

# HLM MANAGEMENT CO., LLC

## Part 2A of Form ADV The Brochure

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**March 2023**

This brochure provides information about the qualifications and business practices of HLM Management Co., LLC (“HLM”). If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer (“CCO”), Michael Wong, by email at [mwong@hlmvp.com](mailto:mwong@hlmvp.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.

HLM is an exempt reporting advisor and has applied to be registered with the SEC. Registration as an investment adviser does not imply that HLM or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about HLM is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

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There have been no material changes to report since HLM's last Brochure filed in March 2022. In the future, if the Brochure contains material changes from our last update, we will identify and discuss those changes in this section.

### **Item 3. Table of Contents**

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|          |  |    |
|----------|--|----|
| Item 2.  | Material Changes .....   | 2  |
| Item 3.  | Table of Contents .....  | 3  |
| Item 4.  | Advisory Business .....  | 4  |
| Item 5.  | Fees and Compensation .....  | 5  |
| Item 6.  | Performance Based Fees and Side-by-Side Management .....                                       | 6  |
| Item 7.  | Types of Clients.....  | 7  |
| Item 8.  | Methods of Analysis, Investment Strategies and Risk of Loss .....                              | 8  |
| Item 9.  | Disciplinary Information .....   | 13 |
| Item 10. | Other Financial Industry Activities and Affiliations .....                                     | 14 |
| Item 11. | Code of Ethics, Participation, or Interest in Client Transactions and<br>Personal Trading..... | 15 |
| Item 12. | Brokerage Practices .....  | 16 |
| Item 13. | Review of Accounts .....   | 17 |
| Item 14. | Client Referrals and Other Compensation.....   | 18 |
| Item 15. | Custody .....  | 19 |
| Item 16. | Investment Discretion.....   | 20 |
| Item 17. | Financial Information .....  | 21 |

## **Item 4. Advisory Business**

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HLM Management Co., LLC (“we,” “us,” “our,” or the “**Firm**”) is a Waltham based venture capital firm focused on investing in privately-held companies operating in the healthcare information technology, healthcare services, and medical device sectors.

HLM was founded in 1983 and is now owned by Peter J. Grua and Edward L. Cahill.

HLM’s primary business is to invest in innovative, venture, and expansion-stage emerging growth companies that address the needs of all healthcare industry participants including consumers, providers, payers, and organizations serving their needs.

HLM serves as an investment manager to related investment partnerships that make venture capital investments in the securities of established businesses (each partnership, “Fund(s)” or “Partnership(s)”). HLM attempts to make investments of approximately \$5 million to \$25 million in size, in companies with stable revenue and cash flow businesses with high margin structure, and will attempt to capitalize on flexible investment structures.

In providing services to the Partnerships, HLM formulates the investment objective, directs and manages the investment and reinvestment of the Partnership’s assets, and provides periodic reports to the Partnership’s investors. Investment advice is provided directly to the Partnership and not individually to the limited partners of the Partnership. HLM manages the assets of the Partnership in accordance with the terms of the Partnership’s applicable governing documents.

As of December 31, 2022, HLM managed Regulatory Assets under Management of approximately US \$405,385,200 on a discretionary basis.

## **Item 5. Fees and Compensation**

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For the Partnerships, HLM will receive a management fee and performance-based fees for providing investment advisory and administrative services.

Management fees are generally payable in quarterly installments in advance, and any payment for a period of less than three months is adjusted on a pro rata basis according to the actual number of days during the period. As discussed in Item 14, management fees may be reduced by fees and certain items of compensation received by HLM or its affiliates.

See Item 6 for a discussion of performance-based fees. The performance-based fee and management fee may be deferred, waived, or reduced at the discretion of HLM.

The Partnerships pay certain organizational expenses, such as audit, tax and legal fees, and liability insurance, as mentioned in the Partnerships' offering documents.

## **Item 6. Performance Based Fees and Side-by-Side Management**

Each Partnership is subject to the disposition schedule of proceeds and other portfolio income as identified in the Partnership's operating agreement. The amount apportioned to each limited partner will be based on the original capital commitment made to the Partnership and any additional capital contributions required of the limited partners by the general partner. With respect to each Partnership, a portion of the profits may be allocated to the capital account of, and may be distributed to, the general partner as carried interest. The proportion of the profits distributed as carried interest varies based on certain return thresholds, as measured by distributions as a percentage of capital contributions.

Performance-based compensation may create an incentive for the general partner of the Partnership to make investments that are more speculative and make different decisions regarding the timing and manner of the realization of such investments, than would be made if such compensation was not allocated to the general partner. HLM has in place policies and procedures to address these conflicts, including policies and procedures designed to ensure allocation of trades and securities among the Partnerships on a fair and equitable basis. See Item 11 for a description of these policies and procedures.

## **Item 7. Types of Clients**

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HLM currently provides advisory services to five venture capital partnerships – HLM VENTURE PARTNERS, LP, HLM VENTURE PARTNERS III, LP, HLM VENTURE PARTNERS IV, LP, HLM VENTURE PARTNERS V, LP, and HLM STRATEGIC INVESTMENT FUND, LP. The Partnerships operate as pooled investment vehicles intended to provide management expertise and other advantages to its portfolio company investments.

Investors will be required to make certain representations when investing in the Partnership, including, but not limited to, that (i) they are acquiring an interest for their own account, (ii) they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment, and (iii) they have the ability to bear the economic risk of an investment in the Partnership. Each investor will be furnished with a copy of the partnership agreement (the “Partnership Agreement”) and other governing documents.

Details concerning initial and additional subscription minimums for each Partnership are disclosed in the Partnership Agreements.

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

### **Methods of Analysis and Investment Strategies**

The Partnerships will primarily invest in venture and expansion stage, U.S.-based companies whose technologies, services, and solutions directly improve the way healthcare is organized, delivered, and paid for. We seek to partner with commercial-stage, early-movers that: 1) offer a tangible ROI to their customers, 2) demonstrate accelerating revenue growth, 3) utilize capital-efficient business models, and 4) address large market opportunities.

The Partnerships' primary objective is to generate attractive investment returns, principally through long-term capital appreciation, by making, holding, and disposing of privately negotiated equity and equity-related investments, principally in privately-held companies operating in the healthcare information technology, healthcare services, and medical device sectors.

### **Inherent Risks to Investing**

All investing involves a risk of loss and the investment strategy offered by HLM could lose money over short or even long periods. Key risk areas inherent to investing in portfolio companies include operational, investment, and market risks. HLM seeks to mitigate these risks through a variety of mechanisms, including operational due diligence, risk modeling, and appropriate investment structuring.

The descriptions contained below are a brief overview of different associated risks related to HLM's investment strategy; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operations of the Partnership.

#### ***Nature of Investments***

The portfolio companies in which the Fund will invest are likely to face intense competition, including competition from companies with greater financial resources, more extensive development, production, marketing and service capabilities, and a larger number of qualified managerial and technical personnel. There can be no assurance that the development or marketing efforts of any particular portfolio company will be successful or that its business will be profitable.

The Fund's portfolio companies may be unseasoned and unprofitable, have no established operating history or earnings, and lack technical, marketing, financial, and other resources. These companies may be dependent upon the success of one product or service, a unique distribution channel, or the effectiveness of a manager or management team. The failure of this one product, service or distribution channel, or the loss or ineffectiveness of a key executive or executives within the management team may have a materially adverse impact on such companies. Furthermore, these companies may be more vulnerable to competition and to adverse economic conditions than larger, more established entities.



The Fund may invest in companies at early stages of development, including the start-up stage. Particularly in early-stage enterprises, a major risk exists that a proposed service or product cannot be developed successfully with the resources available to the portfolio company. There is no assurance that the development efforts of any portfolio company will be successful or, if successful, will be completed within the budget or time period originally estimated. Following its initial investment in portfolio companies, the Fund anticipates that portfolio companies will require additional funding and that the Fund may have the opportunity to increase its investment in successful portfolio companies. There can be no assurance that the Fund will make, or will have the resources to make, follow-on investments. Any decision by the Fund not to make follow-on investments, or its inability to make them, may have a substantial adverse effect on a portfolio company in need of such an investment, may result in a missed opportunity for the Fund to increase its participation in a successful enterprise, may result in significant dilution of an existing Fund investment, or may cause a decrease in the value of the Fund's portfolio.

The Fund may invest in portfolio companies that employ debt as a way of reducing the overall cost of such portfolio company's capital. Use of debt would increase a portfolio company's exposure to risks of increasing interest rates and may affect its operating performance and cash flow. To the extent that a portfolio company is unable to generate sufficient cash flow to meet its debt service obligations, the value of the Fund's investment in such portfolio company could be significantly reduced or lost altogether.

### ***Concentration of Investments***

The Fund's portfolio will be concentrated in a limited number of companies in the healthcare industry. Limited diversification increases the risks inherent in an investment in the Fund.

### ***Illiquid Fund Investments***

Most of the portfolio companies in which the Fund expects to make investments will initially be privately held. As a result, there will be no readily available secondary market for the Fund's interests in such portfolio companies, and those interests will be subject to legal restrictions on transfer. Therefore, there is no assurance that the Fund will be able to realize liquidity for such investments in a timely manner, if at all. Unless a portfolio company subsequently succeeds in obtaining approval from the relevant authorities to list its shares on a recognized exchange, this avenue to liquidity will not be available to the Fund, which must then rely on other means to achieve liquidity. In addition, the Fund may be precluded from selling its shares in a public portfolio company for some time after such portfolio company's initial public offering. It may be difficult for the Fund to value its interests in privately held portfolio companies.

### ***Risk of Venture Capital Investments***

While venture capital investments offer the opportunity for significant gains, such investments also involve a high degree of business and financial risk and can result in substantial losses. Among these risks are the general risks associated with investing in companies at an early stage of development or with little or no operating history, companies operating at a loss or with substantial variations in operating results from period to period, and companies with the need for substantial additional capital to support expansion or to achieve or maintain a competitive position. Such companies may face

intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities, and a larger number of qualified managerial and technical personnel.

#### ***No Assurance of Profit or Distributions***

There is no assurance that the investments of the Fund will be profitable or that any distribution will be made to the limited partners. Any return on investment to the limited partners will depend upon successful investments being made by the Fund. The marketability and value of any such investment will depend upon many factors beyond the control of the Fund. The Fund may not have sufficient cash available to make tax distributions to the Partners. The expenses of the Fund may exceed its income, and the limited partners could lose the entire amount of their contributed capital.

#### ***Long-Term Investment***

An investment in the Fund is a long-term commitment, and there is no assurance of any distribution to the limited partners prior to or upon liquidation of the Fund.

#### ***Illiquidity of LP Interests***

The LP Interests are highly illiquid, have no public market, and are not transferable except with the prior consent of the general partner. Voluntary withdrawals of LP Interests are not permitted, except in limited instances when necessary to comply with laws or regulations applicable to a limited partner.

#### ***Focused Investment Strategy***

The Fund will be focused on investments in expansion stage privately held companies and may not enjoy the reduced risks of a broadly diversified portfolio. A specific investment focus is inherently more risky and could cause the Fund's investment to be more susceptible to particular economic, political, regulatory, technological, or industry conditions or occurrences compared with a fund, or a portfolio of funds, that is more diversified or has a broader industry focus.

#### ***Economic and Market Risk***

Companies in which the Fund invests may be sensitive to general downward swings in the overall economy or in the technology industry. In addition, factors specific to a portfolio company may have an adverse effect on the Fund's investment in such company. A major recession or adverse developments in the securities markets might have an impact on some or all of the Fund's investments. The general partner may rely upon its own or a portfolio company's projections concerning the portfolio company's future performance in making investment decisions. Such projections are inherently subject to uncertainty and to certain factors beyond the control of the portfolio company and the general partner.

#### ***Technology and Healthcare Industry Risk***

Because the Fund focuses its investments in portfolio companies in the technology and healthcare industries, market or economic factors impacting these industries could have a significant impact on the value of the Fund's portfolio. Technology and healthcare companies frequently operate in environments of rapid technological obsolescence and may incur significant losses. These companies face pressures to shorten time-to-market and work on future products and/or innovations and often

contend with limited windows of opportunity to market and sell products and services. These companies also may have to contend with issues of conformance to industry or de facto standards, expanding government regulations or restrictions and governmental approval of products and services in the course of their operations.

### ***Potential Conflicts of Interest***

HLM's investment professionals will continue to devote a portion of their time to the business of existing investment funds and to any future funds that HLM may organize in accordance with the Fund's Limited Partnership Agreement. Conflicts may arise in the allocation of investment opportunities and the investment professionals' time among the Fund and other such funds. A Prior Fund or other HLM affiliates may invest in a portfolio company alongside the Fund or in previous or subsequent rounds of financing. In these cases, conflicts of interest may arise. HLM may give advice and take actions with respect to other ventures that differs from advice given or actions taken with respect to the Fund. In addition, some of the portfolio companies in which the Prior Funds or other HLM affiliates have an interest could compete with one or more of the Fund's portfolio companies for suppliers, credit, or business opportunities.

### ***Competition for Investments***

The Fund expects to encounter intense competition from other entities and investors having investment objectives similar to the Fund's. Historically, the primary competition for venture capital investments has been from venture capital funds and corporations, venture capital affiliates of large industrial companies, wealthy individuals, and foreign investors. Additional competition is anticipated from industrial and financial companies investing directly rather than through venture capital entities. There is no assurance that the Fund will succeed in finding investments on similar or favorable terms in comparison to its competitors.

### ***Difficulty of Locating Suitable Investments***

The Fund may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. The investment performance of prior HLM investments cannot be relied on as an indicator of the Fund's future performance or success. An investor in the Fund must rely on the ability of the general partner to identify and structure investments consistent with the Fund's objectives and policies. Investors in the Fund will not have the opportunity to evaluate the business, financial, and other information used by the general partner in its analysis, selection, and monitoring of portfolio company investments for the Fund.

### ***Risks of Certain Dispositions of Assets***

In connection with the disposition of an investment in a portfolio company, the 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 any 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 by the limited partners to the extent of their capital commitment to the Fund or all or a portion of distributions made to them previously.

### ***International Investments***

While the Fund intends to invest primarily in the United States, it may invest elsewhere within certain limits. The Fund will not, without the prior approval of the Advisory Committee, invest more than 10% of the Fund's total committed capital in the securities of issuers located outside of the United States and Canada. Investments in countries other than the United States involve risks in addition to the risks that apply to U.S. investments, including, but not limited to, risks relating to adverse political, social, and economic developments in other countries, as well as risks resulting from the differences between the regulations to which issuers and markets are subject in different countries. These risks may include expropriation of assets, confiscatory taxation, withholding taxes on dividends and interest paid on Fund investments, currency exchange controls, other limitations on the use or transfer of Fund assets, and political or social instability. Investments outside the United States also involve currency exchange rate risks. There may be rapid changes in the value of foreign currencies or securities, causing the value of Fund investments to be volatile.

### ***Uncertain Impact of Healthcare Reform Legislation***

Ongoing healthcare reform, to the extent implemented, may offer significant opportunities to healthcare investors, but may also exert downward pressures on investment returns across the healthcare industry or within certain investment categories. Substantial uncertainty exists as to the final form and impact of any healthcare reform legislation that is eventually adopted. As a result, the potential effect of healthcare reform legislation on investment returns is impossible to predict at this time.

### ***Reliance Upon Portfolio Company Management***

Although the Fund may seek representation on the board of directors of its portfolio companies or otherwise provide management and strategic planning assistance, the Fund will not have an active role in the day-to-day management of the companies in which it invests. The Fund expects, in many cases, to make non-controlling investments in portfolio companies where the Fund may not be able to control or effectively influence the business or affairs of such entities. To the extent that the senior management of a portfolio company performs poorly, or if a key manager terminates employment, the Fund's investment in such company could be adversely affected.

## **Item 9. Disciplinary Information**

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HLM and its current employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

HLM and its current employees do not have any relationships or arrangements with other financial services companies.

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

HLM has adopted a “Code of Ethics” that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees’ personal trading of securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Employees also are required to provide quarterly certifications of compliance with certain Code of Ethics provisions.

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Funds and Investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics’ Employee Personal Investment Policy; and
- Employees should not take inappropriate advantage of their position at the Firm.

Employees are permitted to maintain personal brokerage accounts for the purpose of trading. Pre-approval from the CCO is needed prior to trading in Reportable Securities, Initial Public Offerings, and private placements. Employees are prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm’s Restricted List.

A copy of HLM’s Code of Ethics is available upon request.

## **Item 12. Brokerage Practices**

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HLM focuses on making investments in private securities, thus it does not ordinarily deal with any financial intermediary such as a broker-dealer, and commissions are not ordinarily payable in connection with such investments. To the extent HLM might transact in public securities for the Partnerships, it will select brokers based upon the broker's ability to provide best execution for the Partnerships.

HLM is generally authorized to make the following determinations, subject to each Partnership's investment objectives and restrictions, without obtaining prior consent from the relevant Partnerships or any of their investors: (1) which securities or other instruments to buy or sell; (2) the total amount of securities or other instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions.

In making its decisions regarding the allocation of brokerage transactions for the Partnerships, HLM will consider a variety of factors including but not limited to: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer or counter party; and (iv) the competitiveness of commission rates in comparison with other broker-dealers.

Although HLM generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services.

HLM does not participate in any soft dollar arrangements.



## **Item 13. Review of Accounts**

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HLM focuses on investments almost exclusively in the venture capital space. All investment purchases and sales require approval of HLM's senior management. HLM regularly reviews and monitors its portfolio companies. On a quarterly basis, HLM reviews the valuation of its portfolio companies.

Periodically, HLM subjects each investment to a comprehensive re-underwriting. HLM also reviews each investment whenever there is a major company event or market shift affecting the company or its exit options. In these reviews and re-underwritings, HLM consistently reexamines its investment hypothesis, updates forecasts of company performance, assesses the likely current exit opportunities and value, and projects the forward return opportunity available from continuing to hold the investment, taking into account possible future increases or decreases in multiples.

HLM provides quarterly and annual reports to each limited partner. The quarterly package includes an update of the Partnership's portfolio companies. HLM also provides audited financial statements and capital accounts annually.

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

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HLM does not pay a portion of its advisory fees to any other party for the referral of new investors.

HLM does not generally charge portfolio companies origination fees, breakup fees, monitoring fees and other similar fees.

As part of the management of HLM's portfolio companies, HLM investment professionals may receive directors' fees, consulting fees, transaction fees, monitoring fees, break-up fees. or equivalent compensation, whether in cash or in kind, paid to HLM or its affiliates. The fees and compensation will be remitted to HLM to first reimburse any related expenses and then any remaining shall offset against and reduce the Partnership's management fee payment next due to HLM.

## **Item 15. Custody**

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All Partnership assets are held in custody by unaffiliated broker/dealers or banks that are qualified custodians. HLM is deemed to have custody of Partnership assets because HLM or the general partner entities serve as the general partner of each Partnership. Investors will not receive statements from the custodian. Instead, the Partnerships are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with U.S. generally accepted accounting principles and distributed within 120 days of each Partnership's fiscal year end.

## **Item 16. Investment Discretion**

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Any limitations on authority are included in each Partnership Agreement and other governing documents.

## **Item 17. Financial Information**

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HLM has never filed for bankruptcy and is not aware of any financial condition expected to affect its ability to manage client accounts.