broker/dealers or individual brokers.

Order Aggregation & Allocation Policy

Halyard may, in its discretion, combine orders for different client accounts for execution together as a batch or block trade.

Halyard seeks to allocate investment opportunities among clients in the fairest possible way taking into account clients' best interests, investment objectives, and restrictions. Certain clients share similar investment strategies and objectives while others differ. To this end, at times, a particular investment may be deemed suitable for one client, but not another.

When allocating trades among clients and when making a determination as to whether to allocate an order to a client, whether to include a particular client in an aggregated order involving multiple clients, and/or as to what level of participation in an order, Halyard will consider a number of factors. Those factors include, but are not limited to net investment exposures, risk tolerances, investment objectives and policies, investment guidelines, cash availability, liquidity requirements, investor contributions and redemptions, legal or regulatory restrictions, tax considerations, and the nature and size of the aggregated order. Accordingly, not all clients, even clients that have the same or similar investment strategies will participate in the allocations of investment opportunities of all other clients.

If the execution occurs at multiple prices, the average price may be allocated to each account that participated in the order. Thus, the effect of the batch or block trade may on some occasions prove disadvantageous to a particular client, and on other occasions, advantageous to the same client. This is done to obtain favorable execution, including access to lower commissions and better pricing on the orders. Accounts that do not participate in the batch or block trade that are separately executed generally will not receive the same price or be charged the same brokerage commissions as those combined in the large batch or block trade, and their execution price and brokerage fees often will not be as favorable as those obtained in the large block or batch trade.

On occasion, the Firm will not be able to purchase or sell all of the securities ordered as part of an aggregated order. If the order is partially filled, it will generally be allocated pro rata in proportion to the size of the orders placed for the accounts to the extent practicable based on the allocation statement prepared by the traders.

At times, Halyard may deviate from the allocation basis because (a) a pro rata allocation would result in a *de minimis* allocation to certain accounts, or an amount less than the minimum denomination available for a particular security; (b) the allocation would result in unbalancing the diversification of the portfolio (based on factors including, but not limited to, industry,

geography, issuer, and credit quality); (c) it is necessary to avoid “odd-lots” or “minimum trading lots”; or (d) other factors in the Halyard’s professional judgment.

Halyard will follow the above delineated procedures to help ensure that allocations do not reflect a practice of favoring or discriminating against any client or group of clients.

13. Review of Accounts

Mr. Kastner and Mr. Boyd, co-investment managers of Halyard review all client accounts on at least a semi-annual basis to ensure consistency with client objectives. In addition, Messrs. Kastner and Boyd periodically convene an Investment Committee to discuss the macro-economic environment as it relates to the relative value of the capital markets. From that discussion, the Investment Committee calibrates investment strategy and portfolio construction details including target duration, yield curve position, sub-asset class allocation, industry exposure and individual security selection. The Investment Committee conversations are supplemented by portfolio monitoring/exposure reports generated by the investment team. The portfolio monitoring reports provide the exposure by strategy, asset type, industry, geography and other statistics relevant to professional asset management. Clients are allowed the option to access their respective account’s portfolio monitoring reports by accessing a password protected website of the portfolio management system provider.

Clients who maintain a custodial relationship with Pershing receive monthly reports directly from Pershing. Clients who do not custody through Pershing, will receive monthly reports from their respective custodians.

Clients who have invested in the Fund receive monthly capital account statements for their investment in the Fund directly from Gemini Fund Services, the administrator of the Fund. Clients in the Fund also receive annual financial statements audited by the auditors to the Fund and, if applicable, the information necessary for the client to complete its annual federal income tax returns. Additionally, Halyard distributes no less than quarterly, written updates of the the Fund and the relevant markets to all clients.

In addition, as part of Halyard’s overall compliance function, the chief compliance officer conducts periodic client account reviews, which may be comprehensive or on a sample basis.

14. Client Referrals and Other Compensation

Halyard does not currently compensate others for client referrals.

In the future, Halyard may enter into marketing arrangements with third-party solicitors, under which Halyard will pay placement fees as compensation to the third-party solicitors for referring clients to Halyard. The fees will generally be based on a percentage of the fees earned by Halyard from the account of the client referred by the third-party solicitor.

If Halyard pays a cash fee to anyone for soliciting clients on its behalf, Halyard will comply with the requirements of the SEC’s cash solicitation rule. This rule requires a written

agreement between the investment adviser and the person soliciting clients on its behalf. The rule also requires that an unaffiliated solicitor provide a disclosure document to the potential client at the time that the solicitation is made. As required by the rule, Halyard will not engage another person to solicit clients on its behalf if that person has been subject to securities regulatory or criminal action within the preceding ten years. Clients will not be charged additional fees or sales charges as a result of Halyard's payment of any such referral fees to third parties.

15. Custody

Separately Managed Accounts

Halyard may be deemed to have constructive custody of client assets as clients have authorized Halyard to directly debit fees from their accounts. Halyard does not have actual custody of funds or securities held by clients in separately managed accounts. Clients who have entered into a custodial arrangement with Pershing will receive monthly account statements directly from Pershing. Clients who do not custody through Pershing, will receive monthly reports from their respective custodians. Halyard does not distribute monthly account statements. We urge our clients to carefully review the monthly account statements provided by Pershing or their respective custodian regularly to ensure accuracy.

The Fund

Halyard may be deemed to have constructive custody of client assets invested in the Fund as a result of fee payments or the service of Halyard as general partner to the Fund. Actual custody of clients assets invested in the Fund, however, is at a broker-dealer, bank or trust company, not at Halyard. Accordingly, to meet the requirements of the custody rule, the Fund is subject to an annual audit in accordance with generally accepted accounting principles conducted by an independent public accountant registered with the Public Company Accounting Oversight Board and the audited financial statements are distributed to investors in the Funds within 120 days of the end of the Fund's fiscal year.

16. Investment Discretion

Halyard provides its investment advisory services on a discretionary basis. The authority is established through the investment management or subscription agreements completed and executed by each client of Halyard at the outset of the advisory relationship. When selecting securities and determining amounts, Halyard observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to Halyard in writing.

The client agrees to inform Halyard promptly in writing of any change in their financial circumstances and investment objectives and to provide such other information as may be needed to manage the account.

17. Voting Client Securities

Halyard Asset Management as fully discretionary managers of the Fund and its client accounts may, from time to time, have authority to vote proxies relating to securities held by the Fund or client accounts on behalf of the Fund and accounts.

Halyard has adopted proxy voting policies and procedures to guide Halyard's exercise of this responsibility on behalf of the Fund and other client accounts. Information on the proxy voting record of Halyard is available upon request. The co-investment managers are responsible for making all proxy voting decisions in accordance with these proxy voting policy and procedures. The co-investment managers are responsible for the actual voting of all proxies in a timely manner, while the chief compliance officer is responsible for monitoring the effectiveness of the proxy policy.

The co-investment managers review the issue and votes in accordance with the best interests of the Fund and client accounts. With respect to issues that are subject to a vote by proxy, it is the policy of Halyard to discuss each of these issues to determine its position on a case by case basis. Halyard may, from time to time, determine that it is in the best interests of its clients to depart from specific policies described herein. The rationale for any such departure will be documented by the chief compliance officer.

At times, conflicts may arise between the interests of the Fund or other client accounts, on the one hand, and the interests of Halyard or its affiliates, on the other hand. If Halyard determines that it has, or may be perceived to have, a conflict of interest when voting a proxy, Halyard will address matters involving such conflicts of interest as follows:

- A. If a proposal is addressed by the proxy policy herein, Halyard will vote in accordance with such policy;
- B. If Halyard believes it is in the best interest of the Fund or accounts to depart from the proxy policy provided for herein, Halyard will be subject to the requirements of C or D below, as applicable;
- C. If the proxy proposal is (1) not addressed by the proxy policy or (2) requires a case-by-case determination by Halyard, then it may vote such proxy as it determines to be in the best interest of the Fund or accounts, without taking any action described in D below, provided that such vote would be against Halyard's own interest in the matter (*i.e.*, against the perceived or actual conflict). Halyard will document the rationale of such vote; and
- D. If the proxy proposal is (1) not addressed by the proxy policy or (2) requires a case-by-case determination by Halyard, and Halyard believes it should vote in a way that may also benefit, or be perceived to benefit, its own interest, then Halyard must take one of the following actions in voting such proxy: (a) delegate the voting decision for such proxy proposal to an independent third party; (b) delegate the voting decision to an independent committee of partners,

members, directors or other representatives of the Fund or accounts, as applicable; (c) inform the investors in the Fund or the owners of the accounts of the conflict of interest and obtain consent to (majority consent in the case of the Fund) vote the proxy as recommended by Halyard; or (d) obtain approval of the decision from Halyard's external legal counsel.

Upon request, clients may obtain a copy of our proxy voting policies and procedures as well as information about how we voted upon any proxy.

18. Financial Information

This section is not applicable to Halyard as Halyard does not charge or solicit pre-payment of \$1200 in fees per client six or more months in advance.

19. Requirements for State-Registered Advisers

This Item 19 is not applicable to Halyard.