

# Part 2A of Form ADV: Firm *Brochure*

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## **Halyard Capital Management, LLC**

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This Brochure provides information about the qualifications and business practices of Halyard Capital Management, LLC ("*Halyard*" or the "*Firm*"). If you have any questions about the contents of this Brochure, please contact us at (212) 554-2121 or [info@halyard.com](mailto:info@halyard.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.

Though Halyard is a "registered investment adviser," this statement does not imply a certain level of skill or training.

**March 2015**

## **Item 2: Material Changes**

This Brochure, dated March 2015, is an updated document prepared by Halyard as an other-than-annual amendment to its prior Brochure prepared in March of 2014.

Item 2 discusses material changes since the March 2014 annual update.

### **Chief Compliance Officer**

During fiscal year 2014, Bruce Eatroff was named as the Firm's Chief Compliance Officer. Bruce Eatroff is also the Firm's Founding Partner.

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## Item 4: Advisory Business

- A. Halyard is an investment adviser whose clients are private pooled investment vehicles (each, a “*Client*” or “*Fund*” and collectively the “*Clients*” or “*Funds*”) offered exclusively to “qualified purchasers” as defined in the Investment Company Act of 1940, as amended (the “*Investment Company Act*”). Generally, the Funds’ investors consist primarily of institutions and a select group of high net worth individuals.

Halyard was formed in 2000. Its principal owners are Robert B. Nolan, Jr. and Bruce Eatroff.

- B. Halyard provides discretionary advisory services that generally seek to generate capital appreciation by making privately negotiated investments in privately owned companies in certain sectors, including education services, healthcare services, marketing services, communication, information services and business services.
- C. Halyard’s Clients may have different investment guidelines as set forth in the governing documents of the applicable Fund and its offering documents. These guidelines generally limit the concentration and/or geography of the Funds’ investments.

Halyard may further tailor its advisory services to the specific needs of a Client as may be necessary, appropriate or negotiated from time to time.

- D. Halyard does not participate in wrap fee programs.
- E. Halyard has raised two private equity funds totaling more than \$600 million in capital.

As of December 31, 2013, Halyard manages \$316,508,408 of Client assets on a discretionary basis. As of December 31, 2013, Halyard manages \$2,984,642 of Client assets on a non-discretionary basis.

## Item 5: Fees and Compensation

- A. Halyard is compensated for advisory services by a fee based on its aggregate capital commitments (the “*Management Fee*”) and by a share of capital appreciation (“*Carried Interest*”). This compensation is negotiated separately with each Client but is charged *pro rata* to all investors.

Each of Halyard’s investors is a “qualified purchaser” as defined in the Investment Company Act.

- B. The Management Fee is deducted directly from Clients’ accounts on a quarterly basis.
- C. As described more fully in Item 6 herein, Halyard may receive a performance-based fee from its Clients.

Halyard's Clients may pay all other expenses attributable to their activities including, without limitation:

- i. Expenses incurred in connection with the evaluation, acquisition or disposition of investments (whether or not consummated), including private placement fees, sales commissions, appraisal fees, taxes, brokerage fees, underwriting commissions and discounts, and legal, accounting, investment banking, consulting, information services and professional fees;
- ii. Expenses incurred in connection with carrying or management of investments, including custodial, trustee, recordkeeping and other administrative fees;
- iii. Expenses incurred in connection with the applicable Fund's financial statements, tax returns and K-1's;
- iv. Attorneys' and accountants' fees and disbursements;
- v. Taxes and other governmental charges levied against the applicable Fund;
- vi. Insurance (including in respect of errors or omissions of Halyard, its affiliates and related entities, and any other persons acting on behalf of the applicable Fund), regulatory or litigation expenses (and damages), including regulatory expenses of the Firm;
- vii. Expenses incurred in connection with the winding up or liquidation of the applicable Fund;
- viii. Expenses relating to defaults by the applicable Fund's investors in the payment of any capital contributions;
- ix. Out-of-pocket expenses for transactions not consummated;
- x. Expenses incurred in connection with any restructuring or amendments to the constituent documents of the applicable Fund and related entities, including Halyard;
- xi. Expenses incurred in connection with the formation of special purpose investment vehicles to the extent permitted by the applicable Fund's partnership agreement; and
- xii. Expenses incurred in connection with distributions to the applicable Fund's investors and in connection with any meetings with investors.

To the extent that Halyard's Clients may incur brokerage fees or other transaction costs, such costs will be borne by the respective Client. Please see Item 12 for further information regarding Halyard's brokerage procedures.

- D. The Management Fee is deducted from the accounts of Halyard's Clients quarterly in advance. In the extremely unlikely event that an advisory contract is terminated before the end of a billing period, Halyard will refund the overpayment of the Management Fee *pro rata*.
- E. Halyard does not accept compensation for the sale of securities or other investment products.

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

Halyard accepts Carried Interest, which is a performance-based fee allocated as a share of capital appreciation of its Clients' assets. Halyard does not receive Carried Interest unless the Management Fee and any other expenses borne with respect to investment activities, including expenses disclosed herein, have been returned in full to Halyard's Clients and their underlying investors.

Halyard accepts Carried Interest at comparable rates from each of its Clients.

## **Item 7: Types of Clients**

Halyard provides investment advice to pooled investment vehicles that are exempt from registration under the Investment Company Act. Investors in the Funds may include institutions, pension plans, endowments, fund of funds, high net worth individuals and other "qualified purchasers," as such term is defined in the Investment Company Act.

In general, the minimum initial investment in a Fund is \$10 million, although lesser amounts may be accepted at Halyard's discretion.

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

- A. Halyard utilizes its extensive industry expertise and broad network of relationships to implement a highly focused investment approach.

Most of Halyard's investments result from the Firm's proprietary deal flow. Halyard proactively identifies areas of opportunity and leverages both (i) its extensive network of executive and industry relationships and (ii) its investment professionals' deep sector expertise. A critical element of this approach is Halyard's executive network, which the Firm continues to expand by identifying talented executives capable of sourcing and managing new investments. As part of Halyard's executive sponsorship initiative, the Firm partners with proven operators to undertake a thorough analysis of industry segments and company targets and thereby develop a comprehensive understanding of each particular opportunity. Halyard's executive network also originates its own quality deal flow, stemming from the executives' years of involvement in their respective

sectors. The Firm creates value through both organic and external growth strategies. The Firm has successfully developed platform companies with executives and has created value.

Halyard generally focuses its analysis on investment opportunities in the lower end of the middle market for education services, healthcare services, marketing services, communication, information services and business services. Moreover, the Firm believes that smaller companies often provide both more attractive valuations and the best opportunities for value creation through strategic and operational improvements.

Halyard's investment sourcing process characteristically includes developing a comprehensive investment thesis, approach and executive network prior to engaging in detailed diligence on a potential new portfolio company. Halyard seeks to position itself as a value-added buyer with strategic importance, which Halyard believes may be an important differentiator and selling point for existing owners and entrepreneurs.

When Halyard identifies an attractive investment opportunity, Halyard performs extensive due diligence prior to making an investment. This due diligence may include, without limitation, detailed financial analyses and qualitative assessments of the potential investment, analysis of the potential portfolio company's growth potential, analysis of potential exits from the investment and more general market and sector analysis to assess the company's earnings potential and competitiveness.

- B. Certain risk factors pertaining to Halyard's methods of analysis and investment strategies are listed below. For a complete list of all risks pertaining to investments in the Funds, consult the Funds' respective offering memoranda.

#### *Investments in the Communications, Information and Media Industries*

A portion of Halyard's investments may be in certain segments of the communications, education, healthcare, information and media industries which are regulated by federal, state and local governmental bodies. New laws and regulations may have a material adverse effect on such investments.

#### *Nature of Investments*

A substantial portion of Halyard's investments will be in equity or equity-related investments which by their nature involve business, financial, market and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that could potentially result in substantial losses. There can be no assurance that Halyard will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. The value of the investments may be impacted by a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, which may significantly affect the results of Halyard's activities. As a result, Halyard's

performance over a particular period may not necessarily be indicative of the results that may be expected in future periods.

#### *Risks Associated with Leverage*

Halyard's investments may involve leveraged acquisitions which, by their nature, require companies to undertake a high ratio of fixed charges to available income. Such investments are inherently more sensitive to declines in revenues and to increases in expenses. Utilization of leverage is a speculative investment technique and involves risks to investors. While leverage may enhance total returns to investors, if investment results fail to cover borrowing costs, then returns to the investors will be lower than if there had been no borrowings. Investors will not be personally liable for Halyard's obligations under any borrowing arrangements.

#### *Risks Associated with Minority Positions*

Halyard is likely to make minority equity investments in companies. Such companies may have economic or business interests or goals that are inconsistent with those of Halyard, and Halyard may not be in a position to limit or otherwise protect the value of its investment in the companies, although as a condition of making such investments, it is expected that appropriate shareholder rights generally will be sought to protect Halyard's investments. Halyard's control over the investment policies of the companies may also be limited.

#### *Difficulty of Locating Suitable Investments*

Clients must rely on the ability of Halyard to identify, structure and implement investments consistent with Halyard's investment objectives and policies. There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable Halyard to invest all of its committed capital in opportunities that satisfy Halyard's investment objectives, or that such investment opportunities will lead to complete investments by Halyard. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. Halyard will compete for the acquisition of investment with many other investors, some of which will have greater resources than Halyard. Such competitors may include other private investment funds as well as individuals, financial institutions and other institutional and strategic investors. Further, there can be no assurance that Halyard will correctly evaluate the nature and magnitude of the various factors that could affect the value of Halyard's investments.

#### *Bridge Financing*

From time to time, Halyard may provide interim financing ("*Bridge Financing*") to portfolio companies to facilitate an investment organized by Halyard. Such Bridge Financings, if not repaid, would typically be convertible into a more permanent, long-



term security; however, for reasons not always in Halyard's control, such long-term securities may not be issued and such loans may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by Halyard. Halyard may attempt to add provisions to Bridge Financing agreements to ensure that the terms of these loans will adequately reflect the risks associated with the positions.

#### *Follow-On Investments*

Halyard may be called upon to provide follow-up funding for its portfolio companies or have the opportunity to increase its investment in such portfolio company. Halyard normally provides a reserved amount of capital for follow-up investments. There can be no assurance that Halyard will wish to make follow-up investments or that Halyard will have sufficient funds to do so. Any decision by Halyard not to make follow-up investments or its inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish Halyard's ability to influence the portfolio company's future development.

#### *Portfolio Concentration*

Although no more than 20% (or, temporarily in connection with a Bridge Financing, 30%) of Halyard's committed capital will be invested in any one portfolio company, diversification is not an objective of Halyard. Halyard's portfolio may include a small number of large positions. While this portfolio concentration may enhance total returns to investors, if any large position has a material loss, then returns to the investors may be lower than if they had invested in a well-diversified portfolio.

#### *Provision of Managerial Assistance and Control*

Halyard expects to structure investments so that it will be a "venture capital operating company" within the meaning of regulations promulgated under ERISA. This requires that Halyard obtain rights to participate substantially in and to influence substantially the conduct of the management of the majority of Halyard's portfolio companies. Halyard typically will designate directors (and potentially nonexecutive chairmen) to serve on the boards of directors of portfolio companies. The designation of directors and other measures contemplated could expose the assets of Halyard to claims by a portfolio company, its security holders and its creditors. The exercise of control over a company imposes additional risks of legal liability for environmental damage, product defects, failure to supervise management, violation of government regulations and other types of liability. If these liabilities were to occur, Halyard could suffer significant losses in its investments. While Halyard intends to manage Clients in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

## **Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's or investor's evaluation of Halyard's advisory business or the integrity of its management.

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

- A. Neither Halyard nor any management person is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither Halyard nor any management person is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of any of the foregoing entities.
- C. Halyard only enters into business relationships with other investment-related firms, including without limitation banking institutions and law firms, in accordance with the performance of its duties to Clients. Halyard does not have any such relationships that may create a conflict of interest with its Clients.
- D. Halyard does not recommend or select other investment advisers for Clients.

## **Item 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 its Clients. Halyard has a fiduciary duty to place the interests of the Funds before the interest of the Firm and the Firm's employees. All of the Firm's personnel must put the interests of the Firm's Clients before their own personal interests and must act honestly and fairly in dealings with the Firm's Clients. All of the Firm's personnel must also comply with all federal and other applicable securities laws.

As part of the Firm's Code of Ethics, Halyard has adopted a personal trading policy requiring all personnel to disclose all holdings in personal accounts and all personal securities transactions in a timely manner. The Firm also maintains a "Restricted List" of companies about which a determination has been made that it is prudent to restrict trading activity by the Firm and/or its personnel. Generally, an employee may not trade securities of an issuer included on the Restricted List; however, exceptions may be granted under certain circumstances if pre-clearance is granted. Halyard may also require employees to pre-clear transactions in the securities of certain issuers that are not on the restricted list, as determined by the Firm from time to time.

Halyard's Code of Ethics also contains policies regarding the control of non-public information, gifts and entertainment with business associates, and political contributions. Halyard's Code of

Ethics is designed to promote the ethical behavior of all of the Firm's personnel and to ensure compliance with applicable regulation and best practices. Halyard will provide a copy of its Code of Ethics to any Clients or prospective Client upon request.

Generally, Halyard does not buy investments on behalf of the Funds from proprietary accounts, or sell investments from the Funds to proprietary accounts. Halyard will have an interest in investments made by the Funds insofar as Halyard's employees are themselves invested in the Funds. Halyard believes that this investment properly aligns the interests of its investment professionals and Clients.

## **Item 12: Brokerage Practices**

Due to the nature of Halyard's investment strategy, the Firm expects substantially all of its investments to be privately negotiated directly with its portfolio companies. From time to time, Halyard may engage a broker or dealer to locate companies that may be suitable for investments from Halyard's Funds. Halyard selects these brokers or dealers based on a range of factors, including but not limited to industry position and expertise.

In cases where the Firm determines to utilize a broker or a dealer to transact in securities on behalf of Clients, Halyard shall evaluate such broker or dealer based on a range of factors, including without limitation fee arrangements, willingness to commit capital, ability to execute the desired transaction, and other factors.

## **Item 13: Review of Accounts**

Halyard's investment professionals are responsible for reviewing Clients holdings on an ongoing basis to determine if there have been any significant changes to any investments. Halyard holds informal meetings weekly to discuss any significant changes to any portfolio companies, or any significant upcoming market or business events likely to lead to significant changes. Halyard values investments internally quarterly, and its Funds' holdings are audited annually.

## **Item 14: Client Referrals and Other Compensation**

No one other than Clients provides economic benefits for providing investment advice or other advisory services to Clients.

Halyard may receive certain fees from portfolio companies, generally termed "transaction" fees or "monitoring" fees, in connection with activities performed on behalf of Clients. Halyard has determined that 80% of all such fees paid to Halyard, net of expenses related to the activities leading to the receipt of such fees, shall reduce the Management Fee on an aggregate basis.

Halyard does not compensate a third party for Client referrals. However, Halyard has in the past compensated a third party placement agent (the "*Placement Agent*") for investor referrals. In

such cases, investors were notified of the material facts of such solicitation arrangements and any compensation paid by such investor to the Placement Agent reduced such investor's Management Fee by the same amount.

## **Item 15: Custody**

Halyard has custody of Client funds by virtue of the fact that Halyard or a related person serves as the general partner to Halyard's Clients.

When Halyard identifies an investment that is suitable for its Clients, the general partner to Halyard's Clients (the "*General Partner*") issues a capital call for the funds necessary to make the investment (the "*Called Capital*"). The Called Capital will be held with a qualified custodian until the investment is made, and account statements will be sent to Clients by this qualified custodian directly for any periods when cash is custodied by Halyard.

Though the investments recommended by Halyard will generally be direct investments in private companies, Halyard's Clients may from time to time receive publicly traded equity securities in connection with its investments. Halyard shall maintain evidence of all direct investments as required by Rule 204-2 under the Investment Advisers' Act of 1940. Halyard shall maintain all publicly traded equity with a qualified custodian.

Additionally, Halyard shall deliver independently audited financial statements prepared in accordance with generally accepted accounting principles to its Clients' investors no less frequently than annually, within 120 days of fiscal year end.

## **Item 16: Investment Discretion**

Halyard has discretionary authority over any cash or securities accounts that Halyard may establish from time to time for the purpose of custodying Client assets. Halyard is granted power of attorney over such assets and the discretionary authority to make any investments as deemed by Halyard in its sole discretion to be suitable for Clients and within the investment objectives of its Clients, as detailed more fully in its Clients' offering memoranda and limited partnership agreements.

## **Item 17: Voting Client Securities**

Halyard has full authority to vote Client securities. Due to Halyard's investment strategy and the nature of interests generally recommended by the Firm, Halyard does not anticipate frequently holding securities with voting authority on behalf of its Clients.

If Halyard does hold securities with voting authority, it shall determine to vote in the best interests of Clients. Generally, Halyard believes that management is best able to judge what is in the best interests of the company; and therefore Halyard will generally vote with

management. Notwithstanding the foregoing, Halyard may determine to vote against management if in its sole discretion it believes that such a vote would be in the best interest of its Clients.

### **Item 18: Financial Information**

Halyard does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance.

Halyard has not been the subject of a bankruptcy petition at any time during the past ten years.

### **Item 19: Requirements for State-Registered Advisers**

Halyard is not currently registered or registering with a state securities authority.