

**Part 2A of Form ADV: Azalea Management Company, LLC - *Brochure***

**Item 1 - Cover Page**

May 14, 2018

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This Brochure provides information about the qualifications and business practices of Azalea Management Company, LLC. If you have any questions about the contents of this brochure, please contact Azalea Management Company, LLC at (864) 235-0201 or at [www.azaleacapital.com](http://www.azaleacapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Azalea Management Company, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

The last update to Azalea Management Company, LLC (the “Adviser”) ADV Part 2A was March 28, 2018 in connection with the Adviser’s annual amendment. .

Pursuant to applicable regulations, the Adviser will deliver to each of its Clients a summary of any material changes to this and subsequent Brochures within 120 days of the close of each fiscal year. The Adviser may also provide additional disclosures or other information about material changes as necessary.

From time to time, without charge, the Adviser will also provide Clients with a new Brochure as necessary to reflect material changes or new information.

Currently, the Adviser’s Brochure may be requested by contacting the Adviser’s Chief Compliance Officer at (864) 235-0201.

Additional information about the Adviser is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with the Adviser who are registered, or are required to be registered, as investment adviser representatives of the Adviser.

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#### **Item 4 - Advisory Business**

- A. The Adviser is an investment advisory firm located in Greenville, SC that specializes in providing strategic equity capital to privately owned, lower middle-market firms located primarily in the Southeastern United States to facilitate management buyouts, business recapitalizations, and growth plans. The Adviser provides investment advisory services on a discretionary basis to limited partnerships which operate as private funds<sup>1</sup> (each, a “Client”, and together, the “Clients”).

The Adviser was established in 2013 by Messrs. Patrick A. Duncan, R. Patrick Weston, and Marshall H. Cole, III. Messrs. Partrick A. Duncan and Marshall H. Cole, III are the principals of the Adviser (the “Principals”). The Principals are the equity owners of the Adviser.

- B. Investment advisory services include working with the Client to establish an investment objective and the Adviser identifies investment opportunities for and participates in the acquisition, management, monitoring and disposition of investments of its Clients. Limited partners of the Adviser’s Clients, which include high net worth individuals (qualified investors) and institutional investors, commit funds (capital commitments) for the Adviser’s Clients to call and invest at their discretion. Each Client portfolio is managed pursuant to an investment management agreement with the Client, any investment guidelines attached thereto, the Client’s investment policy, and any applicable regulations.
- C. While each of its Clients generally follows the strategy stated above, the Adviser may tailor the specific advisory services with respect to each Client on the individual investment strategy of each Client.
- D. The Adviser does not participate in wrap fee programs.
- E. As of March 31, 2018, the Adviser has approximately \$84,067,9494 of regulatory assets under discretionary management and \$0 under non-discretionary management.

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<sup>1</sup> Private funds are entities which would be considered an “investment company” within the meaning of the Investment Company Act of 1940 but for 3(c)(1) or 3(c)(7) exemption. Furthermore, in 2006, the decision by the Court of Appeals for the D.C. Circuit in *Goldstein v. SEC*, 451 F.3d 873 (D.C. Cir. June 23, 2006), with respect to private funds, clarified that the “client” of an investment adviser to a private fund is the fund itself and not the investors in the fund.

## Item 5 - Fees and Compensation

- A. Below is a discussion of how the Adviser is compensated in connection with providing advisory services to its Clients. The Adviser may enter into different fee arrangements on a Client by Client basis.

*Management Fees.* Clients pay a management fee to the Adviser as compensation for its management services. The fee is equal to a percentage of the limited partners' total capital commitments. Until the end of a specified investment period, the management fee percentage shall be 2.0% per annum of the total capital commitments. Thereafter, the annual management fee will be 2.0% per annum of the invested capital. The management fee is billed quarterly to each Client and payable by the Client quarterly in advance on the first day of each calendar quarter.

*Performance-based fees.* The Adviser does not charge performance-based fees. However, a portion of each Client's investment profit is allocated to the capital account of the general partner as "carried interest."

In the event of an early termination of the Client, the management fee for the quarter of the termination would be determined on a pro-rata basis based on the number of days the Client was operating in that quarter.

- B. With respect to Management Fees, the Adviser, or the general partner of the applicable Client, may draw-down capital commitments from the investors in the Client, or may use amounts that would otherwise be available for distribution to such investors, in order to meet the Client's obligation to pay the Management Fee.
- C. Generally, a Client will pay for all ordinary and extraordinary expenses incurred by it or on its behalf, including, but not limited to, all legal, accounting, auditing, administrative, information technology and other systems, reporting and tax preparation fees and expenses, and all out-of-pocket expenses relating to the Client and its investment activities, but excluding travel and entertainment. Additionally, a Client will reimburse its general partner and its affiliates for actual expenses related to the organization of the Client, though in certain instances such organizational expenses may be subject to an expense cap and Management Fee offset. It is **critical** that investors and prospective investors refer to a Client's investment management agreement, private placement memorandum and/or agreement of limited partnership (as applicable) for a complete understanding of how the Adviser and the applicable general partner are compensated for advisory services and what organizational and operational expenses are charged to the Client and ultimately borne by investors.

The Adviser does not maintain any trading accounts and does not use "soft" dollars.

Please refer to Item 12, Brokerage Practices, for more information.

- D. As stated above, Management Fees are payable quarterly. The Adviser will refund any pre-paid Management Fees by a Client if the advisory contract with such Client is terminated before

the end of the billing period. Management Fee refunds are calculated on a pro-rata basis for partial periods.

- E. The Adviser typically performs management, transaction related services and other services for actual and prospective portfolio companies. Additionally, a portfolio company may reimburse a Client for specific expenses incurred on behalf of that portfolio company.

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

As stated in Item 5 above, the Adviser's affiliates (the general partners of the Clients) receive performance-based fees or allocations from the Clients in the form of "carried interest."

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest, the Adviser has implemented policies and procedures to ensure that all Clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities.

**Item 7 - Types of Clients**

The Adviser provides investment advisory services to limited partnerships which operate as private funds.



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

- A. The Adviser invests in portfolio companies based upon its assessment of their profitability and cash flow generation, industry dynamics, quality of management, and management's willingness to partner with the Adviser by making an equity investment in their companies.

The Adviser seeks investments in select, lower middle-market operating companies with enterprise values between \$8 and \$30 million, established annual revenues between \$10 and \$50 million, consistent operating earnings, and defensible market positions. Clients' investment proceeds typically are used to facilitate management buyouts, support business recapitalizations, and execute growth plans (including add-on acquisitions). The Adviser does not limit Client's investments by industry, but it does plan to focus on the industries of niche manufacturing, value added distribution, consumer products, and business services.

Investments generally take the form of control or significant ownership positions in the portfolio companies. The Adviser believes each investment requires a flexible and customized approach for the capital needs of the business and its owners. As a result, the Adviser works closely with companies, management and sellers to customize the capital structure of an investment.

The Adviser focuses on improving and growing Clients' portfolio companies primarily by or through:

- Developing and implementing strategic plans;
- Strengthening and enhancing management teams;
- Expanding existing operations and business lines;
- Acquiring add-on companies and business lines;
- Improving operations;
- Improving financial oversight.

The Adviser takes an active role with Clients' portfolio companies and view itself as "partner" with company management.

No more than 20% of the total capital commitments to the Client will be invested in any single portfolio company.

### **Investment Criteria**

Although the Adviser evaluates each investment opportunity on its own merits, it uses the following criteria to screen, evaluate and choose investment opportunities to consider:

#### ***Target Industries:***

Niche Manufacturing  
Value-Added Distribution  
Business Services  
Consumer Products  
Healthcare

*Business Characteristics:*

- Established products and services
- Defensible market position and competitive advantage
- High quality operating earnings with modest capital expenditure requirements
- Low risk of technological obsolescence
- Sufficient asset and cash flows to support post-closing capital structure

*Financial Metrics:*

- Annual revenues of \$10 to \$50 million; and
- Annual EBITDA greater than \$2 million.

*Management:*

- High quality, cohesive management team (or ability to build or recruit such a team); and
- Meaningful equity investment by management team post-closing.

*Definable Strategy:*

- Value creation strategy through growth or operations;
- Viable and identifiable exit strategies.

- B. The investments of Adviser's Clients and the investment strategies employed by the Adviser involve a substantial degree of risk. The Clients may lose all or a substantial portion of their investments, and investors in the Clients must be prepared to bear the risk of loss of their investments therein.

*Illiquidity of Investments*

Client investments are in entities that do not have readily available markets.

*Leveraged Investments*

Client investments will involve different degrees of leverage. As a result, general economic conditions, operating problems and/or other general conditions may have a pronounced effect on the profitability or survival of the Client's portfolio companies.

*Reliance on Management*

The success of the Clients will depend on the ability of the Adviser to identify investments, improve operating performance and dispose of the investments. The loss of the services of one or more of the professional staff of the Adviser could have an adverse impact on the Adviser's ability to realize Clients' investment objectives.

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client or investor's evaluation of the adviser or the integrity of adviser's management.

Below is a summary of certain legal events that maybe material to Clients or prospective Clients.

On July 3, 2013, a portfolio company of Azalea Fund III, L.P., Airco, Inc. (f/k/a Power Services Group, Inc) was named as a defendant in lawsuit filed in the Superior Court of Chatham County, Georgia. Several other individuals and entities not affiliated with Azalea Fund, III L.P. were co-defendants. On January 9, 2015, Azalea Fund III, LP and Patrick Duncan were added as defendants in this lawsuit. Azalea Fund, L.P. was added as a defendant during trial.

The case went to trial, and jury returned its verdict on September 3, 2015. The jury found in favor of the plaintiffs on 14 of 16 counts and in favor of the defendants on two counts. Azalea Fund III, L.P., Azalea Fund, L.P. and Duncan were not named in all 14 counts. The counts against Azalea Fund III, L.P., Azalea Fund L.P and Duncan included tortious interference with contracts, tortious interference with business relationships, aiding and abetting breach of employee duty of loyalty, aiding and abetting breach of fiduciary duty and breach of contract. The jury also found Duncan liable for civil conspiracy.

On September 25, 2015, the court entered a final judgment adopting the jury's award. On October 2, 2015, the defendants filed a notice of appeal. A mutually accepted confidential settlement and release was reached on December 29, 2015 which included a dismissal of all litigation and settlement of all claims and disputes.

**Item 10 - Other Financial Industry Activities and Affiliations**

- A. The Adviser is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no employees of the Adviser are registered representatives of a broker-dealer.
- B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. The Adviser has no relationships or arrangements with any related person listed in the instructions to Item 10.C. that are material to its advisory business or to its Clients.
- D. The Adviser does not recommend or select other investment advisers for its Clients.

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

- A. The Adviser has adopted a written Code of Ethics (the “Code”) designed to address and avoid potential conflicts of interest. The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser's employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. The Adviser prohibits personal trading on certain securities or instruments; requires pre-clearance of personal trades in certain circumstances, including purchases of an IPO or a new private placement; requires periodic reporting of employees' personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

As part of its Code, the Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Because the structure of the Adviser would make information barriers impractical, the firm has not imposed information barriers to restrict the internal flow of possible material, non-public information. Thus, all professionals are deemed to be in receipt of material, non-public information, in all instances where any professional of the Adviser has received material, non- public information, and, therefore, may not trade on the basis of that information.

The Adviser will provide a copy of the Code to any investor or prospective investor upon request.

- B. Neither the Adviser nor any of its related persons recommend to Clients investments in which the Adviser or any related persons have a material financial interest.
- C. Neither the Adviser nor any of its related persons invest in the same or related securities that either the Adviser or its related persons recommend to Clients.
- D. See Item 13.C. below.

**Item 12 - Brokerage Practices**

- A. The Adviser's investment strategy involves making investments for Clients to invest in private equity investments. As a result, the Adviser does not select or recommend broker-dealers for the purchase and sales of securities. Furthermore, the Adviser does not maintain any trading accounts and does not use "soft" dollars received from broker-dealers from the purchase and sales of securities for its Clients.
- B. Not Applicable.

### **Item 13 - Review of Accounts**

- A. The Adviser maintains comprehensive review procedures for the ongoing monitoring of the portfolio investments of its Clients. In connection therewith, the Adviser conducts periodic reviews of all portfolio company investments held in each Client portfolio. All firm investment and operational staff participate in the ongoing monitoring of Client portfolios, although responsibilities vary by individual.
- B. See Item 13.A. above.
- C. The Adviser provides the following written periodic reports to all of its Clients:

*Quarterly Reports.* Each limited partner receives quarterly reports with unaudited financial statements and summarizing information and developments concerning the Partnership and its investments in the portfolio companies. Additionally, every quarter each limited partner is provided an individual statement showing their capital account balance before and after unrealized gain/losses. These reports are provided within 45 days of the end of each fiscal quarter.

*Annual Reports; Tax Information.* After the end of each fiscal year, there is an independent audit of the Client's financial statements for such year and a copy of such audited financial statements, which are prepared in accordance with United States generally accepted accounting principles, is delivered to each Limited Partner.

For each tax year, the appropriate United States state and federal income tax returns and other appropriate tax returns and information of the Partnership, is furnished each limited partner. These reports are provided within 90 days of the end of each tax year.

**Item 14 - Client Referrals and Other Compensation**

The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to its Clients.



**Item 15 - Custody**

While it is the Adviser's practice not to accept or maintain physical possession of any Client assets, the Adviser is deemed to have custody of the, because its affiliates act as general partners of the Clients. Funds and securities, with the exception of certain privately offered securities, are maintained with a qualified custodian.

The Adviser utilizes the services of a bank or qualified custodian to hold all of Clients' assets. The Adviser also (1) engages an outside auditor to audit its Clients at the end of each fiscal year and (2) distributes the results of the audit in audited financial statements that are prepared in accordance with United States generally accepted accounting principles to all investors in Adviser's Clients within 120 days after the end of the fiscal year.

**Item 16 - Investment Discretion**

The Adviser contractually assumes discretionary authority with each Client account under an investment management agreement with the Client. The Adviser's authority to manage Client accounts is in all cases subject to the specific objectives, guidelines, and limitations set forth in the applicable investment management agreement.

**Item 17 - Voting Client Securities**

The Adviser's investment strategy involves private equity investments. As a result, the Adviser does not generally hold Clients investments in public equity securities and therefore does not generally receive proxies on behalf of its Clients.

**Item 18 - Financial Information**

- A. The Adviser does not require or solicit prepayment of any fees greater than 6 months in advance.
- B. The Adviser does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its Clients.
- C. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.

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

- A. Please see the below formal educational and business background of the Adviser's principal executive officers:

### **Marshall H. Cole, III**

#### Education

B.S., Middle Tennessee State University

#### Business Experience

Mr. Cole joined Azalea Capital in 2008 as its Chief Financial Officer and a Partner in connection with the formation of Azalea Fund III. Mr. Cole concentrates on monitoring and assisting with the operations of Azalea III and participates in the Fund's investment decisions and due diligence processes. Mr. Cole brings to Azalea Capital a skilled operating background combined with many years of seasoned financial experience. [11/11] [SEP 15/SEP]

Mr. Cole began his working career with Union Carbide where he held several financial management positions over a ten-year period. He later became Chief Financial Officer of the National Electrical Carbon Corp. ("NECC"), which was spun out of Union Carbide and acquired by Morgan Crucible Company, plc, headquartered in Great Britain. In 1993, Mr. Cole left NECC and acquired Wright Metal Products, Inc. As Chief Executive Officer of Wright Metals, he led the specialty metal machining and fabrication operation over the following ten-year period. Under Mr. Cole's leadership, Wright Metals flourished, becoming a regional leader in the production and assembly of metal parts and components, as well as a leader in specialty metal packaging products for the power sports industry (all-terrain vehicles, watercraft, and motorcycles). In June 2003, Wright Metals was acquired by Thompson Street Capital Partners, located in St. Louis, Missouri.

### **Patrick A. Duncan**

#### Education

B.A., Clemson University  
M.A., Clemson University

#### Business Experience

Mr. Duncan co-founded Azalea Capital in 1995. Immediately prior to forming Azalea Capital, Mr. Duncan briefly served as the Chief Financial Officer and a Director of Kent Manufacturing Company. Prior to Kent, Mr. Duncan's career was in banking with First Union National Bank where he held numerous positions. Most recently, he was Senior Vice President and Group Manager of the Corporate Banking Group for South Carolina, which serviced the large corporate market. During his career spanning banking, M&A advisory services and private equity investing, Mr. Duncan has developed extensive relationships throughout the U.S. and has deep experience in corporate finance, mergers and acquisitions, equity and debt placements, marketing, and strategic planning.

Outside of Azalea, Mr. Duncan serves on the Senior Advisory Board of the College of Business and Behavioral Science at Clemson University. He has also served on the Clemson University Board of Visitors and the Investment Committee of the Clemson University Foundation. Mr. Duncan also now serves on the Board of Triune Mercy Center and is an Endowment Trustee with Buncombe Street United Methodist Church where he and his family are actively involved.

- B. The Adviser does not have any other business.
- C. As detailed in Item 5, the Adviser does not charge performance-based fees. However, a portion of each Client's investment profit is allocated to the capital account of the general partner as "carried interest."
- D. Neither the adviser nor any management person has been involved in any event listed in this Item.
- E. The Adviser has no relationship or arrangement with any issuer of securities that is not disclosed in Item 10.C. of this Brochure.