

**INVESTMENT ADVISER BROCHURE**

**WATER STREET HEALTHCARE PARTNERS, LLC**

**Water Street Healthcare Management II, L.P.**

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**Chicago, IL 60606**

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**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Water Street Healthcare Partners, LLC (the “Management Company”). If you have any questions about the contents of this Brochure, please contact us at (312) 506-2900. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

The Management Company is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

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

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b><u>Brochure</u></b>	
Advisory Business .....	2
Fees and Compensation.....	3
Performance-Based Fees and Side-By-Side Management .....	5
Types of Clients.....	5
Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Disciplinary Information.....	11
Other Financial Industry Activities and Affiliations.....	11
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
Brokerage Practices .....	12
Review of Accounts .....	14
Client Referrals and Other Compensation.....	14
Custody .....	14
Investment Discretion.....	14
Voting Client Securities.....	15
Financial Information.....	15

## ADVISORY BUSINESS

Water Street is a private investment management firm, including several registered investment advisory entities and other organizations affiliated with the Management Company (collectively, “**Water Street**”).

The Management Company, a Delaware limited liability company and a registered investment adviser, provides investment advisory services to private investment funds. The Management Company commenced operations in January 2005.

The following are the affiliated advisers of the Management Company (collectively with the Management Company, the “**Advisers**”):

- Water Street Healthcare Management, L.P. (“**GP I**”)
- Water Street Healthcare Management II, L.P. (“**GP II**,” and together with GP I, the “**General Partners**”).

The Advisers’ clients include the following (collectively the “**Partnerships**,” and together with any future private investment fund to which Water Street or its affiliates provide investment advisory services, “**Private Investment Funds**”):

- Water Street Healthcare Partners, L.P. (“**Fund I**”)
- Water Street Healthcare Partners II, L.P. (“**Fund II**”).

The General Partners each serve as general partner to one or more Partnerships and have the authority to make the investment decisions for the Partnerships to which they provide advisory services. The Management Company provides certain advisory services to the General Partners.

The Partnerships and any other Private Investment Funds that may be formed by a General Partner (or its affiliates) at a later date or that may otherwise become clients of a General Partner are expected to invest through negotiated transactions in operating entities. The Advisers’ investment advisory services to the Partnerships consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. From time to time, the senior principals or other personnel of the Advisers or their affiliates may serve on a portfolio company’s board of directors or otherwise act to influence control or management of portfolio companies held by the Partnerships.

The Advisers’ advisory services for Private Investment Funds are further described in the applicable private placement memoranda and limited partnership agreements, as well as below under “Methods of Analysis, Investment Strategies and Risk of Loss”. Investors in Private Investment Funds participate in the overall investment program for the applicable Partnership,

but may be excused from a particular investment due to legal, regulatory or other applicable constraints.

As of December 31, 2011, the Management Company managed approximately \$1.15 billion in client assets on a discretionary basis. The only person with a 25% or more ownership interest in the Management Company is Timothy A. Dugan.

## **FEES AND COMPENSATION**

In general, the General Partners receive a Management Fee (as defined below) and a carried interest in connection with advisory services. The General Partners or other Water Street entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies of Partnerships and a portion of such additional compensation will offset in whole or in part the management fees otherwise payable to the applicable General Partner. Investors in the Partnerships also bear certain fund expenses.

### **Management Fee**

Each Partnership will pay the applicable General Partner a management fee (the “**Management Fee**”), partially in advance and partially in arrears, equal to 2.0% on an annual basis of aggregate the Partnership investor capital commitments (“**Commitments**”), subject to reductions at the end of the investment period and in certain other circumstances, in each case, as specified in the limited partnership agreement of the applicable Partnership (the “**Partnership Agreement**”). The Management Fee will be payable until all portfolio investments are distributed or until the General Partner’s relationship with the Partnership is terminated for other reasons (as described in Partnership Agreement). Installments of the Management Fee payable for any period other than a full Management Fee period are adjusted on *pro rata* basis according to the actual number of days in such period.

Unless otherwise approved by the applicable Partnership’s advisory board, the Management Fee will be reduced by (i) all of the Partnership’s share of directors’ fees paid by portfolio companies to partners or employees of the General Partner or certain of its affiliates; (ii) a specified percentage of any net transaction fees, financial consulting fees or advisory fees paid to the applicable General Partner or certain of its affiliates with respect to any Partnership investment; and (iii) a specified percentage of any net break-up fees with respect to Partnership transactions not completed that are paid to the applicable General Partner or certain of its affiliates (any such fees that such General Partner or another Water Street entity or person are permitted to retain are herein referred to as “**Supplemental Fees**”). To the extent that such an offset credit would reduce the Management Fee for a given Management Fee period below zero, the credit will be carried forward for future application against payable Management Fees. To the extent any such excess remains unapplied upon dissolution of a Partnership, each partner of such Partnership will receive its share of such unapplied excess, unless such partner elects not to receive its share. To the extent that any other Private Investment Fund or any other entity or individual co-invests alongside a Partnership in any portfolio company investment, any Supplemental Fees will be allocated among such Partnership and the co-investors in proportion to the cost of the investment or potential investment in the portfolio company held (or committed to be held) by each.

As permitted under the Partnership Agreement for each Partnership, the applicable General Partner may waive or agree to reduce the Management Fee. Any such waived or reduced portion of the Management Fee reduces the amount of capital the General Partner would otherwise be required to contribute to the Partnership. The limited partners of the Partnership may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of the General Partner in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions. Waived or reduced Management Fees are not subject to the Management Fee offsets described above.

### **Carried Interest**

The General Partner of each Partnership will receive a carried interest with respect to such Partnership equal to 20% of all profits in excess of an 8% compound preferred return subject to a General Partner catch-up provision, as more fully described in the Partnership Agreement of the applicable Partnership. The carried interest distributed to the General Partner is subject to a potential giveback at the end of the life of the Partnership if the General Partner has received excess cumulative distributions.

It is expected that any similar future Private Investment Funds will have a similar fee structure.

### **Other Information**

The Partnerships generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Partnership Agreement, over the term of the applicable Partnership, and investors generally are not permitted to withdraw or redeem interests in the Partnership.

Principals or other employees of Water Street may receive a portion of the Management Fee, carried interest or other compensation received by the General Partners or their affiliates.

In addition to the Management Fee and carried interest payable to the applicable General Partner, each Partnership bears certain expenses. As set forth in the Partnership Agreement for the applicable Partnership, the Partnership bears all Partnership expenses to the extent not paid by portfolio companies, including organizational expenses up to the expense cap specified in the Partnership Agreement, legal, auditing, consulting (excluding fees for consulting services associated with overall strategy that are not performed as part of an investment initiative), financing, accounting and custodian fees and expenses; expenses associated with the Partnership's financial statements, tax returns and Schedule K-1s; out of pocket expenses incurred in connection with transactions not consummated; expenses of any advisory board of limited partners; expenses of the annual meetings of the Partnership's limited partners; insurance; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any); and any taxes, fees or other governmental charges levied against the Partnership, but not ordinary administrative and overhead expenses of the General Partner incurred in connection with managing, originating and monitoring investments, including employees' salaries, rent, utilities and other similar expenses.

specified in the Partnership Agreement. Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under “Fees and Compensation,” the General Partners may receive a carried interest allocation on certain profits in the Partnerships. Water Street advises a private fund that is not subject to management fees or a carried interest (the “**Co-Invest Fund**”). While this practice could present a conflict of interest, Water Street does not believe this arrangement poses a conflict of interest in practice because the Co-Invest Fund co-invests alongside the Partnership at substantially the same time and on substantially the same terms as the Partnership and disposes of such investments in a similar manner.

### **TYPES OF CLIENTS**

The Advisers provide investment advice to Private Investment Funds, including the Partnerships. Private Investment Funds are investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended (the “**Investment Company Act**”). The investors participating in Private Investment Funds may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of the Advisers and their affiliates.

Fund I has a minimum investment of \$5 million for third-party investors and Fund II has a minimum investment of \$10 million for third-party investors, each of which may be waived by the applicable General Partner. Investors in the Partnerships must meet certain suitability and net worth qualifications prior to making an investment. Investors must be (i) “accredited investors” as defined under Regulation D of the Securities act of 1933, as amended and (ii) either “qualified purchasers” or “knowledgeable employees” as defined under the Investment Company Act.

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **General**

Water Street is a private investment firm focused on making investments in later-stage, middle-market healthcare companies. The Advisers’ investment advisory services consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for investments. Investments are predominantly of non-public companies although investments in public companies are permitted.

The Advisers’ investment strategy for the Partnerships focuses on the acquisition of controlling interests in middle-market companies and divisions of global healthcare organizations that the Advisers believe have strong growth prospects to serve as potential platform companies. The Advisers focus on investments that require equity capital of approximately \$25 million to \$100 million, although the required capital may be greater or less than such amounts.

The Advisers' investment strategy consists of the following phases: (i) sourcing proprietary investment opportunities through a direct calling effort and conducting due diligence; (ii) creating customized transaction structures and innovative capital structures for sellers; (iii) growing portfolio companies through strategic combinations; (iv) maintaining active involvement with portfolio companies in an effort to improve operating performance; and (v) exit planning to position a portfolio company for strategic sale.

There can be no assurance that the Advisers will achieve the investment objectives of the Partnership and a loss of investment may be possible.

## **Investment and Operating Strategy**

*Deal Sourcing and Due Diligence.* The Advisers' deal sourcing program has two components: (i) a calling effort focusing on the 200 largest publicly-traded healthcare companies; and (ii) a targeted calling effort on middle-market companies. The first component serves as a method for the Advisers to discuss creative ways to enhance the operations, market positions and value of the public healthcare company's low-priority businesses. The second component focuses on building a dialogue with select middle-market companies interested in aggressively growing their businesses. The information gathered through the corporate calling program helps the Advisers to: (a) better understand trends and competitive dynamics in a segment by talking to key competitors in that segment; (b) identify businesses that can most likely be combined to create a market leader in the segment of interest; and (c) identify likely buyers of that business once successfully developed and begin to pre-sell the portfolio company. Once a potential investment is identified, the Advisers develop an investment thesis and, through a detailed due diligence process, seek to verify such thesis and investigate the major business risks.

*Create Customized Transaction Structures for Sellers.* As part of its strategic dialogue with healthcare companies, the Advisers encourage owners to maintain ongoing ownership stakes in partnership with Water Street as a means of both: (i) providing corporate parents or private-company owners with the opportunity to benefit from future value creation; and (ii) differentiating the Advisers' discussion and proposed transaction from an outright sale. The Advisers expect to frequently structure their acquisitions as leveraged recapitalizations, allowing owners to achieve partial liquidity, while continuing to have meaningful equity stakes and remain involved in the governance of their companies. This structure is preferred for a larger corporation or entrepreneur that is looking for liquidity but also desires a financial partner to enhance the company's growth opportunities and the ability to participate in value creation.

*Grow Portfolio Companies Through Strategic Acquisitions.* The Advisers seek to build market-leading companies focused on adding value to end customers through broader product and/or service offerings. Post-acquisition, the Advisers encourage and facilitate significant operating investments in the infrastructure of their portfolio companies to better position such companies for future growth and value creation. Additionally, the Advisers seek to improve the competitive position and financial performance of portfolio companies through transformational strategic acquisitions. The Advisers focus on acquisitions that they believe will: (i) offer customers improved product offerings and/or greater geographic coverage; (ii) leverage production and purchasing power to improve gross margins; (iii) leverage distribution strength

into profitable and proprietary licensing or distribution relationships; (iv) consolidate selling and marketing efforts to reduce costs, improve margins and improve customer coverage; and/or (v) enhance investments in research and development.

*Maintain Active Involvement in Portfolio Companies.* The Advisers' approach to governance begins with a focus on developing a board of directors (the "**Board**") comprised of operating and financial executives appropriate for each company. Post-closing, the Advisers will establish a detailed governance program that includes a regular calendar of organization planning, strategic planning, corporate development, executive compensation and operations analysis. Each committee of the Board will generally have a clearly delineated charter and objectives in working with the company. Additionally, the Advisers seek to implement an authorities matrix that explicitly outlines approval authorities for management and ensures that the Board gets involved in decisions of significance for each company. The Advisers will also develop, together with management, a reporting package that is focused on operating metrics that the Advisers believe are critical in monitoring the progress of the company. The Advisers also seek to supplement their knowledge, experience and contacts with a network of executives that serve as operating partners (the "**Operating Partners**"). The Operating Partners are experienced industry executives, generally former Chief Executive Officers, who work with the Advisers on an exclusive advisory basis. The Operating Partners may serve as members of the Board or, in some cases, as operating executives of portfolio companies.

*Exit Strategy.* The Advisers seek to develop companies with the objective of building businesses that will become compelling and dynamic acquisition candidates for a strategic buyer. The Advisers seek to develop portfolio companies into market leaders that have the financial scale to be meaningful to a strategic buyer and that are run with the discipline and reporting standards of a public company. The Advisers believe that keeping management focused on the standards required for an independent public company improves the strategic decisions made in the development of the company and best positions the business for sale to a strategic buyer. Although the Advisers will analyze whether a portfolio company is appropriate for public offering, the Advisers' primary exit strategy is a cash sale to a strategic buyer.

## **Risks of Investment**

A Partnership and its investors bear the risk of loss that the applicable Advisers' investment strategy entails. The risks involved with the Advisers' investment strategy and an investment in a Partnership are detailed in each General Partner's Form ADV Part 2 and in the Partnership's private placement memorandum. In general, these risks include, but are not limited to:

*Business Risks.* The Partnership's investment portfolio will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Investment in Junior Securities.* The securities in which the Partnership will invest may be among the most junior in a portfolio company's capital structure, and thus subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment once made.



*Concentration of Investments.* The Partnership will participate in a limited number of investments and intends to make most of its investments in one industry or one industry segment. As a result, the Partnership's investment portfolio could become highly concentrated, and the performance of a few holdings may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Partnership may invest in fewer portfolio companies and thus be less diversified.

*Lack of Sufficient Investment Opportunities.* It is possible that the Partnership will not be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, the limited partners will be required to pay Management Fees during the investment period based on the aggregate amount of all Commitments to the Partnership.

*Leveraged Investments.* Portfolio company leverage generally magnifies both the Partnership's opportunities for gain and its risk of loss from a particular investment, and could accelerate and magnify declines in the value of the Partnership's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Partnership may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Partnership. Furthermore, should the credit markets be tight at the time the Partnership determines that it is desirable to sell all or a part of a portfolio company, the Partnership may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which the Partnership will invest generally will not be rated by a credit rating agency.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Partnership's investments, and hence, most of the Partnership's investments will be difficult to value. Certain investments may be distributed in kind to the Partners.

*Projections.* Projected operating results of a company in which the Partnership invests normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

*Need for Add-On Investments.* Following its initial investment in a given portfolio company, the Partnership may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the Partnership will make follow-on investments or that the Partnership will have sufficient funds to make all or any of such investments. Any decision by the Partnership not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment or may result in a lost opportunity for the Partnership to increase its participation in a successful operation.

*Non-U.S. Investments.* The Partnership may invest in portfolio companies that are organized or have substantial sales or operations outside of the U.S., its territories, and possessions. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of the Partnership) and the application of complex U.S. and foreign tax rules to cross-border investments, possible imposition of foreign taxes on the Partnership and/or the limited partners with respect to the Partnership's income, and possible foreign tax return filing requirements for the Partnership and/or the limited partners.

Additional risks include: (a) risks of economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; and (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Director Liability.* The Partnership will often obtain the right to appoint a representative to the board of directors of the companies in which it invests. Serving on the board of directors of a portfolio company exposes the Partnership's representatives, and ultimately the Partnership, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

*Uncertain Economic and Political Environment.* The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a "self-reinforcing" economic downturn. The availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, continues to be restricted. This may have an adverse effect on the economy generally and on the ability of the Partnership and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of their businesses. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. Furthermore, such uncertainty may have an adverse effect upon portfolio companies in which the Partnership makes investments.

*Healthcare Regulation, Reimbursement and Reform.* Various segments of the healthcare industry are (or may become) (i) highly regulated at both the state and federal levels in the United States and internationally, (ii) subject to frequent regulatory change and (iii) dependent upon various government or private insurance reimbursement programs. While the Partnership intends to make investments in companies that comply with relevant laws and regulations, certain aspects of their operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or an adverse change in the regulatory requirements or reimbursement programs, could have a material adverse effect on the operations of the companies in which the Partnership invests. In recent years, numerous legislative proposals have been introduced or proposed in the United States Congress

and in some state legislatures that would effect major changes in the United States healthcare system at both the national and state level. Healthcare systems outside of the United States are also subject to significant change. It is not clear at this time what changes, if any, will occur and what effect such proposals would have on the healthcare industry.

*Healthcare Research and Innovation.* The healthcare industry spends heavily on research and development. Research findings (e.g., regarding side effects or comparative benefits of one or more particular treatments, services or products) and technological innovation (together with patent expirations) may make any particular treatment, service or product less attractive if previously unknown or underappreciated risks are revealed, or if a more effective, less costly or less risky solution is or becomes available. Any such development could have a material adverse effect on the companies in which the Partnership invests.

### **Conflicts of Interest**

During the investment period of a given Partnership, all appropriate investment opportunities will be pursued by the Advisers through such Partnership, subject to certain limited exceptions. Without limitation, the Advisers' principals currently manage several other investments similar to those in which a given Partnership will be investing, and may direct certain relevant investment opportunities to those investments. The Advisers' principals and the Advisers' investment staff will continue to manage and monitor such investments until their realization. Such other investments that the Advisers' principals may control may potentially compete with companies acquired by a given Partnership. Following the investment period of a Partnership, the Advisers' principals may and likely will focus their investment activities on other opportunities and areas unrelated to such Partnership's investments, possibly including successor funds.

From time to time, the Advisers will be presented with investment opportunities that would be suitable not only for a given Partnership, but also for other Private Investment Funds and other investment vehicles operated by advisory affiliates of the Management Company. In determining which investment vehicles should participate in such investment opportunities, the Advisers are subject to conflicts of interest among the investors in such investment vehicles. The Advisers attempt to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by its advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Partnership, other Private Investment Funds and such investment vehicles in a fair and equitable manner. Where necessary, the Advisers consult and receive consent to conflicts from an advisory committee consisting of limited partners of the applicable Partnership and such other investment vehicles.

Because the General Partners' carried interest is based on a percentage of certain net profits, it may create an incentive for the Advisers to cause the Partnerships to make riskier or more speculative investments than would otherwise be the case. Since the General Partners are permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with Partnership investments, the Advisers could have a conflict of interest in connection with approving transactions.

## **DISCIPLINARY INFORMATION**

The Management Company and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

The Management Company serves as the general partner of each of the General Partners, each of which is registered with the SEC under the Advisers Act. The General Partners serve as general partners of private investment funds and other pooled vehicles or of other affiliated investment advisers and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Advisers have adopted the Water Street Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of the Advisers’ principals and employees and addresses conflicts that arise from personal trading. The Code requires the Advisers’ personnel to:

- report their personal securities transactions;
- pre-clear any proposed purchase of an initial public offering or a limited offering; and
- comply with policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information.

A copy of the Code will be provided to any investor or prospective investor upon request to Jeff Holway, the Water Street Chief Compliance Officer, at (312) 506-2900. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client-eligible investments.

The Advisers and their affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers. Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Water Street personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Partnerships.

Principals and employees of the Advisers and their affiliates may directly or indirectly own an interest in Private Investment Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as a Partnership.

The Partnerships and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of the General Partner in the manner set forth in the applicable Partnership Agreement. The Advisers will determine allocation of investment opportunities in a manner that they believe is fair and equitable to their clients consistent with the Advisers' fiduciary obligations.

The Advisers and their affiliates, principals and employees may carry on investment activities for their own accounts and for family members, friends or others who do not invest in the Partnerships, and may give advice and recommend securities to other accounts or certain Partnerships or vehicles which may differ from advice given to, or securities recommended or bought for, other Partnerships or vehicles, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain vehicles sponsored by Water Street (the "**Reference Funds**") may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or may give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by investors (or their representatives) in such Reference Funds.

From time to time, the General Partners may borrow funds on behalf of the Partnerships or the Private Investment Funds and contribute such borrowed amounts to the Partnerships (or relevant Private Investment Fund, as applicable) as a special capital contribution for investment, to be returned to the General Partner at a later date. Interest in connection with such borrowing is borne by the Partnerships (or the relevant Private Investment Fund, as applicable) as a Partnership expense, consistent with the applicable Partnership Agreement (or other governing document) and the expense policy described under "Fees and Compensation." In borrowing on behalf of the Partnerships or a Private Investment Fund, the General Partners are subject to conflicts of interest between repaying their obligations and retaining such borrowed amounts for the benefit of the Partnerships or Private Investment Fund, as applicable. The General Partners will effect such borrowings in a manner that they believe to be fair and equitable to the Partnerships or Private Investment Fund, as applicable, and consistent with the General Partners' obligations to the Partnerships and the Partnership Agreement (or other governing document).

### **BROKERAGE PRACTICES**

The Advisers focus on securities transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, the Advisers may also distribute securities to investors in a Private Investment Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. Although the Advisers do not intend to regularly engage in public securities transactions, to the extent they do so, they follow the brokerage practices described below.

If the Advisers sell publicly traded securities for a Private Investment Fund, they are responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Advisers. In such event, the Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, they may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time and have not made use of such services since their inception.

The Advisers do not anticipate engaging in significant public securities transactions; however, to the extent that the Advisers engage in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Private Investment Funds simultaneously. From time to time, the Advisers may, but are not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund of the Advisers is favored over any other Private Investment Fund. When an aggregated order is filled in its entirety, each participating Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Private Investment Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Private Investment Funds.

Each Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Private Investment Funds over time.

## **REVIEW OF ACCOUNTS**

The investments made by the Private Investment Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, the Advisers closely monitor companies in which the Private Investment Funds invest, and the Water Street Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

The Partnerships will provide to their limited partners (i) audited financial statements annually, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax information necessary for each limited partner's tax returns, and (iv) descriptive investment information for each portfolio company periodically.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

The Advisers and/or their affiliates may provide certain business or consulting services to companies in the Partnerships' respective portfolios and may receive compensation from these companies in connection with such services. As described in the applicable Partnership's Partnership Agreement, this compensation may, in many cases, offset a portion of the Management Fees paid by the Partnerships. However, in other cases (e.g., reimbursements for out of pocket expenses directly related to a portfolio company or with the Partnership's advisory board consent), these fees may be in addition to Management Fees. See "Fees and Compensation."

The Advisers have entered into a solicitation arrangement with Credit Suisse Securities (USA) LLC ("CSS"), pursuant to which it compensated CSS in connection with referrals that resulted in a potential investor becoming a limited partner in a Partnership or other Private Investment Fund. Any fees and expenses payable to any such placement agents are borne by the applicable General Partner indirectly through an offset against the Management Fee.

## **CUSTODY**

The Advisers maintain custody of the Partnerships' assets held in the Partnerships' names with Merrill Lynch, Pierce, Fenner & Smith Incorporated, located at 600 California Street, 8th Floor, San Francisco, CA 94108.

## **INVESTMENT DISCRETION**

The Advisers have discretionary authority to manage investments on behalf of the applicable Partnership. As a general policy, the Advisers do not allow limited partners to place limitations on this authority. Pursuant to the terms of the Partnership Agreement, however, an Adviser may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the Partnership may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. The Advisers assume this discretionary authority pursuant to the terms of the Partnership Agreement and powers of attorney executed by the limited partners of each Partnership.

## **VOTING CLIENT SECURITIES**

The Advisers have adopted the Water Street Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how they will vote proxies, as applicable, for the Partnerships’ portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Partnerships, including where there may be material conflicts of interest in voting proxies. The Advisers generally believe their interests are aligned with those of the Partnerships’ investors through the principals’ beneficial ownership interests in the Partnerships and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Advisers may address the conflict using several alternatives, including by seeking the approval or concurrence of a Partnership’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. The Advisers not consider service on portfolio company boards by Water Street personnel or the Advisers’ receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Partnerships. If you would like a copy of Water Street’s complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact Jeff Holway, the Water Street Chief Compliance Officer, at (312) 506-2900, and it will be provided to you at no charge.

## **FINANCIAL INFORMATION**

The Management Company does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.