

**Item 1 – Cover Page**



Essex Woodlands Management, Inc.  
Part 2A of Form ADV: Firm Brochure

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This brochure provides information about the qualifications and business practices of Essex Woodlands Management, Inc. If you have any questions about the contents of this brochure, please contact us at (281) 364-1555. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Essex Woodlands Management, Inc. is a registered investment adviser. Registration of an investment adviser with the SEC does not imply a certain level of skill or training.

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

## **Item 2 – Material Changes**

Since Essex Woodlands Management, Inc.’s most recent annual update filed on March 30, 2018, the Firm closed on two new Funds, EW Healthcare Partners Fund 2, L.P. and EW Healthcare Partners Fund 2-A, L.P., as disclosed in the Firm’s Form ADV Part 1.

In addition, Essex Woodlands Management, Inc. routinely makes changes throughout its Brochure to improve and clarify the descriptions of its business practices and compliance policies and procedures or in response to evolving industry and Firm practices. In this year’s filing, the following Items have been updated, in addition to make certain immaterial and/or conforming changes related to the foregoing:

- Item 4: updated to reflect discretionary and non-discretionary assets under management as of December 31, 2018 and other immaterial changes;
- Item 5: updated description of certain fees and expenses, including management fees, co-investment fees and expenses, and affiliated service provider fees and expenses in relation to the addition of the two new funds;
- Item 8: updated description of potential risks of loss and potential conflicts of interest; and
- Item 10: updated description of arrangements or relationships that can create a conflict of interest.

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## Item 4 – Advisory Business

### Firm Description

Headquartered in Houston, Texas with additional offices in Palo Alto, New York and London, Essex Woodlands Management, Inc., together with its relying adviser, Essex Woodlands Services Co., Inc. and general partners (unless the context otherwise requires) (“EW”, “we” or the “Firm”), is a private equity and venture capital firm which serves as the management company for its private funds. Founded in 1985 under its original name Essex Woodlands, EW manages private investment funds that focus on making growth equity investments in healthcare companies. We invest broadly across the healthcare spectrum in areas such as pharmaceuticals, medical devices, technology-enabled healthcare services and healthcare information technology, among others. EW partners with management teams to accelerate growth and add value through our network of relationships and expertise in the healthcare sector.

A Delaware corporation, EW serves as the investment manager for and provides discretionary investment advisory services to private funds exempt from registration under the Investment Company Act of 1940 (“Investment Company Act”), as well as to co-investment vehicles and one special purpose vehicle established to invest alongside a Fund in a single portfolio company (each a “Fund” and collectively, the “Funds” unless the context otherwise requires). Affiliates of EW serve as the general partners (the “General Partners”) of the Funds, which have the authority to make investment decisions on behalf of the Funds, and the relying adviser and are deemed to be registered pursuant to EW’s registration in accordance with SEC guidance. While the General Partners maintain ultimate authority over the respective Funds, EW has been delegated the role of investment adviser. For more information about the Funds, General Partners and relying adviser, please see our Form ADV Part 1, Schedule D, Sections 7.A.(1) and 7.A.(2) and Schedule R.

EW’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities and negotiating the terms of purchase and sale of investments. The Funds invest through privately negotiated transaction in operating companies in the healthcare industry. When such investments consist of portfolio companies, our senior principals or other personnel and/or third parties appointed by us (such as operating partners and senior advisors) will generally serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Funds.

Investment advice is provided directly to the Funds and not individually to the underlying limited partners in the Funds. EW manages the assets of the Funds in accordance with the terms of each Fund’s private placement memorandum, limited partnership agreement, side letter agreements, investment advisory agreements and/or other governing documents applicable to each Fund (the “Governing Documents”). The Governing Documents of each Fund identify the type of securities or other investment instruments in which the vehicle will invest and any investment restrictions or

limitations with respect to these securities. We do not seek or require limited partner approval regarding each investment decision.

Limited partners generally cannot impose restrictions on investing in certain securities or types of securities, other than through side letter agreements. Limited partners in the Funds participate in the overall investment program for the applicable Fund and generally cannot be excused from a particular investment except pursuant to the terms of the applicable Governing Documents. EW has entered into side letters or similar agreements with certain limited partners that have the effect of establishing rights under, or altering or supplementing, a Fund's Governing Documents. Such rights include certain fee arrangements, notification provisions, reporting requirements and most favored nations provisions, among others. Side letters are negotiated at the time of a Fund's formation, and once invested in a Fund, limited partners generally cannot impose additional investment guidelines on such Fund.

### **Principal Ownership**

As of December 31, 2018, we had approximately \$2.522 billion of regulatory assets under management, all of it managed on a discretionary basis.

EW is owned by President Martin Sutter and Managing Directors Scott Barry, Ron Eastman and Petri Vainio. For more information about our owners and executive officers, see EW's Form ADV Part 1, Schedule A.

## **Item 5 – Fees and Compensation**

Compensation we receive is comprised of fees based on a percentage of assets under management and performance-based carried interest, as well as other fees and expenses paid by the Funds and the portfolio companies in which our Funds invest. Limited partners should refer to the Governing Documents of the applicable Fund for a complete understanding of how EW is compensated. The information contained herein is a summary only and is qualified in its entirety by such documents.

### **Management Fees**

Each Fund pays EW a quarterly management fee (the "Management Fee"), in advance, equal to 2.0% per annum of aggregate Fund limited partner capital commitments ("Commitments"), which are held by limited partners not designated as "affiliated partners" by the relevant General Partner. Limited partners participating in a closing after the relevant Fund's initial closing date generally bear the Management Fee from such initial closing date plus interest. Each Fund's Management Fee generally steps down following certain events specified in the relevant Governing Documents of such Fund and differs by Fund. The Management Fee is payable until all portfolio investments are distributed or until EW's relationship with the applicable Fund is terminated for other reasons (as described in the relevant Governing Documents).

Management Fees will generally be reduced by (i) the amount of fees paid by such Fund to entities or persons acting as a placement agent in connection with the offer and sale of interests in such Fund; (ii) costs incurred by EW in connection with the organization of such Fund that exceed a limit as specified in such Fund's Governing Documents; (iii) any contributions made with respect to capital call notices delivered prior to a Fund's Management Fee due date; and (iv) if applicable, certain supplemental fees and compensation with respect to portfolio investments, including all closing fees, investment banking fees, placement fees, commitment fees, breakup fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees, directors' fees and other similar fees (whether in the form of cash, securities or otherwise), the amount of which are paid by the Funds (directly, or indirectly by the portfolio companies) and are determined by EW on a transaction by transaction basis, subject to the terms set forth in each Fund's Governing Documents. All such supplemental fees received are offset in whole or in part against the Management Fee, net of any expenses incurred in connection with such portfolio investment; however, any such fees received from non-EW employees are not subject to an offset against Management Fees.

To the extent that such an offset credit would reduce a Fund's Management Fee for a given quarter below zero, the credit will be carried forward for future application against payable Management Fees, and if a credit remains upon dissolution, a payment will be made to limited partners that have not elected to waive such amount for tax or other reasons. The amount and manner of such reduction is set forth in the relevant Governing Documents of the applicable Fund. As further described immediately below, any such reduction of a Fund's Management Fee is typically limited to the extent of such Fund's proportionate interest in any such portfolio company and only to the extent a Management Fee is payable by a Fund currently or in the future.

Management Fees are negotiated with limited partners during the fundraising period of the applicable Fund and are not subject to negotiation thereafter. The relevant General Partner is permitted, in its sole discretion, waive all or a portion of the Management Fee payable by a limited partner. Management Fees differ from one Fund to another, as well as among limited partners in the same Fund. Such differences can arise from the size of a limited partner's commitment, different limited partner classes, provisions of side letter agreements or other negotiated terms. In addition, limited partners who co-invest in an EW investment are not charged a Management Fee on the co-investment portion of their investment. Installments of the Management Fee payable for any period other than a full three-month period are adjusted on a pro rata basis according to the actual number of days in such period.

### **General Partner's Carried Interest**

As described in Item 6 below, the General Partner of each Fund is entitled to be allocated performance-based carried interest ("Carried Interest") with respect to all of the Funds, which is typically 20% of cumulative net profits, subject to a "clawback" provision.

## Other Fees and Expenses

In addition to Management Fees and the General Partner's Carried Interest, all limited partners indirectly bear certain operating and organizational expenses of the Funds. These fees and expenses vary by Fund, as detailed in each Fund's Governing Documents, but typically mean all fees, costs, expenses, liabilities and obligations relating to the Funds and/or its subsidiaries' activities, business, portfolio companies or actual or potential investments, including with respect to any entity formed to effect the acquisition and/or holding of a portfolio company (to the extent not borne or reimbursed by a portfolio company or potential portfolio company), including all fees, costs, expenses, liabilities and obligations relating or attributable to: (i) activities with respect to origination and sourcing of investment opportunities for the Funds, including travel, meeting with broker-dealers, investment banks and other sources of investments and developing an investment pipeline; (ii) activities with respect to the structuring, organizing, negotiating, consummating, financing, refinancing, diligencing (including any subscriptions to periodicals or databases), acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating, dissolving, or otherwise disposing of, as applicable, portfolio companies and a Fund's actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, tax professionals, investment bankers, lenders, third-party diligence software and service providers, consultants and similar professionals in connection therewith, together with any fees and expenses related to transactions offered to co-investors, including such fees and expenses relating to co-investment vehicles), whether or not any contemplated transaction or project is consummated and whether or not such activities are successful; (iii) indebtedness of, or guarantees made by a Fund, EW, a General Partner or any affiliated limited partner (including any credit facility, letter of credit or similar credit support), including repayment of principal and interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iv) financing, commitment, origination and similar fees and expenses; (v) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services; (vi) brokerage, sale, custodial, depository (including any depository appointed pursuant to the AIFMD), Swiss representative and Swiss paying agent (appointed pursuant to the Swiss Collective Investment Schemes Act (as amended) and its implementing ordinance) trustee, record keeping, account and similar services; (vii) legal, accounting, research, auditing, administration (including fees and expenses associated with a Fund's third-party administrator and administration, tracking or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services), consulting (including consulting and retainer fees and other compensation paid to the Operations Group (defined below) or any of its members, consultants performing investment initiatives and other similar consultants), tax and other professional services; (viii) expenses associated with the reporting, filings or other ongoing compliance requirements contemplated by the AIFMD; (ix) reverse breakup, termination and other similar fees; (x) directors and officers liability, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses, including any costs and expenses related to any retention or deductibles; coverage

and general partnership liability premiums and other insurance and regulatory expenses, including any costs and expenses related to any retention or deductibles; related financial statements or other reports, tax returns, tax estimates, Schedule K-1s, other communications with limited partners, or any other administrative, compliance or Fund-related or investment-related regulatory filings or reports (including Form PF), or other information, including fees and costs of any third-party service providers, distribution agents and professionals related to the foregoing; (xiv) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of the Funds or the limited partners; (xv) any activities with respect to protecting the confidential or non-public nature of any information or data, including confidential information; (xvi) activities or proceedings of each Fund's advisory board (including any costs and expenses incurred by representatives of EW, the advisory board members, permitted observers and other persons in attending or otherwise participating in meetings of an advisory board); (xvii) indemnification (including any fees, costs and expenses incurred in connection with indemnifying any entity or other person pursuant to the relevant Fund limited partnership agreement or otherwise and advancing fees, costs and expenses incurred by any such entity or person in defense or settlement of any claim that is subject to a right of indemnification), except as otherwise set forth in the relevant limited partnership agreement(s); (xviii) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including the costs and expenses of discovery related thereto and any judgment, other award or settlement entered into in connection therewith; (xix) any annual limited partner meeting or other periodic, if any, meetings of the limited partners, any other conference or meeting with any limited partner(s), and any periodic executive forum of portfolio company management and/or other entities or persons, in each case to the extent incurred by Funds, the General Partners or any other affiliate of EW; (xx) the Management Fee; (xxi) except as otherwise determined by EW in its sole discretion, any fee, cost, expense, liability or obligation relating to any alternative investment vehicle or its activities, business, portfolio companies or actual or potential investments (to the extent not borne or reimbursed by a portfolio company of such alternative investment vehicle) that would be a Fund expense if it were incurred in connection with a Fund, and any expenses incurred in connection with the formation, management, operation, termination, winding up and dissolution of any feeder vehicles related to a Fund to the extent not paid by the limited partner investing in such entities, and any other costs and expenses related to any structuring or restructuring of a Fund and/or its affiliated entities; (xxii) the termination, liquidation, winding up or dissolution of a Fund; (xxiii) defaults by limited partners in the payment of any capital contributions; (xxiv) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of the Funds, the parallel Funds, the General Partners, the parallel Fund General Partners, the ultimate general partner, EW and any alternative investment vehicle of a Fund or parallel Fund, including the preparation, distribution and implementation thereof; provided that, with respect to amendments to, and waivers, consents or approvals pursuant to, the constituent documents of a General Partner, a parallel fund General Partner, an ultimate general partner and EW, such amendments, waivers, consents or approvals relate to the affairs of a Fund, parallel Fund or any alternative investment vehicle thereof; (xxv) (A) complying with any law, regulation or policy related to the activities of a Fund (including any legal fees



and expenses related thereto and any regulatory expenses of a General Partner incurred in connection with the operation of a Fund) and/or (B) any litigation or governmental inquiry, investigation or proceeding involving a Fund, including any costs and expenses of discovery related thereto and the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for in the relevant limited partnership agreement; (xxvi) any third-party experts, including independent appraisers, engaged by EW (to the extent EW deems such an engagement advisable under the circumstances) in connection with a Fund considering, making or holding an investment; (xxvii) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer; (xxviii) any taxes, fees and other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of a Fund (except to the extent that a Fund is reimbursed therefor by a reimbursing partner or such tax, fee or charge is treated as having been distributed to the limited partners); (xxix) distributions to the limited partners and other expenses associated with the acquisition, holding and disposition of a Fund's investments, including extraordinary expenses; (xxx) unreimbursed expenses and unpaid fees of the Operations Group or its members, employees or other persons engaged by the Operations Group; (xxxi) compliance or regulatory matters related to a Fund, except as otherwise set forth in the relevant Governing Documents; (xxxii) any travel, lodging, meals or entertainment relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (xxxiii) any organizational expenses; (xxxiv) any placement fees; and (xxxv) any other fees, costs, expenses, liabilities or obligations approved by the relevant Fund advisory board; but not including (A) ordinary overhead and administrative expenses that are payable by EW pursuant to the terms of the relevant Governing Documents, (B) any expenses included as part of the definition of investment contributions and (C) excluded regulatory expenses.

### **Portfolio Company Remuneration**

EW receives transaction fees from its portfolio companies in respect of the Funds' investments or prospective investments in such portfolio companies in each case less any amounts necessary to reimburse EW for unreimbursed costs and expenses (other than ordinary overhead and administrative expenses) incurred in connection with any consummated or unconsummated transactions or in connection with generating such fees, subject to the terms set forth in each Fund's Governing Documents. Transaction fees or other remuneration (including any options, warrants or other equity securities) are paid by the Funds (directly, or indirectly by the portfolio companies) and are determined by EW on a transaction by transaction basis, subject to the terms set forth in each Fund's Governing Documents. Transaction expenses vary by Fund and include, for example, all closing fees, investment banking fees, placement fees, commitment fees, breakup fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees, directors' fees and other similar fees (whether in the form of cash, securities or otherwise) and legal fees and consulting fees incurred related to a deal that exceed the previously agreed upon cap at the time the transaction was negotiated. Any remaining portfolio company remuneration shall be used to reduce the Management Fee. However, the specific transaction expense and Management Fee offset provisions varies by Fund (*e.g.*, certain Funds benefit

from full, limited or no offset provisions) and the precise terms are described more fully in each Fund's Governing Documents. In some cases, fees received from portfolio companies do not always offset transaction expenses and EW's Management Fee. For example, the offsets do not occur for Funds that are past their investment period and no longer pay Management Fees and Funds with an Operations Group do not offset Management Fees for fees and expenses paid to members of the Operations Group. Each portfolio company typically pays for or reimburses the Firm for the travel of EW employees or Operations Group members to visit such portfolio company and any such reimbursement will not be offset against the Management Fee payable by the Fund.

From time to time, EW, in its sole discretion, is permitted to pay a transaction fee, portion of Carried Interest or other fee received from an actual or prospective portfolio company to a third-party, such as an operating partner, senior partner, consultant, adviser, finder, placement agent, broker and/or investment bank. In such event, the third-party fee is not a fee that EW is entitled to retain and, therefore, EW is not required under the terms of the applicable Governing Documents to share such third-party fees with a Fund.

## **Operations Group**

EW utilizes an Operations Group ("Operations Group") comprised of operating partners and senior advisors primarily to assist the Firm in sourcing transactions and providing manufacturing, sales, marketing, technology, human resources, acquisition integration/rationalization and/or other operations services, acquisition or other due diligence, or similar services to the Funds or any portfolio company or prospective portfolio company of the Funds. Pursuant to the relevant Governing Documents, fees and expenses associated with the services paid to Operations Group members are paid and/or reimbursed by the applicable portfolio companies and/or the Funds, and do not offset the Management Fee. Such fees and expenses may include cash fees, profits or equity interests in a portfolio company or Fund, a share of proceeds upon sale of a portfolio company and/or other incentive-based compensation to the Operations Group Member which is typically determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of the Operations Group member, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. Additionally, portfolio companies may provide opportunities for the Operations Group member(s) working on such portfolio company to invest in the portfolio company on which he or she is working. Further, portfolio companies typically reimburse Operations Group members for costs and expenses incurred by such Operations Group members for performing work on such portfolio company. Operations Group members may also receive remuneration from the General Partner and/or the Funds and/or are entitled to other forms of compensation, including equity grants in portfolio companies. Such investment opportunities, reimbursements and other compensation paid to an Operations Group member similarly will not offset the Management Fee.

## **Co-Investment Expenses**

Co-investors will not bear a Management Fees nor pay Carried Interest, but do share in their pro rata portion of Fund expenses, as applicable. Additionally, contractually committed co-investors are responsible for their pro rata share of any broken deal expenses should the co-investment not be consummated. Each co-investment agreement is negotiated with a co-investor on an investor-by-investor basis and is not subject to review by limited partners.

## **Allocation of Fees and Expenses**

EW will allocate fees and expenses to be borne by the Funds and other limited partners or investors (including expenses incurred in connection with transactions that are not consummated) in accordance with the Fund's Governing Documents or, to the extent the Governing Documents do not expressly provide for a method of allocation or to the extent that an invoice does not relate to a specific Fund, as determined by EW in good faith and in its fair and reasonable discretion in accordance with its internal policies and procedures.

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

All Funds we advise are subject to the General Partner's Carried Interest as well as Management Fees. Carried Interest is considered a performance based fee as it is based on a share of capital gains on the assets of a Fund. A Fund's cumulative net profits are allocated 80% to all partners (General and limited) in proportion to their capital contributions and 20% ("Carried Interest") to the General Partner. Cumulative net losses, if any, generally are allocated to all partners in proportion to their contributed capital. Each General Partner's Carried Interest is subject to a "clawback" provision. If, as of the end of any fiscal year or after a Fund has made its final liquidating distribution, the General Partner has received aggregate distributions with respect to its 20% Carried Interest in excess of 20% of the Fund's cumulative net profits, the General Partner will return to the Fund the excess amount.

These performance fee arrangements have been structured subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended ("Advisers Act") in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. The General Partner of each Fund is permitted, in its sole discretion, to waive or reduce the amount of Carried Interest for a limited partner in a Fund. Specifically, if principals, employees and their respective family are limited partners, they will generally pay reduced Carried Interest or none at all. Similarly, as mentioned above, co-investors do not pay Carried Interest on the co-investment portion of their investment. The Governing Documents for each Fund set forth the precise calculation of Carried Interest and detail the foregoing provisions as they apply to such Fund, which varies between Funds.

The fact that a General Partner's Carried Interest is based on a percentage of net profits has the potential to create an incentive for the General Partner to cause a Fund to make riskier or more speculative investments or to hold an investment longer than otherwise would be the case. In addition,

because the Funds have a fixed investment period after which capital from limited partners generally can only be drawn down in limited circumstances, and because the Management Fee is, at certain times during the life of a Fund, calculated based upon the invested capital of such Fund, the Management Fee structure has the potential to create an incentive for the General Partner to deploy capital when it might not otherwise have done so. However, we believe we have limited incentive to favor certain Funds since, as described above, all Funds we manage are subject to both Carried Interest and Management Fees and limited overlap in investment periods and investment opportunities among accounts is expected to occur in practice. Additionally, we believe this incentive is sufficiently mitigated due to the fact that any losses the Funds sustain will reduce each General Partner's Carried Interest distribution and the fact that Carried Interest is generally calculated only after limited partners have received as distributions 100% of their capital contributions plus a preferred return.

Investment opportunities which satisfy the investment parameters of more than one Fund will be allocated in accordance with EW's policies and procedures and in accordance with the applicable Governing Documents. EW's policies and procedures for the allocation of investments are determined by the Investment Committee.

#### **Item 7 – Types of Clients**

EW provides investment advisory services to its Funds. Limited partners that invest in the Funds must generally meet certain financial sophistication and net worth requirements in addition to other investment criteria. The Funds limit their limited partners to persons or institutions who are: (i) "accredited investors" as defined in the Securities Act of 1933; (ii) "qualified purchasers" or "knowledgeable employees", each as defined in the Investment Company Act; or (iii) if applicable, "qualified clients", as defined in the Advisers Act. Limited partners considering an investment in the Funds should consult with their own investment, tax and/or legal consultants prior to investing.

Limited partners in the Funds include a variety of institutional limited partners, but primarily consist of large, institutional governmental pension funds. Additionally, the Funds include, directly or indirectly, principals or other employees of EW and its affiliates and members of their families, operating partners, senior advisors and other service providers retained by EW.

The minimum commitment for a limited partner is outlined in the Governing Documents of each Fund. The Funds generally require a \$100,000 to \$1 million minimum commitment, depending on the Fund; however, the General Partner of each respective Fund maintains the discretion to accept less than the minimum investment threshold.

As mentioned in Item 4 above, EW also acts as an investment adviser to certain co-investment vehicles. In particular, we have the ability to create a co-investment opportunity if an investment is too large for a Fund to make on its own, either under the Fund's limited partnership agreement or based on the sole discretion of the General Partner, or if we believe it would be in the Fund's best interest to bring a co-investor to the deal. The Firm will seek co-investment opportunities from those

limited partners who have expressed an interest in side letter agreements for participation in co-investment opportunities. EW will, in its sole discretion, evaluate each co-investment opportunity on a case by case basis. In evaluating a co-investment opportunity, we consider the following factors, among others that arise from time to time: (i) the ability and expected interest of the interested co-investor to participate in the co-investment and to meet the desired due diligence, approval and funding timetable; (ii) the dedicated amount of co-investment resources of the interested co-investor; (iii) the specific industry expertise of the interested co-investor as it relates to each potential co-investment opportunity; (iv) EW's prior experience with the investor, including as a limited partner in a Fund and in prior co-investment deals, as well as the interested co-investor's general reputation and experience as a co-investor; and (v) the value added or strategic benefit of the interested co-investor to the deal.

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

### **Investment Strategy and Analysis**

*Strategy.* We focus on making growth equity investments in middle market healthcare companies. We invest broadly across the healthcare spectrum in areas such as pharmaceuticals, medical devices, technology-enabled healthcare services and healthcare information technology, among others. EW partners with management teams to accelerate growth and add value through our network of relationships and expertise in the healthcare sector. Our investment strategy is to seek to invest in rapidly growing middle market healthcare companies, which typically have \$20 million to \$200 million of revenue at the time of our investment. The drivers of revenue growth are different in each investment, and include, but are not limited to, growth strategies such as expanding a sales force, expanding the geographic territory or countries where the products are sold, the acquisition of additional complementary products or companies and developing or launching new products.

Our Funds' portfolio company investments generally take the form of direct, primary investments in preferred equity securities. The Funds also occasionally purchase secondary shares in recapitalizations and buyouts. Further, the Funds are permitted to invest up to 15% of committed capital in public securities purchased through privately negotiated PIPE transactions with public companies that meet the same investment criteria as the Funds' private companies. We intend to typically act as the lead investor and often will have "de facto" control over our Fund portfolio companies, even though a Fund will typically own a large minority position and will only occasionally own a majority of the company. Investment in a single portfolio company will typically range from \$20 million to \$80 million. The size of each Fund's investments in a portfolio company is typically determined by the capital needs of the portfolio company.

*Sourcing.* We typically source deals primarily through our network of extensive industry contacts of the EW team. Portfolio companies have approached or been referred to EW because of the deep domain expertise and reputation of the EW investment team. We also seek to identify particularly attractive investment themes and sub-sectors of healthcare and pro-actively approach what we believe

to be the most attractive companies in these sub-sectors as prospective new investments. We typically source over 100 potential new investments every year and typically make only four to five new investments each year, resulting in a high level of selectivity in identifying the most attractive investment opportunities. EW's domain expertise and the industry relationships of the EW team have generated proprietary investment opportunities for the Firm.

*Analysis.* Once viable investment opportunities are sourced, and EW has met with a company on one or more occasions, the sponsoring Managing Director and usually one or two other investment professionals will propose to the appropriate sector team if they believe an investment opportunity deserves further evaluation. Their assessment or investment thesis is usually based on a preliminary analysis of information gathered under confidentiality that addresses multiple factors. If the sector team decides that it would like to move forward on the opportunity, the sponsoring team will generate a brief overview of the opportunity and distribute it to the Executive Committee. If the Executive Committee decides the opportunity meets EW's strategic requirements and resources are available to appropriately pursue the opportunity, the Executive Committee will assign a formal deal team to the opportunity and the sponsoring team will prepare a preliminary investment memorandum and review it with the entire investment team on a conference.

EW focuses its due diligence efforts on validating its investment thesis in general and optimizing the increase in value, the reduction of risk and the preservation of capital in particular. As such, we on occasion use consultants to analyze particular issues, but we prefer to rely on our considerable domain expertise and conduct the most critical due diligence ourselves. Our due diligence review typically includes identifying and developing a plan to assess each of the following critical success factors and risks associated with an investment opportunity: business; industry and competitive analysis; growth thesis; management assessment; and legal and financial review.

*Approval.* If due diligence both validates the investment thesis and appropriately addresses the mandate for achieving an optimal balance between increasing value while seeking to reduce risk and preserve capital, the deal team will prepare a final Investment Memorandum recommending an investment. The Investment Memorandum is reviewed by the entire investment team at a regularly scheduled partner meeting during which the management team of the target company profiles the business, its performance and strategic growth plans.

The Investment Committee will then weigh the merits of the opportunity by itself and against competing opportunities as well as the strategic fit within the Fund's investment horizon. If approved, the negotiation of terms, which are subject to final due diligence, is pursued.

## **Risk Factors**

Acquiring an interest in any Fund involves a number of risks. An investment in a Fund should be deemed a speculative investment and is not intended as a complete investment program; it is designed for sophisticated investors who fully understand and are capable of bearing the risk of an investment

in a Fund. No guarantee or representation is made that the Funds will achieve their investment objective or that limited partners will receive a return of their capital.

All investing involves a risk of loss and the investment strategies we offer could lose money over short or even long periods. The possibility of loss of capital exists. The description contained below is a brief overview of some of the different market risks related to our investment strategies. A more complete description of applicable risks is available in the Governing Documents of each Fund.

*Business Risk.* The Funds' investment portfolios consist primarily of securities issued by privately and publicly 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.* It is possible that the securities in which a Fund invest will 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 a Fund's investment once made.

*Concentration of Investments.* The Funds will participate in a limited number of investments and intend to make most of their investments in one industry or one industry segment or within a short period of time. As a result, the Funds' investment portfolios are expected to be highly concentrated, and the performance of a few holdings or of a particular industry has the potential to substantially affect its aggregate return. The Funds focus on investments in the healthcare industry. Instability, fluctuation or an overall decline within the healthcare industry will likely not be balanced by investments in other industries not so affected. In the event that the healthcare industry as a whole declines, returns to limited partners would most likely decrease. In circumstances where EW intends to refinance all or a portion of the capital invested in a transaction, there will be a risk that such refinancing will not be completed, which could lead to increased risk as a result of a Fund having an unintended long-term investment as to a portion of the amount invested and/or reduced diversification.

*Lack of Sufficient Investment Opportunities.* The business of identifying, structuring and completing private equity transactions is highly competitive and involves a high degree of uncertainty. It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. However, limited partners will be required to bear Management Fees through the Fund during the investment period based on the entire amount of the limited partners' commitments and other expenses as set forth in the Governing Documents.

*Dynamic Investment Strategy.* While EW generally intends to seek attractive returns for the Funds primarily through making growth equity investments as described herein, the Firm is permitted to pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. It is possible that EW will pursue investments outside of the industries and sectors in which the principals have previously made investments or have internal operational experience.

*Growth Equity Transactions.* The Funds' strategy includes targeting growth-equity investments. While growth-equity investments offer the opportunity for significant capital gains, such investments have the potential to involve a higher degree of business and financial risk that can result in substantial or total loss. Growth-equity portfolio companies have the potential to operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to achieve or maintain a competitive position, and/or to expand or develop management resources. Growth-equity portfolio companies often face intense competition, including from companies with greater financial resources, better brand recognition, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

*General Risks of Investments in Healthcare Companies.* While investments in healthcare companies offer the opportunity for significant gains, such investments also involve a high degree of business and financial risk and can result in substantial or total loss. Healthcare companies often face intense competition, including competition from companies with greater financial resources, more extensive research and development, sales and marketing, customer services and support and other capabilities and a larger number of qualified managerial and technical personnel. Companies in which a Fund invests could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment, or an economic downturn. A Fund's portfolio companies have the potential to operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to achieve or maintain a competitive position, and/or to expand or develop management resources.

*Healthcare Reform.* Healthcare reform continues to be a significant factor in the profitability of companies in which the Funds invest. The efforts to reform the healthcare delivery system in the United States and Europe has resulted in increased pressure on healthcare providers and other participants in the healthcare industry to reduce costs. These competitive forces place constraints on the levels of overall pricing, and thus could have a material adverse effect on profit margins for the companies in which the Funds invest.

*Healthcare Regulation and Reimbursement.* Various segments of the healthcare industry are (or have the possibility to become) (i) highly regulated at both the federal and state 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 Funds intend to make investments in companies that comply with relevant laws and regulations, certain aspects of their operations are not 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 and/or financial performance of the companies in which a Fund invests. Recent legislative changes, including the passage of the U.S. Patient Protection



and Affordable Care Act, have had, and will likely continue to have, a significant impact on the healthcare industry. In addition, various legislative proposals related to the healthcare industry are introduced from time to time at the U.S. federal and state level, and any such proposals, if adopted, could have a significant impact on the healthcare industry and/or on companies in which a Fund invests.

*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) often 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 Fund invests.

*Illiquidity; Lack of Current Distributions.* An investment in a Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments will often be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment can be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there will likely be no current return on the investment. Furthermore, the expenses of operating a Fund (including the Management Fee payable to the General Partner or its affiliate) could potentially exceed its income, thereby requiring that the difference be paid from a Fund's capital, including unfunded commitments.

*Leveraged Investments.* A Fund will, on occasion, make use of leverage by having a portfolio company incur debt to finance a portion of its investment in such portfolio company, including in respect of companies not rated by credit agencies. Leverage generally magnifies both a Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets are frequently impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it will be difficult to obtain or maintain the desired degree of leverage. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and has the potential to impair its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of a portfolio's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of a Fund's investments in the leveraged portfolio companies in a down market. In the event a portfolio company cannot generate adequate cash flow to meet its debt service, a Fund has the potential to suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Fund. Furthermore, should the credit

markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, the Fund will likely not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which a Fund will invest generally will not be rated by a credit rating agency.

It is also possible that a Fund will also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt) or otherwise be liable therefor, and in such situations, it is not expected that a Fund would be compensated for providing such guaranty or exposure to such liability. The use of leverage by a Fund also will result in interest expense and other costs to the Fund that would not be covered by distributions made to the Fund or appreciation of its investments. A Fund has the potential to incur leverage on a joint and several basis with one or more other investment Funds and entities managed by EW or any of its affiliates and could possibly have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent a Fund incurs leverage (or provides such guaranties), such amounts have the potential to be secured by capital commitments made by a Fund's limited partners and such limited partners' contributions would likely be required to be made directly to the lenders instead of the Fund.

*Use of Credit Facility.* The Funds are permitted to borrow funds pursuant to a revolving credit facility or other debt facility, including a facility based on the aggregate commitments available to be called. A Fund's use of such facilities will be determined by EW, and the performance of the Fund will most likely be impacted by how EW causes the Fund to utilize such facilities. Although, the use of such a facility has the potential to increase a Fund's ability to swiftly invest capital, it also will cause the Fund to incur interest expense. Conflicts of interest have the potential to arise in that the use of such facilities would likely delay the need for limited partners to make certain contributions to the Fund, which would likely enhance the Fund's performance figures and thereby benefit EW and its affiliates.

*Limited Transferability of Fund Interests.* There will be no public market for a Fund's interests, and none is expected to develop. There are substantial restrictions upon the transferability of Fund interests under each Fund's Governing Documents and applicable securities laws. In general, withdrawals of Fund interests are not permitted. In addition, Fund interests are not redeemable.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for Fund investments, and hence, most of a Fund's investments will be difficult to value. Certain investments could be distributed in kind to the limited partners, thus making it difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such limited partners. After a distribution of securities is made to the limited partners, many limited partners could decide to liquidate such securities within a short period of time, which would possibly have an adverse impact on the price of such securities. It is possible that the price at which such securities would be sold by such limited partners will be lower than the value of such securities determined pursuant to the Governing Documents, including the value used to determine the amount of Carried Interest available to the relevant General Partner with respect to such investment.

*Reliance on the General Partners and Portfolio Company Management.* Control over the operation of the Funds are vested with the relevant Fund General Partner, and a Fund's future profitability depends largely upon the business and investment acumen of the principals. The loss or reduction of service of one or more of the principals could have an adverse effect on the Funds' ability to realize their investment objectives. In addition, the principals currently, and expect to in the future, manage other Funds and need to devote substantial amounts of their time to the investment activities of such other Funds, which at times will pose conflicts of interest in the allocation of the time of the principals. Limited partners generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of the Funds will depend on the actions of EW. In addition, certain changes in EW would potentially have an adverse effect on the Funds or one or more portfolio companies, including potential acceleration of debt facilities.

Although EW monitors the performance of each Fund investment, it is primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day-to-day basis. Although the Funds generally intend to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the management of such companies will be able or willing to successfully operate a company in accordance with each Fund's objectives.

*Projections.* Projected operating results of a company in which a Fund invests normally are based primarily on financial projections prepared by such company's management, with adjustments to such projections made by EW in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the portfolio company and third parties 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 can sometimes be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

*Tax Liability Considerations.* The Funds are expected to take positions with respect to certain tax issues that depend on legal and other interpretive conclusions. Should any such positions be successfully challenged by a taxing authority, a limited partner could possibly be found to have a different tax liability for that year than that reported on its tax returns. In addition, a taxing authority's review of a Fund has the possibility to result in a review of the returns of some or all of the limited partners, which examination could result in adjustments to the tax consequences initially reported by a Fund and affect items not related to a limited partner's investment in a Fund. If such adjustments result in an increase in tax liability for any year, a Fund or one or more of the limited partners would be liable for interest and penalties with respect to the amount due. The legal and accounting costs incurred in connection with any taxing authority's review of a Fund's tax returns will be borne by the relevant Fund. The cost of any review of a limited partner's tax return will be borne solely by the limited partner. The taxation of Funds and limited partners is complex. Prospective limited partners are strongly urged to

review the disclosure included in the relevant EW Fund Governing Documents and to consult their own tax advisers.

*Conflicting Limited Partner Interests.* Limited partners often have conflicting investment, tax, and other interests with respect to their investments in a Fund, including conflicts relating to the structuring of investment acquisitions and dispositions. Conflicts have the potential to arise in connection with decisions made by EW regarding an investment that has the potential to be more beneficial to one limited partner than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, EW generally will consider the investment and tax objectives of each Fund and its limited partners as a whole, not the investment, tax, or other objectives of any limited partner individually.

*Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes.* There continue to be discussions regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on a Fund's activities, including the ability of a Fund to effectively and timely address such regulations, implement operating improvements or otherwise execute its investment strategy or achieve its investment objectives.

The combination of such scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the recent downturn in the U.S. and global financial markets, have the potential to complicate or prevent a Fund's efforts to structure, consummate and/or exit investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, a Fund has the potential to invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than it otherwise would have.

*United Kingdom Exit from the European Union.* On June 23, 2016, the people of the United Kingdom ("UK") voted in a referendum to leave the European Union (the "EU"). As of the date of January 2019, there has been no change in the status of the UK as a member of the EU. Pursuant to the EU constitution, the only method of withdrawal is via Article 50 of the Treaty of the EU, which itself provides for a period of up to two years during which the terms of the UK's ongoing relationship with the EU will be negotiated. The Article 50 procedure was triggered by the UK government on March 29, 2017; accordingly, it is currently anticipated that the UK will cease to be a member of the EU by the end of March 2019 (subject to any transitional arrangements or extensions).

As a result of the UK ceasing to be a member of the EU, the manner in which a Fund invests in assets located within the EU carry the potential to be impacted. The terms of the UK's exit from the EU are not clear, and the shape of the regulatory landscape following exit is not yet defined; the legal, political and economic uncertainty generally resulting from the UK referendum result and anticipated

exit from the EU have the potential to adversely impact UK-based businesses, and to also result in an economic slowdown and/or a deteriorating business environment in one or more EU Member States.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, a Fund often decides to provide additional funds to such portfolio company or increase its investment in a successful portfolio company (whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons). There is no assurance that a Fund will make follow-on investments or that a Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments has the potential to have a substantial negative effect on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such failure to make such investments has the potential to result in a lost opportunity for the Fund to increase its participation in a successful portfolio company or the dilution of a Fund's ownership in a portfolio company if a third party invests in such portfolio company.

*Non-U.S. Investments.* The Funds have in the past and expect in the future to invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments are often be subject to certain additional risks 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 Fund), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on a Fund and/or the limited partners with respect to a Fund's income, and possible non-U.S. tax return filing requirements for a Fund and/or the limited partners.

Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed and/or more restrictive laws, regulations, regulatory institutions and judicial systems; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies are typically not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Hedging Arrangements; Related Regulations.* EW is permitted (but is not obligated to) to endeavor to manage a Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. A Fund has the possibility to incur costs related to such hedging arrangements, which likely will be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in

some cases hedging arrangements have the potential to result in losses greater than if hedging had not been used.

In certain cases, particularly in OTC contexts, hedging arrangements will subject a Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts have the potential to expose a Fund to additional liquidity risks if such contracts cannot be adequately settled.

Certain hedging arrangements have the potential to create for EW and/or any of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission (the "CFTC") or other regulator or comply with an applicable exemption. It is possible that losses would result to the extent that the CFTC or any other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances in which the ability of a Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

*Significant Adverse Consequences for Default.* The Governing Documents of each Fund provide for significant adverse consequences in the event a limited partner defaults on its commitment or any other payment obligation. In addition to losing its right to potential distributions from a Fund, a defaulting limited partner has the potential to be forced to transfer its interest in the Fund for an amount that is less than the fair market value of such interest and that can sometimes be paid over a period of up to ten years, without interest.

*Dilution.* Limited partners admitted or that increase their respective commitments to a Fund at subsequent closings generally will participate in then-existing investments of the Fund, thereby diluting the interest of existing limited partners in such investments. Although any such new limited partner will be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of the Fund's existing investments at the time of such contributions.

*Transfer by General Partner.* To the extent that EW, its limited partners, the principals and/or their respective affiliates commit to make a direct or indirect investment in or along-side a Fund, a material participation in or a portion of such investment may thereafter be transferred to others, subject to any express limitations thereon in the relevant Governing Documents.

*Public Company Holdings.* A Fund's investment portfolio is likely to contain securities and debt issued by publicly held companies. Such investments have the potential to subject such Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Fund to dispose of such securities and debt at certain times, increased likelihood of shareholder litigation and insider trading

allegations against such companies' executives and board members, including the principals, and increased costs associated with each of the aforementioned risks.

*Non-Controlling Investments.* A Fund is likely to hold meaningful minority stakes in privately held companies and in many cases will have limited minority protection rights. In addition, during the process of exiting investments, a Fund at times will hold minority equity stakes of any size such as might occur if portfolio companies are taken public. As is the case with minority holdings in general, such minority stakes that a Fund holds will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes. Where a Fund holds a minority stake, it is likely to be more difficult for the Fund to liquidate its interests than it would be had the Fund owned a controlling interest in such company. Even if a Fund has contractual rights to seek liquidity of its minority interests in such companies, it will likely be very difficult to sell such interests or to sell such company upon terms acceptable to the Fund, especially in cases where the interests of the other investors in such company have different business and investment objectives and goals.

*Director Liability.* The Funds will often seek to obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests. Serving on the board of directors (or similar governing body) of a portfolio company exposes a Fund's representatives, and ultimately the Fund, to potential liability. Not all portfolio companies will obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain can sometimes be insufficient to adequately protect officers and directors from such liability. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from the Fund's investment activities.

*Limitation of Recourse and Indemnification.* The Governing Documents of each Fund limit the circumstances under which EW and its affiliates will be held liable to the Funds. As a result, limited partners would likely have a more limited right of action in certain cases than they would have in the absence of such provision. In addition, the relevant Governing Documents provide that a Fund will indemnify EW and its affiliates for certain claims, losses, damages and expenses arising out of their activities on behalf of the Fund. Such indemnification obligations would, most likely, materially impact the returns to limited partners.

*Litigation.* In the ordinary course of its business, a Fund has the potential to be subject to litigation from time to time. The outcome of such proceedings could potentially materially adversely affect the value of a Fund and would likely continue without resolution for long periods of time. Any litigation would likely consume substantial amounts of EW's and its employees' and principals' time and attention, and that time and the devotion of these resources to litigation would, at times, be disproportionate to the amounts at stake in the litigation.

*Advisory Board.* Each EW Fund's General Partner will appoint one or more limited partner representatives to serve on that Fund's advisory board. The relevant Governing Documents of each

Fund generally provide that to the fullest extent permitted by applicable law, none of the advisory board members shall owe any fiduciary duties to the Fund or any other limited partner. In addition, representatives of an advisory board can sometimes have various business and other relationships with EW and its partners, employees and affiliates. These relationships have the potential to influence their decisions as members of an advisory board.

*Delayed Tax Information.* It is possible a Fund or all of the Funds will not be able to provide final tax filing information to limited partners for any given fiscal year until after the initial tax filing deadlines for limited partner tax returns. Accordingly, limited partners should plan to obtain extensions of the filing dates for their income tax returns. Each prospective limited partner should consult with its own adviser as to the advisability and tax consequences of an investment in an EW Fund.

*Uncertain Economic, Social and Political Environment.* Consumer, corporate and financial confidence are likely to be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence has the possibility to lead to or extend a localized or global economic downturn. A climate of uncertainty would reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn would have an adverse effect on the economy generally and on the ability of a Fund and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This would slow the rate of future investments by a Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn has the potential to have an adverse effect upon a Fund's portfolio companies.

*Certain Consultants.* As mentioned in Item 5 above, EW has retained, on behalf of the Funds and/or the portfolio companies, as applicable, operating partners, senior advisors and other consultants, some of whom are affiliates of or employees of the Firm and others of whom perform services for the Funds' portfolio companies. The operating partners and senior advisors are part of the Operations Group, also described in Item 5 above, and regularly provide services to, or in connection with, the Funds in relation to its activities, or to one or more portfolio companies in relation to the identification, acquisition, holding, improvement and disposition of such portfolio companies, including operational aspects of such companies.

Although EW intends to retain Operations Group members with a view to reducing costs to portfolio companies (and, ultimately, the Funds) and/or improving portfolio company performance, a number of factors have the potential to result in limited or no cost savings from such retention. In addition, EW intends to retain only such Operations Group members which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no



assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

*Unfunded Pension Liabilities of Portfolio Companies.* Recent court decisions have found that, where an investment Fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such Fund (and any other 80%-owned portfolio companies of such Fund) have the potential to be found liable for certain pension liabilities of such a portfolio company to the extent the portfolio company is unable to satisfy such liabilities. Although the Funds intend to manage their investments to minimize any such exposure, a Fund may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where a Fund would own an 80% or greater interest in such a portfolio company. If a Fund (or other 80%-owned portfolio companies of a Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of the Fund and the companies in which the Fund invests. This discussion is based on current court decisions, statute and regulations regarding control group liability under the Employee Retirement Income Security Act of 1974, as amended, as in effect as of January 2019, which could change in the future as the case law and guidance develops.

*Valuation of Assets.* There is not expected to be an actively traded market for most of a Fund's investments. When estimating fair market value, EW will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing investments for which reliable market quotations are not available is based on inherent uncertainties and the resulting values can sometimes differ from values that would have been determined had an active market existed for such investments and also differ from the prices at which such investments ultimately would be sold. EW's discretion in respect of such valuations has the possibility to give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of Carried Interest and the calculation of the Management Fees.

*Contingent Liabilities Upon Disposition.* In connection with the disposition of an investment, a Fund and its General Partner carry the potential to be required to make (and/or be responsible for another person's or entity's breach of) representations and warranties, *e.g.*, about the business and financial affairs of the applicable portfolio company, the condition of its assets and the extent of its liabilities, in each case generally in the nature of representations and warranties typically made in connection with the sale of similar businesses, and be responsible for the content of disclosure documents under applicable securities laws. They also have the potential to be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate. These arrangements can result in contingent liabilities, which would be borne by the relevant Fund and, ultimately, its limited partners.

*Cybersecurity Risks.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. To the extent that a portfolio company is subject to cyber-attack or other

unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or the relevant Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at a General Partner, EW, its affiliates or one of their service providers holding financial or limited partner data, the General Partners, EW, their affiliates and/or the Funds may also be at risk of loss.

### **Potential Conflicts of Interest**

*Investment Allocation.* Generally only one EW Fund is open to making new investments at a time. Until such time as EW is permitted under the relevant Fund Governing Documents to raise a successor investment fund, the principals generally will pursue substantially all appropriate investment opportunities that meet the investment criteria of such Fund principally for the benefit of that Fund, subject to certain exceptions set forth in the relevant Governing Documents. However, the principals intend in the future to manage several other investment funds and investments similar to those in which the current Funds are investing and to direct certain relevant investment opportunities to those future investment funds and investments. It is possible that over time, certain investment opportunities suitable for one Fund will also be suitable for other investment funds sponsored by EW. In determining which investment Funds should participate in an investment opportunity, subject to the relevant Governing Documents, EW is subject to potential conflicts of interest among the limited partners in the Funds. To determine which Fund will participate in an relevant investment opportunity, EW generally assesses whether an investment opportunity is appropriate for each relevant Fund based on the terms of such Fund's limited partnership agreement, as well as factors including but not limited to: each Fund's investment restrictions and objectives (including those set forth in the relevant Fund's limited partnership agreements, where applicable), strategy, capital structure, risk profile, time horizon, investment size, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life cycle and structure. EW will determine the allocation of investment opportunities among Funds in a manner that it believes is fair and equitable consistent with its obligations and will take into consideration factors such as those set forth above. In the event that the available amount of an investment opportunity in which a Fund will invest exceeds an amount appropriate for such Fund, such excess will, on occasion, be offered to one or more potential co-investors.

EW's allocation of investment opportunities among the Funds will often not be proportional. Therefore, there is the potential that such allocations will be more advantageous to one Fund relative to other Funds. While EW will allocate investment opportunities in a way that it believes in good faith is fair and equitable, there can be no assurance that a Fund's actual allocation of an investment

opportunity, if any, or terms on which the allocation is made, will be as favorable as they would be if the conflicts of interest to which EW is subject did not exist.

Additionally, conflicts of interest can arise if a Fund makes an investment in a portfolio company in conjunction with an investment made by another Fund. For instance, a Fund may not invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as such other Fund. This has the potential to result in differences in price, investment terms, leverage and associated costs between the Funds. There can be no assurance that a Fund and the other investing Fund(s) will exit the investment at the same time or on the same terms, and there can be no assurance that a Fund's return on such an investment will be the same as the returns achieved by any other investment Fund participating in the transactions. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to a Fund.

*Allocation of Fees and Expenses.* EW is faced with a variety of potential conflicts of interest when it determines allocations of various fees and expenses to the Funds. The Firm, in its sole discretion, will allocate fees and expenses in accordance with the relevant Governing Documents and in a manner that it believes in good faith is fair and equitable to the Funds under the circumstances and considering such factors as it deems relevant. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, *e.g.*, in determining whether to allocate pro rata based on number of funds or co-investors receiving related benefits or proportionately in accordance with asset size.

EW and its affiliates will from time to time incur fees, costs and expenses, including in connection with transactions not consummated, on behalf of the Funds. To the extent practicable, any fees, costs and expenses that are incurred in connection with a consummated investment will be charged to the applicable portfolio company. To the extent such fees, costs and expenses are not charged to a portfolio company, they will be paid by each Fund that participated or was expected to participate in such investment. The Funds will typically bear a portion of any such fees, costs, and expenses in proportion to the size of its actual or proposed investment, or in such other manner as EW considers, in good faith, to be fair and equitable. There are occasions when one Fund (the "Payor Fund") pays an expense common to multiple Funds (the "Allocated Funds"). On such occasions, each Allocated Fund will reimburse the Payor Fund for its share of such expense, without interest, promptly after the payment is made by the Payor Fund. There are also occasions where the Firm or a Payor Fund pays an expense on behalf of a portfolio company. On such occasions, the portfolio company will reimburse the Firm or Payor Fund for the expense, without interest, and such reimbursement will not be subject to the fee offset provision.

*Portfolio Company Board Service.* The Funds intend to make significant growth equity investments in portfolio companies. As a result of these significant investments, EW typically has the right to appoint portfolio company board members (including current or former EW personnel, operating partners,

senior advisors or other persons serving at their request), or to influence their appointment, and to determine or influence the determination of their compensation. Additionally, from time to time, portfolio company board members approve compensation and other amounts payable to EW in connection with services provided by EW to such portfolio company, and, except to the extent such amounts are subject to the relevant limited partnership agreement's offset provision, are in addition to the Management Fee or Carried Interest. EW's authority to appoint or influence the appointment of portfolio company board members who have the potential to be involved in approving compensation payable to EW subjects EW and any such portfolio company board appointees to potential conflicts of interest.

*Reimbursement of Portfolio Company Expenses.* A portfolio company typically will reimburse EW or service providers retained at EW's discretion for expenses (including, without limitation, travel expenses) incurred by EW or such service providers in connection with the performance of services for such portfolio company. This subjects EW to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Subject to the relevant Governing Documents and its internal reimbursement policies and practices, EW determines the amount of these reimbursements for such services in its own discretion.

*Employee and Service Providers.* It is possible that EW will, from time to time, employ personnel with pre-existing ownership interests in or who were employed by portfolio companies owned by the Funds; conversely, it is possible that former personnel or executives of EW will serve in significant management roles at portfolio companies or service providers recommended by EW. Similarly, EW maintain relationships with financial institutions, service providers and other market participants, including managers of private funds, banks and brokers. Certain of these persons or entities will invest (or will be affiliated with a limited partner) in, engage in transactions with and/or provide services (including services at reduced rates) to EW and/or the Funds. There is the potential for EW to have a conflict of interest with the Funds in recommending the retention or continuation of a third-party service provider to the Funds or a portfolio company owned by the Funds if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more of the EW Funds, will provide EW information about markets and industries in which EW operates (or is contemplating operations) or will provide other services that are beneficial to EW. It is also possible that EW will have a conflict of interest in making such recommendations in that the Firm has an incentive to maintain goodwill between itself and the existing and prospective portfolio companies for the Funds, while the products or services recommended are not necessarily be the best available to the portfolio companies held by the Funds.

Over the life of a Fund, EW generally expects to exercise its discretion to recommend to the Funds or to a portfolio company thereof that it contract for services with various service providers, potentially including, among others: (i) EW (or an affiliate, which often includes other portfolio companies of the Funds) and at rates determined or substantively influenced by EW; (ii) an entity with

which EW has a relationship or from which such person derives a financial or other benefit; or (iii) a limited partner or its affiliates. This subjects EW to potential conflicts of interest because although it intends to select service providers that it believes are aligned with its operational strategies and that will enhance portfolio company performance, the Firm is likely to have an incentive to recommend the related or other person because of its financial or business interest. Additionally, there is a possibility that EW, because of such incentive or for other reasons (including whether the use of such persons could establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to EW or the Funds), favors such retention or continuation even if a better price and/or quality of service provider could be obtained from another person. Whether or not EW has a relationship with or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

*Fund Level Borrowing.* The Funds from time to time borrow funds or enter into other financing arrangements for various reasons, including to pay Fund expenses, to pay Management Fees, to make or facilitate new or follow-on investments (including borrowings pending receipt of capital contributions from limited partners), to cover any shortfall resulting from a limited partner's default or exclusion. If a Fund borrows in lieu of calling capital to fund the acquisition of an investment, the borrowing generally would be used for all limited partners in such Fund on a pro rata basis, including the general partner. In addition, credit facilities for certain Funds are available to provide borrowed funds directly to the portfolio companies of such Funds, in which case such borrowed funds would be guaranteed by such Funds, as they would be for any other borrowing by the Fund for any other purpose.

To the extent the Fund uses borrowed funds in advance or in lieu of capital contributions or a portfolio company borrows funds directly through the Fund facility, the Fund's limited partners generally make later capital contributions, but the Fund will bear the expense of interest on such borrowed funds. In addition, the Fund's use of borrowed funds will impact the calculation of net performance metrics (to the extent that they measure limited partner cash flows) and has the potential to make net IRR calculations higher than they otherwise would be without fund-level borrowing, as these calculations generally depend on the amount and timing of capital contributions. While the Fund will bear the expense of borrowed funds, such borrowings can also increase the Carried Interest received by the Fund's General Partner by decreasing the amount of distributions from the Fund that are required to be made to Fund limited partners in satisfaction of any preferred return. The General Partner therefore has a conflict of interest in deciding whether to borrow funds because the General Partner has the potential to receive disproportionate benefits from such borrowings.

Borrowing by the Fund will generally be secured by capital commitments made by the limited partners to the Fund and/or by the Fund's assets, and documentation relating to such borrowing can provide that during the continuance of a default under such borrowing, the interests of the limited partners can be subordinated to such Fund-level borrowing, and the lenders have the ability to call capital

directly from the limited partners. Moreover, tax-exempt limited partners should note that the use of borrowings by the Fund has the potential to cause the realization of UBTI.

Additionally, the Governing Documents of certain Funds permit each such Fund's General Partner, or its affiliates, to lend money to the applicable Fund. Such lending arrangements create conflicts of interest between the applicable General Partner or affiliate and the Fund acting as borrower.

*Intangible Benefits.* EW and its employees receive certain intangible and/or other benefits or perquisites arising or resulting from their activities on behalf of a Fund, including benefits and other discounts provided from service providers. For example, airline travel or hotel stays incurred as Fund expenses often result in "miles" or "points" or credit in loyalty/status programs to EW and/or its employees, and such rewards or amounts will exclusively benefit EW and/or such employees and will not be subject to the offset arrangements or otherwise shared with such Fund, its limited partners, or the portfolio companies.

### **Item 9 – Disciplinary Information**

There are no legal or disciplinary events with respect to us or our management that are material to a current or prospective client's or limited partner's evaluation of us or the integrity of our management.

On occasion, in the ordinary course of its business, it is possible that EW, the Funds, or the Funds' portfolio companies (or their respective directors and executive officers) are named as defendants in a legal action. Although there can be no assurance of the outcome of such legal actions, EW does not believe that any current legal proceedings or claims to which EW, the Funds, or the Funds' portfolio companies (or their respective directors and executive officers) are a party, if any, would individually or in the aggregate materially affect a client's or prospective client's evaluation of the Firm or the integrity of the Firm's management.

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

Neither we, nor our employees, have any relationships or arrangements with third parties that are material to our provision of advisory services to our Funds. We do, however, have and will continue to develop relationships with professionals who provide services we do not provide, including legal, accounting, banking, investment banking, tax preparation, insurance brokerage and other personal services. Some of these professionals provide services to the Funds or their portfolio companies. Additionally, some of these professionals are limited partners in our Funds, either personally or through their company.

As mentioned above in Item 4, several affiliates of EW serve as General Partner and/or relying adviser to the Funds and are deemed to be registered with the SEC subject to EW's registration. These affiliated investment entities operate as a single advisory business together with EW and serve as the General Partner, relying adviser (described more fully below), affiliate or managing members of private investment funds and other pooled vehicles and share common owners, officers, partners, employees,

consultants or persons occupying similar positions. These affiliated entities do not have employees of their own.

Essex Woodlands Health Ventures UK, Ltd. is the UK equivalent of a limited liability company that is wholly owned by EW and provides administrative and investment advisory services to EW in Europe as it relates to the Funds. Essex Woodlands Health Ventures UK, Ltd. is authorized and regulated by the UK Financial Services Authority. Essex Woodlands Health Ventures UK, Ltd. is not required to be registered under Advisers Act.

Essex Woodlands Services Co., Inc. is a relying adviser which acts as the investment adviser to the following EW Funds: EW Healthcare Partners L.P.; EW Healthcare Partners-A L.P.; EW Healthcare Partners Fund 2, L.P.; and EW Healthcare Partners Fund 2-A, L.P. More information regarding the relying adviser is available in EW's Form ADV Part 1, Schedule R.

From time to time, we receive training, information, promotional material, meals, gifts, entertainment or prize drawings from vendors and others with whom we do business or to whom we make referrals. At no time will we accept any benefits, gifts or other arrangements that are conditioned on directing individual Fund transactions to a specific investment, product or provider. Similarly, our employees and/or its affiliates have in the past spoken at, and expect in the future to speak, at conferences and programs for potential limited partners interested in investing in private funds that are sponsored by various investment bankers, broker-dealers, banks or others. Through such events, prospective limited partners have the opportunity to meet with us. Neither we nor any Fund compensates the broker-dealers, investment bankers, banks or others for organizing such events or for investments ultimately made by prospective limited partners attending such events other than registration, sponsorship, membership or other similar fees paid to attend such events.

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

### **Code of Ethics/Insider Trading**

We have adopted a written Code of Ethics (the “Code”) designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act (the “Rule”).

This Rule requires us to adopt a Code of Ethics that sets forth a standard of business conduct and compliance with federal securities laws by all of our supervised persons. Our Code contains policies and procedures designed to ensure that supervised persons conduct personal securities trading in such a manner as to avoid conflicts of interest or abuse of the supervised person's position of trust and responsibility. Our personal trading policies are designed to ensure that no Fund is disadvantaged by the transactions executed by a supervised person and that supervised persons in no respect misappropriate any benefit properly belonging to a Fund. EW supervised persons are prohibited from trading, either personally or on behalf of others, in securities while in possession of material nonpublic

information regarding publicly traded securities or communicating material nonpublic information about such securities to others.

Our Code requires, among other things, that supervised persons:

- Act with competence, dignity, integrity, and in an ethical manner, when dealing with limited partners, the public, prospects, third party service providers and fellow supervised persons;
- Place the interests of limited partners along with the Funds, and the interests of EW, above one's own personal interests;
- Adhere to the fundamental standard that supervised persons should not take inappropriate advantage of their position;
- To the extent practicable, report to the Chief Compliance Officer ("CCO"), and disclose or otherwise mitigate, any conflicts of interest that are material to limited partners and the Funds;
- Conduct personal securities transactions in a manner consistent with the Code;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities; and
- Abide by the requirements contained in the Advisers Act, and rules thereunder, as well as other applicable provisions of the federal securities laws.

Our Code requires supervised persons to:

- Pre-clear personal securities transactions;
- Report personal securities transactions on at least a quarterly basis;
- Provide us with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such supervised persons have a direct or indirect beneficial interest; and
- Certify to their compliance with the Code (both initially upon commencement of employment and annually thereafter).

Supervised persons who violate the Code will be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, suspension or dismissal. Supervised persons are also required to promptly report any violations of the Code of which they become aware. A copy of our Code will be provided to any current or prospective client or limited partner upon request by contacting us at (281) 364-1555.

For certain legacy Funds, EW's supervised persons are permitted to trade in their personal accounts the same securities and other investment instruments traded and held in such Fund accounts up to a certain dollar threshold and in adherence with other requirements, and as long as the supervised persons do not improperly use confidential or proprietary information (*e.g.*, knowledge of Fund holdings and transactions, material nonpublic information inadvertently received by EW or its supervised persons, etc.) when making their personal trading decisions. Supervised person



transactions in such securities could theoretically occur at or about the same time as EW transactions, but are subject to compliance reporting and monitoring requirements designed to detect and prevent potential conflicts of interest and other potential compliance-related concerns. In addition, it is possible that supervised persons will be permitted to buy securities in transactions offered to but rejected by the Funds.

Allowing supervised persons to trade in the same securities as the Funds presents various potential conflicts of interest. For example, supervised persons could theoretically attempt to time their personal transactions to benefit from any potential impact Fund transactions might have on the price of a security or otherwise attempt to obtain a more favorable purchase, sale, short or cover price than the Funds obtain. In addition, supervised persons and the Funds could potentially take opposing positions (*i.e.*, a supervised person account takes a long position when a Fund takes a short position, or vice versa) and thus the supervised person could potentially experience a conflict between acting in his/her own best interest versus the Fund's best interest. Finally, supervised persons could devote excessive time/use limited resources towards managing their personal trading accounts and thus neglect the Funds. As mentioned above, the CCO or his designee monitors supervised person transactions relative to Fund transactions to detect and prevent improper personal securities transactions and potential conflicts of interest.

### **Participation or Interest in Client Transactions**

Many employees of EW have a material investment in our Funds. Therefore, we are considered to participate in transactions effected for the Funds. We do not believe this arrangement presents any material conflicts of interest since our interests and our employees' interests are aligned with the interests of limited partners in such Funds.

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account knowingly buys from or sells a security to any advisory client. This prohibition extends to any affiliates or controlling persons of the adviser (*i.e.*, an owner, employee or affiliate of the adviser). The SEC also views cross trades between Funds to be principal transactions if the adviser (and/or its affiliates, owners, or controlling persons) own, in the aggregate, 25% or more of either Fund. Agency cross transactions occur when an adviser or an affiliate arranges a transaction (*i.e.*, acts as a broker) between two or more different Funds or accounts that are managed by that same adviser or an affiliate. Agency cross transactions can also arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. An adviser is not "acting as a broker" if the adviser receives no compensation (other than the advisory fee earned in the ordinary course of managing the asset) for effecting the transaction and therefore is not considered to be conducting an agency cross transaction under Section 206(3).

In the event we were to recommend a principal transaction or agency cross transaction, it would only be after: (i) we have determined the transaction to be in the best interest of both participating Funds; (ii) the transaction is permitted by the relevant Governing Documents; (iii) proper disclosure is given

to the limited partners or advisory board, as appropriate; (iv) if necessary, consent is obtained from the appropriate parties; and (v) we ensure that best execution is achieved for the transaction.

During 2018, EW provided liquidity to limited partners in two of its Funds by transferring the interests in such Funds to a newly formed special purpose vehicle in exchange for future payments to the limited partners in those funds.

## **Conflicts of Interest**

If any matter arises that EW determines in its good faith constitutes an actual conflict of interest, EW will take such actions as are necessary or appropriate, and as permitted by any applicable Fund's Governing Documents, to address the conflict.

## **Item 12 – Brokerage Practices**

We focus on making investments, through the Funds, in both private and public securities. To the extent a Fund acquires private securities, we do not ordinarily deal with any financial intermediary such as a broker-dealer, and commissions are not ordinarily payable in connection with such investments. In such privately negotiated transactions, best execution is met by the consummation of the deal with the best possible terms for the Fund. Whether for private or public securities transactions, we seek to achieve best execution and in doing so attempt to select brokers based upon our analysis of the broker's ability to provide best execution for the applicable Funds. We are authorized to determine:

- Which securities or other investment instruments to buy or sell;
- The total amount of securities or other investment instruments to buy or sell;
- The executing broker or dealer for any transaction; and
- The commission rates or commission equivalents charged for transactions.

Although best execution is typically referred to in the context of public securities, EW's obligation to seek best execution extends to the implementation of private investments: acquisitions and dispositions of portfolio companies. EW attempts to ensure that the Funds pay no more than the perceived fair value for portfolio companies or other investments as well as reasonable fees for services consumed to complete the transactions. From time to time, the Funds may receive distributions of such private company securities. In some cases, securities of such private companies may ultimately be registered for sale to the public. As mentioned above, EW has discretion to sell on behalf of the Funds any private company or public company securities held by the Funds.

More specifically, in making decisions regarding the allocation of brokerage transactions for the Funds and determining best execution, we consider a variety of factors in addition to cost including, but not limited to, the following:

- EW's prior experience with the broker-dealer or investment banker;

- The broker-dealer or investment banker's execution capability, financial responsibility, reputation and expertise within the industry;
- The broker-dealer or investment banker's responsiveness to the Firm;
- The broker-dealer or investment banker's expertise in dealing with investments that are restrictive or illiquid in nature;
- The type and size of the transaction involved;
- The value of any research services provided; and
- The reasonableness of any applicable fees or costs to complete the transaction.

As referenced above, certain transactions may involve specialized services on the part of a broker-dealer, which has the possibility to justify higher commissions (or other equivalent costs) than would be the case for more routine services. We generally seek competitive commission rates (or other equivalent costs), but we will not necessarily pay the lowest commission (or other equivalent costs).

While we reserve the right to consider the factors described above, provided that we have a reasonable belief that we will achieve best execution, in practice we typically use the execution services of the broker-dealer that currently custodies the public securities held by the Funds when a decision has been made by the Investment Committee to sell such securities.

We do not participate in any formal soft dollar arrangements with broker-dealers or other counterparties whereby a portion of the commissions charged are designated as soft dollar "credits" that can be used by EW to acquire products and services. However, we do receive permitted Section 28(e) research from broker-dealers or other counterparties. To the best of our knowledge, these services are generally made available to all institutional investors doing comparable business with such broker-dealers or other counterparties. Research services furnished typically include written information and analyses concerning specific securities; companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; and discussions with research personnel. The research includes primarily proprietary research, but could also include research created or developed by a third party. Research services received from broker-dealers or other counterparties supplement our own research efforts. The Funds benefit from the research products or services because EW does not have to produce or pay for the research. The research benefits are generally used to service all of the Funds and are not necessarily used to benefit the Funds in proportion to the amount of business conducted with the broker-dealers or other counterparties that provide the research.

It is possible that EW has an incentive to select a broker-dealer or other counterparty based on EW's interest in receiving the research or other products or services, rather than on the Funds' interest in receiving the most favorable execution on investment transactions. However, it should be noted that EW does not believe that the Funds incur transactions fees or costs (including any applicable commissions or markups or markdowns) higher than those charged by other broker-dealers or counterparties in return for research benefits.

As a general practice, we generally do not aggregate the purchase or sale of securities for multiple Funds except in the case of parallel Funds, in which case such aggregation and allocation is made pro rata.

Investment staff and the CCO review transaction details to monitor EW's efforts to seek to achieve best execution and to detect and prevent potential compliance concerns.

### **Item 13 – Review of Accounts**

Investments held by the Funds are closely reviewed on a continuous basis by our investment team. The investment team meets regularly to discuss the Funds' portfolios, investment ideas, economic developments, current events and other issues related to current portfolio holdings and potential investment opportunities. All Fund investments are reviewed and approved by our Investment Committee and all dispositions must also be reviewed and approved by the Investment Committee.

We provide each limited partner with written reports on the affairs of the Funds. The reports include quarterly unaudited financial statements and an annual report that is audited by an accounting firm registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board ("PCAOB"). The annual reports include audited financial statements and capital account statements, as well as tax information. All reports are sent to limited partners in writing either electronically through EW's limited partner portal, or via hard copy, as per each limited partner's stated preference. Investors in co-investment vehicles receive different reports, as agreed upon with investors in each co-investment vehicle on case-by-case basis. EW also has contact with limited partners (quarterly calls, personal visits, telephone, email) throughout the year as conditions warrant.

In the course of conducting due diligence or otherwise, prospective limited partners periodically request information pertaining to their investments. EW responds to these requests, and in answering these requests provides information that is not generally made available to other limited partners who have not requested such information. Additionally, upon request, certain limited partners can receive additional information and [reporting that other partners will not receive](#).

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

As mentioned in Item 5 above, EW, a General Partner or their employees receive transaction fees or other remuneration (including any options, warrants or other equity securities) from the portfolio companies held by the Funds. These fees are paid pursuant to separate agreements entered into with the portfolio companies to provide certain consulting services that EW believes will ultimately enhance the value of the companies and benefit the Funds and their limited partners.

These types of arrangements present potential conflicts of interest and provide EW with an incentive to recommend investments based on compensation received rather than the best interests of the Funds. To help mitigate this potential conflict, the allocable portion of such benefits received by EW or its employees in connection with services rendered to portfolio companies or transactions of the

Funds are offset in part or in whole against Management Fees payable by the Funds, to the extent described above in Item 5 and as detailed in each Fund's Governing Documents.

EW typically engages the services of a registered broker-dealer to serve as placement agent for Fund units when raising a new Fund. In connection with the fundraise for its most recent Funds, EW Healthcare Partners Fund 2, L.P. and EW Healthcare Partners Fund 2-A, L.P., EW engaged Eaton Partners, a subsidiary of the registered broker-dealer Stifel, Nicolaus & Company, Incorporated. As part of the agreement between EW and Eaton Partners, EW pays Eaton Partners a percentage of the amount of capital raised by Eaton Partners only with respect to capital raised from specific limited partners for which placement agent fees paid pursuant to applicable law. Placement agent fees are payable by the Funds and any such fees paid offset the Management Fee on a dollar-for-dollar basis, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Fund.

### **Item 15 – Custody**

The Advisers Act Rule 206(4)-2 (the “Custody Rule”) requires that pooled investment vehicles which we advise either undergo an annual audit pursuant to generally accepted accounting principles (“GAAP”) by a PCAOB registered and inspected independent public accountant or be subject to a surprise custody examination by a PCAOB-registered independent public accountant. Even though all assets of the Funds are held in custody by qualified custodians who are unaffiliated broker-dealers or banks (other than certain privately offered securities to the extent permitted under the Advisers Act), we are considered to have custody over the Funds' assets because of our affiliation with each Fund's General Partner and our ability to deduct fees from Fund accounts. To comply with the Custody Rule and to provide meaningful protection to limited partners, each Fund is subject to an annual financial statement audit by an independent public accountant registered with, and subject to regular inspection by, the PCAOB. The audited financial statements are prepared in accordance with GAAP, and are distributed to each limited partner in a Fund within 120 days of such Fund's fiscal year end in accordance with the Custody Rule. Limited partners in the Funds should carefully review such financial statements.

EW does not, however, accept physical custody of any Fund assets (other than certain privately offered securities to the extent permitted by the Advisers Act). Called capital is directly sent or wired into the relevant Fund's qualified custodial account. EW receives monthly statements from each our qualified custodians on behalf of the Funds. For more information about our qualified custodians, please see our Form ADV Part 1, Schedule D, 7.B.(1).

### **Item 16 – Investment Discretion**

The Governing Documents of each Fund provide that we or an affiliate, as the ultimate General Partner of such Fund, have exclusive and complete authority and discretion in managing the business and affairs of such Fund, subject only to specific and express limitations provided therein. Investment

advice is provided directly to the Funds, subject to the discretion and control of the relevant General Partner, and not to limited partners in the Funds individually. To become a limited partner in a Fund, a prospective investor must execute, among other documents, a subscription agreement and a limited partnership agreement (or similar agreement) with such Fund. Such documents generally contain a power of attorney that grants us or the applicable Fund's General Partner certain powers related to the orderly administration of the affairs of the Funds. Thus, without obtaining specific consent from a Fund or its limited partners for each transaction, we have discretionary authority to transact in securities for the Funds. We are authorized to determine:

- Which securities or other investment instruments to buy or sell;
- The total amount of securities or other investment instruments to buy or sell;
- The executing broker or dealer for any transaction; and
- The commission rates or commission equivalents charged for transactions.

The terms upon which we serve as an investment manager of a Fund are established at the time each Fund is established and are generally set out in the Governing Documents entered into by EW with respect to the relevant Fund. A limited partner may seek to impose limitations on EW's authority through a side letter agreement and the Firm can choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions placed upon a limited partner's investment must be presented to us in writing and agreed to by EW and such limited partner. Other limited partners are not provided with consent rights regarding such side letter agreements.

### **Item 17 – Voting Client Securities**

By virtue of the Fund Governing Documents, EW has the authority to vote client proxy statements on behalf of its Funds. The majority of "proxies" received by EW are written shareholder consents or similar instruments for private companies owned by the Funds. As such, EW has adopted proxy voting policies and procedures pursuant to Advisers Act Rule 206(4)-6. Our proxy policy seeks to ensure that we vote proxies in the best interest of the Funds, including where there are material conflicts of interest in voting proxies. We are responsible for identifying the proxies upon which to vote, voting the proxies in the overall best interests of the applicable Funds and their limited partners (as described below), and submitting the proxies promptly and properly.

In determining the overall interests of the Funds and their limited partners, consideration will be given to both short-term and long-term implications of the proposal to be voted on when considering the optimal vote. In voting proxies, we will seek to avoid material conflicts of interest between our interests, on the one hand, and the interests of the Funds and their limited partners, on the other. We generally believe our interests are aligned with those of the limited partners through our principals' beneficial ownership interests in the Funds. We are not required to seek limited partner approval or direction when voting proxies. If we detect a material conflict of interest in connection with a proxy solicitation, our Investment Committee will consider the vote under consideration, discuss the perceived conflict of interest and decide on how to vote the proxy. We will record the decision and

then vote the proxy accordingly. It should be noted that limited partners cannot direct EW's vote in a particular solicitation.

EW does not consider service on portfolio company boards by EW personnel or EW's receipt of nominal board fees to create a material conflict of interest in voting proxies with respect to such companies.

Upon request, we will provide limited partners in any of the Funds with information about how the proxies relevant to such Fund and limited partners were voted. Our complete proxy voting policy and procedures are available to limited partners upon request by contacting us at (281) 364-1555.

### **Item 18 – Financial Information**

EW does not require or solicit prepayment of more than \$1,200 in fees per Fund six months or more in advance; has no financial condition reasonably likely to impair its ability to meet contractual commitments to the Funds or their underlying limited partners; and has not been the subject of a bankruptcy proceeding.