

Item 1 – Cover Page

ADV Part 2A and B: FIRM BROCHURE

HEP MANAGEMENT CORPORATION

565 Fifth Ave, 26th Floor
New York, NY 10017
Contact: Robert Schulz
(212) 981-6901 (phone)
(212) 981-6923 (facsimile)
bschulz@hepfund.com

www.hepfund.com

February 5, 2016

This brochure provides information about the qualifications and business practices of HEP Management Corporation (“HEP”). If you have any questions about the contents of this brochure, please contact us at (212) 981-6901 or bschulz@hepfund.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.

HEP is a registered investment adviser. Registration of an investment adviser with the SEC does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

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

Item 2 – Material Changes

The Securities and Exchange Commission requires registered investment advisers to provide clients with Form ADV Part 2, which contains a clearly written and meaningful disclosure, in plain English, about the adviser's business practices, conflicts of interest and advisory personnel. The Form ADV Part 2 is divided into two parts, Part 2A and Part 2B. Part 2A of the Form (the "Firm Brochure" or the "Brochure") provides information about a variety of topics relating to an adviser's business practices and conflicts of interest. Part 2B of the Form (the "Brochure Supplement") requires an adviser to provide information about certain advisory personnel.

HEP believes that communication and transparency are of the utmost importance and continually strives to provide limited partners with complete and accurate information at all times. HEP encourages all current and prospective limited partners to read this Firm Brochure and to discuss any questions that may arise.

This is an update of HEP's January 27, 2015 Firm Brochure. The only material changes are updating HEP's assets under management. Pursuant to SEC Rules, HEP will ensure that clients receive an annual updated Brochure or a summary of any material changes to this and subsequent Brochures within 120 days of the close of HEP's fiscal year. The Firm may further provide other ongoing disclosure information about material changes as necessary and without charge.

Currently, HEP's Brochure may be requested by contacting Robert Schulz at (212) 981-6901. The Brochure is also available free of charge from the SEC's Investment Adviser's Public Disclosure Website (www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with HEP.

Item 3 -Table of Contents

Item 1 – Cover Page.....	i
Item 2 – Material Changes.....	ii
Item 3 – Table of Contents.....	iii
Item 4 – Advisory Business.....	1
Item 5 – Fees and Compensation	2
Item 6 – Performance-Based Fees and Side-By-Side Management.....	3
Item 7 – Types of Clients	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9 – Disciplinary Information.....	7
Item 10 – Other Financial Industry Activities and Affiliations.....	7
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	9
Item 12 – Brokerage Practices	13
Item 13 – Review of Accounts	14
Item 14 – Client Referrals and Other Compensation.....	14
Item 15 – Custody	144
Item 16 – Investment Discretion	15
Item 17 – Voting Client Securities	15
Item 18 – Financial Information	16
Brochure Supplement.....	17

Item 4 – Advisory Business

Firm Description

HEP Management Corporation (“HEP” or the “Firm”) is a private equity firm that invests primarily in middle market, private, U.S.-based companies in the healthcare information technology and healthcare service sectors. (Unless otherwise specified, references to “HEP” in this Brochure refer to HEP Management Corporation in its role as a management company to HEP’s Funds (as defined below).) The Firm targets companies that provide innovative technologies and services to hospital systems or health plans. HEP’s Funds invest primarily in growth equity, recapitalization and buyout opportunities where it is typically all or part of the first institutional investor group and has control or significant governance influence. HEP leverages its unique and extensive hospital system and health plan network of relationships to target attractive market segments, to identify and evaluate investment opportunities, and to support the growth of HEP’s portfolio companies. (See Item 8 for a more detailed discussion of HEP’s investment strategy.)

HEP currently manages two funds (collectively referred to herein as the “Funds”): Health Enterprise Partners, L.P. (“Fund I”) and Health Enterprise Partners II, L.P. (“Fund II”). Fund I was formed in 2006. From inception through December 31, 2015, Fund I has invested \$68.1 million in ten platform investments including follow-on investments in those companies and Fund II, which was formed in 2012, has invested \$53.6 million in eight companies.

The Funds generally invest through negotiated transactions in operating companies. HEP’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities; structuring and negotiating the terms of investments and consummating investments on behalf of the Funds; managing and monitoring investments; and ultimately selling such investments. Investments are made in non-public companies. Upon investing in such companies, senior principals of the Firm generally serve on the respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Funds.

HEP provides investment advice directly to the HEP Funds and not to investors in the Funds individually. The applicable GP (as defined below) of each Fund retains investment discretion, and investors in the Funds do not participate in the control or management of the Funds. The Firm’s advisory services for each Fund are detailed in the applicable offering memorandum and limited partnership agreements and are further described below under “Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.” Investors in the Funds participate in the overall investment program for the applicable Fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints. Investment restrictions for

the Funds, if any, are generally established in the organizational documents of the applicable Fund. The Funds or the Firm have entered into and may enter into again in the future side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing, a Fund's limited partnership agreement.

As of December 31, 2015, HEP had regulatory assets under management of \$222.5 million (portfolio value plus undrawn commitments), all of which are managed on a discretionary basis in HEP's sole discretion.

Principal Owners/Ownership Structure

The Funds are structured as follows. Fund I is owned 1% by its general partner, HEP Associates, LLC (the "Fund I GP"), with the remaining interests divided pro rata amongst Fund I's limited partners according to each investor's capital commitment. The Fund I GP pays management fees to HEP to advise Fund I in its decision-making. Fund I GP is owned by managing and special members.

Fund II is structured similarly to its predecessor fund. Fund II is owned 1% by its general partner, HEP Associates II, LLC (the "Fund II GP" and together with the Fund I GP, the "GPs"), with the remaining interests divided pro rata amongst Fund II's limited partners according to each investor's capital commitment. The Fund II GP pays management fees to HEP to advise Fund II in its decision-making. Fund II GP is owned by managing and special members.

For more information about HEP's owners and executive officers, see HEP's Form ADV Part 1, Schedule A.

Item 5 – Fees and Compensation

Limited partners pay HEP a management fee based on each limited partner's committed capital. Generally, HEP charges an annual management fee of 2% of each limited partner's committed capital, payable quarterly in advance on January 1st, April 1st, July 1st and October 1st of each calendar year. During the investment period, the annual management fee is based on the total capital commitments of such Fund's limited partners. Thereafter, the management fee is computed based on the limited partners' funded commitments that remain invested in portfolio companies (excluding write-offs).

HEP, the GPs and/or its affiliates may perform management, advisory, transaction-related, financial advisory and other services for, and may (although generally they do not) receive fees from portfolio companies of the Funds, including transaction fees, break-up fees, monitoring fees and other similar fees. These fees may be substantial and may be paid in cash, in securities

of portfolio companies or otherwise and are in addition to the management fees set forth above. All break-up fees paid to HEP or its affiliates in connection with a Fund's unconsummated transactions will first be applied to offset broken deal expenses of HEP and/or its affiliates and the Fund's allocable share of the balance will be credited against management fees. In addition, each Fund's allocable share of any transaction, closing, consulting, monitoring or other fees paid to HEP, the GPs or its affiliates by a portfolio company will also be credited against management fees incurred by limited partners.

In addition, limited partners in Funds I and II are responsible for all expenses related to its operations (other than normal operating expenses of HEP incidental to the provision of the day-to-day administrative services to the Funds, which will be borne by HEP), including fees, costs and expenses directly related to the purchase and sale of securities, taxes, fees and expenses of auditors, third party accounting and administrative service providers and counsel, expenses of HEP's board of advisors and annual meetings, insurance, litigation expenses and any extraordinary expenses. Each Fund shall bear up to \$500,000 of its respective organizational expenses incurred in the formation of such Fund and the offering of the interests thereunder. Organizational expenses in excess of \$500,000 and any placement agent fees paid by the applicable HEP Fund will be 100% offset against any management fees incurred for such Fund. Similarly, a portfolio company of a Fund may reimburse HEP for expenses (including, without limitation, travel expenses) incurred by HEP in connection with its performance of services for such portfolio company.

Principals or other employees of HEP may receive a portion of the management fees, carried interest or other compensation received by HEP or the GPs.

The precise amount of, and the manner and calculation of, the management fees for each Fund are set forth in the respective Fund's governing documents and/or other documentation received by each investor prior to investment in such Fund. The amount of management fees, fund expenses, transaction fees and any offset thereof may differ from one Fund to another, as well as among investors in the same Fund.

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

HEP charges limited partners a performance-based fee of 20%, known as a carried interest allocation. Carried interest allocations are subject to specified preferred returns (solely with respect to Fund II) and claw-backs to the extent that a Fund's GP is paid in excess of its entitled distribution. This fee structure is described in detail in each Fund's private placement memorandum and in the limited partnership agreement entered into with each investor. These performance fee arrangements have been structured subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

HEP's management fees, carried interest allocations, performance fees and other compensation payable to HEP and its Funds' GP's are established by HEP at the time of the establishment of the relevant vehicle and are negotiated with participating investors prior to making their investment. Once the relevant Fund has been established and commenced operations, such compensation and expenses are generally not negotiable.

Because limited partners are only charged a management fee and performance-based fee, and not another type of fee such as an hourly or flat fee or asset-based fee, HEP faces no conflict of interest in favoring performance-based fee accounts over other types of accounts. However, the fact that each GP's incentive distributions are based on the performance of the respective Fund may create an incentive for the GP to make investments that are more speculative than would be the case in the absence of such distributions, but this incentive is somewhat tempered by the fact that losses will reduce such Fund's performance and thus, the GP's incentive distributions.

Item 7 – Types of Clients

HEP provides portfolio management services to its clients, which are private funds. Investment advice is provided directly to the Funds and not individually to investors in such Fund.

The Funds limit their respective investors to persons who are “accredited investors” as defined in the Securities Act of 1933 and/or “qualified clients” and/or “qualified purchasers” as defined in the Investment Company Act of 1940, as amended. The minimum contribution for a limited partner each Fund I and Fund II was \$5,000,000; commitments less than these minimums were and may be accepted at the sole discretion of each Fund's GP. Both Fund I and Fund II are closed. More information about the HEP Funds is available in each Fund's respective offering documents.

Investors in HEP's Funds include a broad range of U.S. and non-U.S. investors, including, among others, high net worth individuals or their investment advisors, corporate pension plans, private funds, corporations, hospital systems, and health insurance companies. In addition, employees and other persons associated with HEP and/or its affiliates may make capital contributions to the Funds. Co-investment opportunities may be given to limited partners when additional capital is necessary for a Fund investment. The Managers of the Funds' GP are contractually committed to co-invest in each Fund investment as described in each Fund's Limited Partnership Agreement.

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

Strategy

The HEP Funds invest primarily in middle market, private U.S.-based companies in the health care information technology and health care service sectors. The Firm targets companies that provide innovative technologies and services to hospital systems or health plans with subscription or transaction-based recurring revenue models and that can benefit from the depth and breadth of industry knowledge and executive level relationships of the HEP team through strategic redirection, operational improvements, acquisitions and additions to the management team. This strategy leverages HEP's unique and extensive hospital system and health plan network of relationships to target attractive market segments, to identify and evaluate investment opportunities and to support the growth of HEP's portfolio companies.

Through its investment vehicles, HEP seeks to make equity investments of \$5 million to \$15 million per portfolio company and will consider a co-investment in transactions requiring up to \$50 million in total equity investment if the other co-investors are well known to HEP. In most cases, capital raised and committed by HEP is invested in growth equity, recapitalization and platform buy and build opportunities where it is typically all or part of the first institutional investor group and has control or significant governance influence. Each Fund seeks to invest in revenue generating companies that are profitable or near cash flow breakeven and have products with demonstrated market acceptance. Each Fund seeks to invest in companies that improve the quality of the patient experience, reduce the cost of health care, and improve the operating margins for their customers, typically hospitals and/or health insurance companies. More information about the HEP Funds and their strategies is available in each Fund's offering documents.

Risk Factors

No investment is free of risk. Current and prospective HEP limited partners are cautioned in each of the Fund's private placement memorandum that investments in the Funds and their underlying investments involve risk of loss, including the possibility of a complete loss of the amount invested, and that they should be prepared to bear these risks. (Although the risk factors listed below are generally applicable to the Funds, investors should also refer to each Fund's private placement memorandum for risk factors specific to their particular Fund.) All investors should be aware of certain risk factors, which include, but are not limited to, the following:

- *Long-Term Investments.* Each Fund's investments will be long-term in nature and it is uncertain when profits on any Fund's investments will be realized, if at all. Although a Fund may earn current interest or dividends on some of its investments, it is not generally expected that invested capital will be returned for at least several years after the initial

investment.

- *Difficulty of Locating Suitable Investments; Prior Investment Results.* Although HEP has been successful in identifying suitable investments in the past, HEP may be unable to find or consummate a sufficient number of attractive opportunities that meet the Fund's investment objectives. Likewise, there can be no assurance that the Funds will be able to realize attractive returns on its investments. HEP's past investment performance record cannot be relied on as an indicator of any Fund's future performance or success.
- *Competitive Marketplace.* HEP will be competing with a significant number of other private equity investment funds that invest in the healthcare industry, as well as institutional and strategic (industry) investors, for investments in portfolio companies. Competition can have the effect of significantly reducing the number of attractively priced investment opportunities available to a Fund, which in turn could have a materially adverse impact on transaction structures and pricing, as well as on the length of time required for a Fund to become fully invested.
- *No Market for Interests.* Limited partners' interests in any HEP Fund will not be registered under the Securities Act, or any other applicable securities laws of any state or non-U.S. jurisdiction, and will not ordinarily be transferable. No limited partners' interests may be assigned without the prior written consent of the respective Fund's GP, which consent may be granted or withheld in its sole discretion. There is no market for any Fund's limited partners' interests and none is expected to develop. Interests are not redeemable and voluntary withdrawals are not permitted, except in limited circumstances.
- *Risks Associated With Dispositions of Investments.* In connection with the disposition of an investment in a portfolio company, a Fund may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. It may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate. These arrangements may result in contingent liabilities, which might ultimately have to be funded out of proceeds subsequently received by a Fund or out of capital not yet drawn down.
- *Distributions in Kind.* Although, under normal circumstances, each Fund intends to make distributions in cash, it is possible that under specific circumstances (including the liquidation of a Fund), distributions may be made in kind and could consist of securities for which there is no readily available public market.
- *Passive Investment.* The Funds' limited partners are precluded from active participation in making investment decisions with respect to their respective Fund investment. In order

to safeguard their limited liability relating to their respective Fund's liabilities, limited partners must rely on HEP and the Fund's GP to manage and conduct the affairs and investment decisions of the Fund.

- *Adverse Consequences of Ownership of Controlling Interests in Portfolio Companies.* It is expected that each Fund will occasionally own a controlling percentage of the equity of portfolio companies which, depending upon the amount of equity owned by such Fund, contractual arrangements between the company and such Fund, and other relevant factual circumstances, could result in an extension to one year of the 90-day bankruptcy preference period with respect to payments made to a Fund. In addition, because of its equity ownership, representation on the board of directors and/or contractual rights, a HEP Fund may often be thought to control, participate in the management of, or influence the conduct of its portfolio companies. This could expose the assets of a Fund to claims by a portfolio company, its other security holders, its creditors or governmental agencies.
- *Third Party Litigation.* Each Fund's investment activities will subject it to the normal risks of becoming involved in litigation by third parties. These risks are elevated where a Fund exercises control or significant influence over an issuer's direction or becomes involved in official or unofficial creditor committees. The expense of defending against any claims by third parties and paying any amounts pursuant to settlements or judgments will generally be borne by a Fund.

Item 9 – Disciplinary Information

Like other registered investment advisers, HEP is required to disclose all material facts regarding any legal or disciplinary events that would materially impact a limited partner's evaluation of HEP or the integrity of HEP's management. No events have occurred at HEP that are applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

HEP is not actively engaged in a business other than giving investment advice to its clients, the Funds (which are pooled investment vehicles), and managing the portfolio companies owned by its Funds. Other than Daniel M. Cain's relationship with Cain Brothers & Company, Incorporated described below, neither HEP nor any of its management persons is registered or has an application pending to register as a broker-dealer, futures commission merchant, commodity pool operator, commodity trading adviser, or associated person of the foregoing, and HEP does not anticipate such affiliations in the future.

Daniel M. Cain, a Managing Member of HEP Associates, LLC and HEP Associates II, LLC, is also a co-founder of Cain Brothers & Company, Incorporated (“Cain Brothers”), an investment banking firm comprised of a FINRA-registered broker-dealer, a federally registered investment advisor, a HUD-certified mortgage banking firm, and a real estate brokerage firm licensed in approximately 20 states. Through its various operating subsidiaries, Cain Brothers provides tax-exempt bond financing, financial advisory, investment advisory and real estate brokerage services, primarily to U.S. healthcare services firms, including hospitals, managed care companies and senior health and housing providers. Mr. Cain has and will continue to divide his time approximately equally between the activities of HEP and Cain Brothers. Cain Brothers does not trade, underwrite or provide research coverage on any public equity securities. Mr. Cain is a Managing Director of Cain Brothers and a member of its Board of Directors. He also owns a minority equity interest in Cain Brothers and receives compensation from Cain Brothers consisting of a salary, bonus and profit share. As a registered representative associated with Cain Brothers’ broker-dealer subsidiary, he is subject to its supervision and all applicable FINRA, SEC and MSRB rules, including those governing insider trading, charitable and political contributions, private securities transactions and outside business activities, among others.

There are no written or oral agreements between HEP and Cain Brothers. Cain Brothers has no economic or voting interest in HEP or its Funds and HEP and its affiliates, other than Mr. Cain, have no economic or voting interests in Cain Brothers and its affiliates. HEP’s portfolio companies periodically use the services of investment banking firms for raising capital, acquisitions, divestitures and other corporate transactions. Even when HEP owns a controlling interest in its portfolio companies, while HEP may suggest investment banking firms that it believes are qualified, the final selection is delegated to the portfolio company’s management team. Cain Brothers periodically advises private companies in their capital raising activities and may, if they believe it fits HEP’s investment criteria, offer HEP an opportunity to consider the investment, but does not do so on a preferential basis and works with many other healthcare related private equity firms on the same basis as it works with HEP, just as HEP works with many investment banking firms on the same basis as it works with Cain Brothers.

Other than as described above, HEP has no arrangements with a related person who is a broker-dealer, investment company, other investment adviser, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships that are material to its advisory services, the Funds, or their investors. Generally, principals of HEP are principals of the GPs.

HEP has and will continue to maintain and develop relationships with professionals who provide services it does not provide, including: legal, accounting, banking, tax preparation, insurance

brokerage, and other services. For several years, HEP has used the services of an IT consultant to supplement its diligence efforts on potential Fund investments. Some of the Funds' portfolio companies have also used the services of a certain healthcare focused recruiter, but none are obliged to do so. This IT consultant and recruiter have each become LPs in Fund II, investing \$300,000 and \$250,000 respectively. An individual who serves as a director of a Fund II portfolio company is a \$450,000 investor in Fund II. HEP does not believe that any of the above relationships create a material conflict of interest with any of HEP's clients or its investors.

From time to time, HEP receives training, information, promotional material, meals, gifts or prize drawings from vendors and others with whom it may do business or to whom it may make referrals. At no time will HEP accept any benefits, gifts or other arrangements that are conditioned on directing individual client transactions to a specific security, product or provider.

None of HEP's hospital system or health insurance company limited partners receive preferential economics relative to HEP's other limited partners.

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

Code of Ethics

As fiduciaries, HEP and its employees have certain legal obligations to put clients' interest ahead of their own. HEP has adopted a written code of ethics based on principles of openness, honesty, integrity and trust. At least once a year, each HEP employee is required to acknowledge this code in writing and agree to be bound by it.

HEP's code of ethics covers standards of business conduct, confidentiality of client information, personal trading requirements, insider trading, reporting of personal securities transactions, restrictions on accepting and giving significant gifts, social media policies, political contribution policies, and reporting of certain gifts and business entertainment items, among other things.

In rare cases, HEP's business may provide HEP and its employees with access to material nonpublic ("insider") information. The code includes a prohibition on insider trading and outlines strict policies that dictate how any such information is treated. Employees of HEP who violate the code of ethics may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, suspension or dismissal. Personnel are also required to promptly report any violations of the code of ethics of which they become aware.

HEP will provide a copy of its code of ethics to any existing or prospective limited partner upon request to its Chief Compliance Officer, Robert Schulz, at (212) 981-6901.

Participation or Interest in Client Transactions

HEP and certain employees and affiliates of HEP may invest in and alongside the Funds, either through the GPs, as direct investors in the Funds or otherwise. A Fund or its General Partner, as applicable, may exempt such person from all or a portion of the management fee or carried interest. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see “Conflicts of Interest” immediately below.

HEP does not affect any principal or agency cross securities transactions for client accounts. HEP will also not cause clients to enter into securities trades with each other. 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 an affiliated fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. Neither of these circumstances applies to HEP.

Conflicts of Interest

Subject to restrictions in the Funds’ governing documents, HEP and its related entities may engage in a broad range of activities, including investment activities for their own account and for the account of other investment funds and providing transaction-related, investment advisory, management and other services. In the ordinary course of conducting its activities, the interests of a Fund may conflict with the interests of HEP, other Funds or their respective affiliates. The offering document for each Fund details a complete description of what HEP believes to be the most significant conflicts of interest associated with an investment in an HEP Fund. Some of these conflicts are summarized below and in Item 8 above; however, this summary does not attempt to describe all of the conflicts of interest associated with an investment in the Funds. In certain circumstances, applicable advisory agreements and/or organizational documents of the applicable Fund may address one or more of the potential conflicts of interest addressed below and may contain terms which mitigate or exacerbate such conflicts of interest. Investors should carefully consider the conflicts of interest herein as well as those outlined in HEP’s offering documents prior to investing in a Fund.

In the event that HEP or its affiliates encounter what it determines to be an actual conflict of

interest in connection with a Fund, a co-investment vehicle or a portfolio company investment, HEP may take such actions as may be necessary or appropriate, within the context of such Fund's limited partnership agreement, to ameliorate the conflict. These actions may include disposing of the asset giving rise to the conflict or bringing the matter before HEP's advisory board. There can be no assurance that all conflicts of interest will be successfully resolved.

Certain HEP principals and employees are also investors in and alongside the Funds through the GPs' 1% commitment to the Funds and through the managing members of the GPs' very significant personal commitment to co-invest in each of the Funds' portfolio companies. The managing members' aggregate personal commitment is over \$8 million to Fund I and \$12 million to Fund II, making them, collectively, a larger investor in the Funds' portfolio companies than any of the Funds' limited partners, most of whom have committed \$5 million or less to each Fund. The managing members' co-investment commitment is pro rata in each of the Funds' portfolio companies and does not permit "cherry picking." As documented in each Fund's limited partnership agreements, the managing member's co-investment commitment represents a direct investment by the managing members in each Fund's portfolio companies. Hence, no management fee or carried interest is applied to the managing members' co-investment commitment. Because the managing members, collectively, have an investment commitment to the Funds' portfolio companies that exceeds that of any of the Funds' limited partners, there is a significant alignment of interests between the managing members and the Funds' limited partners. The significant investment of HEP's principals in and alongside each of its Funds described above, as well as their carried interest, operate to align, to some extent, HEP's interest with the interest of its Funds' limited partners.

In addition, HEP employees may serve on the boards of the Funds' portfolio companies. Serving in such capacity may give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director may conflict with the interests of a Fund. In general, however, as the Funds will typically be significant shareholders of such companies, it is expected that such interests will generally be aligned. Furthermore, any remuneration an HEP employee receives as a director of one of the Fund's portfolio companies is required to be credited to the applicable Fund's management fee.

HEP has not established any additional co-investment vehicles or alternative investment vehicles to invest alongside its Funds. Restrictions relevant to establishing these co-investment vehicles or alternative vehicles are set forth in the Funds' limited partnership agreements. Should a portfolio company's capital requirements exceed the Fund's financing capacity, HEP may offer certain of its limited partners the opportunity to invest directly in such portfolio company. Such co-investment would be made without the Fund earning a management fee or carried interest on the co-investment and would be directly in the portfolio company itself, and not through HEP.

HEP has raised capital in Fund I and Fund II and may organize subsequent funds with structures, investment strategies and objectives substantially similar to these Funds. HEP will pursue all appropriate investment opportunities exclusively through its Fund vehicles, subject to certain limited exceptions. HEP currently manages Funds I and II concurrently. However, other than follow-on investments, Fund I is fully invested and will not invest in any additional portfolio companies. All new investments will be made through Fund II. Pursuant to its limited partnership agreement, Fund II is not permitted to invest in Fund I portfolio companies without the consent of HEP's advisory board. HEP and its investment staff will continue to manage and monitor each Funds' investments and attempt to solve any potential conflicts of interests in light of HEP's obligations to investors in the Funds. When necessary, HEP will consult with and receive consent from its advisory board (which consists of limited partners of the Funds) regarding potential conflicts.

Each Fund's limited partners may include persons or entities resident in various jurisdictions, including the United States and other countries, who may have conflicting investment, tax and other interests with respect to their investments in each Fund. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of investments made by each Fund, the structuring of the acquisition of portfolio companies and the timing of the disposition of investments. Such structuring of portfolio companies may result in different returns being realized by different limited partners. As a consequence, conflicts of interest may arise in connection with decisions made by HEP that may be more beneficial for one limited partner than another limited partner, especially with respect to limited partners' individual tax situations. HEP considers the investment and tax objectives of each Fund as a whole, and not the individual investment, tax or other objectives of any particular limited partner.

The Fund and its affiliates, without any further act, approval or vote of any Fund or investor, may enter into side letters or other similar agreements with certain investors in a Fund that have the effect of establishing rights under, or altering or supplementing the terms of, the Fund's organizational documents, including, without limitation, providing different or preferential rights or terms, such as different fee structures, information rights, co-investment rights and liquidity or transfer rights. The right of a GP to enter into such arrangements is disclosed to investors in the respective Fund's offering memorandum and other organizational documents.

Pursuant to HEP's Code of Conduct in its Compliance Manual, without prior approval of the Chief Compliance Officer, HEP is prohibited from entering into a transaction with a Fund Investor, it being understood, however, that each Fund's portfolio companies, in the ordinary course of their business, often enter into customer relationships with one or more of the Funds' hospital or health plan investors or may engage the services of the recruiting firm that is an investor in Fund II.

Personal Trading

In rare cases, HEP's business may provide HEP and its employees with access to material nonpublic ("insider") information. The code of ethics includes a prohibition on insider trading and outlines strict policies that dictate how any such information is treated.

HEP's employees are prohibited from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding these securities or communicating material non-public information to others. A restricted list is maintained regarding issuers about whom the Firm has material non-public information or other issuers which HEP believes should be added to the Restricted List. Pre-clearance is also required for certain personal securities transactions, including initial public offerings and certain limited offerings, by such supervised persons.

Item 12 – Brokerage Practices

HEP will periodically engage broker-dealers to perform various services for its clients and/or its portfolio companies, such as assisting in the purchase or sale of a portfolio company. Broker-dealers are chosen based upon a variety of factors, including, without limitation, the broker-dealer's knowledge and expertise in a given segment of their industries, as well as upon the cost of the services provided.

None of the Funds currently hold a position in any portfolio company that is public. Should there be a time when one of the portfolio companies in an HEP Fund either goes public or is acquired by a public company for stock, and HEP is in a position to dispose of these securities, HEP will evaluate and hire a broker, if necessary.

HEP currently does not pay or receive soft dollars, does not direct brokerage or advise limited partners on doing so, and does not aggregate trades.

Item 13 – Review of Accounts

The investment portfolios of each Fund are generally private, illiquid and long-term in nature and accordingly HEP's review of them is not directed toward a short-term decision to dispose of securities. However, HEP closely monitors the portfolio companies of its Funds and generally maintains an ongoing oversight position in such portfolio companies. A team of investment professionals comprised of HEP principals and other HEP investment professionals reviews the portfolios on an on-going basis.

Robert Schulz, Managing Member and Chief Compliance Officer, reviews the accounts of each HEP Fund on a quarterly basis and periodically checks to confirm that each Fund is maintained in accordance with its stated business objectives. In his role as Chief Compliance Officer, Mr. Schulz also reviews the Funds' accounts whenever a determination is made as to a distribution. Annually, each Fund will furnish to its respective limited partners: (i) audited financial statements prepared in accordance with generally accepted accounting principles, accompanied by the report of its independent certified public accountants, within 90 days of calendar year end; (ii) tax information necessary for the completion of tax returns; and (iii) a statement of the respective Fund's GP's determination of the value of each of the Fund's portfolio investments as of the end of the preceding calendar year. In addition, on a quarterly basis, HEP provides each limited partner with unaudited financial statements within 60 days of each quarter's close. Each limited partner also receives descriptive investment information for each of a Fund's portfolio investments on a quarterly basis. All reports are sent to investors electronically.

Item 14 – Client Referrals and Other Compensation

HEP may from time to time, enter into solicitation agreements pursuant to which it compensates one or more third parties for client referrals that result in the provision of investment advisory services by HEP. Any cash solicitation agreements will comply with Rule 206(4)-3 under the Advisers Act. Solicitors introducing investors to HEP may receive compensation from HEP, such as a retainer and/or a percentage of introduced capital. Such compensation is paid pursuant to a written agreement with the solicitor and typically may be terminated by either party from time to time. The cost of any such fees will be borne entirely by HEP and not by any affected investors. In connection with fundraising for Fund II, HEP hired Harpeth Securities LLC, but they are no longer soliciting investors on HEP's behalf.

Item 15 – Custody

HEP is deemed to have custody over the Funds by its ability to deduct performance fees from investor accounts. The Funds are audited annually by Eisner Amper, and HEP delivers to the

Funds and their limited partner investors a copy of the annual audited financial statements within 90 days of the fiscal year end.

HEP, however, does not take physical possession of client money or securities; called capital is directly sent or wired into HEP's custodial accounts at Silicon Valley Bank. Silicon Valley Bank serves as custodian for all limited partner cash accounts; Chicago Trust Company serves as custodian for all Fund certificated securities. HEP receives monthly statements from Silicon Valley Bank and quarterly statements from The Chicago Trust Company.

Item 16 – Investment Discretion

Investment advice is provided directly to the Funds, subject to the discretion and control of the GP of each Fund, and not to investors in the Funds individually. HEP and its GPs have discretionary authority based on both management agreements with each of its Funds and the limited partnerships agreements that govern each Fund to buy and sell securities or other investments on behalf of the Funds and to determine the amount of such investments to be bought and sold. The terms upon which HEP serves as an investment manager of a Fund are established at the time each Fund is established and are generally set out in the management agreement and/or limited partnership agreement or other governing document entered into by HEP with respect to the relevant Fund and disclosed in the offering documents for such Fund, as applicable. HEP's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

To become a limited partner in a HEP Fund, an investor must execute a subscription agreement, which includes a power of attorney applicable to the execution of a limited partnership agreement with such Fund. HEP is not permitted to transact any business with a limited partner until the limited partner executes the subscription agreement.

Item 17 – Voting Client Securities

HEP does not vote public equity proxies on behalf of its Funds or portfolio companies, nor does it anticipate doing so in the future. Should one of HEP's portfolio companies go public or be acquired for stock by a public company or should HEP otherwise make an investment in public company, HEP will adopt a proxy voting policy in accordance with SEC Rule 206(4)-6 to detail how it will vote its clients' proxies.

Item 18 – Financial Information

Registered investment advisers are required in this Item 18 to provide certain financial information or disclosures about their financial condition. HEP has no financial commitments that impair its ability to meet contractual and fiduciary commitments to limited partners, and has not been the subject of a bankruptcy proceeding.

ADV PART 2B - BROCHURE SUPPLEMENT

HEP Management Corporation

565 Fifth Ave, 26th Floor
New York, NY 10017
(212) 981-6901 (phone)

www.hepfund.com

This brochure supplement provides information about HEP Management Corporation (“HEP”) that supplements the HEP brochure. You should have received a copy of that brochure. Please contact Robert Schulz, Chief Compliance Officer, at (212) 981-6901 if you did not receive HEP’s brochure or if you have any questions about the contents of this supplement.

Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Brochure.

Additional information about HEP is available on the SEC’s website at www.adviserinfo.sec.gov.

Daniel M. Cain

Year of Birth: 1945

Managing Member

565 Fifth Ave, 26th Floor

New York, NY 10017

(212) 981-6901

Item 2 – Educational Background and Business Experience

Mr. Cain co-founded HEP in 2006. Prior to co-founding HEP, Mr. Cain was a Managing Member and co-founder of CB Health Ventures (“CBHV”) and its first and second investment funds beginning in 1997. Mr. Cain was a founder and CEO of Cain Brothers & Company, Incorporated (“Cain Brothers”) where he currently serves as a Managing Director and a member of its Board of Directors.

Mr. Cain is a graduate of Brown University and Columbia Business School, where he serves on its Board of Overseers.

Item 3 – Disciplinary Information

Mr. Cain has never been the object of any legal or disciplinary event, proceeding or action.

Item 4 – Other Business Activities

Mr. Cain, a Managing Member of HEP Associates, LLC and HEP Associates II, LLC, is also a co-founder of Cain Brothers, an investment banking firm comprised of a FINRA-registered broker-dealer, a federally registered investment advisor, a HUD-certified mortgage banking firm, and a real estate brokerage firm licensed in approximately 20 states. Through its various operating subsidiaries, Cain Brothers provides tax-exempt bond financing, financial advisory, investment advisory and real estate brokerage services, primarily to U.S. healthcare services firms, including managed care companies and senior health and housing providers. Mr. Cain has and will continue to divide his time approximately equally between the activities of HEP and Cain Brothers. Cain Brothers does not trade, underwrite or provide research coverage on any public equity securities. Mr. Cain is a Managing Director of Cain Brothers and a member of its Board of Directors. He also owns a minority equity interest in Cain Brothers and receives compensation from Cain Brothers consisting of a salary, bonus and profit share. As a registered representative associated with Cain Brothers’ broker-dealer subsidiary, he is subject to its supervision and all applicable FINRA, SEC and MSRB rules, including those governing insider trading, charitable

and political contributions, private securities transactions and outside business activities, among others.

Mr. Cain may serve on the board of directors of one or more Fund II portfolio companies. Serving on portfolio company boards could lead to potential conflicts of interest. For example, a conflict of interests may arise between Mr. Cain's fiduciary duties to the portfolio company on which he serves and his duty to HEP as decisions that are in the portfolio company's best interest may possibly not be in HEP's best interests. As HEP Funds are generally significant shareholders of such companies in which it invests, it is expected that such interests will generally be aligned; however, appropriate measures have been taken whereby Mr. Cain may recuse himself in such circumstances from the decision-making process.

Item 5 – Additional Compensation

Mr. Cain receives a regular salary and discretionary bonus from HEP and his share of the general partnership interest in exchange for providing advisory services to the HEP Funds. Mr. Cain also receives a salary, bonus and profit share from Cain Brothers and owns a significant minority equity interest in the firm. Mr. Cain has and will continue to divide his time approximately equally between the activities of Cain Brothers and HEP.

Item 6 – Supervision

Mr. Cain is supervised by HEP's Chief Compliance Officer, Robert Schulz, who may be contacted at (212) 981-6901.

Robert B. Schulz

Year of Birth: 1957

Managing Member

565 Fifth Ave, 26th Floor

New York, NY 10017

(212) 981-6901

Item 2 – Educational Background and Business Experience

Mr. Schulz co-founded HEP in 2006. Prior to co-founding HEP, Mr. Schulz was a Managing Member and co-founder of CB Health Ventures (“CBHV”) and its first and second investment funds beginning in 1997. Previous to CBHV, Mr. Schulz spent three years as the President and COO of Harris & Harris Group, Inc., a publicly traded business development company, and ten years with Credit Suisse First Boston (now Credit Suisse).

Mr. Schulz is a director of two Fund I portfolio companies, ContinuumRx and SCIO Health Analytics; and two Fund II portfolio companies, AllyAlign Health and Applied Pathways.

Mr. Schulz received a Bachelor’s and Master’s degree in Chemical Engineering from Massachusetts Institute of Technology and an MBA from Columbia Business School.

Item 3 – Disciplinary Information

Mr. Schulz has never been the object of any legal or disciplinary event, proceeding or action.

Item 4 – Other Business Activities

Mr. Schulz is not actively engaged in any investment-related businesses outside of HEP, nor does he have any applications pending to register with a broker-dealer or other investment firm. Mr. Schulz does not receive any commissions, bonuses or other compensation based on the sale of securities or other investment products, nor does he engage in any other businesses that provide a substantial source of his income or consumes a substantial portion of his time.

As stated above, Mr. Schulz serves on the board of directors of ContinuumRx Services and SCIO Health Analytics, Fund I portfolio companies, and AllyAlign Health and Applied Pathways, Fund II portfolio companies. Mr. Schulz’s appointment on such boards has been designated in the best interest of Fund I, Fund II, and their limited partners. Serving on portfolio company boards could lead to potential conflicts of interest. For example, a conflict of interests may arise between Mr. Schulz’s fiduciary duties to the portfolio company on which he serves and his duty to HEP

as decisions that are in the portfolio company's best interest may possibly not be in HEP's best interests. As HEP Funds are generally significant shareholders of the companies in which it invests, it is expected that such interests will generally be aligned; however, appropriate measures have been taken whereby Mr. Schulz may recuse himself in such circumstances from the decision-making process.

Item 5 – Additional Compensation

Mr. Schulz receives a regular salary and discretionary bonus from HEP and his share of the general partnership interest in exchange for providing advisory services to the HEP Funds.

Item 6 – Supervision

Mr. Schulz is supervised by HEP's Managing Member, Richard H. Stowe, who may be contacted at (212) 981-6901.

Richard H. Stowe

Year of Birth: 1943

Managing Member

565 Fifth Ave, 26th Floor

New York, NY 10017

(212) 981-6901

Item 2 – Educational Background and Business Experience

Mr. Stowe co-founded HEP in 2006 after serving as a Senior Advisor to CB Health Ventures (“CBHV”) and its first and second investment funds since 2000. From 1999 until 2005, Mr. Stowe was a Senior Advisor to Capital Counsel, LLC, a firm managing approximately \$1 billion in marketable securities. From 1979, shortly after its formation, until 1998, Mr. Stowe was a General Partner of Welsh, Carson, Anderson & Stowe (“WCAS”). From 1970 to 1979, Mr. Stowe was a principal of New Court Securities Corporation (now Rothschild Inc.).

Mr. Stowe is a director of InDemand Interpreting, a Fund II portfolio company, as well as of HMS Holdings Corp. (NASDAQ: HMSY). He is also a director of HT-GAF Holdings, a CBHV portfolio company.

Mr. Stowe is a member of Harvard T. H. Chan School of Public Health’s Health Policy and Management Executive Council.

Mr. Stowe holds a BSEE degree from Rensselaer Polytechnic Institute (1965) and an MBA from Harvard Business School (1970), where he was a Baker Scholar.

Item 3 – Disciplinary Information

Mr. Stowe has never been the object of any legal or disciplinary event, proceeding or action.

Item 4 – Other Business Activities

Mr. Stowe is not actively engaged in any investment-related businesses outside of HEP, nor does he have any applications pending to register with a broker-dealer or other investment firm. Mr. Stowe does not receive any commissions, bonuses or other compensation based on the sale of securities or other investment products, nor does he engage in any other businesses that provide a substantial source of his income or consumes a substantial portion of his time.

As stated above, Mr. Stowe serves on the board of directors of InDemand Interpreting, a Fund II portfolio company. Mr. Stowe's appointment on such board has been designated in the best interest of Fund II and their limited partners. Serving on portfolio company boards could lead to potential conflicts of interest. For example, a conflict of interests may arise between Mr. Stowe's fiduciary duties to the portfolio company on which he serves and his duty to HEP as decisions that are in the portfolio company's best interest may possibly not be in HEP's best interests. As HEP Funds are generally significant shareholders of such companies in which it invests, it is expected that such interests will generally be aligned; however, appropriate measures have been taken whereby Mr. Stowe may recuse himself in such circumstances from the decision-making process.

Item 5 – Additional Compensation

Mr. Stowe receives a regular salary and discretionary bonus from HEP and his share of the general partnership interest in exchange for providing advisory services to the HEP Funds.

Item 6 – Supervision

Mr. Stowe is supervised by HEP's Chief Compliance Officer, Robert Schulz, who may be contacted at (212) 981-6901.

David P. Tamburri

Year of Birth: 1970

Managing Member

565 Fifth Ave, 26th Floor

New York, NY 10017

(212) 981-6901

Item 2 – Educational Background and Business Experience

Prior to joining HEP in 2009, Mr. Tamburri was a Vice President of Susquehanna Growth Equity, a private equity group focused on growth capital opportunities in the technology sector. From 2002 to 2007, Mr. Tamburri was the President and Chief Operating Officer of Onward Healthcare, Inc., a WCAS portfolio company that provided human capital services to health care providers. Prior to Onward, from 1999 to 2002, Mr. Tamburri was an Executive Vice President of Pinnacor, Inc., a provider of information and analytical applications where he managed the company's worldwide operations.

Mr. Tamburri is on the board of directors of Evariant, a Fund I portfolio company, and on the boards of Nordic Consulting, SHYFT Analytics, Catapult Health, and HealthQx - Fund II portfolio companies.

Mr. Tamburri is a member of Harvard Business School's Healthcare Initiative Advisory Board.

He is a distinguished graduate of the United States Military Academy and holds an MBA from Harvard Business School.

Item 3 – Disciplinary Information

Mr. Tamburri has never been the object of any legal or disciplinary event, proceeding or action.

Item 4 – Other Business Activities

Mr. Tamburri is not actively engaged in any investment-related businesses outside of HEP, nor does he have any applications pending to register with a broker-dealer or other investment firm. Mr. Tamburri does not receive any commissions, bonuses or other compensation based on the sale of securities or other investment products, nor does he engage in any other businesses that provide a substantial source of his income or consumes a substantial portion of his time.

As stated above, Mr. Tamburri serves on the board of directors of Evariant, a Fund I portfolio company, and Nordic Consulting, SHYFT Analytics, Catapult Health and HealthQx, Fund II portfolio companies. Mr. Tamburri's appointment on such boards has been designated in the best interest of Fund I, Fund II, and their limited partners. Serving on portfolio company boards could lead to potential conflicts of interest. For example, a conflict of interests may arise between Mr. Tamburri's fiduciary duties to the portfolio company on which he serves and his duty to HEP as decisions that are in the portfolio company's best interest may possibly not be in HEP's best interests. As HEP Funds are generally significant shareholders of such companies in which it invests, it is expected that such interests will generally be aligned; however, appropriate measures have been taken whereby Mr. Tamburri may recuse himself in such circumstances from the decision-making process.

Item 5 – Additional Compensation

Mr. Tamburri receives a regular salary and discretionary bonus paid by HEP and his share of the general partnership interest in exchange for providing advisory services to the HEP Funds.

Item 6 – Supervision

Mr. Tamburri is supervised by HEP's Chief Compliance Officer, Robert Schulz, who may be contacted at (212) 981-6901.